

NATIONAL CLIMATE RESILIENCE STRATEGY FOR INSURANCE

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For years, U.S. Insurance Regulators from the Great Lakes to the Gulf of Mexico have worked together to strengthen insurance markets for the future. Today we are seeing the consequences from wildfires, floods, and storms, among other perils, that are threatening communities and their economies. As the insurance regulators in Alaska and California, we are honored to serve as Co-Chairs of the NAIC Climate and Resiliency Task Force, which include over 40 of our insurance regulator colleagues from diverse jurisdictions: large and small populations, coastal and inland, urban and rural, and the island jurisdictions that face urgent and unique challenges. The following NAIC National Climate Resilience Strategy represents our most recent collective action.

Improving climate resilience requires blending regional perspectives and coordinating actions across federal, state, and local governments. We worked with our peers across the nation to create this first-ever national climate resilience strategy for insurance. While state regulators have supervised insurance markets for over 150 years, the challenges we face today are national in scope and require a unified approach. That is why we have come together at this moment to formalize the actions we will take as insurance regulators to strengthen climate resilience.

We are at a watershed moment on climate and resiliency. Insurance continues to be a crucial backbone to communities throughout the US. In the aftermath of recent wildfires, windstorms, and atmospheric rivers, insurance has helped improve lives by aiding recovery. But that can only occur if insurance is available and reliable. The number and scope of severe disasters that our jurisdictions have faced in recent years has raised questions about the sustainability of insurance availability and the challenges for consumers seeking insurance to be able to find and maintain it.

Our NAIC National Climate Resilience Strategy prioritizes pre-disaster mitigation because protecting insurance consumers begins long before a wildfire starts or a hurricane makes landfall. We are not starting from scratch. Several strong examples exist among our member jurisdictions. The California Safer From Wildfires program, for example, provides premium incentives for reducing wildfire risk through home hardening, while the Strengthen Alabama Homes Program provides grants to homeowners to retrofit properties based on the Insurance Institute for Business and Home Safety (IBHS) Fortified standard. Earlier this year, the state of Minnesota passed a similar law requiring incentives for homes that meet the Fortified standard, demonstrating the regional diversity of such approaches.

Our actions also include taking new steps on data collection and solvency tools. For the first time, the NAIC will conduct a national data collection on the availability and affordability of insurance in our jurisdictions, empowering our members to better understand each jurisdiction and regional trends. Our members will also be implementing cutting edge solvency tools that analyze future scenarios to understand solvency issues for the insurance sector. These actions address the challenges we face in a forward looking and comprehensive way.

This strategy is the first for the NAIC and its members. Insurance markets are an indicator of underlying risks and critical to recovery. The new actions pursued by the NAIC in our National Climate Resilience Strategy will strengthen resilience by helping federal, state, and local governments get more organized and effective when implementing risk mitigation funding.

Sincerely,

Ricardo Lara
Commissioner, California

Lori Wing-Heier
Director, Alaska

Co-Chairs, Climate and Resiliency Task Force of the Executive Committee
National Association of Insurance Commissioners (NAIC)



Mitigating the risk of severe weather and wildfire is essential for the safety of families and communities. Research shows Americans are not powerless – there are known, effective actions that home and business owners can take now to reduce their risk and help break the cycle of damage, disruption, and dislocation all too often associated with these natural perils. In parallel, IBHS will continue to work with the NAIC to inform and educate regulators and policymakers as they also work to bend down the risk curve and foster healthy insurance markets.”

Roy Wright, President and Chief Executive Officer, Insurance Institute for Business and Home Safety

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Leadership on Climate Resilience in the Insurance Sector

A National Climate Resilience Strategy for Insurance will bring together and formalize resilience actions that can be coordinated by the National Association of Insurance Commissioners (NAIC), both pre- and post-disaster. A cornerstone of this multi-year strategy is more comprehensive data collection by the NAIC, ultimately producing better risk mitigation decisions in state jurisdictions and a greater ability to identify diverse funding strategies for risk mitigation. Insurance is critical to climate resilience and US state regulators are experts in risk assessment, insurer solvency, and disaster recovery. The NAIC and insurance regulators have been working on the issue of climate risk and resiliency for more than a decade.

The foundational deliverables created in the past few years will drive this forward looking strategy and meet the current watershed moment for insurance availability. It is part of our overarching mission to manage risks, ensure the availability and reliability of insurance products, promote insurer solvency, and close protection gaps. Our work to identify, assess, and communicate risk and risk reduction solutions, as well as to improve oversight of the insurance sector, has positioned state insurance regulators to implement a climate resilience strategy.

The Climate and Resiliency Task Force of the Executive Committee is launching this strategy to bring together the products of

existing workstreams into an enduring strategy that promotes resilient insurance markets in all US jurisdictions. The actions in this document will address the local risks, including flooding, extreme heat and cold, wildfires, hail, convective storms, atmospheric rivers, drastic snowfall, and hurricanes. Insurance regulators have the role and responsibility for ensuring stable, competitive marketplaces and financially solvent carriers. Two crucial parts of this role are to make sure that insurance companies have the financial resources to make good on their promises to pay claims and to take steps to close insurance protection gaps.



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By helping establish insurance incentives and rewards for risk reduction and conducting coordinated, ongoing monitoring of new policy limits, deductibles, and reduced underwriting in markets across the country, state insurance regulators can stay at the forefront of advancing solutions to emerging protection gaps associated with insurers' reactions to climate change.

Amy Bach, Executive Director, United Policyholders

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Strategy Overview

The National Resilience Strategy for Insurance will set clear goals and direction, creating stronger cohesion among the four task force workstreams: Solvency, Technology and Innovation, Climate Risk Disclosure, and Pre-Disaster Mitigation. By using new state regulator tools, such as the Catastrophe Modeling Center of Excellence and the Protection Gap Dashboard, in a coordinated way to increase regulator understanding of climate risks and risk mitigation in insurance markets, this strategy will support NAIC members now and in the future, which will build resilience to the climate vulnerabilities we see in every jurisdiction.

This strategy will incorporate data from existing NAIC efforts. For example, the NAIC Property and Casualty Committee is creating a long-term framework for collecting more granular data from insurance companies related to climate-intensified wildfires, floods, hailstorms, convective storms, earthquakes, atmospheric rivers, and other events to better understand property markets. The new data will inform the implementation of the National Climate Resilience Strategy. Additionally, the NAIC Center for Insurance Policy Research (CIPR) will be a key partner to implementation of this strategy.

Resiliency Actions:

Action 1: Close Gaps

The NAIC members will identify and coordinate the measurement of protection gaps, maintain a dashboard to understand where protection gaps are widening, evaluate policy options that have been attempted or considered, and measure progress in losing those protection gaps.

Deliverables:

1A. Launch an NAIC Protection Gap Dashboard, developed by NAIC staff, to understand current protection gaps and to inform state and jurisdiction specific priorities for insurance availability.

1B. Convene State Regulator staff and researchers to better understand the role of insurance policy innovation in closing protection gaps and the specific characteristics of innovative policies that may be relevant to insurance regulation

1C. Encourage local governments to include insurance access as a priority to local mitigation projects.

1D. Create training tools for State Regulator staff and tools for communicating with policyholders, state agencies, and the public.

1E. Use the NAIC Protection Gap Dashboard to establish goals and measure progress for expanding insurance options and closing protection gaps.

1F. Use the Protection Gap Dashboard to design new risk and resilience communications to the public and local governments.

1G. Assess how the compounding consequences from multiple perils, such as extreme heat and wildfire, create specific challenges for specific jurisdictions.



Cooperation is the bedrock upon which we can construct climate resilience and bridge the protection gap. It hinges on collaboration among diverse stakeholders, including households, insurance regulators, policy-makers, insurance, and other industries, as well as fostering unity among nations and states. The NAIC National Climate Resilience Strategy for Insurance, along with its comprehensive database, offers the solid groundwork needed to turn this vision of cooperation into a reality.”

Yoshihiro Kawai, Chair, OECD Insurance and Private Pensions Committee

Action 2: Flood Insurance Blueprint

Create a blueprint for the future of flood insurance. We cannot only rely on the NFIP to close protection gaps to flood. We can coordinate on insurance regulator approaches to new strategies on innovative products, risk assessment tools, risk communication, and risk mitigation programs that can help close protection gaps for flooding.

Deliverables:

2A. Launch a national initiative to increase awareness of risk mitigation recommendations, including IBHS science, and flood insurance options.

2B. Flooding is the consequence of many scenarios, including storm surge along coastlines, snowmelt, and high rainfall events.

2C. Create new partnerships with universities in state jurisdictions to conduct localized risk assessments and risk mitigation strategies.

- a. Establish four university hubs, one for each zone, to focus insurance regulator engagement on flood risk mitigation and expanding insurance access based on the most common sources of flood risks in the zone.
- b. Provide data to local governments on the number of private flood insurance policies in their region to identify opportunities for local governments, special districts, and townships to understand their collective risks and opportunities.

2D. Build stronger communication with local governments to support more effective risk understanding and awareness, as well as to share best practices for flood risk communication and risk mitigation, including information on the existing options for their constituents.

3E. Incorporate state-level insurance information into advocacy for state and federal funding to reduce flood risks.

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The NAIC National Climate Resilience Strategy for Insurance demonstrates the united front needed to confront climate risk. With this landmark nationwide strategy, US insurance regulators are leading by example on how to make risk-informed decisions that build climate-resilient communities and economies. Insurability goes hand-in-hand with resiliency.”

Butch Bacani, Programme Leader, UN Environment Programme's Principles for Sustainable Insurance Initiative

Action 3: Comprehensive Data

Fill long-term insurance data gaps and utilize the Catastrophe Modeling Center of Excellence to improve understanding of how coverages are changing within and among jurisdictions. Continue to make the Catastrophe Modeling Center of Excellence a resource for all members to understand mitigation priorities.

Deliverables:

3A. Use the data collected by the upcoming NAIC Climate Property and Casualty Data Call to reinforce the connection between risk reduction and insurance availability to understand trends in the recent actions of insurance companies by geography, impacts to consumers, and to develop risk mitigation and risk communication priorities.

3B. Prioritize the development of trainings and deliverables from the Catastrophe Modeling Center of Excellence for each Zone, and for island jurisdictions.

3C. Understand how models are assessing risks and apply this understanding to determine priority areas for community risk mitigation and advocating for additional funding.

3D. Use information from upcoming Property and Casualty Insurance Availability Data Call to aggregate state level data on insurance availability and affordability, especially among regional groups of jurisdictions facing similar risks.

3E. Commit to a multi-year data collection to continue to keep insurance regulators informed on the trends in the markets they oversee for availability and affordability of insurance, including whether coverages are becoming more limited through changes to deductibles or coverage limits.

3F. Pair insurance market data with storm, wind, wildfire, flooding, and extreme heat risk information and other economic and mitigation factors to better understand the changes in pricing and availability of insurance.

3G. Advocate for federal funding for pre-disaster mitigation to address priority areas for reducing future losses and increasing insurance availability and affordability.

3H. Continue to expand NAIC advocacy for both increased federal investment in existing risk mitigation programs and tax parity amount federal and state risk mitigation programs to achieve more successful risk mitigation. The NAIC will continue to bring together examples of successful state-level mitigation programs as models for other jurisdictions.

3I. Use IBHS science and resources to consistently inform state regulators about ongoing advancements in climate risk and resilience.

Congress has excluded grants provided through the Federal Emergency Management Agency (FEMA) from federal income tax, but state grants, including those offered by state established residual market mechanisms, for the same purpose are, in many cases, subject to federal income tax even if they are exempt from state income tax. This reduces both the impact of the grant and the incentive to pursue them. As US jurisdictions continue to experience the devastating effects of climate-related disasters, it is more important than ever to encourage residents and homeowners to utilize pre-disaster mitigation programs, and for the funding in those programs to help as many people as possible reduce their risk of a loss, whether insured or uninsured.

Action 4: Risk Mitigation

Create and coordinate new resilience tools to assist all state regulators in developing state level mitigation grant programs and expanding incentives for pre-disaster mitigation. A growing number of states are implementing or proposing mitigation grant programs, either linked to FEMA funds or state level funds. The creation of a common resource, or roadmap, for state insurance commissioners to contribute to risk mitigation programs would reduce future losses and promote insurance availability in member jurisdictions.

Deliverables:

4A. Create specific opportunities for state level insurance regulators to advocate on where federal and state mitigation dollars, such as the FEMA BRIC program, will generate the most benefits to insurance access. Strengthen pre-disaster mitigation by identifying how federal and state funds could have the most benefits for insurance access in communities.

4B. Better prepare policyholders and those seeking insurance for the risks they face. Improve coordination on communication of risk reduction information. The NAIC can be a communicator of IBHS risk reduction science to the public and the communicator of risk reduction information on rapid-onset impacts like high rainfall, slow-onset impacts like spring snowmelt, and compounding impacts like increased flood risks after severe wildfire seasons. These are types of flooding that are too often overlooked and are significantly impacting certain states and jurisdictions.

4C. Engage with FEMA to better align FEMA pre-disaster funding to reduce risk for insurance markets.

4D. Create an updated and more robust Disaster Preparedness Guide for State Insurance Regulators.

4E. Synthesize the experience of insurance commissioners on specific perils to transfer knowledge to fellow state regulators and future commissioners.

4F. Create an updated “living” Disaster Preparedness guide that includes the experience of regulators facing recent disasters, including the market and solvency questions that regulators have considered and addressed, for internal use in the immediate aftermath of disasters.

4G. Build partnerships with stakeholders that support risk mitigation actions. For example, work with groups like Ducks Unlimited on applying for federal funding that reduces the community flood risk through land management. For example, in Canada, collaboration between Ducks Unlimited and insurance companies has linked funding with flood risk reduction that improves insurability in nearby communities.

4H. Use data collected by insurance regulators to support advocacy for federal risk mitigation grant funding.



“As climate change stresses property insurance markets, reducing the risks households and communities face from escalating weather extremes will be paramount. NAIC leadership to monitor trends, support risk reduction, and develop innovative approaches will not only help stabilize insurance markets but increase our overall resilience.”

Carolyn Kousky, Associate Vice President for Economics and Policy at Environmental Defense Fund

Action 5: Test Scenarios

Expand insurance regulators' leadership on new solvency tools. Solvency oversight is a critical part of insurance regulation. Preparing insurance regulators to better adapt to climate change requires new scenario analysis tools. Testing catastrophe models, scenario analyses, and risk mitigation factors will all contribute to more resilient communities. Simultaneously, it will require our Departments of Insurance to build knowledge.

Deliverables:

5A. Create scenario analysis resources for state regulators to use to understand solvency risks to insurance companies.

5B. Build stronger partnerships between insurance regulators and regional universities or research centers. Insurance regulators would benefit from working with universities and colleges to access and develop data sources, improve risk communication, keep pace with state-of-the-art science and technology, and fortify the pipeline of new talent to insurance careers.

5C. Create resources and opportunities for multi-state partnerships to use multiple scenario analyses to better understand potential solvency considerations for the insurance sector.

5D. To better assess solvency impacts, embed climate stress testing and climate scenario analysis into routine financial analysis, data collection, and financial surveillance.

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State insurance regulators are focusing on the growing challenges of more intense wildfires and floods and will play a critical role in promoting better decisions on where and how we build, and encouraging the investments in natural infrastructure and safety that are essential to improving insurability of communities. A coordinated, multi-year climate resilience strategy for insurance can accelerate pre-disaster mitigation investments and preserve insurance options that are essential to community recovery.”

Alice Hill, David M. Rubenstein senior fellow for energy and the environment at the Council on Foreign Relations



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