

NAIC Summer 2024 National Meeting Update





Table of Contents

NAIC Summer 2024 National Meeting Update	1
Statutory Accounting Principles (E) Working Group	1
Life Risk-Based Capital (E) Working Group	5
Health Risk-Based Capital (E) Working Group	6
Property and Casualty Risk-Based Capital (E) Working Group	7
Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group	8
Valuation of Securities (E) Task Force	9
Big Data and Artificial Intelligence (H) Working Group.....	10
Health Insurance and Managed Care (B) Committee	11
Climate and Resiliency (EX) Task Force.....	13
Third-Party Data and Models (H) Task Force	15
Property and Casualty Insurance (C) Committee.....	16
Connect With Us.....	18

NAIC Summer 2024 National Meeting Update



The National Association of Insurance Commissioners (NAIC) recently held its Summer 2024 National Meeting (Summer Meeting). The following summarizes certain activities of the NAIC that took place during the Summer Meeting and on various WebEx Meetings leading up to the Summer Meeting.

Statutory Accounting Principles (E) Working Group



The following highlights items discussed as part of the Statutory Accounting Principles (E) Working Group's (SAPWG) Hearing and Maintenance agenda items.

Intercompany Pooling Arrangements - SAPWG adopted nullification of Interpretation (INT) 03-02 "Modification to an Existing Intercompany Pooling Arrangement" (INT 03-02) and adopted revisions to SSAP No. 63 "Underwriting Pools" allowing a narrow scope exception for the statutory book value accounting treatment for purposes of settling transactions with related parties as a result of modifications to existing intercompany reinsurance pooling agreements. The revisions also require a new disclosure detailing the statement value and fair value of assets received or transferred by the reporting entity for modifications to an intercompany reinsurance pooling agreement. Revisions are effective immediately.

Bond Project – On September 12, 2024, SAPWG adopted via e-vote revisions exposed during the Summer Meeting to both SSAP No. 26R "Bonds" and the draft issue paper for the principles-based bond project, to clarify the guidance for debt securities issued by funds. The revisions intend to permit debt securities issued by funds to be classified as issuer credit obligations if the fund represents an operating entity. Revisions include guidance to assist in determining if a fund represents an operating entity or a securitization vehicle that represents an asset backed security issuer. Revisions are effective immediately.

SAPWG adopted revisions for consistency within all SSAPs to centralize guidance for residual tranches in SSAP No. 21 and to exclude residual tranche guidance from all other SSAPs. Revisions are effective January 1, 2025.

SAPWG adopted an Issue Paper No. 169 for the principles-based bond project, to document decisions and final actions taken related to the project. SAPWG also exposed a Question & Answer Implementation Guide that addresses questions from industry and details interpretations on how the principles-based bond project guidance should be applied.



Schedule BA Instructions - SAPWG adopted revisions to the Schedule BA Instructions to enhance the definition of investments included in SSAP No. 48 “Joint Ventures, Partnerships and Limited Liability Companies” (SSAP No. 48) (i.e., non-registered private funds, joint ventures, partnerships, or limited liability companies) or residual interests and reported based upon the underlying characteristics of the assets. Revisions are effective immediately.



Collateral for Loans - SAPWG discussed revisions to Schedule BA of the Annual Statement for collateral loans and instructed NAIC staff to coordinate with the Blanks (E) Working Group (Blanks) to add an instructional change to the asset valuation reserve (AVR) instructions allowing collateral loans backed by mortgages to flow through the AVR as an “Other Invested Asset with Underlying Characteristics of Mortgage Loans.” These instructional changes are an interim step until SAPWG further considers how collateral loans would flow through the AVR. Discussions remain ongoing.

Additionally, only limited reporting line changes were proposed to Schedule BA focusing on categories where look-through to underlying collateral for AVR and risk-based capital purposes is warranted as a detail of all collateral types will be collected in the data capture disclosure. Discussions remain ongoing.




Risk Transfer on Combination Reinsurance Contracts - SAPWG re-exposed revisions to SSAP No. 61R “Life, Deposit-Type and Accident and Health Reinsurance” (SSAP No. 61R) to incorporate existing risk transfer guidance that is in Exhibit A “Implementation Questions and Answers” of SSAP No. 62R “Property and Casualty Reinsurance”. The proposed revisions would require risk transfer to be evaluated in aggregate for reinsurance contracts with interrelated contract features such as experience rating refunds. The proposed revisions would also update the yearly renewable term guidance in SSAP No. 61R to reference the guidance in paragraph 6 of Appendix A-791 regarding the entire reinsurance contract and the effective date of the contract. Discussions remain ongoing.

U.S. GAAP Accounting Standards Update - SAPWG exposed for rejection the following:

- 1) FASB ASU 2023-09 Income Taxes (Topic 740) “Improvements to Income Tax Disclosures” to adopt disclosure of income before income tax expense disaggregated by domestic and foreign, income tax expense and paid by federal, state and foreign, income taxes paid to each individual jurisdiction in which income taxes paid is equal to or greater than 5% of total income taxes paid, qualitative disclosures on tax rate reconciling items and removal of disclosure of the cumulative amount of each type of temporary tax difference when a deferred tax liability is not recognized for undistributed foreign earnings.
- 2) FASB ASU 2024-02 Codification Improvements: “Amendments to Remove References to the Concept Statements” as this guidance is not applicable to existing statutory accounting references to FASB Concept statements in the Accounting Practices and Procedures Manual.

SAPWG adopted the following with modification:

- 1) FASB ASU 2023-01 Leases (Topic 842) “Common Control Arrangements” with revisions in statutory accounting to reject the practical expedient for private companies and not-for-profit entities but adopt the leasehold improvement guidance with modification to align with existing statutory accounting guidance.

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- 2) FASB ASU 2023-08 Intangibles - Goodwill and Other - Crypto Assets (Subtopic 350-60) "Accounting for and Disclosure of Crypto Assets" with revisions in statutory accounting to adopt the definition of crypto assets with clarification that directly held crypto assets are nonadmitted for statutory accounting purposes.
 - 3) FASB ASU 2023-06 Disclosure Improvements "Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative" to adopt certain disclosures for unused commitments and lines of credit disaggregated by short and long-term and derivative cash flow accounting policy.

New Market Tax Credits - SAPWG exposed an issue paper documenting the decisions and final actions related to adopted revisions expanding SSAP No. 93 "Low Income Housing Tax Credit Property Investments" (SSAP No. 93) and SSAP No. 94R "Transferrable and Non-Transferrable State Tax Credits" (SSAP No. 94R). Adopted revisions expand SSAP No. 93 to include all qualifying tax equity investments where the return is primarily earned through tax credits regardless of structure. Adopted revisions expand SSAP No. 94R to include all state and federal tax credits which have been allocated to or purchased by the reporting entity. The proportional amortization method is applied to these types of investments where the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits allocated to the investor. Additionally, the Prospective Utilization Assessment was adopted into SSAP No. 93 outlining admissibility guidelines related to these types of investments and requiring an assessment of the future utilization of an investment's unallocated tax credits to determine that investments are admitted only to the extent that the related unallocated tax credits can be utilized. SAPWG adopted an effective date of January 1, 2025 for these revisions. SAPWG is still working on some minor revisions and clarifications to SSAP No. 93 and SSAP No. 94R as a result of this adoption which were exposed for comment due September 27, 2024.




Repacks and Derivative Wrapper Investments - SAPWG exposed revisions to SSAP No. 86 "Derivatives" (SSAP No. 86) to address questions regarding the classification of repacks issued by special purpose vehicles under the new bond definition as these types of investments contain both debt security and derivative components with the linked debt security acting as the collateral obligation in the structure. NAIC staff raised questions regarding how the derivative component of a repack investment alters the cash flows of the original debt security and if a repacked investment would be considered substantially similar to the original debt security. Revisions propose bifurcation of the accounting and reporting of derivatives in repacks which is a change from existing guidance which precludes separation of embedded derivatives for accounting and reporting purposes. Discussions remain on going.

Asset Liability Management Derivatives - SAPWG exposed a concept agenda item to consider new guidance for interest rate hedging derivatives that do not qualify as accounting effective hedges under SSAP No. 86 but are used for asset liability management. Although these types of hedges do not qualify as effective under existing accounting guidance, they are considered economically effective. This exposure will further explore the possibility of modifying guidance which would include effectiveness treatment and related accounting and disclosure treatment for these types of vehicles. Discussions remain ongoing.

Other Matters - SAPWG discussed the following other matters during the Summer Meeting:

- 1) Adopted revisions to the statutory accounting framework to remove the "Revised" and "R" previously intended to identify a substantively revised SSAP, from SSAP titles and references. Revisions are effective immediately.
- 2) Adopted revisions to SSAP No. 107 "Risk-Sharing Provisions of the Affordable Care Act" effective for December 31, 2024 to remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. Revisions are effective immediately.

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- 3) Deferred revisions to SSAP No. 27 “Off-Balance-Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk” to remove certain FASB ASU references and specifically identify the financial instruments excluded from its scope. SAPWG also proposed revisions to the Annual Statement Instructions to add an “Other” derivatives category and disclosure examples and instructions for non-derivative financial instruments with off-balance sheet credit risks.
 - 4) Adopted revisions to remove lingering references from SSAP No. 2R “Cash, Cash Equivalents, Drafts and Short-Term Investments” that imply that asset backed securities or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments. Revisions are effective immediately.
 - 5) Adopted revisions to Appendix A-791, Life and Health Reinsurance Agreements, to remove the first sentence in the Questions and Answers to paragraph 2c that discusses group term life insurance and clarify that this section within Appendix A-791 does not provide a safe harbor based on the Commissioner’s Standard Ordinary rates for yearly renewable term rates. Revisions are effective immediately.
 - 6) Exposed revisions to SSAP No. 56 “Separate Accounts” to address the accounting and reporting of separate account assets that are reported at a value other than fair value such as book value and related transfers between the general and separate accounts when book value is used. Discussions remain ongoing.
 - 7) Exposed revisions to add to Schedule S in the Life and Health Annual Statement and Schedule F of the Property & Casualty Annual Statement a new part to include all assets held under funds withheld arrangements which would include a separate signifier for assets subject to a modified coinsurance arrangement (i.e., modco). Discussions remain ongoing.
 - 8) Exposed an issue paper to document for historical purposes the decisions and final actions resulting from the rejection within statutory accounting of the Current Expected Credit Loss Model (CECL) in U.S. GAAP and to maintain the pre-CECL U.S. GAAP impairment model within statutory accounting. Discussions remain ongoing.
 - 9) Exposed revisions to SSAP No. 108 “Derivatives Hedging Variable Annuity Guarantees” to update the definition of a clearly defined hedging strategy to coincide with revised guidance in VM-01. Discussions remain ongoing.

Life Risk-Based Capital (E) Working Group



The Life Risk-Based Capital (E) Working Group (Life RBC) discussed a previous proposal given by the American Council of Life Insurers (ACLI) regarding the charge for repurchase agreements. The proposal is consistent with other initiatives to update charges in the risk-based capital formula in an effort to modernize the framework. The proposal includes a recommendation to lower the C-0 charge to 0.2% on conforming repurchase agreements consistent with the current charge on conforming securities lending programs with additional General Interrogatory enhancements and disclosures to validate reporting entities attestations regarding compliance with the conforming program. SAPWG asked for deferral of this matter until SAPWG can assess any potential statutory accounting implications as the statutory accounting for securities lending programs and repurchase agreements are currently different. As a result, Life RBC suspended further re-exposure of the proposal and deferred any adoption of the proposal until 2025.

Life RBC discussed the Academy's current project on correlation risks in the Life Risk Based Capital formula. The Academy communicated that a holistic review of correlation risk within the Life Risk Based Capital formula has never been performed and gave an update on current data gathering initiatives from publicly available sources and other regulatory frameworks. The Academy will provide additional information regarding this project to Life RBC later in the year.

Life RBC received a referral from SAPWG asking for input on investments in tax credit structures and impacts to the Life Risk Based Capital formula based upon recent accounting and reporting changes which eliminated the federal guaranty tax credit investment category and broadened the scope of other tax credit investment categories. Discussions remain ongoing.

Life RBC discussed a proposal from SAPWG for reporting of non-bond debt securities on Schedule BA of the Annual Statement. The key aspect of this proposal is to highlight new reporting that divides debt securities that do not qualify as bonds into separate reporting lines based on whether they have NAIC designations assigned by the SVO from those securities with NAIC designations not assigned by the SVO or that do not have designations. The intent of this reporting is to permit debt securities that do not qualify as bonds, for which the SVO has assigned an NAIC designation, to receive the RBC factor that would have been received if the security had been reported on the bond schedule with an equivalent designation. If the SVO has assigned an NAIC designation to a non-bond security, then the proposed regulation allows for a fixed income RBC factor until the Capital Adequacy (E) Task Force decides if a separate project is needed to review the RBC factors on these types of securities. Discussions remain ongoing.

Health Risk-Based Capital (E) Working Group



The Health Risk-Based Capital (E) Working Group (Health RBC) discussed the Academy's review of the underwriting risk (i.e., H2) component and managed care credit calculation project which has progressed over the last two years. This includes the Comprehensive Medical, Dental & Vision, Medicare Supplement, and standalone Medicare Part D lines of business. The Academy has identified structural changes, modeling and analyzing risk-based capital factors and reviewing the managed care credit calculation as the three different categories for this project. The life and property and casualty risk-based formulas also utilize these factors and any changes to the health risk-based capital formula from this project will need to carry over to the life and the property and casualty risk-based formulas. Discussions remain ongoing.

Health RBC adopted a proposal for health care receivables factors included in the credit risk (i.e., H3) component in the Health RBC formula. Revisions to pharmaceutical health care receivables update factors to 20% on the first \$5 million and 3% on the amount over \$5 million. For non-pharmaceutical health care receivables, tier factors are applied to those lines in the aggregate, with 40% applied on the first \$10 million and 5% on the amount over \$10 million.



Property and Casualty Risk-Based Capital (E) Working Group



The Property and Casualty Risk-Based Capital (E) Working Group (P&C RBC) discussed the following related to the property and casualty risk-based capital formula:

- 1) Reviewed adoption to add severe convective storm as one of the catastrophe perils for informational purposes only in the Rcat component. P&C RBC's intent is to have another in depth review and work with vendor modelers to update their impact analysis in the future. Discussions remain ongoing.
- 2) Considered addition of wildfire peril to the risk-based capital formula upon review of wildfire peril impact analysis. P&C RBC invited modelers to conduct an in-depth analysis of wildfire perils and share model results with states that have signed non-disclosure agreements. Discussions remain ongoing.
- 3) Considered the climate scenario analysis derived by the Climate & Resiliency (EX) Task Force for the purposes of providing an estimate of climate change for hurricane and wildfire perils intended to be useful to regulators for holding conversations with insureds that have a greater exposure to these types of risks. Interested Parties proposed an alternative model which would allow reporting entities to leverage their current catastrophe models used to calculate the RCAT charge for hurricane and wild-fire perils assuming a 50% increase in major hurricane frequency and a 50% increase in all wild-fire events. P&C RBC commented that there are many uncertainties with these types of assumptions. Discussions remain ongoing.
- 4) Discussed the need to add flood peril to the RCAT component for information purposes. P&C RBC received a presentation from The Florida Commission on Hurricane Loss Projection Methodology regarding flood peril modeling. Discussions remain ongoing.

Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group



The Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group (Investment RBC) continued to review updates to a proposal from the Academy regarding the C-1 factor asset modeling for structured securities. The proposal includes a flowchart to determine whether an asset class needs to be modeled and whether securities within an asset class need to be modeled individually to determine new C-1 factors. The proposal emphasizes that if an existing factor can be used then it should be used with modeling for new C-1 determination being a last resort. The proposal also supported a principles-based approach to deriving C-1 factors. A principles-based approach to RBC for structured securities will allow regulators flexibility in adapting to new structures as they emerge in the marketplace. The Academy reviewed six candidate principles with Investment RBC regarding this approach as follows:

- 1) The purpose of RBC is to help regulators identify potentially weak capitalized insurers, therefore changes that have a small impact on RBC ratios may not justify a change to the RBC formula.
- 2) Emerging risks require regulatory scrutiny.
- 3) C-1 requirements reflect the impact of risk on statutory surplus. Changes in accounting treatment will affect RBC.
- 4) C-1 requirements on a given tranche align with that tranche's risk.
- 5) C1 requirements on asset-backed securities should treat the collateral as a dynamic pool of assets.
- 6) C1 requirements for asset-backed securities should be calibrated to different risk measures where appropriate.

Discussions are ongoing.

Investment RBC adopted a proposal to set an interim charge of 45% for year-end 2024 reporting for a residual tranche until a more formal review by the Academy can be completed. This charge is perceived as a conservative factor with the understanding that it will be less precise than a charge that will be ultimately derived from the Academy's review.

Valuation of Securities (E) Task Force



The Valuation of Securities (E) Task Force (VOS) adopted a proposal to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to update the definition of an NAIC Designation. The revisions include clarifying the meaning of NAIC designations, including their use, their purpose, and the risks that they address. The proposal clarifies the regulatory objective of an NAIC designation shifting that objective from credit risk to investment risk with an emphasis placed on the risk of receipt of full principal and interest of an investment security.

VOS adopted a proposal to amend the P&P Manual. This proposal gives discretion to the Securities Valuation Office (SVO) to challenge an NAIC Designation submitted by a credit ratings provider through the filing exemption process which the SVO believes is not a reasonable assessment of risk for regulatory purposes. This amendment includes:

- A means to identify to insurers a filing exemption calculated NAIC Designation of concern.
- Sufficient notice to allow an insurer to provide additional information before any action is taken by the SVO.
- Establishment of a formal review process for the SVO to follow when challenging an NAIC designation assigned from a credit rating provider.
- Requirement for the SVO to provide insurers with full transparency into its assessment process.
- Establishment of a materiality threshold to remove a credit rating provider rating or security from filing exemption eligibility.
- A means to revoke filing exemption eligibility and provide notice that a full filing is required with a means to reinstate the filing exemption eligibility should conditions change.

Big Data and Artificial Intelligence (H) Working Group



The Big Data and Artificial Intelligence working group met virtually prior to the in-person summer meeting. A summary of the virtual summer meeting is noted as follows.

Status of AI/ML Surveys

The group provided an updated on the AI/ML Surveys. The Health Insurance AI/ML Survey is in the development phase with intent to send out by the end of year for completion. The working group will have the analysis and report complete for discussion at the group level and publicly.

The working group is acknowledging that the change as it relates to technology is fast and the surveys are as a point of time. The goal is to continue to improve and have continuous surveys and also align the survey results to the model bulletin that has been issued for any updates that should be considered.

Update on the AI Model Bulletin

As of the date of the meeting, 17 states have adopted the model bulletin, in addition to the four additional states that had previously adopted something. Additional tools including reference grid and guide to implementation are also being generated.

Link to State Map: <https://content.naic.org/sites/default/files/cmte-h-big-data-artificial-intelligence-wg-ai-model-bulletin.pdf>

Presentation on BIFSG Method

Dorothy Andrews (NAIC) provided an in-depth overview of the Society of Actuaries (SOA) paper on inference methods, focusing on the Bayesian Improved First Name and Surname Geocoding (BIFSG) method. The BIFSG method has been applied to various studies, including health care decision-making, lending patterns, academic research, taxation, and financial credit access. It has shown better accuracy and coverage than the BISG method, particularly in mortgage applications and voter registration data. Andrews highlighted that the method found higher incidences of missing race and ethnicity data among non-Hispanic and Hispanic blacks. Andrews detailed the Bayesian theory mechanics used to calculate probabilities and provided examples of estimated probabilities for individuals, including herself. She discussed the limitations and potential biases in the reference training data, illustrating with examples where the BIFSG method's estimates were incorrect or biased. The method may be less accurate for people of mixed race or those living in very diverse communities. Andrews shared a study where the BIFSG method overestimated earned income tax credits for whites and underestimated for blacks, and predicted higher audit rates for whites than non-whites, conflicting with actual audit rates.

Health Insurance and Managed Care (B) Committee



Federal Update on Key Legislative and Regulatory Issues in Insurance

Brian R. Webb (NAIC) provided a comprehensive update on several legislative proposals and activities in Congress that are of interest to the insurance industry. Key highlights include:

- **Mental Health Parity Grants:** Funding for mental health parity grants under the MHPAEA remains unappropriated despite authorization. The Senate Committee on Appropriations believes CMS has sufficient funds to start the program without additional appropriations. NAIC Government Relations staff are working to get CMS to initiate the grant program.
- **State Health Insurance Assistance Program (SHIP):** Both the House and Senate have maintained full funding for SHIP in their budget bills, a departure from the usual practice where one chamber zeros out the funding.
- **Advance Premium Tax Credits (APTCs):** The NAIC has urged Congress to extend the enhanced APTCs beyond 2025, citing increased enrollment and affordability in state individual health insurance markets due to the American Rescue Plan Act of 2021.
- **Medicare Advantage Marketing:** NAIC is working with Congress to allow CMS to cooperate with states in enforcing federal rules related to Medicare Advantage marketing, addressing consumer complaints directly.
- **Pharmacy Benefit Managers (PBMs):** The FTC's interim report criticizes PBMs for inflating drug costs and affecting consumers negatively. NAIC is monitoring potential legislative actions on this issue.
- **Federal Rules and Regulations:** Webb discussed several anticipated and existing federal rules impacting the insurance sector:
- **MHPAEA and NQTL Requirements:** A new federal rule revamping MHPAEA provisions and establishing new NQTL requirements is expected soon.
- **Co-payment Accumulator Policies:** Following a court decision vacating the 2021 HHS rule permitting co-payment accumulators, NAIC is seeking clarity, potentially in the 2026 NBPP rule.
- **ACA Section 1557 Final Rule:** Issues persist regarding the rule's language on discrimination based on disability or age in Medigap plans. NAIC is seeking clarity from the HHS Office for Civil Rights.
- **Court Rulings:** Webb highlighted significant court cases with potential implications for federal health rules and state insurance regulation:
 - **Loper Bright Rulings:** These rulings overturned the "Chevron Doctrine," and their impact on federal health rules and rulemaking is still uncertain.
 - **Braidwood v. Becerra:** This case challenges the ACA's preventive service requirements.
 - **PCMA v. Mulready:** This case challenges state regulators' authority to regulate PBMs. Both cases are progressing through the federal courts and could significantly impact state insurance regulation.

Consumer Perspective on Recent State Activity on the Prior Authorization Process:

Recent state activities aimed at improving the prior authorization process were discussed from a consumer perspective by Carl Schmid (HIV+Hepatitis Policy Institute), Stephani Becker (Shriver Center on Poverty Law), and Lucy Culp (Leukemia & Lymphoma Society—LLS). Their insights shed light on the impact of prior authorization on patients and providers, legislative reforms, and federal rule changes.

The discussion highlighted the ongoing efforts to reform the prior authorization process at both state and federal levels. By addressing delays and inefficiencies, these reforms aim to improve patient access to necessary care while maintaining cost control. They provided proposed next steps and recommendations for continued progress in this critical area of healthcare policy.


Presentations from the CHIR and AHIP on Health Cost Transparency

Sabrina Corlette, Center on Health Insurance Reforms—CHIR and Kelley Schultz, America's Health Insurance Plans—AHIP, provided a presentation emphasized the critical role of health cost transparency in identifying and managing the factors driving healthcare cost growth. Both speakers highlighted the importance of leveraging federal Transparency in Coverage (TiC) data and implementing state-level improvements to enhance transparency, support consumer decision-making, and promote affordability in the healthcare system. The overall message of the presentation was that by improving health cost transparency through federal and state-level initiatives, stakeholders can better manage healthcare costs, enhance consumer decision-making, and promote affordability in the healthcare system.

Climate and Resiliency (EX) Task Force



Commissioner Lara emphasized the Task Force's focus on understanding flood risk, highlighting recent presentations on flood risks, atmospheric rivers, and innovative parametric insurance products. This meeting continued the theme of integrating innovation with flood insurance.

Presentation by Derek Lynch (reThought Flood):

The Task Force received a presentation from reThought Flood. reThought Flood was founded in 2017 and aims to increase flood insurance capacity and consumer take-up rates. The presentation by Derek Lynch of reThought Flood emphasized the critical need to close the flood protection gap through innovative insurance solutions and effective mitigation strategies. By leveraging advanced technology, including AI and multiple modeling approaches, reThought aims to provide more accurate and comprehensive flood insurance coverage. The company is focused on increasing insurer capacity, enhancing consumer awareness, and offering competitive, broader coverage options compared to traditional programs like the NFIP. The overall message is that through innovation, education, and collaboration with regulators, reThought Flood is poised to significantly improve flood risk management and insurance accessibility, ultimately leading to better protection for consumers and increased profitability for insurers.

Presentation by Lorraine Stack (Marsh McLennan)

The Task Force received a presentation from Lorraine Stack from Marsh McLennan on their Global Risk Report 2024, which identifies current and upcoming risk.

The presentation highlighted the evolving landscape of risk perception, noting a shift from economic risks (2011-2014) to environmental risks (starting around 2017), and more recently, to technological risks. Survey respondents identified top near-future concerns as technological (misinformation, cyber insecurity), environmental (extreme weather, pollution), and societal (polarization, economic opportunity, migration). Over a 10-year outlook, environmental risks were predominant, emphasizing their complexity and interconnectedness, such as extreme weather causing involuntary migration.

Two major risk areas impacting businesses were identified: AI and cyber risks (including misinformation and cyberattacks) and distressed supply chains (due to geopolitical and environmental factors). These risks could lead to significant insurance impacts, including capacity withdrawals, changes in policy terms, differentiated solutions for high-performing customers, and innovation in new products. The presentation underscored that insurance might become unavailable or cost-prohibitive for certain risks, advising clients to adopt a long-term risk perspective and build resilience. Growth in alternative risk financing structures, such as risk mutualization, parametric solutions, and captives, is expected.



Federal Update

Shana Oppenheim (NAIC) provided an update on key legislative proposals and activities related to disaster resilience and insurance. Highlights included:

1. Legislative Proposals:
 - Homeowners' Defense Act: Allows the Treasury to guarantee debt for state catastrophe insurance programs.
 - Senate Bill on Flood Insurance: Proposes a tax deduction for flood insurance premiums.
 - Prevent Environmental Hazards Act: Authorizes NFIP payouts for condemned structures due to erosion or flooding.
 - Fix Our Forests Act: Streamlines permitting for forest management to mitigate wildfire risks.
 - Disaster Resiliency and Coverage Act of 2024: Proposes federal grants and tax credits for homeowners in disaster-prone areas.
2. Congressional Actions:
 - Sen. Elizabeth Warren and Rep. Sean Casten urged federal banking regulators to address climate-related financial risks.
 - Federal Reserve Chair Jerome Powell stated the Fed does not intend to be a climate policymaker.
 - Ongoing interest in the PCMI Data Call and concerns about increasing property insurance premiums and natural disasters.
3. Federal Agency Activities:
 - HUD and FHFA focused on affordability in multi-family housing and insurance resilience.
 - Treasury Department held discussions on natural catastrophe risks and the PCMI Data Call.
 - SEC's climate disclosure rule faced legal challenges and hearings.
4. White House Initiatives:
 - Awarded \$120 million to Tribal Nations for climate resilience projects.
 - Introduced new flood protection rules and a heat and health index tool.
 - Launched a climate capital guidebook and a beta website for identifying high flood risk areas.
5. FEMA Activities:
 - Transferred NFIP risk to reinsurance and capital markets.
 - Offered funding through Swift Current and regional catastrophe preparedness grants.
 - Finalized a rule requiring future flood risk considerations for funded projects.



Third-Party Data and Models (H) Task Force



The Third-Party Data and Models Task Force met and heard several presentations as it relates to regulatory requirements, including financial regulatory exams, P&C RBC CAT approvals, life and P&C statements of actuarial opinions and market conduct exams. As the Task Force work towards building a framework around the use of third part data and models, they are gaining an understanding of current regulatory perspectives to help build an effective framework.

Property and Casualty Insurance (C) Committee



The working groups are actively addressing various insurance-related issues, from improving transparency and consumer protection to managing emerging risks and market challenges. Their efforts aim to enhance regulatory processes, support state insurance regulators, and ensure better outcomes for consumers.

A summary from each working group was provided to the committee as follows:

Casualty Actuarial and Statistical (C) Task Force:

The Task Force highlighted the growing importance of private flood insurance and the need for consistent reporting by insurers. They also discussed the backlog in the NAIC Rate Model Review Team and proposed hiring more actuaries to meet the 30-day review goal.

Surplus Lines (C) Task Force:

The Task Force exposed the surplus lines service process form for public comment, adopted amendments to the IID Plan of Operation, and discussed new requirements for exempt commercial purchasers. They also addressed concerns about anti-public adjuster endorsements in policies.

Title Insurance (C) Task Force:

The Task Force discussed increased wire fraud due to AI, federal activities affecting title insurance, and the introduction of the Protecting America's Property Rights Act. They emphasized the need for consumer protection and transparency in title insurance alternatives.

Workers' Compensation (C) Task Force:

The Task Force received an update on the strong state of the workers' compensation market, with combined ratios under 90% for the past seven years and planned to meet in person at the Fall National Meeting.

Cannabis Insurance (C) Working Group:

The Working Group discussed ongoing legislative efforts, market expansion, and insurance availability for cannabis-related businesses. They noted improvements in D&O, cyber coverage, and reinsurance capacity, but highlighted challenges in auto and property insurance.

Catastrophe Insurance (C) Working Group:

The Working Group collaborated with FEMA on updates to the Community Rating System and discussed the development of a Catastrophe Insurance Modeling Primer. They emphasized the importance of risk mitigation plans for both individuals and communities.


Transparency and Readability of Consumer Information (C) Working Group:

The Working Group is developing a guidance document for states to implement a disclosure notice process for premium increases. The guidance includes a phased approach, with specific requirements for notifying policyholders and providing explanations for rate increases.

Federal Update

Shana Oppenheim (NAIC) provided an update on federal activities impacting the property and casualty (P/C) market, including natural disasters, housing affordability, cannabis banking, title insurance, and marine insurance of illicit oil shipments. She noted that several bills aimed at funding state mitigation programs and addressing housing affordability are unlikely to pass this Congress due to the election year. The FHFA is engaging stakeholders to address property insurance compliance challenges. The SAFER Banking Act for cannabis financial services is expected to be brought to the Senate floor soon. Additionally, the DOJ's potential rescheduling of cannabis to a Schedule III drug could provide tax breaks and increased capital access for the cannabis market. Lastly, the Stopping Illicit Oil Shipments Act of 2023 aims to regulate unverified ship registrants in insurance contracts.

Update on PCMI Data Call

The Property and Casualty Market Intelligence (PCMI) Data Call was issued on March 8 and due on June 6, some extensions were given. NAIC staff have been reviewing and there has been follow up as a result of data anomalies that have been found. NAIC plans to issue a summary analysis later this year.

Presentation on the Homeowners Insurance Markets

Robert Gordon (APCIA) presented on the deteriorating state of property insurance markets and the industry's declining profitability, particularly in homeowners and private passenger auto (PPA) lines. He attributed homeowner losses to rising exposure values, replacement costs, climate change, and man-made factors like social inflation and legal issues. Gordon emphasized that inflation and rebuilding costs are significant drivers of U.S. insured losses, alongside societal trends, and legal system abuses. He highlighted the importance of not suppressing rates to avoid contracting capital and overbuilding, advocating for stronger building codes, land use policies, and financial support for vulnerable populations to enhance community resilience. Gordon also discussed the need for insurers to charge appropriate rates to bring sufficient capital to the market, despite the affordability challenges posed by climate change. The presentation underscored the necessity of balancing mitigation efforts, regulatory costs, and legal system efficiency to maintain affordable and effective insurance coverage.




Connect With Us

If you would like additional information, please contact:

Art Salvadori

Partner

Crowe LLP


 +1 860 470 2117


 arthur.salvadori@crowe.com

Heather Gagnon

Managing Director

Crowe LLP

 +1 617 419 4137

 heather.gagnon@crowe.com