<u>Minutes of the Financial Stability Oversight Council</u>

March 20, 2025

PRESENT:

Scott K.H. Bessent, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)
Travis Hill, Acting Chairman, Federal Deposit Insurance Corporation (FDIC)
Mark T. Uyeda, Acting Chairman, Securities and Exchange Commission (SEC)
Caroline D. Pham, Acting Chairman, Commodity Futures Trading Commission (CFTC)
Russell Vought, Acting Director, Consumer Financial Protection Bureau (CFPB)
William J. Pulte, Director, Federal Housing Finance Agency (FHFA)
Rodney E. Hood, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Kyle S. Hauptman, Chairman, National Credit Union Administration (NCUA)
Thomas E. Workman, Independent Member with Insurance Expertise
James Martin, Acting Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)
Steven Seitz, Director, Federal Insurance Office (FIO), Department of the Treasury (non-voting member)
Lise Kruse, Commissioner, North Dakota Department of Financial Institutions (non-voting member)
Elizabeth K. Dwyer, Director, Rhode Island Department of Business Regulation (non-voting member)
Melanie Lubin, Securities Commissioner, Maryland Office of the Attorney General, Securities Division (non-voting member)

GUESTS:

<u>Department of the Treasury (Treasury)</u>
Michael Faulkender, Counselor to the Secretary
Dan Katz, Chief of Staff
Brian Smith, Performing the Duties of the Under Secretary for Domestic Finance
Christopher Pilkerton, Acting General Counsel
Jonathan McKernan, Senior Advisor
Eric Froman, Assistant General Counsel (Banking and Finance)
Sean Hoskins, Director of Policy, Office of the Financial Stability Oversight Council
Nicholas Steele, Director of Analysis, Office of the Financial Stability Oversight Council

<u>Board of Governors of the Federal Reserve System</u>
Michelle Bowman, Governor
Andreas Lehnert, Director, Division of Financial Stability

Federal Deposit Insurance Corporation
Alex LePore, Deputy to the Acting Chairman

Securities and Exchange Commission
Kelsey Pristach, Senior Advisor

Commodity Futures Trading Commission
Harry Jung, Chief of Staff

Consumer Financial Protection Bureau
Mark Calabria, Senior Advisor

Federal Housing Finance Agency
George Sacco, Senior Analyst, Division of Housing Mission and Goals

Office of the Comptroller of the Currency
Jay Gallagher, Senior Deputy Comptroller for Supervision Risk and Analysis

National Credit Union Administration
Andrew Leventis, Chief Economist

Office of the Independent Member with Insurance Expertise
Diane Fraser, Senior Policy Advisor

Federal Reserve Bank of New York
Richard Crump, Financial Research Advisor, Capital Markets

Office of Financial Research
Stacey Schreft, Deputy Director, Research and Analysis

Federal Insurance Office
Philip Goodman, Senior Insurance Regulatory Policy Analyst

North Dakota Department of Financial Institutions
Karen Lawson, Executive Vice President for Policy and Supervision, Conference of State Bank Supervisors

Rhode Island Department of Business Regulation
Ethan Sonnichsen, Managing Director, National Association of Insurance Commissioners (NAIC) (via videoconference)

Maryland Office of the Attorney General, Securities Division
Dylan White, Associate General Counsel, North American Securities Administrators Association

PRESENTERS:

Treasury Market Developments

- *Elizabeth Fitzgerald, Assistant Director, Division of Trading and Markets, SEC*
- *Corey Garriott, Supervisor of Research, OFR*
- *Brian Smith, Performing the Duties of the Under Secretary for Domestic Finance, Treasury*
- *Sriram Rajan, Associate Director, OFR (available for questions)*

Cybersecurity Developments

- *Seung Jung Lee, Deputy Associate Director, Division of Financial Stability, Federal Reserve*
- *Andreas Lehnert, Director, Division of Financial Stability, Federal Reserve*
- *Lisa Ryu, Senior Associate Director, Division of Supervision and Regulation, Federal Reserve*

Insurance and Natural Disasters

- *Elizabeth Brown, Senior Insurance Regulatory Policy Analyst, FIO*
- *Elizabeth K. Dwyer, Director, Rhode Island Department of Business Regulation*
- *Steven Seitz, Director, FIO*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 2:45 P.M. Before turning to the meeting agenda, he provided introductory remarks regarding the Council and the work that he hoped members would accomplish together. He began by stating that, as part of the Council's information sharing and coordination roles, he would ask the Council to prioritize Treasury's coordination of efforts. He said that this work would help to minimize potential conflicts and ensure that agencies are fulfilling their statutory mandates in a manner consistent with the President's priorities. He said that a particular focus would be on driving economic growth from Wall Street to Main Street through the largest financial institutions, regional banks, and community banks. He said that he would ask the Council to consider ways to enhance member agencies' supervisory and regulatory frameworks, while supporting other efforts to position banks and other regulated entities to foster innovation and advance economic growth.

The Chairperson said that, in the near term, the banking agencies' supervision should be re-focused on material financial risks. He said that as seen with the bank failures in spring 2023, unduly focusing supervision on management or other aspects of governance can distract the banking agencies from material risks to safety and soundness. He said that the associated mission drift also can lead the banking agencies beyond their core mandates, as seen with the excessive focus on climate risk and the debanking of disfavored industries. He stated that re-focusing supervision would ultimately enhance safety and soundness, reduce compliance costs, and remove obstacles to banks' responsible lending and risk taking.

The Chairperson stated that, with that aim, Treasury's goal would be to change the culture of supervision through improvements to examination policies and procedures, enhanced monitoring of examiners' compliance with those policies and procedures, more realistic processes for appealing examiners' findings, and an incentive framework for examiners that is better aligned with more clearly defined objectives for supervision. He said that as an immediate next step, he had asked the banking agencies to begin the process of removing reputational risk as a basis for supervisory criticism, and he noted that this effort was underway. He stated that in the future, the Council would also play an important role in Treasury's leadership of work to modernize the banking agencies' regulatory framework, including the supervision and regulation of capital and liquidity, as well as the regulation of the capital markets and housing finance markets. He said that he had asked the banking agencies to propose recommendations to ensure that the various leverage capital restrictions function as a backstop to risk-based capital requirements, not generally as the binding constraint, and he said that he looked forward to each of their recommendations.

The Chairperson stated that he believed the Council should prioritize issues that are central to a strong and resilient financial system. He expressed his appreciation that Treasury markets and cybersecurity would be discussed at the meeting. He said that these were the kinds of issues that the Council should emphasize. He said that hardening critical financial infrastructure and focusing on risks that are known to be core issues would cause the financial system to become more robust. He said that, more broadly, as banks pulled back from some activities, the risks of those activities were not eliminated from the economy. He said that instead, these activities were increasingly moving elsewhere in the financial system. He stated that in some instances, those activities may now be performed by capital market participants in a way that enhances the resilience of the system. He said that in other cases, risks may be moving to pockets of the financial system that are not well positioned to bear them. He said that the Council has an important role in facilitating the development of a strong, coordinated approach that both stimulates growth and mitigates material risks. He said that this would support the ability of financial institutions to responsibly provide services that benefit households and businesses.

The Chairperson said in conclusion that history indicates that markets will not always be calm, and this Council would likely face financial stress at some point. He said that this Council can be a critical forum for helping to evaluate the different vulnerabilities facing the financial system, so that whatever shock materializes, members have a better collective understanding of how it may impact the broader financial system. He said that this approach would also help the Council to be ready to address shocks that arise. He noted that markets and institutions are interconnected, and he said that many financial issues implicate the authorities of multiple agencies. He noted that collaboration and coordination are critical and that the Council is important. He said in conclusion that he looked forward to working with the Council members.

The Chairperson then outlined the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the executive session included (1) an update on Treasury market developments, (2) an update on cybersecurity developments, and (3) an update on insurance and natural disasters.

1. Treasury Market Developments

The Chairperson introduced the first agenda item, an update on developments in the Treasury market. He then introduced Brian Smith, performing the duties of the Under Secretary for Domestic Finance at Treasury; Elizbeth Fitzgerald, Assistant Director in the Division of Trading and Markets at the SEC; and Corey Garriott, Supervisor of Research at the OFR, for the presentation.

Mr. Smith stated that the Treasury market is of critical importance to Treasury in financing the government, to the Federal Reserve in implementing monetary policy, and to the financial system as a whole. He noted that the Treasury market is the deepest and most liquid market in the world, and he said that it is important to take necessary policy steps to maintain its resilience. He said the Treasury market had experienced several periods of disruption over the preceding 11 years. He noted as examples the October 2014 "flash rally," the September 2019 spike in repurchase agreement (repo) rates, and the March 2020 "dash for cash." He said that during other periods, including the March 2023 bank failures, the Treasury market had witnessed high trading volumes and price volatility but less market dysfunction.

Mr. Smith then described measures of Treasury market liquidity. He noted that volumes had grown substantially in the last two years. He noted that there is no single measure for market liquidity, but that examining a range of measures was appropriate. He said that a compilation of metrics of market liquidity indicated that liquidity had improved substantially relative to periods of volatility in early 2020 and early 2023. He said that the market had continued to function well in other periods. He then described the relationship between measured liquidity and volatility in the Treasury market, which he said indicates a regular pattern with a break in 2020 and, to a much lesser extent, in 2023.

Mr. Smith highlighted several areas in which Council member agencies were working to improve Treasury market resilience, such as the Treasury buyback program. He noted that this program is designed to support liquidity by establishing a regular and predictable opportunity for market participants to sell off-the-run Treasury securities, and is also intended to improve Treasury cash management by providing Treasury with another tool to address the timing mismatch between revenues and expenditures. He stated that feedback on the buyback program had been positive, and he noted that input from the Treasury Borrowing Advisory Committee and responses to Treasury's survey of primary dealers suggested the program was working as intended. He also highlighted developments in Treasury clearing, including the SEC rule designed to expand central clearing of Treasury security and repo transactions, and the OFR data collection regarding non-centrally cleared bilateral repo (NCCBR).

Ms. Fitzgerald noted that the SEC had adopted its central clearing rule for Treasuries in December 2023. She noted that the rule imposed requirements on clearinghouses under the Securities Exchange Act of 1934. She said that the rule covered eligible secondary market transactions, which are defined to include all repo transactions and certain cash transactions executed with interdealer brokers. She said that on February 25, 2025, the SEC extended the compliance dates for the clearing requirement by one year to December 31, 2026, for eligible cash market transactions and to June 30, 2027, for eligible repo market transactions. She stated that the SEC had also issued a limited temporary exemption regarding certain rules applicable to covered clearing agencies in the Treasury market. She said that these rules require such covered clearing agencies to have written policies and procedures reasonably designed to calculate, collect, and hold margin amounts from a direct participant for its proprietary positions in Treasury securities, separately and independently from margin calculated and collected from that direct participant in connection with Treasury securities transactions by an indirect participant (i.e., the direct participant's customer). She said that the exemption allows covered clearing agencies not to enforce these requirements for six months beyond the compliance date of March 31, 2025.

Ms. Fitzgerald noted that on November 21, 2024, the SEC approved various proposed rule changes submitted by the Fixed Income Clearing Corporation (FICC). She stated that these changes, among other things, made amendments to FICC's access models, including the establishment of its agent clearing model, and established a new account structure that provides for the segregation of house from customer margin. She said that CME Securities Clearing had filed an application to register as a clearing agency for Treasury securities and repo. She said that the SEC published notice of this application on January 22, 2025. She said that ICE Clear Credit had stated that it intends to offer clearing agency services for Treasury securities and repo. She stated that the SEC would continue to engage with market participants regarding implementation of central clearing of Treasuries.

Mr. Garriott stated that he would provide an overview of the OFR's NCCBR data collection. He said that NCCBR, with an estimated $3.8 trillion outstanding, represents the largest segment by outstanding of the repo market. He said that while there was visibility into other segments of the repo market, there had been a data gap regarding NCCBR. He stated that the data gap deserved attention because the NCCBR segment is a major source of financing and because it (1) supports liquidity in the cash Treasury market, and (2) is more representative of the entire repo market because NCCBR involves both more kinds of collateral than in the other repo segments and more kinds of counterparties than in the other repo segments, such as those characterized by membership in large clearing and settlement platforms.

Mr. Garriott then provided some statistics regarding the data collected by the OFR. He said that 31 entities were currently reporting, representing the major sell-side institutions. He said the transactions included more than 30,000 different collateral instruments, which he noted is approximately 40 times as many as in cleared repo transactions. He stated that despite the variety, Treasury securities are the most commonly used collateral in NCCBR, so the data will be a valuable indicator of Treasury market resilience. He noted that more than 1,800 legal entities trade in this market segment, which he noted is more than the number of entities in the cleared repo market segment.

Mr. Garriott then discussed how the data collected would assist the Council. First, he noted that in connection with the LIBOR transition, Council member agencies had provided assistance to design and maintain reference rates such as the Secured Overnight Financing Rate, or SOFR. He stated that the data collected would benefit the Council and markets, because the data will provide information that can be used to improve the design of reference rates. Second, he said that the data would assist member agencies in monitoring Treasury markets and money markets.

Third, he said that the data would assist the Council in tracking the shift to central clearing and measuring its effects.

Mr. Garriott noted that while the transition to SOFR had been a success, further study of the NCCBR data collection could inform future improvements to the reference rate. He noted that some interest rates on repo transactions are meaningfully lower than general collateral repo rates or even negative in certain cases, often referred to as “special” rates. He noted the NCCBR data could be used to study such “special” repo activity. He noted that the data contained other information relevant to benchmark calculation, such as volumes and inter-affiliate trading.

Mr. Garriott noted that NCCBR activity can affect Treasury market liquidity, because traders use these repo transactions to finance Treasury securities or to source Treasury securities needed for settlement of other Treasury securities transactions. He also discussed the use of haircuts in the repo market. He concluded by addressing market structure, noting the pending SEC requirement to move certain Treasury repo transactions to clearing. He stated that in a cleared repo transaction, a clearinghouse steps in between the seller and buyer. He said that this represents a significant shift in the risk management for repos, which he said that the OFR would monitor using the data collected.

Council members then asked questions and discussed potential regulatory actions related to the Treasury market, market risk indicators, and market developments.

2. Cybersecurity Developments

The Chairperson then turned to the second agenda item, a presentation on cyber-related financial stability risks in the financial system. He introduced Andreas Lehnert, Director of the Division of Financial Stability at the Federal Reserve; Seung Jung Lee, Deputy Associate Director of the Division of Financial Stability at the Federal Reserve; and Lisa Ryu, Senior Associate Director of the Division of Supervision and Regulation at the Federal Reserve, for the presentation.

Mr. Lehnert stated that he would address how cyber events can affect the ability of the financial system to provide the services the economy needs to function. He said that since 2019, the Federal Reserve had surveyed market participants about their views of the most significant threats to financial stability. He noted that while cyberattacks had never appeared in the top three risks identified, it had rarely been out of the top 15 to 20 risks. He stated that in the Federal Reserve’s most recent survey, from November 2024, cyberattacks were the eighth most-cited risk, their highest level in the history of the survey.

Mr. Lehnert then noted that financial stability analyses consider the interaction of significant shocks with vulnerabilities in the financial system. He stated that the Federal Reserve, when evaluating cyber events, focuses on vulnerabilities in specific entities and at the system level. He said that if the resulting amplification effects are large enough, the system as a whole can break down, leading to an unwarranted contraction in economic activity. He said that this system-level financial stability risk is distinct from concerns about firm-level resilience, which he noted focuses on individual institutions. He stated that, by contrast, financial stability analysis considers both entities and the larger financial system. He said that while cyber events add new dimensions of shocks and of vulnerabilities to the analysis, the Federal Reserve ultimately remained concerned about the consequences of breakdowns for real economic activity. He stated that cyber events create novel vulnerabilities by combining three factors: (1) threat actors (the malicious individuals, organizations, or nation states that engage in cyberattacks); (2) contagion (the perceived or actual ability of cyber events to spread through the system); and (3) uncertainty (including uncertainty about an entity's own status and the status of others). He said that these forces then interact with technological vulnerabilities, including operating systems and networking protocols, and with traditional financial vulnerabilities. He noted that cyber vulnerabilities can interact with and amplify more traditional vulnerabilities.

Mr. Lehnert noted that cyberattacks had been a persistent feature of the landscape for several years. He said that they had grown recently, and he noted that attacks on financial firms had increased and were growing faster than attacks on other types of firms. He said that U.S. financial firms had been relatively resistant to cyberattacks, and that their resilience had continued to improve.

Turning to the Federal Reserve's approach to monitoring cyber and financial stability, Mr. Lehnert stated that its goal is to understand system-wide risks by filling data gaps and conducting analysis. Mr. Lehnert stated that the Federal Reserve's work includes three types of analysis: basic research, case studies, and scenario analyses. He said that he would provide an example of each of these. He first discussed a ransomware attack in March 2020 that affected the systems of a company that provides a range of technology services, including payments processing, to smaller and mid-sized banks. He said that the company took its systems offline to limit damage. He stated that affected banks had to rely on backup processes to submit payments to Fedwire, the funds transfer system operated by the Federal Reserve Banks. He said that the affected banks submitted far fewer payments than unaffected banks during the episode. He noted, however, that the value of payments sent by affected banks dropped by less, suggesting that affected banks prioritized making larger payments. Mr. Lehnert stated that it is important for institutions to have robust backup plans in case they lose access to a service provided by a third party. He noted that the financial system can rapidly transmit stress from affected participants to unaffected participants. He said that as with many operational disruptions, liquid resources, whether in the form of an institution's own cash balance or in the form of access to central bank lending, can be helpful in preventing contagion.

Mr. Lehnert then turned to a cyber event from 2024, when CrowdStrike released a faulty software patch to millions of users, including many users in the financial sector. He said that the event resulted in significant operational difficulties for the affected firms. He noted, however, that it had essentially no effect on financial stability, in part because the software patch was issued and detected before normal business hours, and in part because of the early, clear, and credible communication from CrowdStrike that the event was not malicious in origin. He stated that the CrowdStrike event indicated that while there is significant dependence on a limited number of service providers, even widespread outages do not necessarily translate into notable financial stress.

Finally, Mr. Lehnert discussed scenario analysis conducted by the Federal Reserve of cyber events in the Treasury market. He noted that the Treasury market had been resilient to cyberattacks, and this Federal Reserve exercise was purely hypothetical. He said that the Federal Reserve began by compiling a list of the direct participants in the Treasury market, including public sector entities, banks and other institutions that provide critical services, and dealers. He stated that the Federal Reserve used well-known cyber event scenarios used in the cyber insurance industry. He said that each of these scenarios involves a set of events, such as data theft or ransomware. He said that each event has a probability of occurring, and results in a distribution of potential dollar losses across the participants. Mr. Lehnert stated that the scenario analysis exercise treated the losses faced by participants from cyber events as proxies for the level of distress they would face and, in turn, could transmit through the Treasury market. He said that the losses were mostly associated with harm to financial clients from their lost data. He stated that in other scenarios, cloud service providers suffered damage, resulting in participants experiencing losses stemming from business interruptions. In those scenarios, he said that while the aggregate losses were manageable, the analysis did not account for knock-on effects, such as impacts from a deterioration in market sentiment or disruptions in market functioning.

Mr. Lehnert concluded by summarizing the lessons learned from the exercise. First, he stated that compiling the list of participants and mapping their exposure and security scores provided insight into those firms' cyber resilience. He said that this information augmented the Federal Reserve's standard financial metrics, such as capital and liquidity. Second, he said that the exercise provided information about the technological dependencies among participants in the Treasury market. He said that, if any given service fails in the future, there would be a better understanding of the number and kinds of participants using that service. Third, he said that the exercise provided information about the sources and scale of financial losses participants can suffer from cyber events and which events merit further focus.

Council members then asked questions and discussed issues including the importance of agencies conducting cyber exercises with financial institutions, such as the joint exercises conducted by the Financial and Banking Information Infrastructure Committee and the Financial Services Sector Coordinating Council, as well as the Hamilton Series coordinated by Treasury; cyber risks to community banks; and domestic and foreign sources of cyber risks.

3. Insurance and Natural Disasters

The Chairperson then introduced the final agenda item, an update on the homeowners insurance sector, with a focus on recent natural disasters.

The Chairperson noted that increased costs in insurance markets were caused by a variety of factors, which he noted affects the cost of living and housing affordability for many Americans. He said that issues regarding the cost of homeownership were a priority for Treasury, and he encouraged Council member agencies to coordinate and collaborate with state colleagues to better understand the relationship between natural disasters and insurance market resiliency. He then turned to Elizabeth Dwyer, Director of the Rhode Island Department of Business Regulation; Steven Seitz, Director of FIO; and Elizbeth Brown, Senior Insurance Regulatory Policy Analyst at FIO, for the presentation.

Director Seitz stated that he would provide an update on how property insurance markets were being affected by some of the recent natural disasters and how these effects could impact other parts of the financial system. He stated that Treasury had been analyzing how various factors affect the availability and cost of insurance, which he noted affect the cost of living and housing affordability.

Director Seitz stated that the availability and cost of homeowners insurance plays a critical role in the residential real estate market, which he noted had an estimated value of $43.5 trillion in 2023. He said that approximately 87 percent of homes in the United States had homeowners insurance in 2023. He stated that homeowners insurance premiums had been increasing nationwide, with a 45 percent average increase over the last five years. He noted that premiums per policy vary widely across the country. He stated that the NAIC and the states had collected homeowners insurance data with respect to the period from 2018 to 2022, some of which was shared with FIO. He said that the data collected by the NAIC, including the subset shared with FIO, constituted traditional insurance underwriting information, aggregated at a ZIP Code level. He said that the data included information on premiums, losses, claims, coverage, non-renewals, and deductibles, and he noted that it was the most comprehensive data of this type available for the U.S. insurance market.

Director Seitz stated that several factors were impacting the availability and cost of homeowners insurance. He said that these factors include inflation and replacement costs, which affects construction material and labor costs; the price of reinsurance; population movements into higher-risk areas; exposure to natural disasters; rising litigation-related costs; and state insurance regulations, particularly rate regulation. He also noted that some consumers are either underinsured or have no insurance for their properties.

Director Seitz then discussed how a natural disaster and related effects can flow through U.S. insurance markets and potentially impact the broader financial system. He said that after a loss event, homeowners can submit insurance claims to either homeowners insurers or flood insurers, or they may seek federal, state, or local disaster assistance. He noted that while some homeowners can rebuild their homes following a loss event, other homeowners cannot rebuild, find insurance, or afford their insurance premiums. He stated that signs of potential insurance market stress in certain areas were becoming visible, as reflected in some insurers' underwriting. He noted as an example that some insurers were pulling back or withdrawing entirely from certain markets. He also noted the growth of some states' residual insurance markets, also known as insurers of last resort. He said that FIO, when analyzing these issues, would engage with state insurance regulators, who are the primary regulators of insurance; insurance companies; and other stakeholders. He noted that FIO intended to host a roundtable to discuss opportunities and potential actions to maintain insurance availability and lower costs.

Director Dwyer then described several key aspects of U.S. state insurance regulation. She noted that state insurance regulators are responsible for ensuring insurance company solvency and fair treatment of policyholders. She noted that state insurance regulators serve as both a prudential and market regulator. She said that statutory accounting for insurance companies reflects the unique nature of insurance liabilities. She noted that insurance policies could be grouped into three categories. She said that 94 percent of the market is standard markets, or insurance provided by companies licensed to do business within a given state. She stated that 4 percent of the market is residual markets, or insurers of last resort, which she noted are available in 34 states and the District of Columbia, and cover high-risk homes, usually with less-comprehensive coverage. She said that there had been growth in residual markets, which she noted varies across states. Finally, she said that 1 percent of the market is excess and surplus markets, which she said are typically more expensive and offer fewer regulatory protections, including no state guarantee fund protections. She noted that banks typically require insurance for a mortgage and that over 95 percent of insured homeowners have access to private insurance.

Director Dwyer then described the impact of the Los Angeles wildfires in January 2025 on homeowners insurance markets. She noted that while these wildfires affected a small geographic area, they caused a significant loss of life and property damage. She said that the wildfires caused total estimated economic losses of as much as $250 to $275 billion, with insured losses ranging from $25 to $45 billion. She said that, according to the California Department of Insurance, approximately 38,000 claims, representing $12.1 billion, had been processed in connection with the wildfires. She said that over 20 insurance and reinsurance groups had each reported expected losses of over $100 million from the event, with losses continuing to evolve as claims were settled.

Addressing the California Fair Access to Insurance Requirements (FAIR) plan, Director Dwyer stated that statewide exposure had increased significantly in recent years, especially in areas with the greatest wildfire risk. She said that the FAIR plan had 501,379 new and renewed policies in 2024, compared to a total of 8.3 million policies statewide, making it the sixth-largest insurer in California. She said that the number of FAIR plan policies had increased by 56 percent from September 2023 to December 2024. She said that the FAIR plan coverage limit for residential policyholders increased from $1.5 million to $3 million in 2019. She said that California was working on market reforms, including proposed changes to its FAIR plan.

Ms. Brown then described the insurance protection gap in the context of flooding from Hurricane Helene. She noted that Hurricane Helene made landfall in Florida in September 2024 and then moved through Georgia, South Carolina, North Carolina, and Tennessee. She stated that the total estimated direct damages from Hurricane Helene were up to $75 billion, including estimated insured losses of $12.4 billion to $18.4 billion from both homeowners insurance and flood insurance policies. She said that standard homeowners insurance policies cover damages from a variety of perils, including fire, wind, rain, hail, and winter storms, but do not cover damages from certain other perils, such as earthquakes and flooding. She also noted that most Americans do not have flood insurance.

Ms. Brown stated that coverage for flooding generally requires a separate policy or policy endorsement. She noted that while some private flood insurance policies are available, 90 to 95 percent of flood coverage is obtained through the National Flood Insurance Program (NFIP) administered by the Federal Emergency Management Agency. She said that homeowners may not always be aware of the need to obtain a separate policy, which requires them to pay an additional premium. She said that many homeowners are uninsured for flooding, which she noted was evident following Hurricane Helene. She noted that of the over 200,000 houses damaged in North Carolina, South Carolina, and Tennessee by Hurricane Helene, less than 1 percent of the houses damaged in North Carolina and Tennessee had NFIP flood insurance, and less than 3.7 percent of houses in South Carolina had NFIP flood insurance. She noted that as a result, except for the approximately $2 billion in wind damage, most of the storm damage to homes in those three states was uninsured.

Ms. Brown then noted that most of the flood insurance coverage and the associated paid losses in respect of Hurricane Helene were in Florida. She said that in the Florida counties affected by Hurricanes Helene and Milton, the NFIP penetration is 13 percent. She said that uninsured or underinsured homeowners, particularly those who lost their entire homes, may be less able to rebuild and more reliant on local, state, or federal assistance.

Members of the Council then asked questions and had a discussion about the effects of homeowners insurance losses, factors influencing insurance costs, actions taken to mitigate risks, and implications for state insurance funds and other financial market participants.

The Chairperson adjourned the meeting at approximately 4:05 P.M.