To: Federal Advisory Committee on Insurance

From: Protection Gap Subcommittee

Re: Recommendations to FIO on Addressing the Protection Gap

Background:

The FACI Subcommittee on "Addressing the Protection Gap Through Public Private Partnerships and other Mechanisms" (the "Subcommittee") proposed five recommendations for the Federal Insurance Office ("FIO") to adopt in order to address the protection gap. Supplemental information, supporting research, and relevant sources can be found in the Subcommittee's PowerPoint Presentation attached to this document.

According to the Geneva Association, a global insurance think tank, "Insurance Protection Gap" may be defined in two ways:

1. The difference between total losses and insured losses.
2. The difference between the amount of insurance that is economically beneficial and the amount of insurance actually purchased.

The recommendations endorsed by the Subcommittee complement the first definition of the "protection gap," which defines the gap as being quantifiable after natural catastrophes. Therefore, the Subcommittee defines the term, "insurance protection gap," as the gap between the insured and actual economic losses caused by large scale catastrophic events. The recommendations in this memo focus on the protection gap relating to the natural hazards of flood, earthquake, wildfire and wind.

The Subcommittee acknowledges that the second definition draws attention to the process of evaluating particular types of insurance or insurance decisions, which is also an integral piece of evaluating the protection gap.

The Subcommittee adopted and built on recommendations from the National Mitigation Investment Strategy ("NMIS"). The purpose of NMIS is to increase the nation's resilience to natural hazards through more effective and efficient mitigation investment.

Subcommittee Recommendations to FIO to Address the Protection Gap:

The Subcommittee recommends that FIO adopt the full set of recommendations from the NMIS as well as the recommendations developed by the Subcommittee. It is our collective view that our five recommendations are the most efficient and effective strategies to address our nation's growing insurance protection gap.

By adopting the NMIS recommendations, the Subcommittee is asking FIO to exercise its influence over the broader federal initiatives. The supporting recommendations below focus specifically on how the federal government and nonfederal partners can identify, support, influence, and align whole community mitigation investments.

While FIO is not a regulator, it is a member of the task force that developed the NMIS recommendations. FIO can raise the visibility of these recommendations by endorsing them in its annual report.

NMIS Mitigation Recommendations:

- Demonstrate how mitigation investments reduce risk.
- Coordinate mitigation to reduce risk.
- Make mitigation investments standard practice.

Subcommittee Developed Mitigation Recommendations:

- Provide financial and other incentives to implement mitigation measures.
- Promote innovative industry solutions and products with increased transparency.

Utilize FIO's Convening Authority to bring together stakeholder discussion on the Protection Gap. The Subcommittee suggests the following topics for roundtable discussions:

- Stakeholder discussion on efficient and effective strategies for financing mitigation and resilience.
- Addressing the flood protection gap.

<u>Goals and Recommendations for Mitigation:</u>

1. Demonstrate How Mitigation Investments Reduce Risk Through Effective Education
    a. Make risk mitigation relevant to the community by tying mitigation investment to community sustainability and resilience.
    b. Build community capacity by creating a state and local Chief Resilience Officer to coordinate resilience and sustainability efforts
    c. Build community support for individual and community resilience investments through partnerships with public and private organizations to develop resilience educational materials.
    d. Educate policymakers, businesses and residents on the value of mitigation funding. The National Institute of Building Sciences found that every $1 the federal government spends on mitigation projects reduces future costs by an average of $6.
    e. Identify and prioritize cost effective accepted mitigation measures.
    f. Increase product transparency, for example homeowners policies should have explicit disclaimers on what is included/not included for specific perils.

2. Coordinate Investment in Mitigation to Reduce Risk
    a. Information sharing through a central repository or website with state/local resources to share information between government and industry.
    b. Align program requirements and incentives and prioritize risk-based investments.
    c. Encourage Federal and non-Federal partners to simplify mitigation funding processes, coordinate co-funding, and encourage plan integration.
    d. Identify opportunities for public agencies to partner with each other and with private sector organizations to promote mitigation and resiliency investments and initiatives.
    e. The Federal Government and its nonfederal partners will use and expand financial products and approaches for mitigation investment—including funding, incentives, and risk transfer opportunities.

3. Incorporate Mitigation Policies and Investments into All Aspects of Governance
    a. Encourage communities to adopt and enforce up-to-date building codes.
    b. Develop and enforce zoning and land use policies that restrain growth in high-risk areas.
    c. Strengthen critical infrastructure lifelines.
    d. Evaluate fairness and cost-efficiency of mandating certain types of insurance coverage at certain thresholds (i.e., adding the peril of flood to property insurance policies).
    e. Consider government programs to facilitate market solutions for increased mitigation investment and insurance or provide insurance if private insurance markets are unwilling or unable.
    f. Strengthen current insurance products to reduce gaps resulting from broad exclusions and/or excessive deductibles.

4. Financial Incentives to Implement Mitigation Measures
    a. Consider federal expenditures – whether through expenditures, subsidies or tax benefits – as investments in loss mitigation with associated cost-benefit analysis.
    b. Incorporate distributional impact of federal expenditure and tax policies for mitigation and focus benefits on most financially vulnerable consumers.
    c. Consider specific federal expenditure to promote preservation of and development of natural assets that act as efficient natural barriers, including, for example, carbon credits that can help fund redevelopment of natural assets that act as disaster risk redactors, as wetlands and mangroves are some of the greatest sequesters of carbon.
    d. Consider the fundamental role of risk-based insurance pricing for providing proper price signals to investors.
    e. Provide means-tested financial assistance in the form of mitigation investments to those dislocated by a move to risk-based pricing.
    f. Consider the role of federal mortgage-related agencies and mortgage-related polices to expand and facilitate the purchase of natural catastrophe insurance coverage.

5. Exploring the efficacy of innovative industry solutions and products with increased transparency
    a. Increase take-up rate of traditional products and educate consumers about effective insurance products readily available in the marketplace.
    b. Consider parametric and on-demand insurance products, as well as enhanced digital and mobile technologies.
    c. Embrace new product design and encourage the latest technologies to focus on developing appropriately regionalized models to assess the risk posed by the perils.

Subcommittee Membership:

The Subcommittee on Addressing the Protection Gap work consists of FACI members from:
Marsh & McLennan Companies, AXA XL, Aon, United Policyholders, Center for Economic Justice, Amerisure, The Hartford, Superintendent of New Mexico, Representative of the North Dakota House of Representatives, Commissioner Texas Department of Insurance, Director, Ohio Insurance Department.