

**U.S. DEPARTMENT OF THE TREASURY
FEDERAL INSURANCE OFFICE (FIO)
FEDERAL ADVISORY COMMITTEE ON INSURANCE (FACI)**

MINUTES – June 4, 2024

The Federal Advisory Committee on Insurance (FACI) convened virtually via Zoom at 1:00 pm EST on June 4, 2024, with John Doyle, Chair, presiding. A quorum existed for the meeting. In accordance with the Federal Advisory Committee Act, the meeting was open to the public.

Committee Members Present:

JOHN DOYLE, Marsh McLennan, Chair
DANIEL SEROTA, proxy for Eric Anderson, Aon
AMY BACH, United Policyholders
BIRNY BIRNBAUM, Center for Economic Justice
MARTIN BOGUE, proxy for Lucy Fato, AIG
KERMITT BROOKS, Guardian Life Insurance Company
ROGER GRENIER, proxy for Bill Churney, Verisk
MICHAEL CONWAY, Colorado Division of Insurance
IAN ADAMCZYK, proxy for Rob Falzon, Prudential
MICHAEL DELONG, proxy for Doug Heller, Consumer Federation of America
MICHAEL HUMPHREYS, Pennsylvania Department of Insurance
ED KENEALY, proxy for Damon Hart, Liberty Mutual
PETER KOCHENBURGER, University of Connecticut School of Law
CAROLYN KOUSKY, Environmental Defense Fund
TOM SANTOS, proxy for Laura Lazarczyk, Zurich North America
MICHAEL COHEN, proxy for Kevin O'Donnell, RenaissanceRe
ANDREW STOLFI, Oregon Division of Financial Regulation
JOANNA SYROKA, proxy for John Seo, Fermat Capital Management
BILL SCHWEGLER, proxy for Julie Spore, Transamerica
BETSY WARD, MassMutual
JOSEPH WAYLAND, Chubb Group

Department of Treasury Staff Present:

STEVEN SEITZ, Director, FIO
JOHN GUDGEL, Designated Federal Officer, Senior Insurance Regulatory Policy Analyst, FIO
CHANDA BRADY, Senior Insurance Regulatory Policy Analyst, FIO
KRISHNA KUNDU, Senior Insurance Regulatory Policy Analyst, FIO

Also Present:

GEORGE NICHOLS III, President and CEO of The American College of Financial Services
MOHAN KUMAR, National Science Foundation IUCRC Program Director
RICHARD ATTANASIO, Senior Director - North American Property Casualty, AM Best
GREGORY DICKERSON, Director - Global Reinsurance, AM Best

Welcome and Opening Remarks by FACI Chair John Doyle

Chairman Doyle opened the meeting and provided an overview of the agenda. He then introduced FIO Director Steven Seitz.

Director Seitz Update on FIO Activities

Since the March FACI meeting, FIO has hosted two conferences at Treasury. In April, FIO hosted the annual conference of the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP), a forum supporting initiatives for closer international collaboration among 15 sovereign-backed terrorism reinsurance pools. Under U.S. leadership, IFTRIP is now working with the Geneva Association on a collaborative project that aims to assess shifts in the chemical, biological, radiological, and nuclear risk landscape and the insurance response to those perils. At the conference, FIO announced it will partner with the National Science Foundation to establish a new Industry-University Cooperative Research Center that will provide research, analysis, and thought leadership to improve the insurance sector's modeling and underwriting of terrorism and catastrophic cyber risks.

In May, FIO hosted a conference on "Exploring Potential Forms of a Federal Insurance Response to Catastrophic Cyber Incidents." Senior officials from Treasury, the Cybersecurity and Infrastructure Security Agency and Office of the National Cyber Director participated. The conference featured three panels made up of cyber insurance experts from major insurers, reinsurers, brokers, and modelers, and launched the second phase of FIO's work assessing a potential federal insurance response to catastrophic cyber incidents.

In March, FIO announced the launch of a first-of-its-kind collaboration with the National Association of Insurance Commissioners (NAIC) and state insurance regulators to collect granular homeowners' insurance data. The goal of FIO's data analysis will be to assess market challenges on a consistent and nationwide basis. We see our climate work as complementing the efforts that states will undertake to understand and address market challenges by adding a national perspective on the increasingly important area.

Another top priority is our international engagement efforts at the International Association of Insurance Supervisors (IAIS), along with the NAIC and the Federal Reserve Board, including ongoing discussions regarding the Insurance Capital Standard (ICS). Incorporating structural changes to the ICS (and mitigating the procyclicality observed in the design of the ICS—factors that have negatively affected U.S. life products—will be among the key areas of focus for Team USA over the next several months. In addition to our IAIS work, FIO is continuing its engagement with the Insurance Regulatory and Development Authority of India (IRDAI). FIO and IRDAI have established a regular dialogue and are planning to meet in India later this year.

Treasury has been working on developing a National Financial Inclusion Strategy and has conducted several roundtables to discuss financial barriers faced by underserved communities.

Finally, FIO has been asked by the White House to convene a roundtable discussion with relevant stakeholders to discuss the title insurance industry and analyze potential reforms.

Amy Bach asked about the ongoing communications with the NAIC regarding the climate data call. Director Seitz indicated that FIO staff is meeting frequently with NAIC staff. Commissioner Conway confirmed that there has been good collaboration so far. Commissioner Humphreys noted that a few companies have requested an extension for the delivery of the data, one so far has been granted. The bulk of the data should be coming in later this week, but he expects a few more requests for extensions.

Michael DeLong noted that the Consumer Federation of America and 19 other consumer and housing groups sent a letter to FIO asking about updates to the data call and future data calls. Director Seitz said he would be happy to follow up with the groups.

Peter Kochenburger asked how many states are involved in the data call and what percentage of homeowners' premium will be covered. Director Seitz noted that the NAIC has indicated that 75 to 80 percent of homeowners' premium should be covered. Commissioner Humphreys added that even if a state is not participating, some companies in those states are participating.

Birny Birnbaum noted that states that are not participating are dominated by single-state insurers and asked about any plans to get data for these states and underserved communities. Commissioner Conway noted that this is the first time the states have come together to do this type of data call. Commissioner Stolfi noted that the data call was designed to get 80 percent or greater representation nationwide and that this has been a highly participatory process. Mr. Birnbaum said there should be greater transparency on which companies are reporting.

Presentation on Financial Inclusion and the Insurance Sector by George Nichols III, President and CEO of the American College of Financial Services (ACFS)

George Nichols gave a brief overview of the ACFS before focusing on financial inclusion in the life insurance and banking/investment segments. He defined inclusion as assuring that every individual, family and business requiring insurance can get it. He noted that, even when insurance is available, people may experience barriers to accessing it. In 2020, the ACFS established a Center of Excellence focused on inclusion.

Mr. Nichols described six factors affecting financial inclusion: accessibility, affordability, education, understanding of consumer nuances, navigating the challenges of current trends, and uplifting the profession to benefit society. Part of the reason why financial literacy does not work is the perception that it is an all-or-nothing proposition, instead of focusing on specific financial decisions like retirement. ACFS research focuses on what specific factors affect financial decisions in various cultural and racial communities. For example, many people in specific communities do not trust financial institutions because there is no outreach to these communities. There are cultural changes companies need to make to properly serve specific communities. There are also technical issues, such as access to the Internet, that need to be addressed in order to provide insurance to underserved communities.

Mr. Nichols stated that in the next eight to ten years, \$30 trillion will be transferred to women as a result of the deaths of their spouses. Over the next 20 years, after parents die, \$60 trillion will be transferred to their children. This will require financial institutions to adapt to differences in how women and younger generations think about wealth. He then discussed the changes in financial institutions due to the retirement of insurance agents and financial advisors, which will force the industry to consider agent education and compensation. There is a shift in focus from insurance to financial wealth management.

Birny Birnbaum noted there is a decrease in life insurance policies for the population, and he asked whether this drop is due to the lack of financial literacy or does the life insurance industry and changing sales practices have anything to do with this? Mr. Nichols noted that the distribution system for selling insurance has changed since 1960 from mutual to public and that model changed has impacted the need for financial literacy. He said companies now are focusing on a team approach to educating and selling financial products. Amy Bach asked about the distribution of storefront agencies. Mr. Nichols said there are still storefronts out there, but fewer.

Presentation on the *FIO-National Science Foundation (NSF) Industry-University Cooperative Research Center (IUCRC) Project* by Chanda Brady, FIO Senior Insurance Regulatory Policy Analyst, and Mohan Kumar, NSF IUCRC Program Director

Chanda Brady stated that in April 2024, FIO initiated a new partnership with the NSF to form an IUCRC to better predict and insure terrorism and catastrophic cyber risk. The new IUCRC will bring together government, academia, the insurance industry, and other stakeholders to better model and understand terrorism and catastrophic cyber risk. The primary goal of the IUCRC is to strengthen the resilience of the U.S. economy by expanding insurance coverage for these risks through improved insurance modeling and underwriting.

Mohan Kumar gave an overview of the NSF and the IUCRC Program. IUCRCs have been in place for over 50 years. They were created to promote cooperation among government, academia, and industry to stimulate research projects that aid the U.S. economy. IUCRCs study problems that are of national interest as well as of interest to multiple industries. An Industry Advisory Board (IAB) for each IUCRC assures that projects are relevant to industry. Under the IUCRC framework, 90 percent of funds contributed by industry goes directly to universities to support research. Mr. Kumar explained the typical timeline and process for creating an IUCRC, as well as the usual funding model with universities expected to get industry partners to contribute funds as well, and all partners having access to the intellectual property generated by the IUCRC.

For the Terrorism and Cyber Risk IUCRC, Ms. Brady noted that preliminary proposals are due in September 2024; full planning proposals are due by the end of December, and the NSF will conduct a merit review beginning in June 2025. Ms. Brady encouraged interested parties to read the Dear Colleague Letter on the NSF and FIO websites.

Amy Bach observed the need for a public catastrophe model for natural catastrophes. Director Seitz indicated that the NSF and the National Oceanic and Atmospheric Administration are engaged in an ongoing project to research natural catastrophes. Birny Birnbaum suggested that consumer advocates should be allowed to participate in the IAB for this IUCRC.

Presentation on *Property and Reinsurance Markets Update* by Richard Attanasio, Senior Director - North American Property Casualty, and Gregory Dickerson, Director - Global Reinsurance at AM Best

Rich Attanasio noted that there has been a lot of activity related to the North American property and reinsurance markets. AM Best is maintaining a negative outlook for U.S. personal lines first established in September 2022. Factors influencing this negative outlook include ongoing volatility in the personal auto and homeowners' lines, rising costs severity driven by inflation, challenges to maintaining rate adequacy, restrictive regulations in various states, elevated reinsurance costs coupled with tighter terms and conditions, and heightened catastrophic loss volatility. There are also positives, including solid risk-adjusted capitalization, aggressive push for rate adequacy, improving investment yields, accelerating digital transformation, and improving catastrophe risk management practices.

Greg Dickerson stated that AM Best is maintaining a stable outlook for the global reinsurance segment based on a number of positive factors. These factors include maintenance of favorable renewal pricing, increased demand for coverage due to catastrophic losses, strong demand for life and annuity reinsurance, rising investment income, and available capital and deployed capacity. AM Best is also tracking negative factors, including rising inflation and interest rates that are making raising capital difficult. Additionally, new complex and evolving risks are presenting challenges.

Mr. Attanasio next reviewed the "Perfect Storm" impacting property insurers. The market is experiencing higher catastrophic losses due to increased frequency and losses, regulatory challenges, and inflationary pressures. Loss ratios have fluctuated quite a bit, driven by weather. Other than 2019, most years since 2013 have had losses due to increased frequency of high-loss events. Three of the top 10 events happened in 2023. Additionally, more losses are coupled with increased costs for materials and labor, and the cost of reinsurance for property insurers has gone up considerably. Capital is no longer cheap and there are higher costs for cedents.

Mr. Dickerson discussed the reinsurance cycle. There is not a lack of capital in the current market versus prior "hard market" cycles, but there is a lack of deployed capacity, especially at lower property catastrophe levels. There is also very little appetite to provide aggregate reinsurance property coverage because of frequency of events. For catastrophe lines, we remain in a hard market. There has not been one big event but rather a series of events. For reinsurance markets, key trends include improving combined ratios and big growth in return-on-equity. Thus, while performance was sluggish prior to 2023, it skyrocketed in 2023. This change was driven by

reinsurance investment in lines other than property. We expect the outlook for reinsurers is very strong in 2024, with non-catastrophe lines growing.

Mr. Attanasio concluded with a review of AM Best rating actions over time, with property and casualty rating reviews and downgrades increasing dramatically in 2023. The carrier response has been to stabilize their balance sheets. Some are shifting to other product lines. Some are looking at mergers as an exit strategy. With increased premium rates and tempering inflation, companies are seeing improving rate adequacy.

Presentation on *IAIS Process Towards ICS Implementation and the Aggregation Method Comparability Decision* by Krishna Kundu, FIO Senior Insurance Regulatory Policy Analyst

The IAIS initiated the development of the ICS when it received a request from the Financial Stability Board in 2013 to produce a work plan to create “a comprehensive group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs).” The IAIS responded by adopting the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) in 2019, a comprehensive and outcome-focused framework aimed at facilitating effective group-wide supervision of IAIGs. The ICS, representing the quantitative component of ComFrame, is intended to deliver a minimum risk-based capital standard for IAIGs, with the objective of establishing a common language for supervisors to discuss group solvency and enhance global convergence among existing group capital standards across jurisdictions.

Following six years of field testing the ICS with volunteer insurance groups, the IAIS advanced version 2.0 of the ICS (reference ICS) into a five-year monitoring period in November 2019. The purpose of the monitoring period has been for confidential reporting and discussion in supervisory colleges.

In 2023, the IAIS determined that there was a basis for advancing “other methods” to be part of the ICS framework. These key decisions contributed to the formulation of the candidate ICS, with the IAIS issuing a final public consultation and an economic impact assessment of the candidate ICS in June 2023. Before adopting the ICS as a prescribed capital requirement (PCR) by year-end 2024, the IAIS will assess its appropriateness through a final data collection that will incorporate proposed design changes.

The IAIS released the final ICS confidential reporting package at the end of April 2024, with a submission deadline of July 31, 2024. IAIS members will be voting on the adoption of the final ICS in December 2024 and its planned implementation as a PCR on January 1, 2025.

The AM comparability assessment is ongoing, with final approval targeted for November of this year. The AM Comparability Assessment (AMCA) Team led by the IAIS Secretariat is working closely with U.S. firms and members of the IAIS to facilitate next steps on the assessment. The AMCA Team will perform further analysis with additional data/information expected from firms in mid-June.

Update on Climate-Related Financial Risk Subcommittee Activities

Dr. Joanna Syroka, acting on behalf of subcommittee co-chair John Seo, provided an overview of the meeting of the FACI Subcommittee on Climate-Related Financial Risk held virtually on May 20, 2024. Following an introduction by FIO Deputy Director Stephanie Schmelz, Sam Medlock, Assistant Administrator of the Office of Resilience Strategy at the Federal Emergency Management Agency (FEMA), provided an update on FEMA’s resilience strategy. Among other things, Ms. Medlock discussed the development of Community Disaster Resilience Zones (CDRZ). In September 2023, FEMA designated the first of 483 CDRZs across all 50 states and DC, covering nearly 2 million people.

The subcommittee then discussed various ideas related to mitigation for focus by the subcommittee. Ideas included insurance-related consumer education and awareness, best practices to help front-line communities, how to access potential federal mitigation/resilience opportunities, and insurance industry mitigation and

resilience success stories. One example included exporting the practices of commercial insurance companies working on energy conversion projects in the residential market. The subcommittee also discussed how insurer foundations can make direct investments in resilience in underserved communities. Another member suggested exploring public protection codes to evaluate risk within underserved communities.

New Business/Update on Old Business

Chairman Doyle confirmed that FACI members had no new business, then adjourned the meeting.

MEETING ADJOURNED AT 3:19 PM.

I hereby certify these minutes of the June 4, 2024, Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "John Doyle".

John Doyle, Chair