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

MINUTES – March 20, 2024

The Federal Advisory Committee on Insurance (FACI) convened in person and via Zoom at 2:00 pm EST on March 20, 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, Chair, Marsh McLennan
IAN ADAMCYZK, Proxy for Rob Falzon, Prudential
AMY BACH, United Policyholders
BIRNY BIRNBAUM, Center for Economic Justice
MARTIN BOGUE, Proxy for Lucy Fato, AIG
KERMITT BROOKS, Guardian Life Insurance Company
JILL BROWN, Proxy for Betsy Ward, MassMutual
MICHAEL CONWAY, Colorado Division of Insurance
DOUG HELLER, Consumer Federation of America
MICHAEL HUMPHREYS, Pennsylvania Department of Insurance
EDMOND JORDAN, Louisiana House of Representatives
ED KENEALY, Proxy for Damon Hart, Liberty Mutual
PETER KOCHENBURGER, University of Connecticut School of Law
LAURA LAZARCZYK, Zurich North America
BILL SCHWEGLER, Proxy for Julie Spore, Transamerica
JOHN SEO, Fermat Capital Management
JOSEPH WAYLAND, Chubb Group

Department of Treasury Staff Present:

NELLIE LIANG, Under Secretary for Domestic Finance
STEVEN SEITZ, Director, Federal Insurance Office
STEPHANIE SCHMELZ, Deputy Director, Federal Insurance Office
ELIZABETH BROWN, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office
ANNETTE BURRIS, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office
JOHN GUDGEL, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office

Also Present:

RANI BHUVA, EY
CLIFFORD GOSS, Deloitte
CARMI MARGALIT, S&P Global Ratings
DAVID MAURSTAD, FEMA Assistant Administrator and NFIP Senior Executive
SANDEE SUHRADA, Deloitte
NIMNA VARGHESE, EY

Welcome and Opening Remarks by FACI Chair John Doyle

Chairman Doyle opened the meeting. FIO Director Steven Seitz introduced Undersecretary Nellie Liang.

Remarks by Under Secretary for Domestic Finance Nellie Liang

Under Secretary Liang said the Biden Administration has been concerned with the significant impacts that climate change can have on American families, consumers, the housing market, and the broader economy. To address these impacts, the president issued Executive Order 14030 in May 2021, asking FIO to: (1) "assess climate-related issues or gaps in the supervision and regulation of insurers" and (2) "further assess, in consultation with States, the potential for major disruptions of private insurance coverage in regions of the country particularly vulnerable to climate change impacts."

In June 2023, FIO completed the first tasking by delivering its report on *Insurance Supervision and Regulation of Climate-Related Risks*. FIO's report highlights the initial efforts of state regulators and the National Association of Insurance Commissioners (NAIC) to support the ability of insurers to address the needs of American businesses and consumers in an era of climate change. The report provided 20 recommendations for expanding and focusing current state efforts.

On March 8 of this year, FIO announced the launch of a first-of-its-kind collaboration with the NAIC and state insurance regulators on a data collection that meets the organizations' complementary but distinct needs. FIO will use the data to assess the challenges Americans are facing in finding adequate homeowners' insurance at an affordable price. Insight into insurance market challenges is particularly important at a time when the Biden Administration is implementing historic legislation to invest billions in strengthening the resilience of climate-vulnerable communities.

Under Secretary Liang said Treasury is committed to engagement and collaboration with stakeholders. In the past few weeks, Treasury hosted two roundtables with consumer and climate groups and with insurers, reinsurers, and modelers.

Under Secretary Liang also said that the availability of insurance can have potentially significant consequences for homeowners and their property values, which can spill over to other parts of our interconnected financial system. In addition, many low-income households are not homeowners themselves but absorb the higher cost of homeowners insurance through their rent.

Remarks by FIO Director Steven Seitz

Director Seitz said he met with all of the state insurance commissioners at their spring national meeting in Arizona this past weekend to discuss various important issues facing the insurance sector, businesses, and consumers.

FIO is continuing its work on structural changes in the life insurance sector, including the increased asset allocation to private credit and alternative investments to enhance portfolio yields and the growing use of cross-border reinsurance of U.S. capital-intensive businesses.

Regarding title insurance, FIO will convene a roundtable discussion on the issue with relevant stakeholders to discuss the industry and analyze potential reforms.

Regarding artificial intelligence (AI) and the insurance sector, FIO is monitoring how states are adopting and implementing the NAIC model AI bulletin, as well as other state-based regulatory initiatives.

Regarding catastrophic cyber risk, FIO has completed the initial phase of its work on the assessment of a potential federal insurance response to catastrophic cyber incidents, finding that further exploration of the appropriate form of a federal insurance response is warranted. To inform this work, Treasury will host a conference on catastrophic cyber insurance on May 16, 2024.

FIO and Treasury will host the annual conference of the members of the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP) during the week of April 22, 2024.

FIO is engaged in discussions regarding the Insurance Capital Standard (ICS), which is reaching some significant milestones before its implementation at year-end 2024. FIO will continue to coordinate with the NAIC, state insurance regulators, and Federal Reserve on the finalization of the design of the ICS, as well as the aggregation method comparability assessment.

Presentation by FIO Staff on FIO's work on Climate-Related Financial Risk

Ms. Brown said FIO's climate-related work seeks to advance its statutory mandates and to fulfill the undertakings for FIO under Executive Order 14030. FIO fulfilled the first undertaking under E.O. 14030 when it published its report on Insurance Supervision and Regulation of Climate-Related Risks in June 2023. FIO is now focusing on its efforts with the NAIC to collect insurance data to better understand the impacts of climate-related financial risks on the insurance sector in order to fulfill the second undertaking under E.O. 14030.

FIO began its climate-related work when it issued a request for information with several questions on climate-related data. Responses highlighted the importance and current lack of granular, nationwide data on climate-related risk in the insurance industry. FIO then began the process to collect climate-related data directly from insurance companies in order to assess the potential for major disruptions of private insurance coverage in regions of the country particularly vulnerable to climate change impacts. This process led to the approval of FIO's data collection by the Office of Management and Budget earlier this year. In August 2023, the NAIC announced a plan to issue a data call to assist State Insurance Regulators to collect data from insurers to better understand property markets and coverages and protection gaps. FIO's engagement with the NAIC and state regulators ultimately led to a joint effort to collect homeowners' insurance data, which was announced on March 8.

The NAIC has stated that it will collect data from more than 400 property insurers operating locally and nationwide and covering more than 80 percent of the U.S. property insurance market by premium volume. FIO will receive data on HO-3 and HO-5 policies—two standard home insurance policies—and ZIP Code-level data aligning with six of the data fields in FIO's data collection as well as data on deductibles and the disaggregation of policy non-renewals. FIO is working with the NAIC on issues related to public dissemination of the data collected.

Member Birnbaum said he is glad to see movement in the data collection but is concerned about the lack of transparency in certain areas. Director Seitz responded that the team is continuing to focus on coordinating with the states and the NAIC and that FIO will continue to work on these issues. Member Bach asked questions about the data on policy non-renewals and deductibles. Members asked about the scope of data collection and capturing data from states that are not participating. Director Seitz said that the NAIC has stated that the data collection will involve over an 80 percent nationwide market share. Member Humphreys said that Pennsylvania has been supportive of a single data call and is glad that FIO and the NAIC are collaborating. He said the NAIC is collecting nationwide data and that his team is available to answer questions. Member Humphreys also said Pennsylvania is collecting data from its companies on a nationwide basis. Member Conway reaffirmed that, regardless of the number of states that are participating, the data call will capture 80 percent of the market share across the country. Assuming there are future iterations, state regulators will continue to collaborate with FIO through the NAIC.

Presentation by Carmi Margalit from S&P Global Ratings on the Life Insurance and Retirement Markets

Mr. Margalit said the life insurance sector is one of the highest rated and most stable sectors that S&P Global follows. Interest rates are holding steady, there is an increase in sales, and capital buffers are fairly strong. Life insurers face possible challenges from potential disintermediation from interest rates, losses in commercial real estate, and geopolitical tensions.

Interest rates have caused higher sales of annuities and pension risk transfers, and they have driven profitability. There will be a rise in default rates in the non-investment rate part of corporate credit, but stress in the non-investment grade corporate sector will not immediately translate into losses for life insurers.

From the rating agency's point of view, the rise of private equity involvement in the industry alongside offshoring business is a neutral development. Mr. Margalit said that private equity involvement is not new, and it is a misnomer to call many of those involved private equity companies because they have very large platforms for private credit asset origination. Both asset-intensive businesses and complex liabilities have been migrating towards private ownership. There are some issues around transparency.

Member Heller asked if the products that are moving from public to private companies are still branded under the traditional public names and how customers are viewing the products. Mr. Margalit responded that most of the transactions are done through reinsurance, so the policy is still under the original company that wrote it. Mr. Schwegler asked if S&P gained any insights from its changes to its capital model. Mr. Margalit said they will finish implementing the new methodology by the end of May 2024. They did not anticipate significant changes in ratings after publishing the methodology.

Presentation by David Maurstad, FEMA Assistant Administrator of the Federal Insurance Directorate and the Senior Executive of the National Flood Insurance Program (NFIP)

Mr. Maurstad said flood disasters continue to increase in intensity and frequency and remain the United States's number one natural disaster. The NFIP is the largest single peril provider of flood insurance in the world, protecting over $1.28 trillion in assets.

The NFIP recently updated its pricing approach. The new approach allows the NFIP to communicate risk more accurately through the cost to rebuild and the risk-based cost of insurance. All policyholders now pay based on their property's specific flood risk characteristics and are no longer subsidizing other policyholders' premium costs. The NFIP still must address the affordability gap for flood insurance and obtain a long-term reauthorization of the program from Congress. To address the flood insurance affordability gap, FEMA is working with Congress to develop and deliver a means-tested premium assistance program.

FEMA continues to advocate for mitigation measures. In fiscal year 2023, thanks in large part to the Bipartisan Infrastructure Law, over $2.25 billion was made available for hazard mitigation assistance funding opportunities.

The NFIP is not designed to handle catastrophic flood events like those of the past two years without additional financial support from American taxpayers. To help address this challenge, FEMA began the NFIP's Reinsurance Program (the Program)—a risk transfer tool that supports FEMA's ability to pay claims up to a certain threshold to reduce borrowing from the Treasury. In 2024, FEMA has secured $1.92 billion of reinsurance cover for the NFIP.

Member Kochenburger asked what has happened to the premiums for lower-income policyholders. Mr. Maurstad said the NFIP does not collect income data on its policyholders. Chair Doyle asked Mr. Maurstad to expand on his comment that the NFIP needs to create fiscal stability. Mr. Maurstad said the Program is a little over $20 billion in debt and that by design, the Program could not sustain itself with just policyholder premiums. Mr. Kochenburger asked if there is an analysis of the average premiums for different states or regions. Mr. Maurstad responded that going back to 1978, all the claims the NFIP has paid and the average premium payments for each state are on the website. Member Birnbaum asked what has happened with the NFIP policy counts since the introduction of risk rating and what conclusions Mr. Maurstad draws about affordability and the relative riskiness of the NFIP book of business if the private market grows. Mr. Maurstad responded that in the 10 years before the new pricing methodology, there was a steady decline in policies. There was a leveling-off of decreases in the first-year risk rating was in place. Member Heller asked if there is any concern that current coverage limits may not account for reconstruction inflation and whether FEMA looks at the number of claims that pay at the limits, which might suggest policyholders are underinsured. Mr. Maurstad responded that the coverage limit hasn't been changed since 1993. FEMA's recommendation is to tie the limit to the conforming limits of Fannie Mae and Freddie Mac.

Presentations by Cliff Goss & Sandee Suhrada of Deloitte and by Rani Bhuva & Nimna Varghese of EY on Artificial Intelligence and the Insurance Industry

Ms. Suhrada said insurers are widely starting to use Generative AI (GenAI). Companies will need to meet their customers' expectations, and they will need to be responsible when scaling the technology. In the next one to two years, insurers will be exploring AI; in the next two to three years, insurers will be building end-to-end solutions with AI; and in the next three to five years, insurers' business models will be disrupted by AI.

Mr. Goss said the first step when building an AI risk management program is identifying the risks and proper controls. Some traditional risks will be amplified, and some new risks will appear. Organizations should think about the principles that drive their AI.

Ms. Bhuva said that there is a significant enthusiasm for adoption of AI within the insurance sector, but there are also careful considerations of how to manage these risks and what kind of mitigating controls carriers should be investing in. Ms. Varghese said EY surveyed about 68 chief risk officers globally across all insurance lines, and 64 percent of them believe that right behind cybersecurity, AI is one of the largest risks to their organizations because of the pace of the adoption of the technology. AI providers are very concentrated, there is a privacy risk, there is a lack of talent, and there are many new global regulations and legislation to understand. Insurers have a backlog of AI use cases to assess. Ms. Bhuva noted that the majority of insurance carriers believe that AI specific risks are a barrier to innovation. So, there is a lot of incremental effort insurers have to go through as they start building out their AI risk and control frameworks.

Member Kochenburger asked how survey questions define fairness and how firms achieve different kinds of fairness. Ms. Varghese responded that insurers are focused on finding the techniques that will achieve fairness and monitoring regulatory movements. Mr. Goss added that many organizations are thinking about how to identify unintended bias through statistical tests. Mr. Bogue asked how to approach third parties and vendors of AI. Mr. Goss responded that the industry has dealt with black box models from vendors or third parties in the past. Companies must ask their vendors questions about their practices. Ms. Bhuva added that the expectation is that companies validate the vendor models to the same extent as their internal models. Ms. Varghese added that the third parties and vendors are consolidating, so companies should ensure that their data is protected.

Presentation by FIO Staff on IFTRIP Conference

Ms. Burris provided a high-level overview of the Terrorism Risk Insurance Program (TRIP), which. is administered at Treasury through FIO. In 2016, many terrorism risk pools joined together to form the International Forum of Terrorism Risk (Re)insurance Pools (IFTRIP), to share best management practices concerning the insurance and management of terrorism risk.

IFTRIP hosts an annual meeting of its members, which typically includes a pre-meet of pools only, followed by a public conference. The United States will be hosting the Annual 2024 IFTRIP Conference in Washington, D.C. from April 23 to April 25.

Update on International Subcommittee Activities

Chair Doyle said FACI's International Subcommittee met via Zoom on Wednesday, March 13. Twelve FACI members and staff attended. The subcommittee was briefed on FIO's IAIS activities, the upcoming IFTRIP conference, and information related to Ukraine and the U.S. insurance market. There were good questions and discussion. The International Subcommittee is still looking for volunteers to serve as chair or co-chair.

New Business/Update on Old Business

Member Heller asked for a brief update on the status of the auto insurance affordability report. Director Seitz said it is a priority issue for FIO and FIO is working through the next steps of the report. FIO is also looking at how AI and other technologies are potentially affecting the auto market.

Chair Doyle confirmed that FACI members had no new business and then adjourned the meeting.

MEETING ADJOURNED AT 4:31 PM.

I hereby certify these minutes of the March 20, 2024, Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.

John Doyle, Chair