

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

MINUTES – June 2, 2022

The Federal Advisory Committee on Insurance (FACI) convened at 12:00 pm on 2 June 2022 via teleconference, with Dan Glaser, Chair, presiding. Jigar Gandhi called roll and determined that a quorum existed for the meeting.

In accordance with the Federal Advisory Committee Act, the meeting was open to the public.

Committee Members Present

DAN GLASER, Marsh McLennan, Chairman
ERIC ANDERSEN, Aon Benfield
AMY BACH, United Policyholders
BIRNY BIRNBAUM, Center for Economic Justice
QUINCY BRANCH, Branch Benefits Consultants
KERMITT BROOKS, The Guardian Life Insurance Company of America
BETH DWYER, Rhode Island Insurance Division
DOUG HELLER, Consumer Federation of America
PETER KOCHENBURGER, University of Connecticut
JULIE SPORE, Transamerica
ANDREW STOLFI, Oregon Department of Insurance
BETSY WARD, Mass Mutual

Also Present

JIGAR GANDHI, Designated Federal Officer, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office (FIO)
ELIZABETH BROWN, Senior Insurance Regulatory Policy Analyst, FIO
RICHARD IFFT, Senior Insurance Regulatory Policy Analyst, FIO
KRISHNA KUNDU, Senior Insurance Regulatory Policy Analyst, FIO
SILAB MOHANTY, Senior Insurance Regulatory Policy Analyst, FIO
STEVEN SEITZ, Director, FIO
BECKY SWANSON, Senior Insurance Regulatory Policy Analyst, FIO

Welcome and Opening Remarks

Chairman Dan Glaser welcomed everyone to the meeting by introducing himself and reminded everyone to keep lines muted unless the attendee is actively speaking. Chairman Glaser also reminded everyone to announce his/her name each time when speaking to assist the other attendees and the transcriber.

Chairman Glaser started by welcoming new FACI member Kermitt Brooks, Chief Legal Officer at Guardian Life Insurance Company, to the meeting. Chairman Glaser stated that Kermitt leads legal compliance, corporate governance, and government affairs at Guardian. Chairman Glaser stated that he has worked with Mr. Brooks on other projects. Chairman Glaser then stated that he wished to thank Vicky Schmidt from Kansas and Jessica Altman from Pennsylvania, who are no longer on the FACI, for their contributions. Chairman Glaser stated that FIO is actively working to add more members to FACI.

Chairman Glaser then stated that the meeting would start with an update from FIO Director Steven Seitz, followed by several updates from FIO staff. The first FIO update will be on the status and next steps on the Insurance Capital Standard, followed by a presentation on the Terrorism-Risk Insurance Program, and finally, an update on FIO's activities on climate-related financial risk. The Climate Subcommittee will provide an update and any other business will be considered. Chairman Glaser then turned the program to Steven Seitz for the FIO update.

Director Seitz thanked the members for their attendance and the members' efforts working with FACI and its various subcommittees. Director Seitz welcomed Mr. Brooks to the FACI and stated he looked forward to Mr. Brooks' engagement and participation. Director Seitz stated that he would provide a brief update on FIO's recent activities before FIO members present on some of FIO's current priorities, including the areas where FIO hopes to engage with the various subcommittees in the upcoming month.

Director Seitz began with an update on FIO's work concerning personal auto insurance and diversity, equity, and inclusion. One of FIO's statutory mandates is to monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance. Historically, FIO has focused on auto insurance through the lens of personal auto insurance, recognizing that auto ownership has been associated with greater opportunity for economic well-being and better access to employment opportunities. FIO recently received additional data from a statistical agent and two U.S. states that should allow FIO to examine issues regarding the affordability of coverage and disparities in premium pricing with particular attention to traditionally underserved groups. FIO plans to schedule a call with the FACI Availability Subcommittee to discuss this update and its technical work and to get the Subcommittee's views on FIO's upcoming analysis.

Director Seitz then turned to the covered agreements where FIO remains focused on the agreements with the EU and the UK and has been carefully tracking state progress. FIO has been conducting reviews of the state credit for reinsurance measures and implementation of the NAIC's group capital calculation. With key dates coming up in the next few months on these agreements, FIO's message is that state progress on these matters has been steady and is now very well advanced. Nearly every state has made statutory revisions concerning credit for insurance, and the majority of those states have revised their regulations.

FIO's interest in the cyber insurance market is underscored by a role in administering the Terrorism-Risk Insurance Program. Richard Ifft is going to provide an update on TRIP's recent data call, which was submitted to us in the last few weeks. At this time, Director Seitz experienced technical difficulties. Chairman Glaser moved to Krishna Kundu for her presentation.

Ms. Kundu stated that she was pleased to give an update on the ICS and the comparability work at the IAIS. She began with an overview of where the IAIS is with the ICS to bring the five-year monitoring period that began in 2020. Ms. Kundu explained that the purpose of the monitoring period is to maintain the structure of the ICS in the form of reference ICS that was agreed to in Abu Dhabi without the influence of optionality. This enables the IAIS to evaluate how the reference ICS performs over time, incorporating data from supervisors

before its implementation as a prescribed capital requirement in 2025. The IAIS entered the ICS into the third year of the monitoring period and released the ICS confidential reporting package at the end of April and held volunteer workshops in Basel in mid-May to launch both the ICS and the aggregation method data collection exercises.

While the IAIS continues to seek feedback from firms and groupwide supervisors on the performance of the reference ICS, the IAIS is also collecting additional data this year on five separate options outside of the reference ICS. These options stem from proposals made by IAIS members and volunteer groups. Ms. Kundu explained that inclusion of these options this year is intended to allow the IAIS to further analyze potential adjustments to the market-adjusted valuation methodology underlying the reference ICS. Among the options and modifications to some of the middle-bucket criteria are an integration of a term that is related to the spread adjustment. Both options are positive developments for jurisdictions like the U.S. with longer-duration products. As was done in field-testing years, the IAIS has also launched a supplementary data collection in 2022 for life and non-life risks, with the aim of reviewing and validating the current ICS calibrations of these risks. FIO expects the same jurisdictions to continue to participate in the ICS in 2022. Geographically, Europe and South Africa together would likely continue to lead ICS participation, followed by Asia, excluding Japan. Other work on the ICS that has taken place in the monitoring period includes the potential application of a differentiated capital treatment for infrastructure and strategic equity investments. The Infrastructure Task Force, which was formed in March of 2020 and has now merged to reside under CSFWG, refined the definitions and criteria for eligible investments, drawing on feedback received from public surveys, the ICS data collected in 2021, and engagement with groups of stakeholders with specific subject matter expertise, which included credit-rating agencies, academia, and international organizations such as the World Bank and the IMF. Lastly, the public consultation of the ICS as a PCR will take place as scheduled in the third quarter of 2023 and will include a request for comments on GAAP, plus as an alternative valuation methodology, as well as the application of NAIC Designations and the use of internal models for calculating ICS capital requirement.

Ms. Kundu then provided a brief update on the comparability work at the IAIS to assess the aggregation method to the ICS. The AM data collection was released at the end of April with the same submission deadline of August 31st. This year, the AM Data Template will include a request for potential data for use in the comparability assessment. In working towards the comparability assessment that will take place in the third quarter of next year, the IAIS, after consulting with the public, finalized in May of last year the definition of comparable outcomes and the high-level principles that will govern the assessment. In particular, the definition and high-level principles will inform the specific criteria that will be used in evaluating comparability. As with the ICS work, FIO has been collaborating closely with the NAIC, the states and the Federal Reserve in moving the AM comparability work forward. The public consultation on the Draft Criteria is expected to be issued after the June parent committee meetings in Dubrovnik. The Final Criteria are expected to be approved at the November IAIS meetings. At this point, Ms. Kundu asked for any questions.

Chairman Glaser stated that he never likes to see the U.S. trailing other geographies in responding to data requests and stated that he realized that this is a voluntary exercise. Chairman Glaser asked Ms. Kundu if she was satisfied with the number responses. Ms. Kundu stated that the number has been staying stable year after year, which pleases FIO. Chairman Glaser asked for additional questions. Hearing no additional questions for Ms. Kundu, Chairman Glaser asked if Director Seitz had rejoined the call. Not hearing Director Seitz, Chairman Glaser turned to Richard Ifft for his presentation.

Mr. Ifft thanked members of the Committee for the opportunity to present. He stated that the Terrorism-Risk Insurance Program has been around since shortly after the 9/11 attacks, with FIO assisting the Secretary in the administration of the program. The 2015 reauthorization of the program incorporated within it several significant requirements concerning both data collection and reporting requirements for FIO. FIO must conduct an annual data call, which is required by TRIA. TRIP's 2022 data call ended a couple weeks ago. TRIP uses the data call information to inform our analyses of the program, and

A significant feature of the data call is that the data is used to do the annual calculation of the insurance marketplace aggregate retention amount, or IMARA. The IMARA is the threshold where Treasury must recoup

any payments made if total losses are below that figure. This year, TRIP instituted significant changes to the data call to obtain more granular information on cyber insurance, ransomware coverage and losses, as well as captive insurance participation in the

With cyber, the data goal is to obtain more detailed information, to make sure we have a sort of full view of the cyber market, including how policyholders in different size categories are accessing cyber insurance. TRIP also seeks to understand the available limits for ransomware coverage as well as the available loss information. TRIP intends to use this information in the administration of the program and in evaluating cyber generally along with the role of terrorism-risk insurance in connection with cyber-attacks. Since TRIP has just received the data, the results of TRIP's analysis will be in its upcoming report, which is due June 30th, 2022, and will be the fourth such report that FIO has issued. In even-numbered years, as this one, the report focuses on the effectiveness of the program. TRIP relies heavily upon the data collected and is in the process of evaluating the data and updating how TRIP has approached issues in the past. In addition, TRIP issues a Federal Register notice each year seeking comments in connection with the report. TRIP received 18 very substantive responses from companies in the industry. Industry comments are always very helpful in connection with TRIP's analysis, and we are relying on those in our analysis. The TRIP annual report is still in progress; we are evaluating the data elements from the expanded collection this year, both in connection with cyber and captive insurers. TRIP will be able to speak to both of those new elements in connection with the upcoming report.

Mr. Ifft mentioned that he hoped the attendees were able to participate in the International Forum of Terrorism Risk Insurance Pools, or IFTRIP, livestream event, which was hosted by TRIP virtually on May 10th, 2022. Mr. Ifft explained that IFTRIP, in which TRIP has participated since its inception, is an association of approximately 15 national pooling mechanisms -- public, private, some exclusively public, some exclusively private -- that address the insurance and the reinsurance of terrorism-risk insurance in their individual jurisdictions. FIO has participated in IFTRIP since its formation. On May 10th, TRIP virtually hosted the 2022 livestream event. This year's event featured panel discussions on the potential use of pooling arrangements in connection with pandemic risk insurance. Mr. Ifft acknowledged that pooling arrangements had been considered by the FACI in the past. The event also featured a presentation on the potential link between climate change and terrorism. In addition, IFTRIP considered the role of the insurance industry in risk mitigation along with what industry's role should not be. A highlight of the presentation this year, was Treasury's Deputy Secretary, Wally Adeyemo, providing closing remarks for the conference, which focused very heavily on ransomware and FIO's response. Participants in the conference also considered the role of the insurance industry in promoting better standards and practices through the underwriting process. Mr. Ifft added that if anyone did not see the conference, to contact TRIP so that links could be provided. Mr. Ifft ended his presentation and invited questions.

Chairman Glaser opened the floor for questions. Peter Kochenburger requested a link to view the conference, to which Mr. Ifft responded that he would check to see if a link was available and circulate to the members of the Committee. Chairman Glaser agreed with Mr. Kochenburger and added that the connection between climate change and terrorism or ransomware and actual terrorism is not readily apparent to many. He stated that additional information would be interesting.

Amy Bach stated that she saw the nexus of the structure of TRIA as a response to market failure. In addition, a parallel is the state-sponsored insurers of last resort having to carry a heavier load. Ms. Bach stated that she would like to find the time to understand more how TRIA was structured, since TRIA is one of the most recent kind of very large-scale, residual, market-type mechanisms that has been constructed. As FACI formulates the Climate Change Subcommittee, structure must be considered. Ms. Bach stated that she was interested in how the TRIA structure is working in relation to terrorism.

Chairman Glaser asked if anyone had additional questions for Mr. Ifft. Hearing no additional questions, Chairman Glaser moved to Silab Mohanty, Elizabeth Brown and Becky Swanson to provide an update on climate issues. Ms. Brown thanked Chairman Glaser for the opportunity to share on FIO's climate-related priorities and ongoing work. Ms. Brown explained that FIO's work on climate-related risk is guided by the May 2021 White House Executive Order on Climate-Related Financial Risk, also known as EO 14030, that

emphasized the insurance sector's role in combating climate change. The Executive Order specifically tasked FIO to assess climate-related issues or gaps in the supervision and regulation of insurers, including as part of the FSOC's analysis of financial stability, and to further assess, in consultation with the states, the potential for major disruptions of private insurance coverage in regions of the country particularly vulnerable to climate change impacts. In response to the climate-related Executive Order, FIO formulated three initial priorities for its work on climate-related financial risks in the insurance sector. The priorities are:

1. To assess climate-related issues or gaps in supervision and regulation of insurers, including their potential impacts on U.S. financial stability.
2. To assess the potential for major disruptions of private insurance coverage in U.S. markets particularly vulnerable to climate change impacts and facilitating mitigation and resilience for natural hazards.
3. To increase FIO's engagement on climate-related issues and leverage the insurance sector's ability to achieve climate-related goals.

FIO recognizes that access to high-quality, reliable, and consistent data is essential to accomplish all three of FIO's climate-related priorities. Based on the taskings to FIO in the Executive Order, and the recommendations in the FSOC Climate Report, the responses to FIO's requests for information on climate-related financial risk, and its own assessment, FIO has now formulated its Climate-Related Action Plan for 2022 to advance the above priorities. FIO's climate-related work will be sequential in capacity-building with the initial steps intended to consolidate foundational knowledge to develop more comprehensive approaches to address climate-related financial risks.

FIO's planned climate-related activities for 2022 will be in three work streams: a Climate Report, quantitative analysis, and stakeholder engagement. FIO intends to publish a Climate Report by year-end that will focus on insurance supervision and regulation with an assessment of climate-related issues or gaps in the supervision and regulation of insurers, including their potential impacts on U.S. financial stability. Various regulators and states are taking steps in this area, and FIO will continue to assess these developments, which include New York guidance that was issued last year, Connecticut's proposed bulletin released in April, California's recent assessment of insurers' investments, as well as new states joining the Sustainable Insurance Forum.

The report will also include an analysis of state, federal, and international guidance on climate-related issues for insurers, including the redesigned NAIC Insurer Climate Risk Disclosure Survey and the SEC's proposed rules on climate-related disclosures. Both reflect the desire from stakeholders for more reliable climate-related information and to increase the comparability of public reporting. FIO is looking at these frameworks which have different applicability and require different levels of disclosure for various segments of the insurance sector. FIO's Climate Report may also include initial qualitative information on at-risk insurance markets. Ms. Brown turned the presentation to Silab Mohanty to discuss quantitative analysis.

Mr. Mohanty thanked the FACI for allowing him to present and stated that FIO will begin the process of quantitative analysis by initially focusing on analyzing two broad categories of risk that were highlighted in the FSOC Climate Report. FIO's first area will focus on analyzing the transition risks of insurers' investment portfolios. The U.S. insurance sector directly owns over \$7 trillion of assets, or invested assets, and can play a key role in the discussions regarding climate-related goals. FIO is currently finalizing the analytical approaches to be used for assessing the portfolio alignment and potential transition risk for the asset portfolios.

The second area of FIO's analytical work will focus on the physical risk of property and casualty insurers' current climate-related exposures from their underwriting, particularly for at-risk markets. FIO's analytical work will focus in the near term on continuing to assess the best means for timely gathering relevant, reliable data that is needed for these analyses, and then, beginning the process of gathering that data. FIO is continuing to assess the use of its data collection and dissemination authorities for the insurance sector to help fill the potential data gaps concerning insurers' climate-related physical risks.

The third area of FIO's 2022 work will be to continue the prioritization of stakeholder engagement, including organizing stakeholder roundtable discussions on topics related to the insurance sector and climate-related financial risk. Many issues in this sector require new methodologies, new data, or new approaches for

integrating climate risk into existing practices. As FIO has begun its work on climate-related risks, it has benefitted from discussions with insurers, modeling firms, regulators, and consumer advocates, to inform its work. FIO looks forward to continuing these conversations and stakeholder meetings as FIO moves forward with its work.

In addition to FIO's own climate work, FIO is working with others inside and outside of the U.S. Treasury on climate-related financial risk. For example, FIO staff are contributing to the FSOC's Climate-Related Financial Risk Committee (CFRC) and are also working with FLEC on its report on climate change and household resilience. While the focus has been on FIO's domestic work, FIO also does represent the United States in international insurance forums, including the International Association of Insurance Supervisors, IAIS, where it is part of Team USA, along with the Federal Reserve Boards, the U.S. states, and the NAIC. FIO is also a member of the Sustainable Insurance Forum (SIF) and was formally admitted to the NGFS, or Network for Greening the Financial System (NGFS) in February 2022. Mr. Mohanty turned the presentation to Rebecca Swanson.

Ms. Swanson stated that the FIO team looks forward to continuing to collaborate with FACI members in addressing climate-related financial risks, including through the FACI Climate-Related Financial Risk Subcommittee, which had its first meeting on May 26th. FIO is seeking advice and guidance from the Subcommittee on best practices and emerging techniques on integrating climate-related considerations into underwriting and investing. FIO has asked the Subcommittee to engage in technical discussions and presentations on data, tools, and methodologies to support FIO's analytical work. Ms. Swanson concluded the presentation.

Chairman Glaser thanked Ms. Brown, Mr. Mohanty and Ms. Swanson for their very interesting presentations and asked for questions. Doug Heller directed his question to Mr. Mohanty regarding underwriting risks and asked if FIO is examining the exposure that the P&C industry has due to climate change. Mr. Heller further expounded by asking about the impact of climate change on the exposure held by the industry and if FIO is examining the impact of P&C underwriting on climate change or both. Mr. Mohanty responded that the analysis is in line with the tasking in our Executive Order. FIO has been asked to understand the impact on insurance availability because of climate-related events, particularly in more vulnerable or at-risk markets. Looking at insurance exposures to determine the impact on availability or, potentially, on a protection gap, will be the focus of the physical risk study.

Mr. Heller stated that he was concerned with the underwriting practices of the P&C industry and how that might contribute to increased climate risk or decreased climate risk and improvements and how those underwriting decisions and what kinds of exposures are being carried by the companies. Mr. Heller wondered, if any opportunity existed for FIO to look at the exposures and address that part of the market issue. Mr. Mohanty deferred to Director Seitz.

Director Seitz stated that exposure issues dovetail with the work of the Availability Subcommittee. FIO's initial focus has been on quantifying that protection gap with certain duties, with focus on certain communities are disproportionately affected by these events. FIO is trying to understand quantitatively how we can assess that type of gap and who it is disproportionately affecting. Inherent in that assessment is the underwriting practices of companies providing coverage, which is a reason FIO has been focusing on the need for quantitative granular data.

Chairman Glaser recognized Birny Birnbaum, who thanked FIO for the presentation. Mr. Birnbaum stated that the physical risk and our focus comes right off this slide -- to assess the impact of protection gaps and insurance particularly in at-risk markets. Mr. Birnbaum stated that during the last Climate Subcommittee call, a discussion occurred about getting technical expertise from insurers and brokers regarding sort of financial modeling and fiscal modeling, regarding the analysis of the physical risks, protection gaps, and insurance availability. He further stated that the Availability Subcommittee could really be the resource to assist you with that analysis. The analysis seems to be qualitatively different from the modeling aspects discussed during the Subcommittee call and appears to be in line with the types of activities on which that the Availability

Subcommittee is working, including data collection. Mr. Birnbaum stated that he would be happy to assist with the analysis.

Chairman Glaser thanked Mr. Birnbaum and asked for additional questions. Mr. Birnbaum stated that when FOCI considers risks, the committee ordinarily considers physical risks, such as catastrophe events where insurers either withdraw from or limit writings in particular areas. Mr. Birnbaum stated climate risks affect all types of insurance, including health insurance and life insurance. Climate risk affects the mortality aspects of consumers in different areas, which affects whether life insurance, annuity products, retirement products, are going to be available to communities. Mr. Birnbaum stated that keeping physical risks is important and impacts other types of insurance critical for the economic security of individuals and businesses.

Chairman Glaser turned to Director Seitz for any additional comments from his introductory remarks. Director Seitz stated he had no additional comments and thanked the FIO team for its presentation. He added that the issues presented by the FIO team are the issues that FIO hopes to engage in the coming months with the subcommittees. Director Seitz stated that FIO appreciates FOCI's engagement and that the FIO staff is putting a lot of work into these issues.

Chairman Glaser thanked the FIO team for informative presentations along with the work that goes underneath it. Chairman Glaser stated that in the previous week, the Climate Subcommittee had its first call and provided an update. The primary focus of the Subcommittee is to provide guidance on best practices and emerging techniques regarding analyzing climate data. To achieve the goal, the Subcommittee will conduct technical discussions and presentations on data, analytical tools, risk selection methodologies. The Subcommittee will also participate in periodic discussions with FIO's staff on data, modeling, and quantitative analysis (audio interference). Ultimately, the Subcommittee's work will support FIO's effort to conduct analysis on climate-related risk within the insurance sector and the insurers' role in the transition to a low-carbon economy, both as underwriters and as asset owners. The Subcommittee looks forward to supporting FIO's efforts in the coming months and reporting its progress at the next full FOCI meeting. Chairman Glaser stated that the Subcommittee can consider areas broadly or narrowly along with thinly or deeply. The Subcommittee will discuss its scope in the next Subcommittee call.

Chairman Glaser then called for any new business. Ms. Bach asked if FIO was reading the 7,000 comments submitted last fall in response a general request for comments. Director Seitz stated the team has reviewed the comments, which have informed the outline presented today as well as the priority areas for next steps. FIO has scheduled meetings with a variety of stakeholders and is considering doing larger events. Large events are contingent upon the venue and whether it will be virtual or in person. The FIO team has found the comments very helpful. Ms. Bach asked if FIO had an obligation to issue a report based on the comments or if the comments were to inform the workstreams. Director Seitz stated that the purpose of the comments was both.

Chairman Glaser asked for any additional new business. Hearing none, the meeting was adjourned at 12:50 p.m.



Dan Glaser, Chair