

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

MINUTES – December 2, 2021

The Federal Advisory Committee on Insurance (FACI) convened at 12:30 pm on 2 December 2021 via teleconference, with Dan Glaser, Chair, presiding.

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

Committee Members Present

DAN GLASER, Marsh & McLennan (Chair)
JESSICA ALTMAN, Pennsylvania Department of Insurance
ERIC ANDERSEN, Aon
AMY BACH, United Policyholders
BIRNY BIRNBAUM, Center for Economic Justice
BETH DWYER, Rhode Island Insurance Division
STEPHANIE HAAS, Proxy for Greg Crabb, Amerisure
IAN ADAMCZYK, Proxy for Rob Falzon, Prudential
MATTHEW GENDRON, Rhode Island Insurance Division
DOUG HELLER, Consumer Federation of America
JAMES KELLEHER, Liberty Mutual
PETER KOCHENBURGER, University of Connecticut School of Law
SEAN MCGOVERN, AXA XL
VICKI SCHMIDT, Kansas Insurance Department
JULIE SPORE, Transamerica
ANDREW STOLFI, Oregon Division of Financial Regulation
BETSY WARD, MassMutual

Also Present

DESIREE GREEN
ERICK GUSTAFSON
MATT HARGRAFEN
JEN McPHILLIPS
BILL SCHWEGLER
ROBERT WOODY

Department of Treasury Staff Present

STEVEN SEITZ, Director, Federal Insurance Office
ELIZABETH BROWN, Senior Insurance Policy Analyst
JIGAR GANDHI, Senior Insurance Regulatory Policy Analyst
BRET HOWLETT, Senior Insurance Policy Analyst
SILAB MOHANTY, Senior Insurance Policy Analyst

Welcome and Opening Remarks

Jigar Gandhi performed a roll call to confirm attendance on the call.

Chairman Glaser welcomed everyone to the meeting and reminded everyone to mute themselves unless speaking and to announce themselves when speaking to ensure that the transcriptionist can accurately reflect the contents of the meeting. Chairman Glaser continued with congratulating Jim Kelleher, Liberty Mutual, on his retirement and exit from FACI. Chairman Glaser thanked Mr. Kelleher for his numerous contributions during his time with FACI. Mr. Kelleher stated that his time on FACI has been a privilege.

Chairman Glaser then welcomed Commissioner Jessica Altman of Pennsylvania, FACI's newest member, and stated that FACI looks forward to working with her. Ms. Altman thanked Chairman Glaser for his welcome.

Chairman Glaser then stated that the meeting would start with an update from Steven Seitz, FIO Director and then turn to discussing climate issues, particularly the recent FIO request for information on climate-related financial risk. Chairman Glaser stated that FIO staff Elizabeth Brown, Bret Howlett, and Silab Mohanty will brief on the RFI and the responses that FIO received. Then, FACI will hear a presentation and proposed recommendations on wildfire risk and mitigation from the Protection Gap Subcommittee. Finally, FACI will receive an update from the International Subcommittee on proposed 2022 work streams. Chairman Glaser then yielded the floor to Director Seitz.

Update on Federal Insurance Office Activities

Director Seitz began his presentation by stating that he would like to thank all FACI members for their commitment to the group over the past year. Director Seitz then congratulated Mr. Kelleher on his retirement and welcomed Commissioner Altman.

Director Seitz stated that FIO continues its work related to examining the availability and affordability of personal automobile insurance. FIO has just completed the initial analysis of the submissions received in response to FIO's request for information. These submissions came from federal and state government officials, trade associations, consumer groups, research organizations, and think tanks. Most responses favored updating FIO's 2017 auto insurance study and generally provided proposals intended to enhance FIO's prior study or to facilitate a comparative analysis of results. Commenters also provided a range of views regarding the use and analysis of non-driving factors by insurers. Commenters also noted that telematics and usage-based insurance appear to be the biggest structural change on the horizon for the personal auto insurance segment. Director Seitz stated that FIO will continue to keep this committee informed as work progresses.

Director Seitz then turned to developments at the International Association of Insurance Supervisors (IAIS). The IAIS continues to examine the performance of the insurance capital standard by keeping the design stable during the monitoring period and has been considering policy proposals from volunteer groups and IAIS members for potential changes. The IAIS recently announced that it will postpone issuance of the public consultation on the

draft criteria for assessing the aggregation method to the framework until the first half of '22. Work on the draft criteria began later than initially planned due to COVID-19 operational relief efforts that the IAIS had extended to firms and members in 2020. The delay is not expected to impact the overall timeline including the AM comparability assessment. The IAIS has been holding discussions over the last several months to establish its set of draft criteria for appropriately assessing the aggregation method to the ICS and aims to continue those efforts. Additionally, the IAIS continues this work on the various risk charges that the IAIS intends to conclude.

Director Seitz then turned to the IAIS' work on climate. On September 30, the IAIS published its 2021 Global Insurance Market Report on the impact of climate change on the financial stability of the insurance sector. The report focused on climate-affected investments of insurers and the potential impact of climate-related financial risk.

Director Seitz then gave an update on ransomware. FIO is coordinating within Treasury, along with including the Office of Cybersecurity and Critical Infrastructure Protection (OCCIP) as well as with federal interagency partners and stakeholders across the industry. FOCI discussed at its last meeting that ransomware poses a complex challenge to both public and private sector organizations, including insurers. One factor relevant to both mitigation and resilience of the ransomware challenge is the availability of risk transfer and other cyber insurance products. To obtain additional data concerning insurance treatment of cyber risk, FIO published proposed revisions to the annual terrorism risk insurance program data call last month. These changes will assist Treasury in considering the role terrorism risk insurance has with cyber-attacks. The data is expected to provide FIO with information on the cyber insurance market generally and to inform the extent to which cyber insurance is within the scope of the terrorism risk insurance program. Data will also provide information on the companies by the size of policyholders that are taking up cyber insurance. Finally, the data will provide specific information on ransomware coverage and losses under cyber insurance policies. The proposed changes to the data call will result in more detailed cyber insurance data collection for calendar year 2021. We would also note that interested parties may submit comments to the proposed revisions by January 18, 2022.

Director Seitz concluded with a brief update on FIO's work related to climate-related financial risk. FIO continues to take steps to implement climate-related priorities. The comment period recently closed for FIO's request for information on FIO's work regarding the insurance sector and climate-related financial risk. Considerable interest was expressed in the RFI with FIO receiving a broad range of comments on proposed next steps and expressing a wide range of views. FIO team members will, during their presentation, provide you with an initial overview of some of the feedback on the RFI. These comments generally have noted both the importance of climate-related issues for the insurance sector and the important role of FIO in contributing to and leading in this area. FIO was glad to see that the comments encompassed detailed feedback on FIO's three initial climate-related priorities and on FIO's data collection and dissemination authorities for climate-related risk and the insurance sector. Access to high-quality, reliable, and consistent data will be necessary for accomplishing FIO's initial climate-related priorities. FIO continues to analyze the feedback from the RFI, which will assist in informing our next steps and addressing the priorities discussed in the RFI. FIO also continues to engage with domestic and international authorities on climate issues.

Director Seitz concluded the FIO update. Chairman Glaser stated that FOCI would hear from members of the FIO staff on the issue of climate-related financial risk. Chairman Glaser asked Director Seitz to introduce the speakers.

Presentation by Elizabeth Brown, Silab Mohanty and Bret Howlett, Senior Insurance Policy Analysts - FIO

Director Seitz introduced Elizabeth Brown, Silab Mohanty and Bret Howlett who are all Senior Insurance Policy Analysts in FIO and thanked them for leading FIO's work in this area. Director Seitz also thanked Stephanie Schmelz for her efforts in the area and turned the presentation over to Ms. Brown, Mr. Mohanty and Mr. Howlett.

Ms. Brown stated that FIO's climate-related work this year has been grounded in two executive orders. The first is the executive order of January 27 regarding the climate crisis at home and abroad. That executive order sets forth the administration's initial climate goals and policy to organize and deploy the full capacity of its agencies to combat the climate crisis to implement a government-wide approach. The second executive order is the executive order of May 20 on climate-related financial risk. That executive order, among other things, emphasizes the insurance sector's important role in combating climate change. This order also specifically tasks FIO to assess climate-related issues and gaps in supervision and regulation of insurers, including, as part of FSOC's analysis of financial stability, 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.

To implement these executive orders, FIO is focusing its efforts on three initial climate-related priorities. The first priority addresses insurance supervision and regulation. Under this priority, FIO will assess any climate-related issues or gaps in the state insurance regulatory framework including the potential impacts on U.S. financial stability. The RFI noted that maintaining the financial stability of the insurance sector will involve identifying and filling gaps, if any, in insurance supervision with a focus on assessing climate-related financial risks. This will include monitoring the integration of climate-related financial risks into insurance supervisory practices and regulatory frameworks as well as assessing whether sufficient data, methodologies and tools exist to manage the solvency of insurers and to protect them against the long-term risk of climate change.

The second priority addresses insurance markets, mitigation, and resilience. Under this priority, FIO will assess the potential for major disruptions of private insurance coverage in U.S. markets that are particularly vulnerable to climate change impacts. Growing evidence indicates that climate change may be associated with a decline in the availability and affordability of insurance provided by the private sector in certain markets. FIO intends to examine the insurability of disasters that are produced or exacerbated by climate change. Additionally, traditionally underserved communities and consumers, minorities and low- and moderate-income persons may have disproportionate challenges in obtaining affordable property insurance to cover the risk posed by climate-related disasters. Therefore, FIO also intends to assess the availability and affordability of insurance coverage in high-risk areas, particularly for traditionally underserved communities and consumers, minorities, and low- and moderate-income persons. FIO also intends to look at solutions, including identifying best practices for mitigation that can then increase post disaster resilience, including solutions that can help ensure sufficient availability and affordability of insurance for consumers considering increasing climate-related disaster risk. FIO will continue and build upon its work with other federal agencies and the states to facilitate efforts to mitigate the impact of disasters and increase resiliency.

The third priority concerns insurance sector engagement. Under this priority, FIO plans to increase its engagement on climate-related issues and will take a leadership role in analyzing how the insurance sector may help mitigate climate-related risks.

Throughout this work FIO will engage with stakeholders including the NAIC and the state insurance regulators. In the RFI, FIO noted that the insurance sector can shape industries, products, and practices through its functions in financial markets and a broad understanding of risk. FIO therefore will engage with the insurance sector to assess how that sector may help achieve national climate-related goals including mitigation, adaption, and transition to a lower carbon economy.

To solicit public input on FIO's future work relating to the insurance sector and climate-related financial risks, on August 31 of this year FIO issued a request for information on the insurance sector and climate-related financial risks with comments due on November 15. The RFI sought public comments on FIO's three proposed priorities as well as on a series of related questions dealing with how FIO's data collection and data dissemination authorities can best be used in support of FIO's priorities as well as to monitor and assess the insurance sector and climate-related financial risks. The RFI organized questions into six categories:

1. The executive order on climate-related financial risk,
2. FIO's initial climate-related priorities,
3. Data needs, data availability, standardization of data, and FIO's data collection and data dissemination authorities,
4. Insurance supervision and regulation,
5. Insurance markets and mitigation and resilience,
6. Insurance sector engagement.

FIO is currently reviewing the numerous comments received. The responses not only will help inform FIO's assessment of the implications of climate-related financial risk for the insurance sector, but also will help FIO to better understand which data elements are necessary to accurately assess climate risk, which data elements remain unavailable, and how FIO could collect this data and make it available to stakeholders as needed.

Ms. Brown then turned the presentation to Mr. Mohanty and Mr. Howlett to provide high-level observations on the comments and views expressed in the RFI.

Mr. Mohanty began with an overview of the responses received to the request for information. FIO received over 5,000 separate comments submitted either through regulations.gov, the website or via email. Over 60 unique responsive submissions were received, as well as several submissions containing similar responses. Collectively, the comments were from over 5,300 signatories including over 95 organizations. Submissions were made on behalf of more than 940,000 organizations, affiliates, members, supporters, and individuals. Commenters include individuals, insurance and reinsurance companies, insurance brokers, trade associations, modeling and analytics firms, public interest groups, consumer advocates, climate groups, investment managers, state regulators and attorneys general, members of Congress, and academics and researchers, among others.

Mr. Mohanty stated that the comments represent a diverse spectrum of viewpoints and reflect a general understanding of the importance of climate-related issues for the insurance sector. Several comments noted the important role that FIO can play as a contributor and leader in this area. Numerous commenters addressed questions relating to data issues including disclosures, methodologies, tools, and forward-looking assessments such as scenario analysis and/or stress testing. Responses to these questions reflected a diverse set of views, but recurring themes exist, including the suggestion to coordinate disclosures with other federal agencies as well as the NAIC and state regulators. Some comments call for a comprehensive review of existing public and regulatory disclosures to identify additional data needs. The Financial Stability Board's task force for climate-related financial disclosures, the TCFD framework, is specifically mentioned in several of the responses. Other comments note the extent and nature of work done by international supervisors, particularly those in the European Union and the United Kingdom and suggest harmonization of best practices globally. Additional comments highlight the need to understand the limitations of analytics and methodologies that are currently in use given that some analytics and methodologies are still evolving and being refined. Further comments suggest that FIO should consult with outside experts, consider engaging third parties where applicable, and explore public-private partnerships on data and analytics.

FIO also asked questions relating to insurance supervision and regulation. Responses varied widely on whether climate-related financial risks pose a systemic risk to the insurance sector and the financial sector. Responses also varied on whether state-based regulation effectively addresses climate-related financial risks or whether greater state and federal oversight is necessary, since not all states have taken actions to address climate-related financial risks. The comments were generally supportive of FIO working with the states and the NAIC to better understand and address climate-related financial risks. Support was also shown for FIO sharing information and best practices with other national supervisors and international organizations, such as the IAIS, and the Sustainable Insurance Forum, or SIF, where FIO already has membership. Also included were individual

supervisors such as the Prudential Regulation Authority of the Bank of England and EIOPA, the European Insurance and Occupational Pensions Authority, some of whom FIO continues to closely engage with. Mr. Mohanty turned the presentation to Mr. Howlett to continue the discussions of the RFI responses.

Mr. Howlett covered RFI questions in response to insurance markets and mitigation and resilience. Commentators presented a wide variety of views, but with common themes. Many commentators observed that low-income and minority communities face the greatest risk from climate change, noting that such communities often are in areas of high risk of disaster, and those with low income particularly may not have the resources to mitigate risk before a disaster strikes. Commentators also noted how the insurance industry generally supports mitigation and resilient measures. Finally, several commentators noted that public-private partnerships are worth consideration.

Mr. Howlett then provided information on some of the comments that FIO received on its third related climate priority which is increasing FIO's engagement on climate-related issues and leveraging the insurance sector's ability to achieve climate-related goals. Numerous commentators recommended that FIO engage with a variety of stakeholders including the insurance industry, consumer groups, federal agencies, the NAIC, and state insurance regulators. Commentators also suggested a wide range of potential activities for FIO to consider regarding the U.S. insurance sector to achieve national climate-related goals. Mr. Howlett stated that, as FIO continues to review these comments, FIO will have more to report.

Mr. Howlett then discussed that next steps include continuing to analyze and assess RFI responses and proposals. FIO will also continue to engage with key international forums on climate-related issues. Mr. Howlett stated that FIO represents the U.S. at the IAIS and is a member of the executive committee. FIO is also a member of the UN Sustainable Insurance Forum which is a global network of insurance advisors and regulators who are working together on sustainable challenges facing the insurance sector. FIO will also continue work with the OECD Insurance and Private Pension Committee. FIO is engaging in a collaborative effort among U.S. and EU insurance authorities to increase mutual understanding and enhance cooperation between the U.S. and the EU as a member of the EU-US Insurance Project. The project focus includes two climate-related topics. The first topic is climate risk financial oversight, including climate risk disclosure, supervisory reporting, and other financial surveillance. The second topic relates to climate risk and resilience, including innovative technology, disaster mitigation, and adaption and modeling.

Mr. Howlett stated that, regarding federal and state coordination, FIO represents Treasury on the Mitigation Framework Leadership Group and coordinates with the NAIC and U.S. states on mitigation and resilience issues for the insurance sector. FIO also coordinates with several other federal agencies as well. FIO looks forward to ongoing engagement with this committee as our climate work moves forward.

Amy Bach of United Policyholders stated that her organization submitted comments. Member Bach thanked the presenters and said that the FIO members must be speed readers since over 5,000 comments were received. Member Bach then asked what the next steps are. Director Seitz stated that Member Bach asked a great question and continued that FIO is still in the process of reviewing the various feedback. Approximately 60 unique letters were received, and the team has been doing an initial review of those. FIO is looking forward to reporting back in the first quarter of next year at the next meeting on next steps.

Chairman Glaser asked if FIO was surprised with the level of response and number of comments received. Director Seitz stated that FIO appreciated the work that the NAIC and the states have done, and that climate is obviously a critical issue for the sector. FIO was happy to see the engagement from all different stakeholders.

Doug Heller recalled that Director Seitz had proposed the creation of a FOCI subcommittee to support climate efforts and wondered if the subcommittee had been created. Member Heller also asked if a subcommittee would be valuable or if the Protection Gap Subcommittee could transform into a climate subcommittee. Director Seitz

stated that that he would like to finish reviewing the comments from the RFI and come back to FACI with concrete options. Director Seitz did state that a subcommittee is being considered by FIO and was mentioned in several RFI responses.

Eric Andersen stated that much ground was covered in the scope and the responses. Member Andersen then asked about priority of subjects to consider along with devoting resources. The information covered in the summary is very broad. Director Seitz stated that FIO is currently considering a priority and needed resources. FIO is aware of the variety of responses and potential suggestions. One of the goals for FIO is considering prioritization.

Chairman Glaser asked for any additional comments or questions. Hearing none, he turned to the presentation from the Protection Gap Subcommittee.

Presentation on Wildfire Risk and Mitigation by the Protection Gap Subcommittee

Chairman Glaser noted that wildfire risk has increased exponentially during the last decade. Nine of the ten largest wildfires in California's history have occurred in that time frame with three wildfires occurring in 2020. Mitigation is a central component to manage and reduce wildfire risk and ease the protection gap. Chairman Glaser then turned the floor to Amy Bach and Sean McGovern.

McGovern stated that, since the last FACI meeting, the subcommittee has had several meetings and good discussions. Many comments and contributions were received from members of the subcommittee. McGovern stated that he wanted to thank his colleague Lori Riley for the tremendous effort on the presentation and reconciling different perspectives.

McGovern stated that the presentation tries to distill the discussions that the subcommittee has been having into the core issues discussed. This distillation resulted into three recommendations from the subcommittee to the full committee. McGovern stated that full consensus was not achieved in the subcommittee. The presentation outlines the issues with the three recommendations. Recommendations 1 and 3 passed through subcommittee through email voting earlier in the week. However, the subcommittee has not agreed on Recommendation 2, which has some suggestions from a couple members of the subcommittee along with some amendments. Member McGovern stated that the challenge is if the committee wants to go through the process of trying to take amendments to recommendations to go through the full FACI, or if the subcommittee comes back to the next FACI meeting.

McGovern then went into a presentation of the three recommendations and stated that the subcommittee's conversation has been focused on the topic of mitigation since mitigation is the key to solving this problem. The subcommittee looked at what can be done to improve mitigation, which is a collaborative effort among regulators, industry, communities, individuals, and the federal government.

McGovern outlined the case for mitigation and why mitigation is so critical to solving this problem. He stated that many studies were reviewed by the subcommittee. The studies show the difference that sound mitigation can have to reducing both the risk of wildfire and the ultimate cost of wildfire when it does happen. Mitigation really matters and mitigation really helps. Member McGovern then turned the floor to Member Bach to discuss why mitigation has not gained traction.

Bach stated that the sphere of wildfire risk reduction is still behind the spheres related to hurricane, flood, and even earthquake mitigation. She stated that many parallel work streams are trying to fast forward scientific understanding of what can be done to reduce wildfire risk. Much progress has occurred in the last year since the Protection Gap Subcommittee has been meeting on this subject. Member Bach stated that the IBHS, the Institute for Home and Business Safety has a parallel work stream which has generated a list of 13 individual home

improvement steps that it thinks are effective in risk reduction. IBHS has also come out with a framework and the fortified home standard is an IBHS designation for wind resistance. The IBHS has also unrolled the wildfire prepared home designation. Member Bach stated that her organization's comments focus on the role of FIO as an aggregator of mitigation information programs because so many different states that have different programs. While the state programs have different programs, the programs do have some commonalities.

Bach then moved to the issue of why the subcommittee did not achieve consensus on Recommendation 2. She stated that the subcommittee made a lot of progress in public standards but that much work remains. Industry interest must be brought into consideration and buy-in must be obtained on the effectiveness of the 13 steps. In addition, community participation must be achieved. Member Bach stated that the flood program has a process whereby a community gets designated as participating community. This designation relates to their commitment to enforce building codes. Member Bach stated that any wildfire program should have both community-wide wildfire risk reduction standards in place and individual home risk reduction standards in place. She stated that the next level will be concerned with financing and the work stream concerning how insurers will be recognizing risk reduction.

Bach then turned to what the subcommittee can learn from state actions. The California Department of Insurance has a regulatory process to get input from stakeholders on regulations related to rate filings, recognizing both individual and community level risk reduction. Two meetings have been held so far. The legislature in California has mandated the creation of an interagency wildfire partnership to issue recommendations by year's end. The subcommittee has presented its list to CDI/CAL FIRE and CDI/CAL FIRE appears to be including many, if not all, of the subcommittee's recommendations. The subcommittee would like to be in alignment with IBHS. Bach also stated that Alabama has a wildfire risk program with "wildfire prepared home" as the corollary in the wildfire space. Alabama provides next steps, which consist of funding the program and course take-up, consumer education, and the challenges of getting people to do thing, including spending money on reducing risk when money is tight. Bach then stated that South Carolina's program is advanced and has been running since 2007. She stated that these states recognize that their property insurance markets competition is getting very weak. Because of this, these states are looking to mitigation as a way of trying to restore insurer appetite and competitive strength to the market. The subcommittee suggests that we can look to these states regarding how they've been solving the problems relating to funding, tax incentives, and inspections.

Bach then reviewed Recommendation 1, which concerns FIO advocating for increased funding for wildfire mitigation. Potential for this funding exists in the infrastructure bill with the BRIC program. Member Bach then turned the floor back to McGovern to discuss industry and risk transfer capacity. McGovern stated that the second element of the subcommittee's work has concerned the role of the insurance industry in this space. Without strong and proven mitigation, a reluctance to deploy capital may exist. McGovern moved to a discussion of the opportunity for industry and government to work together, including through public-private partnership to attract capital. Member McGovern stated that an example of public-private partnership outside of the U.S. is Flood Re. Pool Re is an example of a public-private partnership between the government and the industry to solve a problem concerning the availability and affordability of flood coverage in the UK.

McGovern stated that the second area is recognizing the role of the insurance and reinsurance industry to build terms into policies to encourage hardening and reflect Build Back Better to drive mitigation and incentivize mitigation.

The third area is recognizing that no shortage of capital exists that is looking to be matched with risk, especially in the alternative capital space and cap bond space outside of traditional industry capital. Plenty of capital exists. If conditions are right, capital can be attracted to cover this kind of risk.

McGovern then turned to Recommendation 2, which was not passed out of committee. Some subcommittee members had suggestions on amendments to this recommendation, which would mean that they could support it. If passed, the amendments would mean the recommendations have majority support. Member McGovern then asked Chairman Glaser if he should run through the third element and then return to the recommendations. Chairman Glaser responded that he concurred with covering the third element and then returning to the recommendations for a vote on each one. Any amendments to the recommendations can be discussed then.

Member Bach asked Chairman Glaser to confirm the process of considering the recommendations and any amendments along with voting. Chairman Glaser reiterated that the committee would hear discussion and vote on each recommendation and any amendments. Birny Birnbaum asked that if a recommendation has not been voted out of the subcommittee if the recommendation is eligible to be considered by the full FACI. Mr. Gandhi stated that the subcommittee voted to advance its recommendation to the full FACI, but two members asked for potential amendments. But they did both advocate for advancement to the full FACI. Because of this, the recommendations did technically clear the subcommittee, but FACI must decide if it wants to consider any amendments. Ms. Haas stated that Greg Crabb's email may have been unclear and that he will vote for the recommendation as drafted. Member Birnbaum stated that he did not want to be constrained by any example in the recommendation and is otherwise supportive of the recommendation. He stated that the subcommittee may have unanimity.

McGovern then stated that the subcommittee has a recommendation to be supported. Bach added that Recommendation number 1 concerns increasing mitigation as a way of restoring insurer's confidence in writing risks and as a way of closing protection gaps. The current recommendation speaks to closing protection gaps that state-based residual property insurance entities are currently filling, where the wind pools, the California FAIR Plan, the Florida and Louisiana Citizens and residual property insurance entities are currently filling protection gaps. The subcommittee is considering how FACI can support those entities' ability to handle increased policy load. The California state-based earthquake insurer of last resort has stopped selling and aggressive marketing because it has hit its limit to purchase reinsurance. This example can drive the subcommittee's analysis. The state plans (i.e., Florida) contain complications. Residual property insurance entities are sharing the same problem of access to financial capacity.

McGovern then stated that the committee can consider Recommendation 3 quickly, which concerns how the federal government can support wildfire mitigation. McGovern then covered a list of opportunities. He added that the infrastructure package has a window of opportunity to include funding for wildfire mitigation. FIO should consider ways to advance these recommendations in the infrastructure package. McGovern yielded the floor to Chairman Glaser.

Chairman Glaser stated that he appreciated McGovern's presentation. He also stated that Mr. Gandhi confirmed that a quorum exists and asked for a motion for FACI to present the recommendations to FIO. Member Kelleher asked if Chairman Glaser was asking for a motion for all three recommendations or just the first recommendation. Chairman Glaser stated that the committee would consider them as a bloc and then go through each recommendation to make sure a vote is obtained supporting the recommendation.

Julie Spore stated that she is a life insurance specialist and had a question concerning Recommendation 1. She stated that she had researched the fortified standard, which seemed to concern wind. The recommendation 1 references wildfire. Spore asked if the recommendation broader than wildfire. McGovern stated that the

recommendation concerns wildfire and that he understands her concern regarding the language. He further stated that is why the subcommittee discusses “fortified like” standards. The subcommittee wants to take the example and the achievements and look for something similar. McGovern then referenced examples of IBHS and others who have come up with things that could be adopted in a fortified-like standard. Member Spore thanked Member McGovern for the explanation.

Chairman Glaser then asked for a motion to present the three recommendations. If a motion passes, the FOCI will consider each individual recommendation and vote. Kelleher stated that Recommendation 2 is complicated and that he is not familiar with Pool Re. Kelleher asked if the motion could only apply to Recommendations 1 and 3 with Recommendation 2 being deferred. Birnbaum requested that FOCI consider the recommendations one at a time. Chairman Glaser stated that he wanted to make sure the process was acceptable to Mr. Gandhi. Mr. Gandhi stated that starting with each recommendation and doing a vote for each was acceptable.

Chairman Glaser asked for a motion to present Recommendation 1 from FOCI to FIO. McGovern made the motion. Chairman Glaser stated that the committee would begin with a voice vote to see if the motion is accepted and if anyone has an amendment, a motion for an amendment can be made and discussion can be opened.

Birnbaum asked if the committee could discuss the recommendation prior to voting on it. Chairman Glaser stated that a motion has been made to forward the recommendation to FIO and that discussion can begin. Birnbaum stated that he had questions and a possible amendment. Birnbaum’s first question concerns the first sentence regarding withholding federal funds. Birnbaum asked what federal funds should be withheld - FEMA disaster relief to individuals, community development block grants or eligibility for the NFIP? Chairman Glaser asked McGovern or Bach to respond.

Bach stated that she did not see the word “withheld” in the recommendation. She stated that the recommendation is a flexible directive for identifying funding streams that can be available. Chairman Glaser stated that he can understand the way Birnbaum interpreted the first line in terms of should encourage the federal government to require the adoption in high-risk areas for federal funds. Chairman Glaser stated that Member Bach may have been thinking of future or other federal funds, and not for federal funds such as FEMA relief.

Birnbaum stated that his second question is a follow-up: How do communities or the country benefit if a community is willing to give up federal funds instead of adopting building codes. Birnbaum stated that we should want to encourage communities to adopt stronger building codes. We should not challenge them to in the same way that is done with states rejecting funding for Medicare because they don't want the federal government telling them what to do. McGovern asked Birnbaum if the strategy is a bit of both – “a bit of carrot, a bit of stick.” He stated that he believes that what Birnbaum suggests is not excluded by the recommendation. Bach stated that the flood program is structured so that communities get preferred rates for participating, which is a logical carrot and stick. The intent of the recommendation is to follow this example.

Birnbaum stated that he would be more comfortable if the recommendation stated that FIO should advocate for increased funding for hardening and stronger building code standards, instead of including language regarding withholding federal funds. Birnbaum stated that FIO should advocate for increased funding for hardening and stronger building code standards. Bach asked Birnbaum if he was stating that he did not like the idea of having stronger building code standards tied to the eligibility for federal funding. Birnbaum stated that he did not know what type of federal funding is being considered. In addition, he stated he did not want to discourage communities from adopting stronger building code standards the way that some states have rejected increased funding for Medicare.

McGovern stated that providing federal funding with conditions is not unreasonable if the conditions reduce risk. Bach stated that the committee was in a somewhat political discussion. She also stated that she did not have any

issues with Birnbaum's suggestion to omit the funding language. Heller mentioned that the recommendation has very open-ended increased funding versus when considering flood, which has kind of a very specific set of funding and specific set of responses expected. Heller stated that FACI is not a policy-making body that should be saying all funding should be tied up with certain actions. We would not want to punish those people who could use the resource, or even smaller communities that aren't decision-making communities that need access to resources. Heller stated that he would not want to punish them because larger political bodies are choosing not to accept federal funding or certain federal requirements. Heller stated that he would like FACI to get consensus on the standard and not including the language to make it a mandate. Bach stated she was fine with the approach advanced by Member Heller.

Kochenburger stated that he agreed with Heller and Birnbaum. Member Kochenburger stated that Mr. McGovern is correct that federal funds can come with stipulations or requirements. However, Member Kochenburger stated that FACI does not know what any building codes will be look like and what federal money would be available to help pay for them. Certain communities may experience extreme difficulty in meeting those requirements absent the funds. FACI cannot predict these things.

Chairman Glaser thanked Mr. Kochenburger for his comment and stated that he was not sure that the proposed amendment accomplishes what Members Kochenburger, Heller and Birnbaum are seeking, since the word "require" is still present. The recommendation is not an encouragement – it is a requirement. Chairman Glaser recognized Andrew Stolfi.

Stolfi stated that he supports the change and likes the idea of including encouragement of adoption of building code standards in high-risk areas. Stolfi advocated for language of "and should encourage the adoption of building code standards in high-risk areas," or a similar standard. Stolfi stated that he is a state insurance commissioner, with his agency also the state's building code agency. As such Stolfi is responsible for developing the building codes in Oregon. Oregon is unique in that it has a statewide building code. A community cannot choose what it wants as building codes. Oregon's statewide building code is a minimum and a maximum. Communities don't have a choice to adopt anything any more or less stringent in Oregon. Building codes are adopted in three-year cycles. Stolfi stated that the building code area is rather complicated and FACI may want to avoid this area while advocating for better building codes in high-risk areas.

Birnbaum asked if using "to require" or "to encourage" if we use "to incentivize the adoption of stronger building code standards in high-risk areas." Bach stated that she liked Birnbaum's suggestion. Birnbaum stated that the language provides a variety of ways to accomplish the goal. The federal government could provide technical assistance in several areas to incentivize adoption of stronger building codes.

Chairman Glaser asked Birnbaum to read his proposed amendment in full so a vote can be held. Member Birnbaum stated the first sentence would be, "FIO should advocate for increased funding for hardening and should encourage the federal government to incentivize the adoption of stronger building code standards in high-risk areas."

Bach suggested that hardening applies to just the home and that FACI may want to broaden it to wildfire risk reduction, so both the structure and then the community is covered. Birnbaum stated that he was OK with broadening the language. Birnbaum modified the language to "FIO should advocate for increased funding for wildfire mitigation and should encourage the federal government to incentivize the adoption of current -- stronger building code standards in high-risk areas." Member Bach moved to adopt the amendment.

Chairman Glaser stated that 50 states exist with lots of communities that have building code standards on a spectrum. Some are quite light, and some would be quite heavy. If the basis is saying stronger building code standards, does it mean all building standards, including the ones that are the highest and tightest, need to be

strengthened? Should FACI advocate for more uniformity of the stronger building codes, or is FACI's view that all building codes, even the more stringent community standards, should be strengthened?

To Chairman Glaser's point, Birnbaum modified his language to "FIO should advocate for increased funding for wildfire mitigation and should encourage the federal government to incentivize the adoption of the strongest building code standards in high-risk areas." Instead of stronger building codes it would be strongest building code standards.

Chairman Glaser recognized Stolfi who stated that Bach's point about hardening is only a part of the solution, so we should broaden "hardening." If FACI only considers the highest building code standards, these standards would include hardening. At least in Oregon, insufficient defensible space exists to implement this. If the intent is to include more than just the things that can be included in a building code, such as hardening, the recommendation should be broader and added in reference to building codes in the second sentence.

Chairman Glaser asked if any member wanted to propose language. Stolfi stated that the language could include incentivizing the adoption of enhanced building code and defensible space standards. Bach stated that she liked Stolfi's language suggestion. Chairman Glaser stated that he believed the language to be "FIO should advocate for increased funding and should encourage the federal government to incentivize the adoption of enhanced building code and defensible space standards in high-risk areas." Bach stated that the language could just be "increased funding for wildfire mitigation."

Chairman Glaser asked for a motion to vote on the amended language. Mr. Gandhi asked Chairman Glaser to repeat the language. Bach stated that the language is "FIO should advocate for increased funding for wildfire mitigation and should encourage the federal government to incentivize enhanced building code and defensible space standards in high-risk areas."

Chairman Glaser asked for a motion to vote on the recommendation. Bach made a motion with Mr. Heller seconding the motion. Chairman Glaser asked for a voice vote and heard a chorus of ayes. Chairman Glaser asked if any were opposed and heard nothing. Recommendation 1 passed.

Chairman Glaser asked Member McGovern to go to Recommendation 2 and if he had language, he was proposing for a motion to bring the recommendation for a voice vote. Member Kelleher asked Chairman Glaser if discussion would be held regarding the content of the recommendation and if a motion is appropriate. Kelleher mentioned that concern exists since the recommendation is substantial and the recommendation was only advanced the night prior to the meeting. Kelleher stated that he would prefer that subject matter experts review the recommendation to understand what it entails. Kelleher stated that Pool Re is a UK operation and that he has no understanding of Pool Re beyond that. Kelleher expressed a concern regarding expanding insurance linked securities. Chairman Glaser stated that he had the same opinion. Pool Re has premium taxes that fund it, which is a big issue to discuss. Chairman Glaser stated that he wondered if the recommendation should be altered to regarding "FIO should examine and issue a report on the pros and cons of risk transfer mechanisms, their applicability to wildfire and sufficiency in expanding capacity and restoring market confidence" and exclude any reference to Flood Re, ILS and cap bonds. Other things may be considered or not considered. This may be applicable since a loss of market confidence has occurred and obtaining capacity for many companies and individuals in wildfire areas is difficult. Otherwise, underinsurance exists.

Kelleher stated ending the recommendation at the word "confidence" would be suitable to him. McGovern stated that he had planned to propose the same language as Kelleher, since the recommendation will ultimately go to FIO to determine the scope of work appropriate for the recommendation.

Birnbaum stated that FIO examining the pros and cons of risk transfer mechanisms is not useful since the

circumstances when risk transfer mechanisms are useful are clear. In addition, what type of risk transfer mechanisms are unclear in this context. Do we intend risk transfer mechanisms from individuals to insurers or from insurers to reinsurers? Is the transfer from insurers to capital markets or from insurers to the federal government or taxpayers? Member Birnbaum stated that FIO should examine the opportunities for introducing additional capital and public-private mechanisms to improve the availability of wildfire coverage. No specific references are needed – FACI is only addressing the issue of improving availability of wildfire coverage.

Member Kelleher stated that he liked Member Birnbaum’s language and would support deferring this issue since it likely needs more thought. Member Bach stated that she and Member McGovern would be happy to have additional discussion with the subcommittee and Member McGovern agreed. Member Bach also stated that FIO was just tasked with doing a report. FIO has received many comments surrounding its climate RFI, some of which may be related to this workstream. Comments may touch on concepts for risk transfer mechanisms in the climate change arena. Chairman Glaser reminded Member Bach that she had agreed to defer the consideration to a later date after further discussion in the subcommittee.

Chairman Glaser turned the floor to Bach and McGovern to consider Recommendation 3. Birnbaum made a motion for the recommendation. Chairman Glaser asked for comments or discussion before going to a vote.

Member Heller asked if Director Seitz saw opportunities for funding through the infrastructure package. Director Seitz responded that wildfire mitigation has been tracked by FIO quite extensively. The California Insurance Department and their state technologies have been doing a lot of work and FIO received substantial feedback on in the RFI. FIO is looking at across the spectrum. The mitigation issues with wildfire are something that FIO will be most likely consider going forward.

Chairman Glaser asked for a voice vote and heard a chorus of ayes. Chairman Glaser asked for nays and heard none. Chairman Glaser stated that the motion carried and thanked the Protection Gap Subcommittee for its work.

Update from Subcommittee on FIO’s International Work

Chairman Glaser stated that FACI would hear an update on the Subcommittee for International Work from Ian Adamczyk of Prudential.

Mr. Adamczyk stated that the International Subcommittee met in November to discuss two topics. The first topic concerned items identified by members as topics of interest and of relevance to FIO, and the second topic was to exchange thoughts on an agenda for 2022. The first topic yielded two items. The first was pension-related developments in Chile, which are impacting several U.S. firms and are of relevance to FIO, given its role as part of the U.S. delegation to the Insurance and Private Pensions Committee of the OECD. The second topic was the IIS Climate-focused Global Insurance Market Report that Director Seitz covered in the update he provided at the top of the meeting today.

Mr. Adamczyk continued that the 2022 agenda discussion yielded four items identified as potential areas of focus. The first item was providing further support to FIO study of the INCIDENTS including supporting FIO's efforts to access and leverage data that's being used for the INCIDENTS study that the Federal Reserve Insurance Policy Advisory Committee is undertaking. The second aspect was potentially providing feedback on the IPAC study when it is published along with perspectives on how FIO can or should expand upon the work of the IPAC. The second topic discussed was assessing the range of insurance-related development at the international level in the field of artificial intelligence, machine learning and big data. The subcommittee’s rationale was that it should share its insights with the broader FACI and FIO through presentations and consider if recommendations should be developed to inform FIO's international work in these fields.

The third topic covered at the meeting was potentially examining the IIS global monitoring exercise, which is part of its work in systemic risk, including the methodology and the informational value of the various data points being gathered, the analytics that the IIS develops with the data, and other aspects of that exercise. Potential recommendations could be made to FIO regarding how the global monitoring exercise and learnings from the data could be enhanced. These observations could be applied to other data collection efforts that may be undertaken at the international level including on the climate-related front possibly. The final item that was proposed was exploring other topics such as digital trade, tax-related aspects of Biden administration proposals that are of relevance to the insurance sector, and next steps for the market access work that the subcommittee undertook in 2020. The subcommittee does plan to reconvene in early January 2022 to discuss these topics. Mr. Adamczyk asked if other subcommittee members would like to add anything and hear nothing. Mr. Adamczyk yielded the floor to Chairman Glaser.

Chairman Glaser thanked Mr. Adamczyk for his presentation and moved to New Business.

New Business and Closing Remarks

Chairman Glaser called for any new business from any FOCI member. Hearing no new business, Chairman Glaser noted that this meeting was the last of the year and wished everyone a happy holiday season. He stated that he looks forward to 2022 with FOCI. After thanking everyone, the meeting concluded.

At 1:58 pm, Chairman Glaser concluded the meeting.

I hereby certify these minutes of the December 3, 2021, Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.



Dan Glaser Chair