

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

MINUTES – June 2, 2021

The Federal Advisory Committee on Insurance (FACI) convened at 12:33 pm on 2 June 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
ERIC ANDERSEN, Aon
AMY BACH, United Policyholders
BIRNY BIRNBAUM, Center for Economic Justice
MARTIN BOGUE, AIG
GREG CRABB, Amerisure
ROB FALZON, Prudential
MATTHEW GENDRON, Rhode Island Insurance Division
DOUG HELLER, Consumer Federation of America
GEORGE KEISER, North Dakota House of Representatives
JAMES KELLEHER, Liberty Mutual
PETER KOCHENBURGER, University of Connecticut School of Law
SEAN MCGOVERN, AXA XL
JULIE SPORE, Transamerica
ANDREW STOLFI, Oregon Division of Financial Regulation
MARK THRESHER, Nationwide
BETSY WARD, MassMutual

Also Present

SEAN MCGOWAN, Federal Emergency Management Agency
ROY WRIGHT, Insurance Institute for Business & Home Safety

Department of Treasury Staff Present

STEVEN SEITZ, Director, Federal Insurance Office (FIO)
LINDSEY BALDWIN, Designated Federal Officer, Senior Policy Analyst, (FIO)
ALEX HART, Senior Insurance Regulatory Policy Analyst, (FIO)
DANIEL McKNIGHT, Policy Advisory, (FIO)

Welcome and Opening Remarks

Ms. Baldwin performed a roll call to confirm attendance on the call.

Chairman Glaser began the meeting by announcing that Julie Spore, a new member, was joining the meeting and welcomed her. Ms. Spore is the Chief Risk Officer at Transamerica.

Chairman Glaser then announced that FOCI received one public comment, prior to this meeting, from Zurich on the proposed post-event review capability methodology for the 2017 to 2018 California wildfires review. This report was distributed FOCI members prior to the meeting and is available to members of the public upon request.

Chairman Glaser then reviewed the meeting agenda:

- FOCI Update from Director Steven Seitz;
- Presentation on FEMA's recently released unreinforced masonry strategy;
- Presentation by Roy Wright of the Insurance Institute for Business & Home Safety presented on wildfire risk.
- Update from FOCI subcommittees.

Chairman Glaser then turned the floor to Director Seitz for the FOCI update.

Update on Federal Insurance Office Activities

Director Seitz provided an update on FOCI's work on insurance-related issues in connection with climate change risks. President Biden issued an Executive Order on climate-related financial risks on May 20th, which directed the Financial Stability Oversight Council to engage in several topics related to climate-related financial risks and the financial stability of the United States. The Executive Order also directs the Federal Insurance Office 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. FOCI was also directed to further assess, in consultation with the states, a potential for major disruptions of private insurance coverage in regions of the country particularly vulnerable to the impacts of climate change. Director Seitz stated that FOCI is beginning to work on these initiatives and has been in contact with several states to discuss their climate initiatives.

Director Seitz continued that FOCI is working to address international climate issues through the IAIS. FOCI also recently joined the Sustainable Insurance Forum (SIF) as a member and looks forward to working with the SIF on this important work. Additionally, Director Seitz mentioned that the International Association of Insurance Supervisors and the SIF recently jointly published an Application Paper on the Supervision of Climate-Related Risks in the Insurance Sector.

Director Seitz stated that the area of climate change and financial risk will be a major priority of FOCI over the next several years and FOCI hopes to take a leadership role in this area. FOCI and its Protection Gap Subcommittee have already begun undertaking work to study current and potential market disruptions due to wildfire risk and other natural hazards. FOCI hopes the Protection Gap Subcommittee can expand its work in this area to also address climate as one of the underlying causes of increased natural hazard risks.

Director Seitz mentioned that FOCI would like to create a new subcommittee to focus on climate-related risk for the September FOCI meeting. Climate change is a multifaceted issue; multiple workstreams may be needed to address specific topics such as data reporting and financial disclosures, the supervision and

regulation of insurers and investment practices. Director Seitz invited feedback from the Committee's membership on joining the new subcommittee as well as interest from any members seeking to serve in a leadership role.

Director Seitz then moved to the COVID-19 Subcommittee and stated that the subcommittee's work will reach a natural conclusion by the end of next month. Director Seitz then requested that the workstreams of the COVID-19 Subcommittee wind up their efforts by the end of next month.

Director Seitz then turned to FIO's international activities by highlighting a few developments at the IAIS. The IAIS is taking on additional work related to climate risk in its 2021 Global Insurance Market Report and will explore the relationship between climate risk and financial stability to insure as investment exposures to climate change.

FIO continues to actively engage with respect to the work on the international capital standard. The IAIS launched the second year of its monitoring period at the end of April, which was followed by a workshop last month. In addition, the IAIS is continuing its work on the comparability analysis for the aggregation method to the ICS. The IAIS recently finalized the definition of "comparable outcomes" and "high-level principles" that govern the comparability assessment plan for the third quarter of 2023. The IAIS is developing a specific criterion for assessing whether the aggregation method provides comparable outcomes to the ICS. FIO is also structuring a study that would evaluate the potential implications of ICS implementation, including global competitiveness for U.S. insurers and product cost and availability for consumers. The IAIS also continues its 2021 global monitoring exercise, which will include updated individual insurer monitoring and sector-wide monitoring data collections.

Director Seitz stated that FIO remains focused on the covered agreements with the EU and the UK. The agreement with the UK entered into force at the end of 2020, and in March 2021, the United States participated in the first meeting of the joint committee with the UK under the US/UK covered agreement. The U.S. delegation, led by FIO and USTR, was joined by two state insurance commissioners. FIO has been closely monitoring state progress in revising their credit for reinsurance measures and, as called for under the agreements, FIO is evaluating those measures for potential inconsistency with the covered agreement. In addition, FIO updated its website to include a page focused on the preemption review process. Director Seitz stated that he anticipates posting further updates on the website from time to time.

Domestically, FIO recently concluded a 2021 data call for the Terrorism Risk Insurance Program (TRIP). TRIP is currently analyzing the data call responses which will inform our analysis in the 2021 small insurer study, which will be published at the end of the month.

Director Seitz then mentioned that FIO recently published a Request for Information which sought input on FIO's future work related to monitoring the availability and affordability of personal automobile insurance. FIO's work will focus on two priorities:

- Data analysis on the affordability of coverage and premium pricing disparities, with particular attention to traditionally underserved communities and the impact of nondriving factor.
- To assess market evolution and structural shifts in the conduct of business, including the effects of COVID-19. This work is closely related to the matters of equity and the availability and affordability of insurance that the Availability Subcommittee has been examining over the past several years.

Director Seitz requested that the Availability Subcommittee focus its efforts over the next few months on analyzing the twelve questions in the RFI and present those findings in an upcoming FACI meeting.

Director Seitz then mentioned that FIO team members Alex Hart and Daniel McKnight were present to provide some additional background on the RFI.

Director Seitz then turned the presentation over to Mr. Hart and Mr. McKnight.

Presentation on FIO's future work related to monitoring the availability and affordability of personal automobile insurance

Mr. Hart greeted the FACI and gave reasons behind FIO's upcoming work in the auto space and outlined some of the questions that are in the RFI. Mr. Hart referenced a slide deck that had been distributed to the FACI and began with background on the personal auto insurance business in the United States.

Mr. Hart then stated that auto ownership has long been associated with opportunity for economic well-being. Mr. Hart then mentioned that all states, except for New Hampshire, require auto insurance for anybody that owns and operates a vehicle. However, approximately thirteen percent of drivers in the United States were uninsured in 2019. Mr. Hart stated that these reasons were compelling factors when FIO embarked upon its initial auto study in 2017. Innovations such as telematics, ridesharing services, and delivery services have changed the way business is conducted in the U.S. auto insurance sector. The COVID-19 pandemic seemed to accelerate some of those changes.

Mr. Hart mentioned that in late 2020, the House Appropriations Committee recommended that FIO examine the impact of nondriving-related factors on the affordability of auto insurance premiums for traditionally underserved communities. FIO also considered how the structural changes in the auto business may alleviate some of the concerns about pricing practices or disparities that may exist. On May 27, 2021, FIO published the Request for Information (RFI) in the Federal Register seeking public comments. Mr. Hart mentioned that the goal of the latest RFI is to consider the affordability of coverage and the disparities in premium pricing, with the focus on traditionally underserved communities. FIO also wants to examine the market evolution and structural shifts in the way that business is done, particularly artificial intelligence and big data.

FIO is also requesting feedback on the prior work on auto insurance from 2017. FIO expects that the responses to the Request for Information will inform its work, but also expects to conduct significant data analysis. FIO expects to have significant stakeholder engagement through an interview process.

Director Seitz thanked Mr. Hart and Mr. McKnight for their presentation and stated that Mr. Hart and Mr. McKnight will be available at a future meeting to discuss the topic in more depth and take questions.

Presentation and Discussion on FEMA's Unreinforced Masonry Risk Reduction Strategy

Director Seitz stated that in late 2019 the Advisory Committee endorsed the National Mitigation Investment Strategy and FIO remains actively involved in the implementation phase of the investment strategy. Director Seitz announced that the investment strategy recently completed its first pilot project, which culminated in the issuance of a joint report by FEMA and the State of Utah on a strategy to significantly reduce earthquake risks posed by unreinforced masonry building.

Sean McGowan, an earthquake program manager and building science lead with FEMA, will provide some more information about this strategy and along with some suggestions on how the insurance industry can be involved as FEMA works to educate the public about this strategy.

Mr. McGowan stated that he would discuss earthquake risk in Utah specifically and then discuss the unreinforced masonry risk reduction strategy, which is a national pilot. He then stated that he would discuss the unreinforced masonry connection to insurance.

Mr. McGowan refers to FEMA's Region 8 as the "crumple zone" because other parts of the country either do not have earthquakes or have them on faults that slide side to side. In Region 8, faults smash together and make mountains and big earthquakes. To give a sense of the earthquake risk, Mr. McGowan stated that he flew to Salt Lake City recently took a picture of giant fault right near where 80 percent of the population of the state lives. He pointed out that scientists say that Region 8 has a one in five chance over the next 50 of experiencing a magnitude 6.75 or greater earthquake. Mr. McGowan stated that a one in five chance of this magnitude of earthquake is a big deal in the insurance sector.

While the anticipated earthquake would not necessarily be bigger than the earthquakes mentioned, the unreinforced masonry (URM) would cause increased death tolls. Brittle brick buildings that have no steel holding them together, which are basically a bunch of rocks together, put a little bit of mortar between them. In addition, URM walls often collapse outward and not just inwards. Falling bricks often just fall out into streets, sidewalks, and undamaged buildings nearby.

Mr. McGowan stated that Utah has many URM buildings because Utah did not understand the earthquake risk until the 1970s, when the population had grown significantly. Salt Lake City has around 30,000 URM buildings and 147,000 URM buildings exist along the 12-county Wasatch Front, which is a major metro area. Around 440,000 people would be at risk in these buildings, which is comparable to the population of Miami, Minneapolis, or Oakland. An earthquake represents one risk and one vulnerability that can impact an entire city and happen at the exact same time with no notice.

Mr. McGowan stated that while this is an issue that is known, it remains an issue because of economics and the love of older brick buildings. However, Mr. McGowan pointed out that the risk can be reduced through mitigation. He mentioned the Building Resilient Infrastructure and Communities (BRIC) grant for large-scale mitigation projects. Salt Lake City has a program called "Fix the Bricks." Fix the Bricks was started by Salt Lake City and is federally funded, but it is not federal program. Fix the Bricks allows homeowners to obtain funding to retrofit based on 75 cents of every dollar spent towards the retrofit. The remaining twenty-five percent can not only be funding, but also in-kind contributions or donations.

Mr. McGowan discussed the strategy developed to work on the retrofitting problem. Twenty different authors participated, and 27 reviewers submitted 600 comments, making this an impact-focused approach. The team focused on creative solutions along with how to pay for retrofitting, since money is scarce. The team considered tax breaks, historic credits, and insurance premium deductions to buy down the risk.

Mr. McGowan pointed out that the first was to establish a statewide risk reduction program to align mitigation at the state and federal level. The team wanted to work with the state to identify the state's key priorities and how to address them. The second goal is to protect the schools, which includes aggressive dates for retrofitting. Utah schools are generally old buildings that may fall during an earthquake. Since children do not have a choice in going to school, sending them into unretrofitted buildings is unethical and many children would die in the event of an earthquake. The third goal of the strategy is to think about what people need after a disaster. People need their insurance check to come so that their home may be rebuilt. They may need a new job. The team considered the things that people really need for a longer-term recovery to shorten so they can get back on their feet.

Mr. McGowan then discussed if third party certifications, such as the Community Rating System for flood and the IBHS has the FORTIFIED certification system for wind, might be needed to understand and

quantify the risk and benefits in retrofitting to see if a premium reduction is in order. For instance, FORTIFIED uses wind tunnel tests to compare a common building versus the stronger one so that a potential change in risk can be seen. This potential change in risk can lead to a lesser charge in premium, since the insurer believes it will pay less in the event of a claim.

Mr. McGowan then discussed opportunities to align benefits between all stakeholders. He discussed incentivizing retrofits with reduced premiums by using an example of an insured saving 20 percent of premium if a \$1,000 retrofit is performed. He mentioned multi-peril retrofits, such as retrofitting that strengthens for earthquakes, but may also reduce damage from a wind peril. Mr. McGowan then mention a practice done by some insurers of sending firefighting groups during a wildfire to fight fires and protect certain structures.

At this time, Mr. McGowan ended his presentation and asked for questions. Amy Bach stated that Mr. McGowan's presentation was a dream presentation for her because of incentivizing individual risk reduction, in part, through a premium reduction. Ms. Bach asked if an agency was needed to administer the mitigation programs. Mr. McGowan responded that aligned mitigation is better if mitigation is made to be something that people want. People need to know that mitigation exists, and it works. Awareness can be made by spreading the word. Mitigation can alleviate the burden on taxpayers and the stress on government employees after a disaster.

Mr. Birnbaum then asked what was being done to ensure the benefits and opportunities are distributed to all communities, and not just more affluent communities, including communities of color and low-income communities. Mr. McGowan stated that this issue was addressed in the URM strategy. In the Fix the Bricks program, the people who subscribed to it first were the people who did not have issues with contributing 25 percent which might be \$5,000. But to other families, the \$5,000 may as well be five million. The program encourages applicants for the grant to not just consider cash, but also philanthropic donors looking for an opportunity to assist or people who donate time. The program stresses that other soft forms of money can be used.

Mr. Keiser then asked if Mr. McGowan had any measure of the impact on the premium for the projects once they are complete. Mr. McGowan used an example of a basic retrofit to an URM building. He mentioned that the two main things done in the Fix the Bricks program are tying the roof and the wall together with metal and bracing chimneys. These measures have been found to be effective in preventing damage during an earthquake. He continued that an insurer might find that for a \$20,000 retrofit, \$100,000 in damage might be avoided, which is a win to the insured.

Mr. Keiser then asked if Mr. McGowan had any actual measures on the effect on the premium. Mr. Keiser asked if Mr. McGowan was seeing a reduction in premiums that was anticipated and if premium reductions occur once mitigation is done. Mr. McGowan stated that he hopes premium reductions would occur along with a reduction in liability. He stated that some damage may occur, but that the damage would not be as great had the retrofit not been done. Mr. McGowan further stated that insurers may think that they will need to pay for building damage but may avoid or decrease the liability for any deaths that might have occurred had the building not been retrofitted.

Presentation and Discussion on Wildfire Risk Led by the Subcommittee on Addressing the Protection Gap Through Public-Private Partnerships and Other Mechanisms

Chairman Glasser turned the floor to Sean McGovern and Amy Bach, the co-chairs of the Protection Gap Subcommittee, to introduce the next speaker.

Mr. McGovern stated that he will summarize the activities of the subcommittee and then introduce Roy Wright, the guest speaker. He stated that the subcommittee will continue the theme of mitigation as the speaker discusses wildfire peril; nine of the ten largest wildfires in California's history have taken place in the last decade, and five of those were in 2020. The subcommittee has been focused on gaining a clear understanding of the causes and impacts of wildfire risk along with the ways in which different actors, whether individual community, a state, at the federal level, as well as the private insurance and reinsurance markets can all come together to address that challenge. The subcommittee has been keen to take a holistic view of practical solutions from consumers, a broker, carrier views and other expert perspectives.

The subcommittee heard from Joe Lacher of United Policyholders, who discussed wildfire risk along with availability and affordability of homeowner coverage in California. Liz Henderson of Aon Benfield, addressed the subcommittee on how insurers determine the true costs associated with covering homeowners exposed to wildfire.

The subcommittee heard from Roy Wright, who is the president and CEO of IBHS. Allstate also presented to the subcommittee and discussed how it views wildfire risk and its support for mitigation. Allstate also talked about the success of the public-private projects which have been implemented in other regions such as the Colorado Wildfire Partnership. Finally, Karen Collins, who is with the APCIA, who gave the trade association viewpoint on the issue and the need for public standards for wildfire product design solutions.

Mr. McGovern then turned the floor to Ms. Bach. Ms. Bach stated that her observation from the speakers who presented to the Protection Gap Subcommittee is that mitigation is a balancing act. A re-balance must occur from the insurance perspective considering climate change, which has inspired insurers to encourage mitigation. Ms. Bach stated that a very good dialogue is occurring with many good examples from around the country of the approaches that states have been taking and the federal government has been taking to fund mitigation. The subcommittee is looking for balance between risk sharing.

Ms. Bach then introduced Roy Wright, who has run the National Fire Insurance Program, which has been the interface between public and private insurance programs. Mr. Wright stated that the work of the IBHS is taking science and making the proof points work to prevent the avoidable part of the losses. The IBHS works across a series of perils. However, Mr. Wright explained that he will focus on wildfires and tie them to climate change. He further explained that he is at the research center in Richburg, South Carolina, where IBHS does testing. The research center was built about 12 years ago and wildfire was one of the risks that the industry asked the center to examine and recommend ways to prevent avoidable losses. At the research center, everything is done at full scale in a unique way in that the center only does things that cannot be done elsewhere. The center deals with flame spread across wind speeds which are always done at full-scale. The center has a unique ability to do work related to embers and how they transport and affect the built environment, and the connection between roofs to related elements such as gutters.

Mr. Wright also noted that fires can come from all kinds of sources. Some fires are avoidable like gender reveal parties and other fires are not avoidable. Fires in the year 2020 were often driven by dry lightning storms. Consequently, all the causes cannot be eliminated, but some of the issues can be addressed. As such, IBHS work and science has focused particularly on the elements related to suburban conflagration and how these elements can be reduced.

Mr. Wright continued that as the climate changes, wildfire season has changed as well with the rainy season being compressed. The precipitation in the West or California has not changed, but precipitation is occurring in a more compressed period. More days of hot, dry winds that drive wildfire are occurring, allowing the burn scars to take place. Part of addressing the problem is understanding that it is a system.

At IBHS, work is performed on the physical science side along with the social science aspect of how consumers will engage and act. Mr. Wright stated that focus groups were done last summer with some being done in Colorado. People in Colorado know that wildfire can occur, but they do not imagine it reaching them. They believe the fire will stay 15-20 miles away from them and do not perceive wildfire as a risk. This perception tells the team that education must occur to help people understand the risk. In contrast, focus groups in California have no question about the risk and impact of fire; many had seen the flames or the embers in their community. Others were showered by ash and millions experienced the smoke. The focus groups understood some of the more technical elements of it, but they did not always know what to do.

Mr. Wright stated that the IBHS members, working with others in the wildfire domain, set out last year to develop a set of suburban wildfire adaptation road maps. These were viewed as a first step towards being able to narrow down the very specific items that a home would need to do within a particular set of items a community needs to do to decrease risk from wildfires. IBHS worked with scientists on potential specific actions and developed the suburban wildfire road maps, which laid out eight different paths. With the paths, specific elements could be considered, such as roofs, eaves and building shapes along with fuel elements around walls. All these elements were too much for experts to consider, let alone homeowners. Consequently, the elements were boiled down to a set of actions with which to start going to more complex actions.

IBHS has done work on the consumer side with a website entitled wildfire-ready.com, which was specifically designed for consumers. Consumers can see the specific actions of where to start with fire-rated roofing cover, the 5-foot buffer, eliminating debris under decks and vent space that requires specific mesh. The website then details via technical reports on codes and standards based on fires particularly from '17 and '18 that examines the science on the adaptation road map. All this work is done with collaboration from the NAIC and RMS, which examines structural modifications and potential reductions anticipated in terms of its likelihood to ignite during a wildfire. Mr. Wright stated that he is interested in a 75 percent reduction when structural and vegetation modifications are in place.

From a public policy standpoint, Mr. Wright stated that the science must be taken to the next level of specificity so that the specific suite of actions on a structure are known in the public policy domain, to homeowners, and to insureds. These stakeholders must be able to understand the community risk profile. Mr. Wright added that Americans have come a long way in their understanding of climate. Nearly three-quarters of Americans believe that climate change is happening and are they willing to talk about it. However, nearly 60 percent of Americans do not think climate change will affect them. Insurance plays an important role amongst a broader set of actions that need to be happening in society

Mr. Wright stated that strengthening resilience to wildfire is one important part of a much larger public policy imperative, climate change adaptation. IBHS and a group of its member companies have been developing a set of principles for climate change adaptation intended to inform and guide public policy discussions. These principles are rooted in IBHS science and common sense approaches to severe weather and resilience and focus on where governmental assistance is needed along with what American families and insurers can do. They are as follows:

1. Climate change adaptation is necessary.
2. Building codes and land use policy needed to support tomorrow's resilience.
3. Prioritizing funding to increasing resilience for existing structures where most Americans live.
4. Resilience needs to be made available to all.
5. How to leverage climate data and analytics.
6. How to enhance the resilience for public infrastructure and facilities.

These principles are applicable at all levels of government.

Mr. Wright concluded his presentation and offered to receive questions. Ms. Bach stated that insurers are open to rewarding people by renewal of insurance policies if the insured has hardened the home, but insurers do not want to verify that the insured has maintained defensible space and asked Mr. Wright if he had any thoughts about the distinction. Ms. Bach stated that some momentum is present in Colorado with Wildfire Partners and that Allstate will renew homeowners who have gotten certification. However, the insurers have shown no interest in giving technical assistance with mitigation such as brush clearing.

Mr. Wright stated that IBHS is a 501(c)(3) that's supported by 103 insurance companies. All of IBHS' work has been put out into the public domain. From an antitrust perspective, IBHS does not get into the specifics of how one company wants to select their risk or price it. IBHS can look at the set of filters on a community side and at areas with the most extreme risk and put it on a map. The map has a set of onetime actions that once done are enduring. An example is the FORTIFIED work in the wind space. One-time mitigation gives confidence for 5, 10 or even 20 years. However, certification, designation, or identification of a home as being wildfire-ready will require an annual validation. The stakeholders will collectively need to consider how to best do that.

Mr. McGovern thanked Mr. Wright for his presentation and commended him on the IBHS climate change adaptation principles. Mr. McGovern stated that several FOCI members have signed up along with other organizations. we've signed up, and several other organizations that are on this committee have also signed up. Mr. McGovern stated that this is a call to action for the industry and that industry should pay attention to this work.

Mr. McGovern then asked Mr. Wright if he was familiar with the Senator Feinstein letter and the charge given to the subcommittee. Mr. McGovern then asked Mr. Wright if he had any thoughts on what would be useful as an addition, as an amplification to what is already going on from this committee, from the U.S. Treasury, as recommendations are being formed.

Mr. Wright replied that wildfire resembles elements from other national hazard mitigations that need to occur. Community context is important; state and local governments need to encourage good codes and

enforcement. However, this only considers what has not been built. Retrofitting applies to existing structures. These are two distinct streams. Some people in America can pay for this themselves and they need to be nudged to retrofit, whether that's a wind retrofit, a flood retrofit or addressing these wildfire risks. Energy efficiency tax credits are important to developing resilience. When these investments are made, a reward is recognized, since the Federal Government will never have enough funding to address this risk for every homeowner in the State of California, let alone across the West. The Federal grant programs must be considered for people who do not have the ability to pay for retrofitting.

The Building Resilient Infrastructure Community (BRIC) program that FEMA has, as well as their other hazard mitigation programs, needs to be considered beside the HUD programs, whether that's UDBG disaster recovery or the standard CDBG, as states choose to prioritize retrofitting begin to encourage citizens to retrofit. Risk-based pricing must be considered and may be where the FOCI can assist the most. However, risk-based pricing must be considered in the bigger context of nudging people to do the right thing along with helping those who don't have the ability to do it themselves. This bigger context will be true for wildfire and will be true across the other natural hazards. Some wind retrofit pieces that change elevations cost a few thousand dollars can make a significant difference. However, in the flood world, those kinds of elevations are six-figure price tags.

Peter Kochenburger then stated that he is struck by 72 percent of the population believing in climate change, which is as high as the believe has ever been. Mr. Kochenburger asked what other countries, such as Canada, are doing to reduce wildfire risk. Mr. Kochenburger asked about public programs that have been successful or if private insurers are driving mitigation. Mr. Wright referenced the Yale Climate Communication Program, which found that 12 percent that are absolute naysayers and 20 percent are willing to listen. Countries in South America have had similar kinds of situations. Mr. Wright then referenced Canada and Australia. Australia deals with wildfires in much the same way that the United States does. Australia has big, open expanses of Bush Country where they just let the fires burn. They focus their resources right at the interface where it meets homes. Australia does not have many government backstops. Homeowners who do not have insurance do not get governmental help. The insurance pricing reflects today's understanding of the risk, and on the flood space it was normal to see insurance premiums just on that single peril being equivalent to \$9,000-\$10,000 U.S. dollars. Based on this, Mr. Wright stated that he was not aware if other countries have concepts to directly apply. Mr. Wright did advocate that mitigation requires commitment to take collective ways to use market forces, government nudges and, at some points, government assistance to move it forward.

Mr. Kochenburger followed up regarding Canada. Mr. Wright responded that Canada has experienced a couple of catastrophic fires that are noteworthy. The areas in which Canada experiences wildfires are narrower than in the United States. The area consists of the Canadian Rockies and their wildfire risks do not come as close to communities. Canada is coming to the United States and asking for insights from the science and approaches to the build environment rather than them generating specific or novel solutions on their own.

Ms. Bach asked if Mr. Wright had seen a model of risk reduction certification that he thinks should be replicated. Mr. Wright stated that he believes a hybrid should be created for the western United States due to the tens or hundreds of thousands of structures that exist. Some areas are so high risk that even if people took mitigation actions, the actions may not significantly reduce the risk. Mr. Wright stated that he does

believe a common database should exist by which certifications are held and people can attest whether someone buying a new home, that they understand what level of wildfire resilience they have. The key is, unlike the wind or earthquake dimensions, once mitigations are done, are they maintained.

Mr. Wright stated that he was hopeful that he's speaking to several companies right now who have some innovative ways that they can imagine going forward with mitigation. Much work remains to be done in the coming months. IBHS is being pushed very directly to take those wildfire adaptation road maps and take the next logical step of considering the community characteristics and developing a list of must do's and putting the list into the public domain. IBHS is working towards that goal.

Update from Subcommittee on COVID-19

Chairman Glaser then moved to the COVID-19 Subcommittee and gave a brief update on the protection workstream's activities. The subcommittee is charged with reviewing strategies to better prepare against future pandemics. Central to that theme is the role of data and analytics and in not only in helping governments, but also helping individual companies and economies make informed decisions. During the last meeting, the Subcommittee heard from two industry experts, Oliver Wyman and Munich Re. The speakers discussed scenario modeling and how it can help build resilience for future pandemics. Also discussed was what kind of data could be collected.

Chairman Glaser then turned the floor to Betsy Ward to provide an update from the preparedness workstream. Ms. Ward stated that in December, the subcommittee presented responses and recommendations that temporary actions be made permanent because of learnings from the COVID-19 crisis. One of the principles related to premium grace periods. In addition, the discussion included a suggestion to define "state of emergency." The subcommittee recommended certain principles if a state of emergency is declared.

Ms. Ward stated that the subcommittee has developed a recommendation regarding the definition of "state of emergency," which has been included in the meeting materials. The subcommittee recommends that "state of emergency" be defined as "A national public health emergency for which a public health emergency is declared by the Secretary of Health and Human Services pursuant to Public Health Service Act, or an emergency declaration is made by the President of the United States pursuant to the Stafford Act, or the National Emergencies Act, and the closure or significant curtailment of normal business activity for an extended period in any state where accommodations are considered pursuant to state orders or other circumstances." The subcommittee felt this definition covered COVID-19. The subcommittee also broadened the definition it somewhat, recognizing that they are dealing with learnings from a pandemic. The subcommittee's first recommendation is relative to the definition of "state of emergency" in the context of defining when premium grace period principles might be applied.

Ms. Ward asked for comments, feedback, or questions. Mr. Birnbaum asked if Part 1 specifically referred to a declaration of an emergency, but in Part 2 the subcommittee used several ambiguous terms such as "significant," "curtailment," "accommodations," "extended period." These terms are widely open to different interpretations. Mr. Birnbaum asked if the subcommittee considered referencing state of emergency as declared by the state. Ms. Ward stated that the subcommittee is trying to insert specificity into the definition and that the subcommittee recognizes that some states of emergency declared are very

temporary and local. The subcommittee was trying to address situations where a state of emergency is declared for a period of a couple of days which would not require the principles of the grace period to apply.

Mr. Gendron asked if both proposals to be met and Ms. Ward responded affirmatively. Mr. Gendron turned to the language stated, "significant curtailment of normal business for an extended period." Mr. Gendron stated that he did not think anyone would object to the language "significant period of time." He did state that he wondered if using this language was too vague to identify when a trigger may be activated. When will a grace period be triggered? He also questioned the meaning of "significant curtailment of normal business" and "extended period of time" and said these terms were undefined. Ms. Ward pointed out that this was the second comment looking for specificity relative to the period and that the subcommittee could return with a more specific recommendation relating to the language. She stated that the subcommittee's intent was to describe without making the definition exactly what was experienced during COVID-19.

Mr. Gendron asked if the subcommittee intended that the state order would be the restrictive piece or would the state order be the expansive piece, with the curtailment being the more restrictive portion. Ms. Ward responded in the affirmative. She stated that it would make sense to add more specificity and to be careful with the definition and that she appreciated the input. She also asked that if any member had incremental suggestions about how to make the definition more useful with the specificity desired, the subcommittee would appreciate that input. Ms. Ward commented that the subcommittee is trying to keep the definition broad enough to apply to situations in the future and to make sure that the definition is clear enough about significant curtailment while recognizing distinctions between state and federal situations.

Mr. Birnbaum asked about a short-term curtailment of normal business activity, but that has implications for many consumers. The curtailment might be that their business has been destroyed. While things are back to normal in general, the subset of consumers cannot get back to normal. Mr. Birnbaum stated that he realizes that the subcommittee is trying to be expansive, but that last part seems to then take it back. Ms. Ward thanked Mr. Birnbaum for his input and will consider it.

Doug Heller stated that the subcommittee added that language of "or other circumstances," to address the fact that state orders may be too limiting because there were other circumstances in which the state order, would not be relevant. In fact, the state order could be rescinded or never have occurred, but other circumstances may exist. "Other circumstances" is not as precise but provides for some flexibility.

Mr. Falzon stated that he understood the desire for specificity and the first part of the definition allows for very concrete action steps. The subcommittee struggled with the second piece; the more specificity that is included the more limiting the definition will likely be. To get agreement amongst all the group as to what's an extended period would be difficult. To get an agreement on what the language means as opposed to leaving it to the judgment of FIO and the implementation of the recommendation, the principle becomes more limiting as opposed to expansive. The same issue applies to the language "significant curtailment of business activity." The subcommittee is not trying to capture things that are idiosyncratic that will affect a limited number of consumers for short periods of time. The subcommittee did put a lot of thought into the recommendations and is happy to take input back to the group where the subcommittee can discuss further. Mr. Falzon stated that he's not sure the direction should be more specificity.

Ms. Ward responded that two subcommittee members industry and consumer advocate side did go back

and forth quite a bit on specificity and felt this definition was getting at what the subcommittee believed the circumstances would be. Ms. Ward stated that she will take Mr. Birnbaum's and Mr. Gendron's requests relating to the second topic for addition work. She stated that they may be able to present at the September meeting. She further stated that the FACI needs to balance specificity against an unanticipated situation in the future.

Ms. Ward then moved to her second topic, which is the expansion of the premium grace period principles so that they apply appropriately to the property and casualty industry. The subcommittee obtained input from others on the FACI since the subcommittee does not have a member from the property/casualty industry. The subcommittee did get input from the APCIA, but the subcommittee requires having more participation from the property/casualty industry. The subcommittee would like to advance that premium payment relief be made for 90 days from premium due date so that the policy is not cancelled or lapsed, allowing reasonable repayment options for unpaid premiums, waiving late premium payment fees, providing reasonable flexibility to policyholders regarding proof of claim and providing policyholders the ability to make premium payments and otherwise communicate by maintaining safe social distancing standards. The subcommittee would like to apply these principles to the property/casualty industry also but realizes that facts and circumstances that require the principles be tweaked or edited to better address specific coverages. The subcommittee would appreciate some incremental input and participation.

Ms. Ward asked the FACI for input, adding that the principle is a kind of premium relief. However, refunds are not addressed. Mr. Heller stated that while he does not believe the FACI will support instructing refunds, he does believe language regarding anti-rebating laws and the ability to provide refunds may be added. Mr. Heller stated that an opportunity exists to do something other than just apply life standards to the P&C setting. The subcommittee is hopeful to find common ground between the two sectors.

Chairman Glaser stated that major differences exist between life, which is largely consumer and individual, and P&C, which runs the gamut of a personal line, small commercial and large accounts. An advance agreement to premium payment relief should be based on some element of hardship. Some industries did better because of COVID than they otherwise would have done, and certain industries were decimated. Those industries who are unaffected should not be able to delay premium payments. During COVID a significant slowdown of premium payments in P&C did not exist, whereas payment slowdown did exist in the financial crisis. The industry anticipated delays and everybody ran out and got liquidity just in case, but it didn't occur.

Ms. Ward stated that Mr. Glaser is bringing up a state of emergency and the proper condition in which the property/casualty industry would be affected similarly or not. Ms. Ward stated that having a member from the broader FACI would be helpful so the subcommittee can make the appropriate recommendation. The subcommittee has learned lessons from COVID-19 and how industry can be better situated for the next crisis so that federal government and states can react faster to protect consumers and industry where appropriate.

Ms. Bach asked if legislative provisions exist that have different rules for disaster claim handling. She mentioned that legislation typically references to the government code in that state and how it defines an emergency. Ms. Ward stated that the subcommittee did contemplate first starting with pandemic and then looking to how industry might broaden it to have the appropriate combination of premium relief and under

different types of emergencies.

Mr. Heller then commented that many states did suggest premium relief and many, many carriers did offer it at least for a period. Mr. Heller stated that "relief" means, among other things, a moratorium on cancellation. Not a lot of people didn't take advantage of the moratorium, which is the lesson of the utility of having it is that consumers do not just unnecessarily take advantage of it, but those who need it, did. The fact that it was there, that the structure was there for people who really needed it at that time, was very useful for struggling consumers and people who had just lost their job. This is a testament that consumers aren't going to unnecessarily take advantage of every opportunity that's there, but having it there was probably critical for a lot of people.

Chairman Glaser stated that he would draw a distinction between consumer, as an individual, and company. Companies will take advantage. For example, American Airlines would stretch out the premium payment and should not be cancelled. However, Amazon did better post-COVID and should not be able to receive premium relief. Amazon would take advantage of any kind of moratorium on premium to delay payment for 90 days. Is this delay fair to their counterparties who wrote the contract if Amazon has no hardship?

Ms. Ward reiterated that the subcommittee is looking for input from the property and casualty industry regarding the conditions as well as the form of the relief. She invited FOCI members from the property and casualty industry to provide input to the recommendation. The recommendation should apply broadly to the insurance industry, not just the life insurance industry.

Mr. Kelleher noted that more fundamental issues exist, and that the principle is ultimately an issue of state law and state regulation and state regulatory oversight. The subcommittee struggled with the role of FIO even delving into this area because it's so heavily state regulated. During the crisis the subcommittee spoke and took cues from state regulators about policy premium refunds, premium forbearance, cancellation forbearance and other issues. Mr. Kelleher stated his reluctance to give input on the issue assumes that the FOCI agrees that this is the right forum for this provision to emerge. Mr. Kelleher recommended delaying consideration.

Ms. Ward thanked Mr. Kelleher and said that the subcommittee recognized some of the inconsistency that occurred across the states. The subcommittee is considering this a way to provide a recommendation about kinds of general learnings and to have representation from industry in terms of how the subcommittee is shaping this.

Andrew Stolfi offered to join the drafting group as a commissioner. He further stated that Oregon issued emergency orders longer than any other state in response to both COVID and the wildfires last year and that these orders issued some grace period premium relief. He stated that he would be glad to share Oregon's experience and ideas about the premium relief. Mr. Stolfi stated that the proposal has points regarding emergency and closure, significant curtailment of normal business, and he wants to raise a question for the group to consider. When providing relief to consumers for paying premiums, commissioners a little hesitant to tie that into closure or curtailment of normal business activity. Wildfires are a good example of this. Significant wildfires have occurred in Oregon in the last year and affected different areas of the state differently. Urban areas in southern Oregon had thousands of structures destroyed in small urban centers and very rural areas had similar losses, but much more spread out. While

some disruption to business activity occurred and Oregon required relief because of the destruction for consumers and their normal life activity. Their homes were destroyed. They couldn't do normal life activities, including get their mail and maybe pay their premium. Mr. Stolfi stated he wanted to raise this as an issue to consider whether FACI wants to tie a consumer relief to business activities.

Ms. Ward thanked Mr. Stolfi and welcomed him to the group. She further stated, for the context of the first definition of "emergency," started from the pandemic viewpoint and how the subcommittee might generalize from there. Some committee members were concerned about going any further than just the pandemic because of complexities that immediately can be introduced. The subcommittee did not discuss it in terms of broad wildfires certainly like the west has experienced but thought other disasters in property/casualty which were more localized. The subcommittee was trying to think of that broader situation.

Mr. Birnbaum asked if the recommendations distinguished between premium relief and premium payment relief, which are different. Regarding premium relief, one of the issues that happened in several property/casualty lines is that the exposures associated with those lines change radically and virtually overnight. Every state, to some extent, requires its state to be not excessive, not inadequate, and not unfairly discriminatory. Rates that were filed literally became excessive overnight and regulators simply did not have the infrastructure to respond to that situation and had to ask insurance companies to respond. The regulators didn't really have any formal guidance to provide and didn't have the data collection mechanisms to assist the companies. If this recommendation concerns premium relief, the subcommittee needs to define what situations in which the expected exposures changed dramatically and quickly. Even with the \$11 billion in premium relief for auto, companies still made windfall profits on the auto line of insurance and the premium relief wasn't inadequate. Premium relief should be distinguished from premium payment relief.

Ms. Ward stated that this discussion did come up within the subcommittee repeatedly. The subcommittee is still pushing to more broadly apply the principle to more situations but did not have the broad viewpoint that's currently being discussed with our committee.

Mark Thresher addressed Mr. Birnbaum's comment by stating that insurance companies are in the business of making money. He asked if his company is supposed to give away auto policies for free. Mr. Thresher's company gave both deferred payments and refunds, but the company is still taking risk, and the company needs to get paid for the risk that it is still taking.

Mr. Birnbaum stated that he was not asking any auto insurer to offer their products or their protection for free. However, every state requires that rates be not excessive, not inadequate, not unfairly discriminatory. When rates in January of 2020 with an expectation of a certain set of exposures, and then in March the road is empty, those assumptions about the exposures are no longer valid. When the roads are empty, insurers will not have anywhere near the claims originally anticipated. The rates are excessive at that point in time, but there's no mechanism for companies to readily adjust their pricing in real time to address those types of instances, which is a unique instance.

Mr. Thresher stated that he did not know what Mr. Birnbaum would have the industry do. Ms. Ward stated that this topic is not a simple one and many different situations and conditions exist. She further stated that

the subcommittee would like continued discussion so that it can make progress and inform our future related to at least premium payment relief. If premium payment relief can be broadened to solve more for our future, the subcommittee will broaden it. Ms. Ward accepted Mr. Thresher's offer to participate in the subcommittee and said that she looks forward to coming back to the FACI with a more refined recommendation to address not only the property/casualty industry, but also to refine the conditions of an emergency.

Update from Subcommittee on Availability of Insurance Products

Chairman Glaser then turned the meeting to the Availability Subcommittee and asked for an update.

Mr. Birnbaum stated that the subcommittee had met several times since the last FACI meeting and to discuss the three topics set out in our report: availability/affordability studies, addressing structural racism in insurance and the formation of the National Flood Insurance Program. The committee spent most of its time discussing how to address systemic racism in insurance. The focus in more recent meetings was examining the action by the National Conference of Insurance Legislators (NCOIL) in modifying its property/casualty rating monologue to define proxy discrimination. The committee discussed this issue because several members believe the NCOIL definition of "proxy discrimination," which is the intentional use of a proxy with the intent to discriminate on the basis of race or other protected class characteristics, fundamentally misunderstands how systemic racism impacts insurance and would block, not facilitate, regulatory and legislative efforts to identify and minimize proxy discrimination and disparate impact. The committee had a session in which APCIA, and Professors Anya Prince and Dan Schwartz also made presentations explaining their opposing views. The subcommittee will continue its work to examine and consider recommendations to FIO regarding race in insurance.

The subcommittee also discussed recommendations to FIO regarding updating the 2017 auto insurance affordability study and developing an availability and affordability study for residential property insurance. The subcommittee believes the personal auto insurance affordability study should be updated to reflect more recent experience. The subcommittee discussed additional recommendations regarding changes in methodology but concluded that updating the study using the same methodology as the original would be faster and easier in comparison of results. The subcommittee is always available to FIO for feedback on methodology or proposed changes.

The subcommittee also recommends that FIO study the availability and affordability of residential property insurance because of the key role property insurance plays in the economic development of individuals and communities. In addition, insurers face challenges in offering or wanting to offer residential property insurance. These challenges including growth, natural catastrophe risk exposure from a wide variety of factors, including climate change, greater awareness of the impact of systemic racism on the availability and affordability of property insurance and federal agency actions impacting residential property insurance markets, including the National Flood Insurance Program, financial regulators' private flood rules and the HUD District Impact Rule. The subcommittee also discussed including any additional recommendations regarding methodology to the residential property insurance study but did not recommend any changes. The subcommittee is available to FIO for feedback.

While the subcommittee believes a study of residential property insurance is a high priority for FIO, the

subcommittee recommends FIO prioritize and update the auto insurance availability study. The committee learned of FIO's RFI on auto insurance late last week when it was published in the Federal Register. Based upon discussions in the subcommittee, FIO should update the 2017 study using the same methodology wildfire engages in its holistic assessment. Given that the last RFI process took three years, Mr. Birnbaum stated his view is that FIO should use the current auto insurance infrastructure to update the 2017 findings as soon as possible while examining broader issues.

The subcommittee has voted unanimously to present to FOCI the three recommendations. Chairman Glaser asked if the subcommittee had a motion to bring a recommendation. No second would be needed to the motion. Chairman Glaser opened the floor for discussion on whether to accept the recommendation as outlined or to offer up any amendments to the recommendation.

Greg Crabb shared an observation regarding residential property, which appears to align very well with the climate change conversations occurring and the affordability of insurance on the residential property. Mr. Crabb added that he was curious if the FOCI might want to add some language to focus that study, primarily on the catastrophic climate risks and the impact on the residential insurance market to better align it with other work that the Committee is doing. Mr. Crabb stated that otherwise he was supportive of the motion.

Chairman Glaser asked Mr. Crabb if he was requesting an amendment to the motion to add an element of residential property. If so, a vote must occur. Chairman Glaser continued that Mr. Crabb may have been raising a discussion point. If this is the case, Chairman Glaser opened the floor to anyone who is supportive of the idea to get a read on whether a formal amendment is needed. Mr. Crabb asked if residential property can be addressed in the future when/if FIO moves forward with a homeowner component.

Mr. Heller stated that the subcommittee has a generic recommendation to FIO to redo the auto study and then move on to the residential affordability with an understanding internally that the Subcommittee stands ready as FOCI members to assist FIO in defining issues to create a path forward. Especially considering the RFI that FIO has released and its earlier request to go back to the subcommittee and discuss this further, I think is exactly what the FOCI should be doing with this generic recommendation. Mr. Heller stated that he would encourage FIO to move forward, knowing that the FOCI stands behind FIO on both studies and stands ready to assist.

Chairman Glaser asked for the difference between recommendations 1 and 3 to be explained. Mr. Birnbaum replied that the subcommittee initially developed recommendations 1 and 2. However, the subcommittee wanted FIO to update the auto affordability study along with developing a study of residential property insurance. The members of the Committee also wanted to make sure that FOCI recommended, and FIO knew, that updating the auto affordability study was a higher priority. Mr. Birnbaum stated that the third recommendation is to give guidance to FIO to prioritize recommendation 1. Mr. Kelleher stated that the recommendations may need clarification because he also had questions about the meaning.

Chairman Glaser then asked for an amendment that would say to drop recommendation 2 and only vote on an amendment that 2 goes away and we're only looking at recommendation 1. Essentially, recommendation 2 goes away for now but might be brought back in the future. Chairman Glaser asked if an amendment existed or if the FOCI take this recommendation as written and have a vote on it. Mr. Birnbaum stated that

he understood that Mr. Crabb was providing more detail on recommendations 1 or 2 and was not going to move. Chairman Glaser stated that he thought recommendation 2 would be delayed a bit to link it to climate and other topics. Chairman Glaser asked Mr. Crabb to clarify.

Mr. Crabb stated that he thought either approach would work. One approach is to clarify now, and the second approach is to delay recommendation 2 recognizing that the recommendation needs clarification when it is considered. Mr. Crabb stated that the easiest solution may be to delay recommendation 2 and affirm the strong desire for FACI to do the auto insurance affordability right now, with the residential property recommendation being discussed more to consider alignment with climate-related issues, due to criticality in that space on both availability and affordability.

Mr. Bogue asked when both studies would be done, especially considering the executive order on climate. He wondered if starting a study is realistic considering the work that climate requires. Looking at the residential property study later may be the right decision.

Mr. Kochenburger stated that he is on the subcommittee and believes that recommendation 3 involves prioritizing the auto study over the homeowner's study. He further stated that the residential property study is very important because it has not been studied before. Mr. Kochenburger stated that the intent was not to make the residential study secondary. However, since FIO is mandated to do an auto study, the auto study should be prioritized. The FACI is looking to FIO to tell us what they can and can't do or to do what they can do, and not for us to assume that FIO does not have any of the resources to do a property insurance study.

Chairman Glaser stated that the third recommendation creates confusion. He further advocated that the auto study should be a priority, but that recommendation 2 regarding the property study should not be changed.

George Keiser stated that if Chairman Glaser's understanding of the recommendations was the intent of the motion that it can easily be done. The technology methodology already exists, the resources are available, which would make the study available more quickly. The subcommittee had discussion regarding recommendation 2 and its relativity to the Natural Disaster Committee and the work that they were doing. The subcommittee did not want to interfere with the Natural Disaster Committee's work. Recommendation 2 is interesting in that most homeowners are underinsured currently. If a homeowner were to receive bids to reconstruct his house today, building costs are likely 20-30 percent higher than they were 6-12 months ago. A broader question about availability and affordability for replacement and those kinds of things above and beyond the natural disaster issue exists. Mr. Keiser stated that he felt that natural disaster should take preference, but the FACI put it in as a general issue and not try to interfere or interrupt the natural disaster proposal. No problem exists with Chairman Glaser's recommendation, which was the intent of the subcommittee.

Mr. Birnbaum stated that he wanted to make a motion or recommend an amendment to the recommendations where the first recommendation would read FIO -- FACI recommends FIO prioritize an update to its 2017 study of auto insurance affordability, leave No. 2 as it is and eliminate No. 3. Chairman Glaser agreed.

Mr. Crabb asked if Director Seitz had any comments on Recommendation 2. Director Seitz stated that he did not have comments but recognized that the property study is a critical issue which FIO is considering. The property study has been mentioned in various annual reports. Mr. Hart and Mr. McKnight of FIO did a presentation on the auto study. Director Seitz stated that accomplishing the studies is not so much a question of resources, but sequential timing. The RFI for the auto study was issued last week. The auto study work will be done first but understand that the property study is a critical issue also.

Chairman Glaser stated that the FACI had a recommendation and stated a voice vote is done first. If the voice vote is unclear, then a roll call vote is done. Chairman Glaser requested those members who were in favor of Mr. Birnbaum's recommendation as amended to say "aye." A chorus of "ayes" was heard. Chairman Glaser asked if anyone was opposed and heard nothing. Chairman Glaser stated that the recommendation had been unanimously passed. Ms. Baldwin stated that Mr. Birnbaum did not withdraw his motion, but made an amendment to it, so the vote just conducted was a vote on the amendment. A second vote is needed to vote on the recommendation as amended. At this time, Chairman Glaser asked for a voice vote for approval of the recommendation as amended and received a chorus of "ayes." He then asked if anyone was opposed and heard nothing.

Update from Subcommittee on International Work

Chairman Glaser then moved to the Subcommittee on FIO's International Work and asked Mr. Falzon for an update.

Mr. Falzon stated that the subcommittee finalized recommendations about market access and trade practices. After the finalization, the subcommittee met once for a brief conversation around the IAIS activities. The subcommittee has no new recommendations for the Committee today or any actions that came from that discussion. However, the subcommittee does want to cover a couple topics about those developments. Mr. Falzon mentioned that the subcommittee had not finished the trade topic and elected to focus on the IAIS and the development of international regulatory constructs, capital systemic risk and otherwise. In addition, the subcommittee had been focused on this topic and had made a series of recommendations already to FACI and, in turn, FIO, about group capital standards and systemic risk. The subcommittee would like to highlight a couple of the prior recommendations and make the connection between those prior recommendations and some of the current activity, especially considering the recent activity by the IAIS.

Regarding the IAIS' work on systemic risk, the subcommittee had recommended several items, of which two Mr. Falzon want to discuss. The first recommendation was to promote a true cross-sectoral activities-based approach, which places insurance within the proper context of the financial services sector more broadly. The subcommittee also recommends deferring to local supervisors as the primary and accountable authorities for systemic risk oversight. The second set of recommendations are specifically around the ICS and aggregation methods and the comparability that Director Seitz mentioned during his introductory remarks.

Mr. Falzon stated that the Subcommittee had made several recommendations in September and December 2019 and proposed to highlight three recommendations.

1. The value proposition of an aggregation-style approach in reflecting the primacy of entity-level jurisdiction requirements and how the industry manages capital and providing greater insight into the legitimate similarities and differences across various local regimes.
2. The importance of jurisdictional flexibility as a key tenant of prudent oversight and tailoring of insurance regulations to local markets and circumstances.
3. The primary criterion for assessing the comparability of a group capital assessment regime should be whether it provides a comparable level of policyholder protection and contributes to global financial stability.

Mr. Falzon discussed the macroprudential supervision first. The IAIS, in both its insurance core principles and common framework, laid out a framework. Within that framework, the IAIS made a significant pivot toward an activities-based approach to assess systemic risk and one that emphasized sector-wide monitoring. Mr. Falzon stated that he received a quote from the IAIS that summarizes the pivot well. The IAIS said, with the holistic framework, there is a move away from the previous primary approach, meaning company-based, which saw a set of predetermined policy measures applied only to a small group of identified T-size toward a proportionate application of an enhanced set of policy measures through a broader portion of the insurance sector. The industry and our subcommittee are supportive of the holistic framework articulated in that pronouncement, but the application paper contained areas of concern.

The first concern is, despite this very distinct pivot away from the, quote, binary approach, the paper disproportionately focuses on assessing systemic relevance of individual insurers. The paper devotes some two-thirds of its content to individual designation issues when the spirit was to pivot away from individual designation issues. The second concern is the paper goes further and introduces a new concept called the reduced form approach, which is essentially a shortcut for designating a systemically risky company. In doing so, the IAIS went well beyond what is intended to be the purview of an application paper, which is to support the content of the ICPs and the comprehensive framework. The IAIS was supposed to just focus on what was articulated. In addition, the IAIS promotes framework, specifically S-risk. Mr. Falzon's company sponsored a session with panelists from Columbia University and NYU, where this paper originated from. The panelists came together because this paper had never been peer reviewed and did not seek input from industry participants to express the very significant concerns and deficiencies that are associated with S-risk. Recommending the use of these frameworks and including S-risk is deeply flawed.

Mr. Falzon continued that the paper does not sufficiently acknowledge that local supervisors are the primary regulators and accountable authorities for systemic risk oversight and are important sources for data collection work. Instead, the IAIS contemplates a separate data collection to assess systemic risk at the IAIS level, which puts an undue burden on industry. In this scenario, industry must provide data at the local and international level. Regarding the aggregation method, comments were provided by industry, but a decision was made to remain with the existing text. No changes were made to the paper, which was a disappointment given the concerns articulated in the earlier commentary along with recommendations that the definition and principles of comparability are anchored in bias toward an assumption that they got it right in the MAV/ICS.

MAV/ICS is a construct that is still under development and has underlying significant flaws that need resolution. A pure quantitative comparability is emphasized between the aggregation method and the MAV, which is contrary to the recommendations made regarding the assessment being based on an

objective assessment of the ability of each approach to support the goal of policyholder protection, to provide insights into material risks, promote sound risk management, and to facilitate communication and cooperation among supervisors. The IAIS adopted a broader definition and approach toward comparability.

Mr. Falzon added that these outcomes highlight the continued importance of FIO's engagement at the IAIS, since the IAIS did highlight the ongoing relevance of the recommendations the FOCI approved back in 2019. Mr. Falzon stated that he wanted to bring these issues to the attention of the FOCI. He then paused for subcommittee members to comment.

Martin Bogue stated that AIG agrees on the value of repetition. AIG agrees with the points made by Mr. Falzon regarding group cap level, testing, data calls and other factors. These projects often continue for a very long time and have a way of evolving in ways not initially contemplated.

Mr. Birnbaum stated that he appreciated Mr. Falzon's leadership and analysis on this issue along with the staff that Mr. Falzon provided. Mr. Birnbaum agreed with Mr. Falzon's presentation but stated some items he did not agree with. Mr. Birnbaum stated that this topic could use discussion at the subcommittee level. Mr. Birnbaum reiterated that the issues raised do not affect the recommendations that were previously provided to the staff and should be honored. Thanks.

New Business and Closing Remarks

Chairman Glaser thanked Mr. Falzon for his presentation and stated that he was glad to provide FIO with a recommendation on the auto and on residences as well.

Chairman Glaser then asked for any new business.

Mr. Falzon stated that he is very supportive of the FOCI forming a subcommittee for climate. the recommendation to form a new climate committee. He added that the FOCI needs to be cognizant of some level of overlap with other areas that touch climate. He stated that he did not know if the FOCI needs to vote on the formation of a climate subcommittee, but that he is supportive of a subcommittee being formed.

Mr. Birnbaum then asked Director Seitz if he would give more description on what the Climate Subcommittee should focus so that overlap could be avoided. Director Seitz stated that the Protection Gap Subcommittee has been looking at the mitigation issues which is central to the second task that we've been given in the executive order of further assessing, which is the private market coverage disruptions.

The first tasking is examining issues or gaps in the regulation of insurers. Another group of issues concern the climate financial risks and disclosures data. Feedback and discussion on how best to structure the subcommittee would be most helpful at this time.

Ms. Bach stated that the subcommittee will have the challenge of doing a survey of homeowners insurance premiums, which is complicated by people having multiple policies in place. The average cost of a homeowners insurance policy is going to vary wildly in terms of whether the person has a homeowners policy with all coverages incorporated or separate policies for each. Ms. Bach stated that she is anxious to help with the climate subcommittee but that her organization has been doing surveys for years and has had

challenges.

Mr. Falzon stated that the Executive Order should be emphasized and used to lead regulation around climate. The Executive Order will affect things like portfolio construction for insurance companies, which is not captured anywhere in any of the committees. Climate affects the world, along with the broader issue of how to ensure that the risk of climate is appropriately reflected in the Government's investment in risk management protocols for insurance companies.

Chairman Glaser stated that the FACI would reconvene September 9th and asked Director Seitz if the meeting would be virtual or in person. Director Seitz said that he believed the meeting would be virtual.

At 3:12 pm, Chairman Glaser concluded the meeting.

I hereby certify these minutes of the June 2, 2021 Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read 'Dan Glaser', is written over a horizontal line.

Dan Glaser
Chair