

Supervisory Roles in Reinsurance and Addressing NatCat Protection Gaps

Anita G. Fox

Director, Michigan Department of Insurance and Financial Services

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Topics for Today

Reinsurance in the U.S. and at the NAIC



Risk-based Supervision on Reinsurance



Understanding and Addressing Protection Gaps



Role of Supervisors in the face of Natural
Catastrophe Protection Gaps

Reinsurance and the NAIC

- Reinsurance (E) Task Force
 - Reinsurance Financial Analysis Working Group
- *Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786)*
 - Revisions were adopted by all 56 states and territories by Sept 2022
- Process for Evaluating Qualified and Reciprocal Jurisdictions

Risk-based Supervision in Reinsurance

- An evolving process in the US
 - Less standardized → Customized or Tailored Risk Monitoring
- Regulator knowledge, training, and expertise
- Risk coverage by current supervisory standards

Supervisory Views on Protection Gaps



Understanding protection gaps in the U.S.



Addressing Natural Catastrophe Protection Gaps through data collection and other methods

Risk and Resiliency - Supervisory Activities

- NAIC's Climate Risk and Resiliency Task Force is dedicated to addressing NatCat protection gaps
- Four Workstreams:
 - Pre-disaster Mitigation
 - Solvency
 - Climate Risk Disclosure
 - Innovation and Technology
- State Resiliency/Hazard Mitigation Officers and coordination with federal, state, and local agencies



Pre-Disaster Mitigation

Loss Mitigation

- Participate in multi-agency/stakeholder educational efforts on coverage gaps and pre-disaster mitigation related to climate risks
- Incentivize insurer recognition of enhanced building codes in underwriting and rating
- Continue consumer education and awareness, including possible strategic partnerships (e.g., Federal Emergency Management Agency, Insurance Institute for Business & Home Safety)

Resiliency Resources

- Provide a centralized repository for use by other agencies, academics, and others in evaluating/studying the impact of climate risks on insurance
- Provide consumers with a list of pre-disaster mitigation and catastrophe-specific measures, such as those for earthquakes and hurricanes.

Catastrophe Modeling Center of Excellence (CoE)

- Created in 2022, provides state insurance regulators with technical expertise, tools, and information regarding catastrophe-related risks relevant for their region.
- Currently, twenty-seven states have gained access to the regulator-only site.
- COE has conducted several training events for the states to share market insights and collaborate with industry and resilience partners.
- A formal education program for state insurance regulators has been rolled out this year (2023).

Building Codes and Public Private Partnerships

- NAIC's "laboratory of the states" approach
- Memorandum of Understanding between the NAIC and the Insurance Institute for Business & Home Safety (IBHS)
- State-specific examples using the IBHS fortified model for risk mitigation incentives



Examples from the Michigan Department of Insurance and Financial Services and other State Departments:

- In Michigan, with a cooler climate and an abundance of fresh water, climate change has not resulted in the types of extreme concerns that coastal or fire-prone states have experienced. Climate change has made Michigan warmer and wetter though, with one of the greatest weather concerns being precipitation events which can lead to flooding.
- DIFS is working collaboratively with 26 other state regulators by directing insurance companies to report on their climate change-related risks and mitigation strategies via the national Climate Risk Disclosure Survey. We have also launched DIFS Disaster Preparedness webpage to help consumers understand how to prepare for or respond to natural disasters. Additionally, we are working on consumer education efforts on the value and importance of flood insurance.
- Just late last month, on September 21, 2023, California Insurance Commissioner Ricardo Lara announced the Sustainable Insurance Strategy aimed at: improving insurance choices; protecting Californians from increasing climate threats; and addressing the long-term sustainability of the property insurance market. The goal is to transition policyholders from the residual market to pooled traditional insurance, prioritizing those who employ recommended mitigation.
- In Florida and Louisiana, due to extreme weather events serious issues have arisen in the property insurance market. Both states are coordinating legislation and insurance department action to focus on mitigation to reduce cost.

Questions?