

CLIMATE INSURANCE WORKING GROUP MEETING

California Department of Insurance

MEETING MINUTES | June 23, 2023

Participants:

Carolyn Kousky (Vice-Chair) | Executive Director, Risk Management and Decision Processes Center, Wharton School of the University of Pennsylvania

Sydney Chamberlin | Climate Change Program Director, The Nature Conservancy

Katelyn Roedner-Sutter | Manager for U.S. Climate, Environmental Defense Fund

Lloyd Dixon | Senior Economist at the RAND Corporation and Director of RAND's Center for Catastrophic Risk Management and Compensation

Louis Blumberg | Principal of Blumberg West Consulting

Rex Frazier | President, Personal Insurance Federation of California

Raghuveer Vinukollu | Natural Catastrophe Solutions Manager, Munich Re

Yommy Chiu | Public Sector Solutions North America, Swiss Re

Mike Peterson | California Department of Insurance

Meeting Minutes

Mike Peterson: The agenda for today includes three items. The first is a presentation on the House Committee on the Climate Crisis Report from 2022. The second is a discussion and approval of the new working group members, and the third is a discussion on next steps and top priorities for the working group. Mike Peterson made opening and logistical announcements.

Alice Hill: We are seeing across the country and in California growing pressures on climate change. It's very good to have an opportunity to learn from experts. At our last meeting we spent significant time on wildfire models and extreme heat and health research. Particularly important as we've had this really largely an anticipated event involving wildfire smoke from Canada affecting millions in the United States with very negative public health outcomes. At prior meetings, we saw a presentation by United Policyholders. These presentations help keep us well informed on how research and policy issues are progressing in the insurance sector. The collective work of researchers and policymakers that are working to implement our Climate Insurance Report recommendations that this group developed. Commissioner Lara continues to

work on multiple fronts based on our recommendations. In just the last few weeks, California has announced a prescribed fire claims fund to enable more proactive risk reduction. The Department has also announced a workshop on catastrophe risk modeling and the Department has begun to work with a consultant, as a result of an RFP, to create a report on the insured and uninsured costs of extreme heat waves. This study responds to the recommendation on doing a back-casting study on extreme heat events.

Louis Blumberg and Alice Hill made corrections to the minutes.

The minutes were then approved.

Alice Hill: Introduced Agenda Item number one, stating that one of the fundamental challenges when it comes to insurance in the face of climate risks is that there are opportunities for federal, state and local governments to act in a coordinated way. Alice Hill then introduced Samantha Medlock, who was Senior Council to the US House Select Committee on the Climate Crisis when their report was published in 2022. The report had recommendations that have crossover with the insurance sector and may be interesting to the working group.

Samantha Medlock: Samantha Medlock thanked the Chair and working group for the invitation and opportunity about the work of the Select Committee on the Climate Crisis. She began her presentation with the following comments:

- The select Committee on the climate crisis and the House of Representatives was created by House resolution. with bipartisan support, tasked with creating recommendations for actions Congress needs to take to confront the climate crisis across the full breadth of the topic, from reducing greenhouse gas emissions and pollution to advancing adaptation, resilience, and preparedness, and advancing equity and justice.
- In June 2020, we issued more than 700 recommendations for specific laws or legal changes that Congress needed to undertake. I'm proud that 436 of those passed the House, And 314 made it to the President's desk to become law. These changes addressed topics like infrastructure, resilience, and deepening the engagement of fundamental climate risk, science and information, and tools.
- Several recommendations are in the hands of Tribes, states, cities and agencies to implement.
- There were also a suite of recommendations that were made that have specific nexus to insurance. These recommendations include an assessment of the broad financial and markets risk, their potential impact on the national economy. The report also recommends an investigation and reporting to Congress on the ways that climate affects Federal portfolios. What is the Federal exposure? and for example, federally back loans and looking across the government-sponsored enterprises, the ways that agencies engage in lending and loan guarantees to see whether those are secured by insurance. There are opportunities to examine

federal crop insurance subsidies, and incentives for farmers and ranchers to support certain practices related to nature, soils, and seed selection.

- A suite of recommendations related to the National Flood Insurance Program

Lloyd Dixon: **Lloyd Dixon** asked a question about whether the report recommends a mandate to purchase flood insurance outside the special flood hazard areas?

Samantha Medlock responded that some of the recommendations will take a long time to implement, but that the Committee did look at securing all Federal lending with risk-based flood insurance to create a bigger market, bring down costs, and help address uninsured losses. **Samantha Medlock** then continued to present a high level overview of the recommendations from the report:

- Establish a wildfire risk mapping system that is adaptable but can be used to actually trigger some requirements around building codes and risk management standards
- Examine how to better support the work done by states on resilience

Louis Blumberg: **Louis Blumberg** asked a question, noting that one of the 3 areas that our working group is focus on is the issue of extreme heat, and he asked whether there are any recommendations from the committee's report that were specific to or focused on extreme heat.

Samantha Medlock: **Samantha Medlock** responded that extreme heat is finally getting more attention and in the Committee's work, the members examined how warehouse workers and outdoor workers are protected by standards established through the Labor Department and OSHA, and considered whether there were recommendations that would strengthen the preparedness of the nation's public health enterprise, including hospitals, clinics, nursing homes and schools, so that we can better prepare for the kinds of surge that can be happening in a major heat event, and find ways to mitigate those threats. One specific example was the modernization of HVAC systems in schools.

Louis Blumberg asked a followup question on whether the report considered or uncovered any existing insurance mechanisms that are applicable to extreme heat. He also mentioned that the Stafford Act may be a potential obstacle because heat waves are not a reimbursable disaster. He asked whether the presenter had any insights on how insurance mechanisms might be used to address extreme heat, reduce health impacts, and prevent death.

Samantha Medlock responded that the Select Committee recommended that the Federal government examine the benefits of parametric insurance and catastrophe bonds in a thoughtful way to understand how communities might access needed recovery funding, unlock capital, or access funding to do retrofits to buildings, to make those buildings safer and more resilient and more energy efficient.

Rex Frazier asked whether the wildfire mapping system Samantha Medlock mentioned had a timeline or whether additional advocacy was needed to move this concept forward.

Raghuv eer Vinukollu asked a question about the Federal matching rules for local governments to match the funds provided by the federal government under the Stafford Act.

Samantha Medlock answered both questions with the following points. First, the question is whether the local match is actually functioning to chill the engagement by communities, especially low and moderate income communities and disadvantaged communities, and the answer is yes. But there is also the issue of duplication of benefits, where if insurance is brought to bear in ways that change a community's eligibility for federal disaster aid and other programs, that is going to present a problem. She noted that this is a longer question than we have time for today. The Select Committee did spend time educating the members about these issues, and those members of the House of Representatives are really committed to finding ways to address these issues.

And then to the question about the wildfire risk mapping system. There is I think really good progress that is being made in strengthening the Federal mapping capacity and looking at ways to tie those analyses, and tools directly into opportunities to access funding. But it really is going to come down to State and local leaders to continue to manage land, use to adopt the kinds of robust building codes and development standards that are going to be necessary. It is very challenging for Federal program managers to tie their programs to specific building practices on the ground. It can be a little bit easier when it comes to flood and extreme wind, even extreme heat. Wildfire is just a different animal in terms of spatial risk and the kinds of building practices, and Congress is unlikely to require all WUI buildings to be built to the WUI codes.

Alice Hill state that she agreed with **Samantha Medlock's** view that building codes are difficult to implement and can be politicized, and if it costs an extra dollar, it seems that communities may not be early supporters.

Mike Peterson asked for any additional comments from the working group members.

There was none.

Mike Peterson asked for any public comment.

There was none.

Alice Hill asked **Mike Peterson** to introduce Agenda item 2.

Mike Peterson stated that both Serena Sowers and Michelle Passero have decided a step back from being immediately engaged in the working group. Serena took a new position. Michelle has other priorities that she has to manage at this point. In both of their cases, their organizations have a natural person who has been working on issues similar to the focus points of the working group and can step to take over these positions. Both of those members are on the call today, Jackie Higgins from Swiss re and Sydney Chamberlin from The Nature Conservancy. Mike Peterson asked the group whether there was any objection to transitioning to the new members from the same organizations so that the group could formally confirm the new members. He then asked Sydney Chamberlin and Jackie Higgins to introduce themselves and describe their role at their organizations.

Jackie Higgins shared that she is currently the head of the public sector solutions practice for Swiss Re North America. She shared that she to Swiss Re has emerging market and development finance experience, from both the Federal Government and the multilateral sector and the private sector and have been most recently really working closely in California on innovative insurance products to combat extreme heat.

Sydney Chamberlin introduced herself, stating that she has worked as a project manager at the Nature Conservancy for climate and nature based solutions. Her work really focuses around thinking about how we can scale and accelerate nature based climate solutions in California, including looking at insurance. She has worked on projects in Paradise, California, trying to quantify the benefits of certain land use practices, have talked with the Department of Insurance about urban forests and urban forestry as an opportunity to examine insurance mechanisms, and she was part of a team that published a salt marsh brief looking at quantifying the flood risk reduction benefits of salt marsh restoration.

Alice Hill asked the members for any questions or objections.

There were none.

Alice Hill welcomed Jackie Higgins and Sydney Chamberlin as members of the group.

Mike Peterson then explained the two additional members, **Kristen Pawling** and **Jorge Ramos** have take on new positions and responsibilities that pull them away from the insurance questions and discussion of the past two years. **Jorge Ramos** is now building up the Jasper Ridge Preserve teaching program and educational programs. Kristen Pawling is now working for a Los Angeles City Council person, still on sustainability but not with a role that aligns with the working group at this time.

Mike Peterson Commissioner has 2 people that he thinks would be really strong additions to the group that could help fill in the gaps, Newsha Ajami and Michael Mendez. Mike Peterson described Newsha Ajami as having substantial expertise in flood insurance, flood risk reduction, and state government. Mike Peterson described Michael Mendez, who is a professor at University of California, as having a focus on

extreme heat and fire impacts, especially on vulnerable communities. Mike Peterson asked the working group to review the information that is posted on the webpage and be prepared to discuss whether to add these new members, or others, at the next meeting.

Alice Hill suggested that Mike Peterson post the information on the webpage, circulate the information to the group members, and we would consider the new members at a future meeting.

Mike Peterson asked for any additional comments from the working group members.

There was none.

Mike Peterson asked for any public comment.

There was none.

Alice Hill: **Alice Hill** introduced the next agenda item, which was to hear from the working group members about ideas for next steps. Next on our agenda is to hear from you all on what our next steps should be. We spent 2 years putting together all the climate insurance report. And then we spent nearly 2 years communicating and port and providing input to how those recommendations get implemented. Now we have an opportunity, and we have Jackie and Sydney with us as well as others who joined us along this journey to discuss where the working group should be headed what we should be prioritizing. And how do we refine or extend the major themes that we identified earlier and set in motion. Since we started our work the insurance challenge has not lessened. It's only become moved to the forefront and it's growing in a way that concerns me. about the long-term picture for the affordability and availability of property insurance, not only in California, but in many parts of the United States. Alice Hill urged the group to think big and think about how we really get to the point where it's not a world where insurance is unavailable, because it's simply become too hot for and the heat brings consequences that make it very difficult for a proper insurance market to operate. The risks are growing and our solutions need to match that risk, I think, to ensure their relevance.

Rex Frazier offered some ideas on where more work could be done. He explained that we have moved from getting better science on risk reduction related to parcel level mitigation. We're starting to then push the next step of the research, which is to have some better vocabulary and standards for community mitigation, whatever that may mean. Is it a critical mass of parcel level mitigation that then, has a beneficial effect for a community? Is it some metric for fuel load within a certain proximity or for fuel moisture? How are we going to start talking about community resilience in a way that may get picked up in insurance rate filings. He noted that he talks with a lot of local

governments who have a specific request of insurers, which is to tell them what the local government needs to do in their natural environment so that they can reduce the risk in a way that insurers will recognize. He said he is trying to get model vendors to partner with local governments and test some scenarios and simulations on what happens if you reduce fuel here or there. What would the scores do? Is it possible to reduce these vendor scores through community mitigation? And, it has been very difficult to get interest because model vendors do not often view their customers as homeowners, associations, or cities. Their customers are the insurance companies. And secondly, getting engagement from a local fire chief when he or she is trying to do other things can be difficult. He posed the question: Is there a way to encourage a funding source to fund these types of things so that at least a model vendor could tell a community where much of the fuel that is driving the scores is coming from. This could be an area of further consideration.

Alice Hill stated that she thought it is worth consideration and it would be an excellent thing to pilot.

Rex Frazier continued describing his idea. The reason why this is an area of focus is that we are in this sort of climate-driven adjustment, and the average homeowners premium that the that California is going to pay. We're going to be catching up to those other States that have already been dealing with these issues, particularly in the Southeast, where hurricane's been a much more pernicious factor. And you look at the average price people pay in those States, and it is dramatically above what we pay in California. But our response cannot be just to say, let's chase higher prices. We need to address the hazard that exists and develop strategies to adapt to it.

Alice Hill noted that we are trying to address the problem of community resilience so that insurance do not stop writing the risk and that insurance is affordable.

Raghuveer Vinukollu: There is a really important topic, since something that even some of the industry members are also looking at the so focusing on some kind of a committee to look at these issues, because even if we look at some pilot projects, I think the challenge becomes also that we also have to look at it as a portfolio of pilot projects. I think every insurance company is going to always come back to that point. Yes, we can do this, pilot. But the overall limit for this pilot is really still high. So that's really a practical issue that's coming up there. Maybe we need not just one pilot. We'll have to have at least 10 pilots spread across the State, so that we can do this much more in a diversified manner, because going back to the fundamentals of insurance, right? Because otherwise, that no ensure that it is willing to take that risk even on a 10% basis. I mean, it's just a, it's just some practical challenges. Raghuveer suggested a subgroup on this issue.

Secondly, Raghuveer noted that there was funding announced for a climate resilience challenge, and possibly the working group could act to advise or encourage these types of projects as a group. Tying the potential projects back to the recommendations that the group had made.

Alice Hill noted that this was an excellent suggestion and that the amount of funding being allocated and implemented at the federal level is largely mitigation but it includes adaptation funding. That's a excellent suggestion. We're seeing really, a once in a generation. Amount of money going out largely to the mitigation of the mission side of climate change, but also a large amount of money now going to adaptation and our group could recommend priorities based on our work to help communities make the most benefit out of the federal investments.

Louis Blumberg: Louis Blumberg offered comments on both suggestions. He first noted that through the California state budget, there was substantial funding moving through the grants administered by the Governor's Office of Planning and Research. And then to Rex Frazier's point about a community scale a resilience, Louis noted that a substantial amount of the funding is for community resilience centers which we see as ultimately replacing ineffective cooling centers, and these would be multi-peril entities that are grounded in the community, and they could, depending on where the community was, would be responsive to the community needs. The idea of community scale resilience is something we might be able to build a body work around.

Louis Blumberg suggested that since the extreme heat cost study is identifying protection gaps, he would like to continue to explore the draft concept paper on what a heat policy might look like, as a community based approach. This builds on the working group's recommendations. Serena had an idea that Re related to hospitals. And I think, given what Samantha said earlier today exploring the role of public health or health in in heat and insurance might be a worthwhile enterprise for us to pursue, and maybe bringing somebody on to the working group who is an expert in in public health or and or health and heat. There are some doctors doing some good academic work as well as public health practitioners, too.

Alice Hill noted that to continue our work on heat is really a wonderful approach. There's more to be explored there. I also like the idea of having a public health expert because all of these catastrophes have a public health aspect to them, whether it's flooding wildfire or anything else. And heat and sea level rise just from the salination that occurs. She also noted that she liked the idea of tapping into the effort for community resilience. One of the things we saw with wildfire smoke is that we don't necessarily have the filtration systems in place the kind of secure buildings that prevent the wildfire smoke from entering the home or other places. So it occurred to me during this time. We should take these cooling centers that we're building out for extreme heat, and make sure that those are secure for or have the proper filtration for wildfire smoke, which we now know will spread from far and near. It's not just a Western State problem.

Lloyd Dixon: Lloyd Dixon provided additional thoughts on next steps. A theme the group talked about is: How do we better incentivize local communities to appropriately manage their land use and the properly approved new developments in higher risk areas, and in particular providing local communities with the financial incentives to do so, to internalize some of the costs that those developments create and those land use

decisions create. Further exploration on issues with the current structure and incentives that, you know, give local communities the wrong incentives, and with some kind of changes in their financial responsibility for either firefighting costs or other related costs related to a wildfires through insurance or reserve funds.

Jackie Higgins added further thoughts on next steps. Additional support for communities dealing with extreme heat issues would be of interest as well as discussion on the scenarios where the proceeds from an insurance product would be used as budget protection or additional budget for unintended, unanticipated expenses, for additional transportation to cooling centers or increased hospital visitations. She also spoke positively on the points raised by Rex Frazier and Louis Blumberg.

Mike Peterson added further thoughts on next steps. The local incentives for land use that incentivizes safety is really important. Even for those communities that are not in the highest risk zone, we are seeing devastating floods and wildfires.

Sydney Chamberlin added further thoughts. She identified that this may be a unique time in California, in the climate space, just in terms of what the State has been investing in nature based solutions. And there's definitely growing recognition in the connection between land use, climate mitigation and climate adaptation. And we saw that in the most recent adoption of the State's scoping plan. There is really an opportunity there to drive forward action that connects the dots between mitigation, adaptation, risk, and land use. And we are seeing that start to ramp up. The working group could provide value here.

Alice Hill thanked all the members for their comments and directed Mike Peterson to put together some information from this conversation on next steps.

Mike Peterson asked for any additional comments from the working group members.

There was none.

Mike Peterson asked for any public comment.

There was none.

Alice Hill thanked all the members, and adjourned the meeting.