

CLIMATE INSURANCE WORKING GROUP MEETING

California Department of Insurance

MEETING MINUTES | MARCH 10, 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 the meeting today has 3 items. The first is to receive input on the draft extreme heat insurance concept that can be found on the department's website right below where the meeting notice, and agenda are posted.

This meeting is happening amidst some severe storms in California, so we haven't a few members who are unable to make it at the last minute today just due to challenges with the flooding and evacuations that are happening as California faces potentially multiple atmospheric Rivers. This is a concept paper that was on the November agenda but our discussion got cut short and we will now have any opportunity to get more discussion and comments. The concept paper has been out there on our website for a number of months. Yeah, you've had a chance to review. There will be a further chance for input if you have additional input, we see this as a living document in a way as we try to implement the climate insurance report recommendations.

The climate insurance reports desire to have the department catalyze new ideas and new types of products that could be ways to address extreme key. So right now. I'll

pause and just please turn on your camera if you can, and raise your hand. If you have input on the extreme heat insurance concept paper.

Yommy Chiu: How to think about extreme heat and how to think about it from an insurable asset kind of way, but also how it can benefit the communities and the individuals and the vulnerable population that it's intended to. She offered a technical comment for the section about insurance triggers and you talked about trick first trigger and a second trigger in my mind. An insurance approach would likely focus on one single trigger of index. By that definition it means you define how you want to illustrate or capture an extreme heat, but you can think about it paying out differently. A change in language to describe what you mean by two triggers would clarify.

Mike Peterson: Mike Peterson thanked Yommy Chiu and clarified that her suggestion was to make it clear that the single trigger might have multiple ways to provide payouts, or a policy may have multiple steps to a trigger. The question that needs clarifying is how a community would demonstrate a loss, and whether there are tiers of loss or tiers of response costs.

Mike Peterson asked for an example on a second point made by Yommy Chiu, that the availability of observable data was important extreme heat indices.

Yommy Chiu: Provided an example of extreme temperature data that is used to understand extreme cold. An example could be an airport that is getting data from an observable weather station and using it for a good reason – to understand the conditions for planes.

Louis Blumberg: Stated that he had a few comments, but would try to keep it brief. First, that the two triggers were very confusing. There were a lot of variables for the second trigger including frequency, intensity, and so forth. Extreme heat is in itself multi-dimensional. So a longer heat wave, you know it's going to be more deadly or more risky. Time of year is also an issue because the first heat wave of the year can be more harmful to public health because people are not yet acclimated, as they might be later in the year. So the trigger approach is unclear.

Louis Blumberg stated that he understands how it fits into the parametric model. He really liked the idea of integrating focusing on the community and neighborhood scale, but that also presents some problems in terms of implementing the activities, the mitigation, or the preventive activities, because those types of activities are typically done by local government. It would seem to be helpful to integrate or clarify the role for local government, working with the community in a collaborative way similar to what is developing right now at the Strategic Growth Council around the new Community Resilience Center program.

The new centers are going to be community centered, but are going to need to connect with the local government. In addition, Louis Blumberg noted that he thought the role of public health could be elevated in in the document. in part by we we're

looking at medical insurance that you know health insurance who's absorbing the cost. What is a role for paying for recovery after somebody is either dead or sick in the hospital. How do you define recovery from a human perspective? Infrastructure that's affected by heat, like light rails and things like that, would have physical loss. The paper describes our activities that would be taken and paid for, and perform before an event, consistent with a contract or a commitment prior to the event.

Louis Blumberg made an instructive comparison to the insurance for coral reefs project that put in place an insurance policy for reefs in Quitana Roo, Mexico, which according to Blumberg, did not identify loss before money moved forward. The Coral Reef insurance was triggered by this wind speed that was it, and the money went out.

One additional point by Louis Blumberg was that Assembly Bill 970 could serve as an opportunity for pilot projects. It seems that the bill is very well positioned to be a pilot for this kind of policy being discussed.

Michael Peterson: Confirmed that the concept focuses on the unmet costs for local governments when there are more heat waves than they would have expected or a higher magnitude of costs or impacts. For example, if a local government had budgeted for one Resilience Center used one time, and now you have to use the same center 9 times in a year. Where does that money come from? And how could an insurance approach address these unmet costs and make the center more accessible and effective over the long term. This concept could enable a city or local jurisdiction to be more aggressive on protecting the public during extreme heat events than their budget would have planned for in the face of a really bad year or time-window of heat waves.

Community Resilience Centers as a program that the Strategic Growth Council is funding sounds like it is intended to serve as a center of refuge for heat waves or other climate amplified perils, such as floods and fires, and therefore they could be continuously operating.

Mike Peterson then asked Louis Blumberg if he could speak more to how the program is proposed to be set up with regard to the relationship between the local government and the neighborhood level, because that is a good point to discuss. The city and neighborhood working together makes sense but there is not a governance structure that implements programs at the level of a neighborhood, so how is the Strategic Growth Council approaching that issue?

Louis Blumberg: Responded that the initial grant guidelines were quite confusing on that and many points, including the coordination of governance, so it is a work in progress. Louis noted that it may be a challenge because there is so much going on in the state now around heat, and it's not coordinated well at this point.

Michael Peterson: Acknowledged that there will be some areas where there's a community organization that's well set up to implement something on a small scale.

But for these ideas to scale up and have a broader impact, local governments are going to have to play some kind of role.

Michael Peterson asked for any additional comments on the heat insurance concept from the working group members.

There was none.

Michael Peterson asked for any public comment.

There was none.

Michael Peterson introduced Agenda item 2, explaining that the group would hear additional presentations at the upcoming April 14th meeting. At previous meetings, members have suggested that hearing presentations could be timely and relevant for the implementation of the Climate Insurance Report.

At the January 6th meeting, the working group heard a presentation and had a Q&A with Amy Bach from United Policyholders. On April 14th the working group will hear a presentation on a recent paper, from 2022, that was published regarding catastrophe models for wildfires. The presenter would be Milliman, which was one of the authors of the paper and is an actuary there would be a presentation from Milliman, which is an actuary firm. The paper is focused on catastrophe modeling related to wildfires, and also has parts of the paper that look at different ways in which California approaches insurance regulation published at the end of 2022. This is relevant to the cross-cutting recommendation number 2 in our report, which recommends to the Commissioner to host a public meeting to look at advantages and disadvantages of the use of wildfire modeling. My request to you is that you read the report and come to the meeting with some thoughts and questions, because it's a really good opportunity to ask them. Answer. I think it's a really good opportunity for this group, and it kind of sets up the next step, which is, how does my department follow through with looking at that recommendation that you've made.

Michael Peterson asked for any additional comments on the upcoming agenda from the working group members.

There was none.

Michael Peterson then noted that in previous meetings there are other recommendations to have another presentation on risk mitigation for wildfires. We had a really good discussion with IBHS in December 2021. They had been on the verge of launching their wildfire prepared home, which they've now done, and IBHS is now working on a concept for what they will call a wildfire prepared community. Wildfire mitigation presentations, either by IBHS or others would be relevant to our cross-cutting recommendation, which brings together risk modeling with the science of risk reduction, and the community level has been challenging to fully understand.

And then the third presentation that's been recommended is one from the Extreme Heat Resilience Alliance to present on the health and heat impacts research that they've done. This is actually a really exciting development, and that since we all decided that heat was going to be one of our three focus points back in 2019. There's been significant advancements in the research done on the impacts of heat. There are jurisdictions that have either decided to start naming waves or start ranking heat waves, including in California, where we passed a piece of legislation on ranking heat waves so that our agencies can develop an extreme heat ranking system for the state. This presentation would keep our group up-to-date with current research on the impacts of heat and it would be relevant to the heat ranking discussion and to the pilot project concepts this working group has been discussing. I think the more we know about the impacts, the more we know about the interventions that could work. The presentation can give us something tangible to frame our discussions on what policy mechanisms are appropriate to try to address the threat, including insurance as well as others.

Louis Blumberg added more information about the Extreme Heat Resilience Alliance, known as EHRA, which is part of the Adrian Arsht Rockefeller Foundation Resilience Center and led by Kathy Baughman McLeod. Louis noted that he is working with them and that they are working around the globe on addressing extreme heat impacts.

Michael Peterson thanked Louis and asked for any additional comments on the upcoming presentations from the working group members.

There was none.

Michael Peterson asked for any public comment.

There was none.

Michael Peterson introduced Agenda item 3, which was an update from the California Department of Insurance on the Implementation of the Climate Insurance Report.

In November, the working group members approved the Implementation Report for your recommendations. That included the progress on recommendations related to updated fire mapping, steps toward creating an extreme heat ranking system, and beginning the development of Pilot Project concepts. We are trying to go through every recommendation and make progress where we can and refine where we need to.

Louis mentioned earlier that Commissioner Lara has sponsored a piece of legislation this year, Assembly Bill 970, that would establish some pilot projects that should respond to the extreme heat concepts in the Climate Insurance Report, and also some of the flooding concepts. It proposes six initial pilot projects and creates a grant program at the Department to have competitive grants for additional pilot projects. These projects could reflect the local needs and could address risk communication or risk reduction, and also risk transfer planning, cost-benefit analysis, or implementation.

Louis Blumberg: Louis Blumberg commented that it is really good to see the ideas coming out of the working group turn into policy, proposals, legislative or otherwise, and seldom that reports get utilized.

Michael Peterson: Thanked Louis and stated that many of these ideas are new ideas and getting pilot projects out there in terms of either draft concepts, concept papers, or legislation provides a means for discussion. Ultimately, one of the major challenges highlighted by the Climate Insurance Report is that there is a lot of confusion that the public has over risk and how to deal with it. Therefore, we can generate a lot of public benefit by having these discussions about:

- What are the risks?
- What are you or would you want to be insured against and what would you not?
- What are your local governments doing to reduce those risks?

Earlier this week, the Department of Insurance put out a Request for Proposals (RFP) to do a study on insured and uninsured costs of extreme heat. This aligns with another one of the Climate Insurance Report recommendations. We just don't know how much big events cost local governments or individuals. We get a sense of it from fire, because there's higher uptake for insurance for fire. But we really don't know the economic impact. And so, therefore it's hard to come up with insurance strategies if the public doesn't understand the economic impact. The RFP is posted publicly.

This is a really important study, but we also realized that the Department may have to do more additional research to help fill in different gaps related to extreme heat based on initial findings and data availability.

The third announcement I had is that next week, in partnership with UC Santa Cruz and FEMA and the Army Corps of Engineers, my department is hosting a meeting on nature based solutions, that there'll be discussions about insurance applications, and whether how to measure the risk reduction of a wetland and things questions of that nature so hopefully at the April meeting I can report on whether that's producing any kind of deliverables that would be responsive to the Climate Insurance Report or our working group.

Yommy Chiu: Yommy Chiu noted that she is excited about the RFP because she thinks that one of the challenges with extreme heat is that we recognize it as a threat multiplier but we do not understand the magnitude, how big of a threat multiplier, and fundamentally, the financial impact. She looks forward to seeing the results of the research.

- **Michael Peterson** thanked Yommy Chiu for her comment and then noted for the members that Carolyn Kousky had a recent pilot project in New York City on Flood that was publicized in a writeup that can be found online.

Michael Peterson further noted that Serena Sowers and Kristen Pauling have taken new positions, and will no longer be participating in the working group. Jackie Higgins will be participating in place of Serena and the working group can consider future additional members to replace Kristen Pauling. In addition Michelle Passero has taken on a different portfolio of work and now Sydney Chamberlain is participating from The Nature Conservancy.

Michael Peterson thanked the members and asked for any additional comments.

There was none.

Michael Peterson asked for any public comment.

There was none.

Carolyn Kousky, Vice Chair, adjourned the meeting.