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ADVOCACY

THE FUTURE OF INSURANCE: SEEKING SOLUTIONS IN A NEW ERA OF RISK

ISSUE ANALYSIS

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The National Association of Mutual Insurance Companies consists of more than 1,300 member companies, including six of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC member companies write $383 billion in annual premiums and represent 61 percent of homeowners, 48 percent of automobile, and 25 percent of the business insurance markets.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The first half of the 2020s is likely to prove to be a critical turning point in the history of property/casualty insurance. Insurers face unknown pressures on a multitude of fronts – the title of the Academy Award-winning film “Everything Everywhere All at Once” comes to mind, although even that only scratches the surface of the turbulent reality insurance carriers face. Insurance executives across the industry must think about an incredibly complex and riskier world facing their companies and their policyholders.

This issue analysis establishes four principal explanations of the new era of risk, along with detailed analysis and, more importantly, recommendations for insurance ecosystem participants to address the industry’s collective challenges. While the new era of risk may be characterized by forces and pressures far beyond the control of the insurance industry, the ability to react and engage in collaborative efforts to address underlying risks will ultimately contribute to the future success of not only the industry but society as a whole.

NAMIC offers a series of policy solutions to each of the pressures of the new era of risk. Policymakers must begin to have the tough discussions about risk, including the potentially bold and politically difficult topics of land use and community investment at scale. Insurance is not a cause for these risks, but rather an indicator of the challenges in risk management as individuals and a nation. Partnership in these solutions is not only necessary, it is at the very core of what this industry does: identify, measure, mitigate, harden. As a country, we can and must adapt to the new era of risk, and the insurance industry is a powerful ally in that journey.

INTRODUCTION: WHERE IS HERE – AND HOW DID WE GET HERE?

Since its inception more than 250 years ago, the mutual property/casualty insurance industry in the United States has concentrated on helping policyholders find ways to identify, minimize, and mitigate their risks. Property/casualty insurers exist to protect policyholders consistent with a legal contract that governs the terms for providing coverage protecting homes, businesses, and automobiles from financial loss. The mutual model, where the policyholders are the owners, provides a proven structure compatible with serving policyholders first.

Insurers base rates on risk, generally speaking, and all things being equal, the larger and more likely a loss, the more a policy will cost. Through risk-based pricing, insurers are better able to identify, assess, and accurately underwrite and price policies for their customers while competing for business in the marketplace.

Unfortunately, as we near the conclusion of the first quarter of the 21st century, property/casualty insurers find themselves facing heretofore unknown pressures and rapidly expanding risks on more fronts than ever before. While all these interconnected pressures and risks affect all property/casualty carriers, very few are within their immediate control.

Despite best efforts, property/casualty insurers find themselves experiencing new levels of claims, which include increasingly costly disasters, lawsuits, and regulatory actions. Together, these realities have driven combined ratios above 100 for many companies, meaning that between claims and expenses, they are paying out more than they are taking in from premium. As a business model, operating at a loss is not sustainable in any industry. Insurers, policymakers, and regulators must take the steps necessary to ensure insurance products are available in every market to offset financial risks for the next generation of policyholders.

It is in this spirit that NAMIC presents this analysis on what the association sees as four consequential developments facing the current property/casualty insurance industry as it adapts to the new era of risk: (1) extreme weather; (2) economic, reinsurance challenges, and inflationary pressures; (3) legal system abuse; and (4) regulatory overreach. None of these developments can be viewed in a vacuum, and all four must be addressed as part of the efforts to foster and improve state insurance marketplaces so insurers and consumers can thrive.

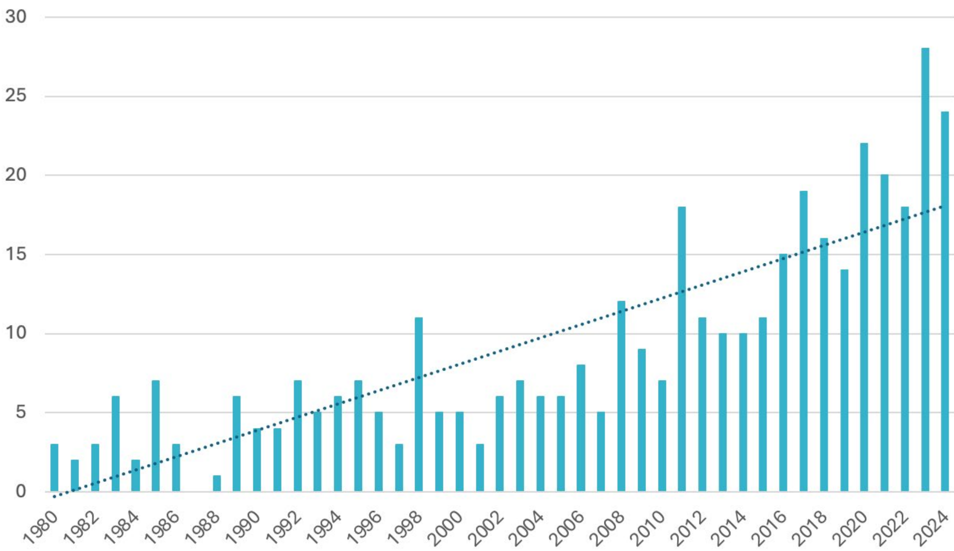
EXTREME WEATHER

When floods, wildfires, storms, and other natural catastrophes occur, insurers play a critical role as key financial partners for individuals and businesses by paying billions of dollars each year to help policyholders recover. As carriers find themselves paying out more claims than ever in the wake of severe events, which are occurring more frequently and across more geographic locations, extreme weather represents the first component in the new era of risk.

NEW FREQUENCY OF STORMS

While weather challenges are far from unfamiliar territory for insurers, which have spent many decades studying and analyzing climate and weather patterns, recent increases in the frequency of extreme weather events accompanied by inflationary pressure on materials and labor needed to repair and rebuild pose new levels of difficulty for carriers providing coverage. More hurricanes, severe convective storms, and wildfires significantly complicate carrier efforts to help policyholders rebuild after an event.

Figure 1: All Weather and Climate Disasters Count[1]



WHERE PEOPLE CHOOSE TO LIVE

Today, more Americans live in harm's way, which directly impacts risk exposure. The cumulative impact of individual choices to live in areas with some of the highest risks of natural disasters is an overall increase in risk exposure. Consider, for instance:

- Nearly 40% of the U.S. population lives in coastal counties. From 1970 to 2020, the population in coastal counties increased by 40.5 million people, or approximately 46%.[2]
- Between 1960 and 2008, the population in coastline counties along the Gulf increased by 150%, more than double the rate of increase of the nation's population. This area is now home to nearly 14 million residents.[3]
- Between 1980 and 2023, the population of Florida more than doubled from 9.7 million to 22.6 million. Fort Myers – an area severely impacted by Hurricane Ian's deadly storm surge in September 2022 – was recently named the sixth fastest growing city in the country by the U.S. Census Bureau.[4]
- According to real estate sales website Redfin, counties with the highest risks of wildfire and flood have seen a post-pandemic net increase in population.[5]
- The latest U.S. Census reported that six states – California, Florida, Georgia, North Carolina, Texas, and Washington – accounted for 53% of the country's population growth between 2010 and 2020. All six are prone to severe weather-related events.

[1] https://www.ncei.noaa.gov/access/billions/
[2] NOAA Office for Coastal Management, https://coast.noaa.gov/
[3] https://www.census.gov/topics/preparedness/about/coastal-areas.html
[4] https://www.census.gov/newsroom/press-releases/2022/fastest-growing-cities-population-estimates.html
[5] https://www.wsj.com/real-estate/rising-insurance-costs-start-to-hit-home-sales-d8787f0f?mod=hp_lead_pos2

Figure 2: Increase in Coastal County Populations

	1970	2020	% Increase
Flagler County, Florida	4,454	115,372	**2,490%**
Hernando County, Florida	17,004	194,508	1,044%
Collier County, Florida	38,040	375,760	888%
Suffolk County, Virginia	9,858	94,370	857%
Santa Rosa County, Florida	30,727	273,422	790%
Citrus County, Florida	19,196	153,849	702%
Pasco County, Florida	75,955	561,893	640%
Lee County, Florida	105,216	760,814	623%
Bryan County, Georgia	6,539	44,741	584%
Charlotte County, Florida	27,559	186,825	578%

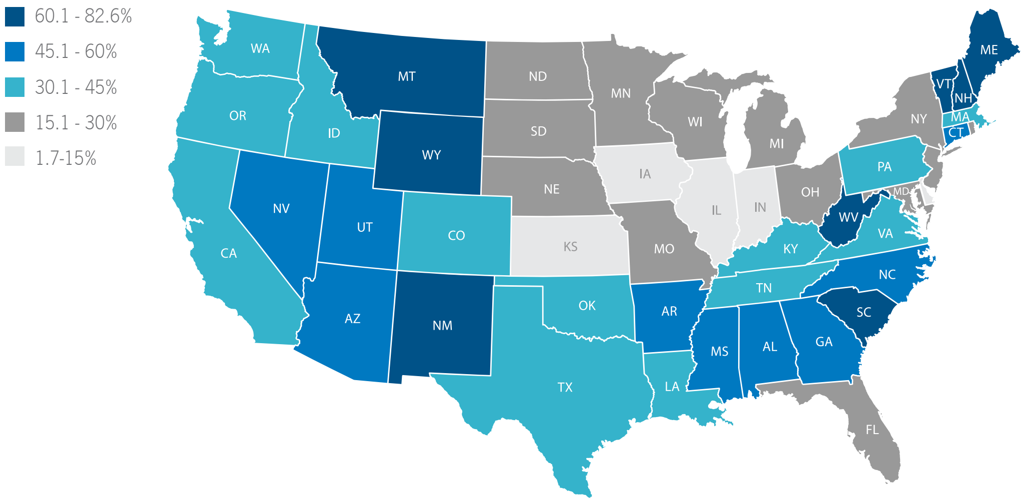
** The 10 counties with the highest percentage change between 1970 and 2020.*

8 of the 10 counties are in Florida

Figure 3: 10 Coastal Counties with the Highest Population Change

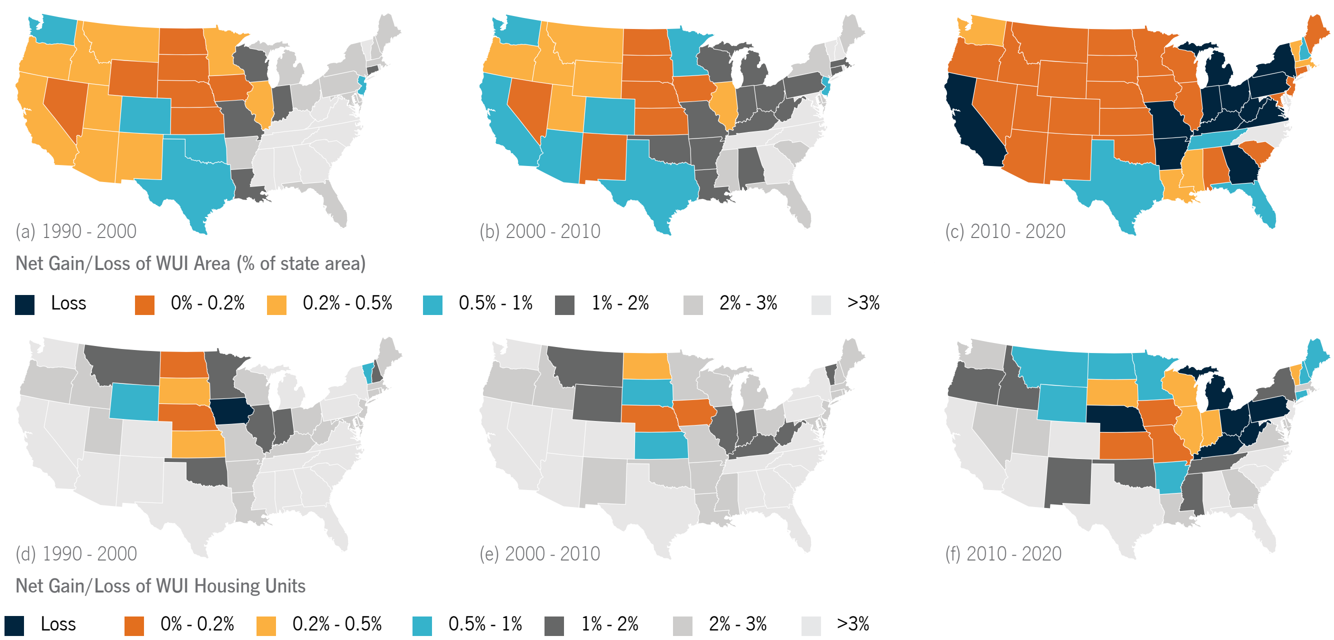
		1970-2020
Harris County	Texas	2,989,210
Los Angeles County	California	2,981,901
San Diego County	California	1,940,794
Orange County	California	1,766,611
Miami-Dade County	Florida	1,433,984
Broward County	Florida	1,324,281
Palm Beach County	Florida	1,143,446
King County	Washington	1,113,064
Hillsborough County	Florida	969,514
Santa Clara County	California	871,565

Figure 4: Number of Houses in the WUI Relative to the Total Houses in the State*[6] (%)



** For states in the conterminous United States*
WUI stands for wildland-urban interface, which is the area where human development meets undeveloped wildland

Figure 5: Net Gains and Losses in WUI area (a-c) and WUI Housing Units (d-f) in the 1990s (a,d), 2000s (b,e), and 2010s (c,f)[7]



[6] https://research.fs.usda.gov/nrs/fire/wui
[7] https://www.science.org/doi/10.1126/science.ade9223

> *"These proposals provide a clear roadmap for how lawmakers can benefit their constituents in the face of increasing costs. At every level, we will partner with policymakers willing to confront rising risks so insurers can continue to help policyholders when they need it the most."*
>
> *– Neil Alldredge, President & CEO, NAMIC*

As policymakers and local governments continue to knowingly allow more building in areas with heightened risks and growing vulnerability to weather events, especially where modern building codes are missing or are not enforced, it is logical that a greater concentration of houses located in harm's way would likely result in even more destroyed homes and higher losses. These increased risks are a problem that insurance alone cannot solve.

INCREASING CATASTROPHIC LOSSES

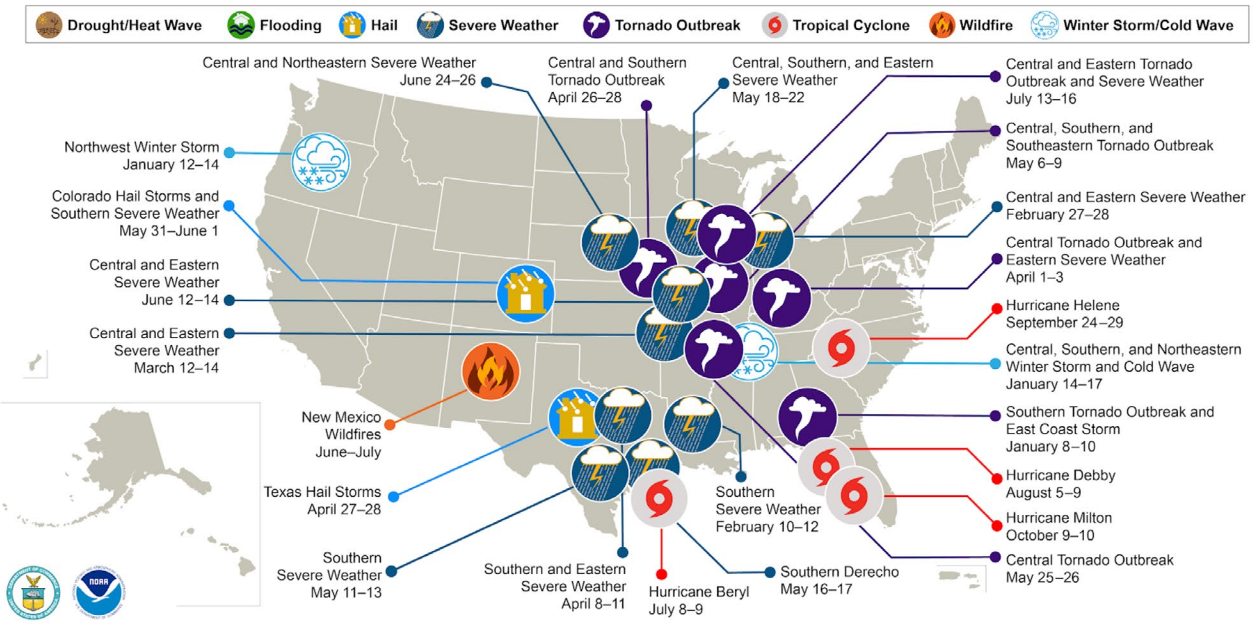
People moving to riskier areas has fueled increasing loss trends. Globally, Aon reports at least $102 billion in insured losses from natural catastrophes as of Q3 2024.[8] For the same period, Gallagher Re reports losses of at least $108 billion.[9] 2024 experienced a high frequency of severe thunderstorms, also called severe convective storms, which again reportedly affected mostly the U.S.[10], three very expensive hurricanes, and major flooding in Central Europe.[11]

Domestically, the National Oceanic and Atmospheric Administration reported average annual U.S. weather-related catastrophe losses cost $334.1 billion over the decade from 1990 to 1999. That number skyrocketed to $993.4 billion between 2010 and 2020 (all numbers are adjusted for CPI).[12]

The National Centers for Environmental Information within the NOAA also tracks billion-dollar weather and climate disasters. The annual average of such events was 8.1 from 1980 to 2022; for the last five years - 2019-2023 - the average was 20.[13] In 2023, the U.S. experienced 28 weather/climate disaster events with losses exceeding $1 billion each.[14] As of October 2024, there have been 24 billion dollar events in the U.S.[15] Each of these events has far reaching economic effects that extend well beyond the immediate area where the storm hit.

[8] https://www.reinsurancene.ws/9m24-insured-natural-catastrophe-losses-above-average-at-102bn-aon/
[9] https://www.reinsurancene.ws/insured-nat-cat-losses-reach-108bn-in-first-9-months-of-2024-gallagher-re/
[10] https://www.reinsurancene.ws/insured-losses-from-nat-cats-to-exceed-135bn-in-2024-swiss-re/
[11] https://www.reinsurancene.ws/9m24-insured-natural-catastrophe-losses-above-average-at-102bn-aon/
[12] https://www.ncei.noaa.gov/access/billions/summary-stats#temporal-comparison-stats
[13] https://www.ncei.noaa.gov/access/billions/
[14] https://www.noaa.gov/news/us-struck-with-historic-number-of-billion-dollar-disasters-in-2023
[15] NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024). https://www.ncei.noaa.gov/access/billions/

Figure 5: U.S. 2024 Billion-Dollar Weather and Climate Disasters[16]



*This map denotes the approximate location for each of the **24 separate billion-dollar weather and climate disasters that impacted the United States through October 2024.***

SOLUTIONS

While insurers cannot stop extreme weather, NAMIC has and will continue to encourage policymakers to better understand, support, and fund the mitigation and resilience space.

Take Scientifically Based Mitigation Actions from IBHS

- When it comes to making smart decisions about how to build and retrofit homes, the Insurance Institute for Business & Home Safety produces research to advance understanding of building science and offers tangible insights and steps to increase building resilience in the face of severe weather. This 501(c)(3) nonprofit scientific research and communications organization is supported by property insurers, reinsurers, and affiliated companies. IBHS's building safety research leads to real-world solutions for home and business owners, helping to create more resilient communities.[17]
- The work and lessons from IBHS have never been more important than they are today to hardening homes and businesses to help reduce the impact of extreme weather. Indeed, leveraging its research, IBHS has structured formal risk-reduction programs, the FORTIFIED roof program[18] and the Wildfire Prepared Home program.[19]

[16] NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024). https://www.ncei.noaa.gov/access/billions/
[17] https://ibhs.org/about-ibhs/
[18] https://fortifiedhome.org/roof/
[19] https://wildfireprepared.org/

Advance Modern and Enforced Building Codes and Encourage Federal Resilience Support

- It is essential to see meaningful risk reduction at scale when it comes to learning how to live with extreme weather. This requires strengthening the built environment through the adoption and enforcement of the most modern statewide building codes, which, while potentially controversial, is unquestionably a wise investment. The National Institute of Building Sciences estimates that adopting certain model building codes saves $11 in losses per $1 spent.[20]

Figure 6: U.S. 2024 Billion-Dollar Weather and Climate Disasters

National Benefit-Cost Ratio (BCR) Per Peril *BCR numbers in this study have been rounded	Beyond Code Requirements	Federally Funded
Overall Hazard Benefit-Cost Ratio	$4:1	$6:1
Riverine Flood	$5:1	$7:1
Hurricane Surge	$7:1	Too few grants
Wind	$5:1	$5:1
Earthquake	$4:1	$3:1
Wildland-Urban Interface Fire	$4:1	$3:1

- In addition to the NIBS study,[21] a 2024 publication, "The Preparedness Payoff: The Economic Benefits of Investing in Climate Resilience," produced as a partnership between Allstate and the U.S. Chamber of Commerce along with the chamber's foundation, zooms out to look at the benefits of upfront investing in resilience and preparedness in the context of altering broader cascading impacts on a community, including saving jobs and mitigating economic harms. Their results showed that that each $1 of investment in resilience and disaster preparedness reduces a community's economic costs after an event by $7. These results held true for the different kinds of perils and places they examined across the country.[22]
- NAMIC and its members have been leaders in the mitigation and resilience space. For example, the association started the BuildStrong Coalition more than 10 years ago for this very purpose, understanding that adopting and enforcing stronger building codes will invariably lead to more resilient communities. Even small modifications to building codes, such as the use of roof straps or ring-shank nails, can be the difference between a home standing or being destroyed by a natural catastrophe.
- NAMIC has successfully advocated that building code adoption is prioritized as a key criterion in the Federal Emergency Management Agency's Building Resilient Infrastructure and Communities program, which awards funding for state and community resilience projects.

Implement State Programs to Bolster Resiliency

- States have also been taking steps toward resilience funding. Steps such as establishing home strengthening funds and grants to incentivize resilient building and offering residents a tax-free catastrophe savings account make a difference in aiding mitigation and recovery.
- These steps acknowledge the reality that about 70% of the built environment is aging and not close to current building standards.[23]

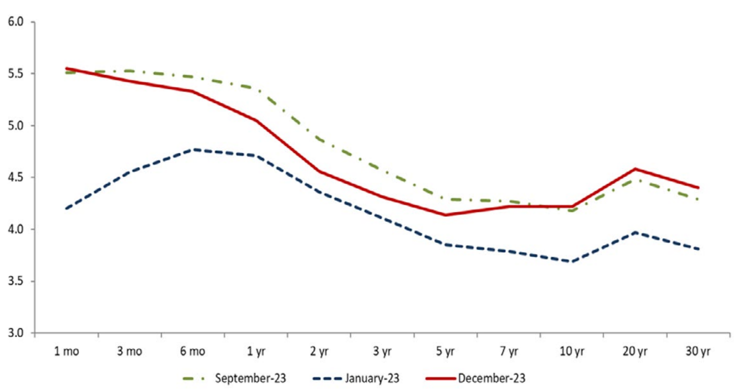
[20] https://www.nibs.org/files/pdfs/mitigationsaves2019_complete.pdf
[21] https://www.fema.gov/sites/default/files/2020-07/fema_mitsaves-factsheet_2018.pdf
[22] https://www.uschamber.com/security/the-preparedness-payoff-the-economic-benefits-of-investing-in-climate-resilience
[23] https://www.fema.gov/sites/default/files/2020-11/fema_building-codes-save_study.pdf

ECONOMIC AND INFLATIONARY PRESSURES

The confluence of new era of risk developments is collectively exacerbated for insurers finding themselves forced to respond to lingering post-COVID supply chain challenges, inflationary spikes, and record growth in claims expenses. Insurance tends to lag behind other industries in terms of responding to changes to market conditions due to the retroactive nature of the business. Supply chain costs spiked in 2020 due to COVID-related constraints and have never returned to pre-COVID levels. Of note for insurers are the continued elevated prices of building materials, auto parts, and labor – the key elements necessary for insurers to fulfill their commitments to policyholders in times of need.

As it has worked to combat inflation, the Federal Reserve has hiked interest rates significantly since 2021; every modification of an interest rate affects insurers' investment portfolios and returns. For instance, the federal funds rate, considered one of the most important interest rates in the U.S. economy, influences short-term interest rates for everything from home loans to credit cards.[24] The Federal Reserve raised the federal funds rate 11 consecutive times between March 2022 and July 2023, resulting in a total rate increase of 525 basis points.[25]

Figure 7: U.S. Treasury Yield Curve, January 2023 – December 2023[26, 27]



[24] https://www.investopedia.com/terms/f/federalfundsrate.asp
[25] NAIC Capital Market 2023 Special Report; https://content.naic.org/media/5287
[26] NAIC Capital Market 2023 Special Report; https://content.naic.org/media/5287
[27] Source: U.S. Department of the Treasury (Treasury Department)

INSURER INVESTMENTS

The changing interest rates greatly impact insurers' investments and their future surplus availability. Bonds are a core investment for U.S. insurance companies and clearly represent a significant percentage of their invested assets.[28] U.S. insurers' exposure to federal government bonds across various maturities totaled $346.6 billion at year-end 2023, up from $322.8 billion at year-end 2022. In 2023, total share of U.S. government bond exposure was approximately 7% of total cash and invested assets.[29]

As a general principle, investors earn less interest on long-term investments when the yield curve is inverted or when short-term notes pay higher than longer-term bonds, and the negative spread may indicate the likelihood of an economic downturn.[30] When an inverted yield curve returns to "normal," i.e., where long-term rates are higher than short-term rates, investors become more optimistic about future economic prospects.[31] The 10-year U.S. government bond yield reached a 16-year high of 5% in late October 2023 due to the deepening sell-off in the U.S. bond market but has since settled at approximately 4% as of mid-December 2024.[32]

Given that the property/casualty industry is the largest holder of municipal bonds, holding more than $236 million at year-end 2023, the yield curves for longer-term bonds are important.[33] Historically, property/casualty insurers have invested between 10% and 20% of their surplus in common stock to keep pace with inflation to pay claims such as auto repairs, construction costs, health care expenses, and labor – all of which experienced extraordinary inflation in recent years. Perhaps most importantly, property/casualty carriers are deeply reliant on investment income to offset underwriting and operating losses, which are common in the new era of risk. The rising interest rates have resulted in sharp investment income gains without which the effects of external factors on carriers' bottom lines would have been more negative.

UNDERWRITING PROJECTIONS AND REAL-WORLD LOSSES

Property/casualty underwriting projections follow and reflect the myriad external economic pressures. Net underwriting losses grew to more than $21.1 billion in 2023, slightly down from the $24.9 billion net loss in 2022. 2023 was one of the industry's most difficult underwriting performances since 2017.[34] For some property lines, combined ratio results have been elevated above 100 following multiple years of extreme catastrophe losses, which means that insurers are paying out more than they are taking in.[35] Similar dynamics are exhibited in the commercial and private passenger auto markets, where net premiums written have increased but continue to be outpaced by rising loss costs.

[28] NAIC Capital Market 2023 Special Report; ttps://content.naic.org/sites/default/files/capital-markets-special-reports-asset-mix-ye2023.pdf

[29] Id.

[30] Id.

[31] Id.

[32] https://tradingeconomics.com/united-states/government-bond-yield; NAIC Capital Market 2023 Special Report; https://content.naic.org/media/5287

[33] Id.

[34] https://www.insurancejournal.com/news/national/2024/03/26/766463.htm; Macro Trends Impacting the P&C Insurance Market: A Look ahead to Store for 2025 and Beyond, Robert P. Hartwig, Clinical Associate Professor of Finance, Risk Management & Insurance, Darla Moore School of Business, University of South Carolina; A.M. Best, ISO (2014-2023).

[35] Macro Trends Impacting the P&C Insurance Market: A Look ahead to Store for 2025 and Beyond, Robert P. Hartwig, Clinical Associate Professor of Finance, Risk Management & Insurance, Darla Moore School of Business, University of South Carolina; Sources: A.M. Best (2016-2023); Verisk/APCIA (2024:H1); USC Risk and Uncertainty Management Center (2024F); Swiss Re (2025F).

Figure 7: Combined Ratios[36]

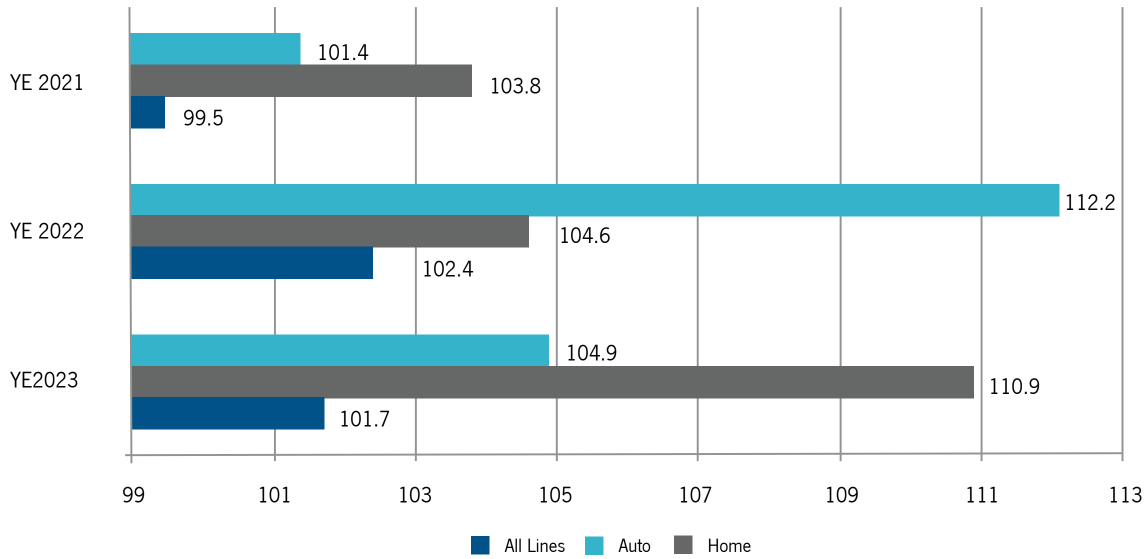
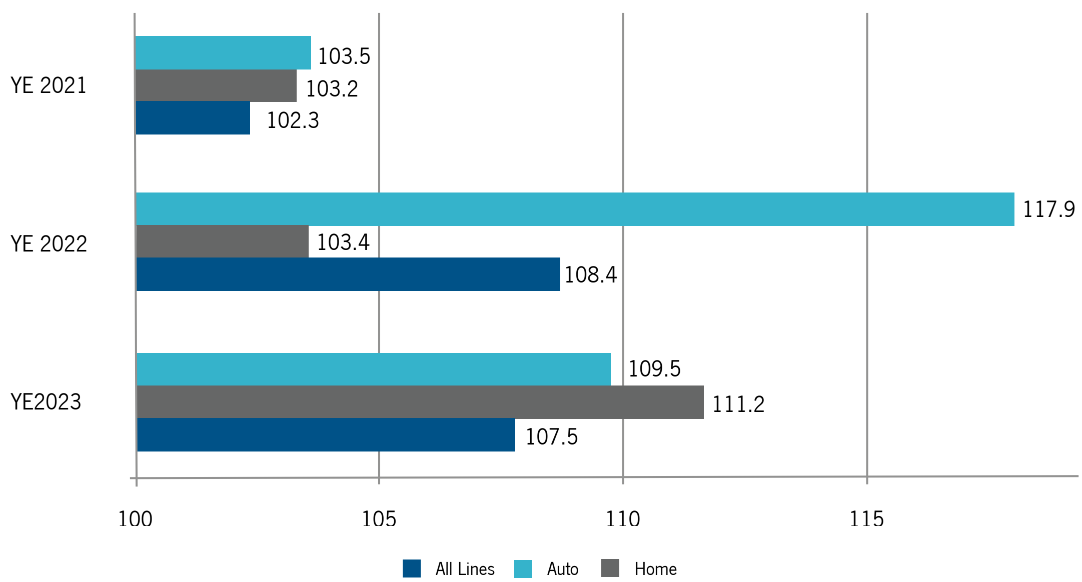


Figure 8: Combined Ratios[37]



Overall property/casualty combined ratios are among the most telling numbers for assessing the health and performance of the industry. Unlike simple premium or income data, they consider additional realities of losses and expenses facing carriers.

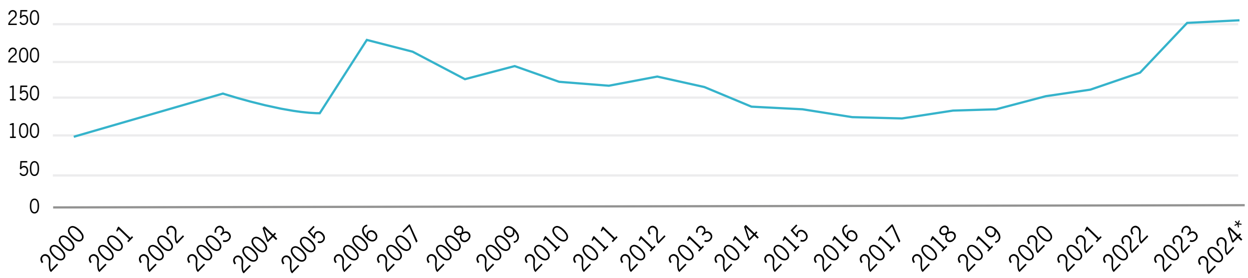
[36] National Association of Mutual Insurance Companies data.
[37] National Association of Mutual Insurance Companies data.

REINSURANCE CHALLENGES

Just as insurers take on and help spread risks facing policyholders, reinsurers assume and help spread risk from primary insurers. As insurer risks and losses increase in frequency and cost due to weather, inflation, and legal pressures outlined previously, reinsurer losses also increase. These reinsurer losses invariably work their way into reinsurance rates, terms, and conditions.

Reinsurance rates, terms, and conditions are market driven, largely by two factors: the availability of global reinsurance capital and future expected loss costs. As reinsurance rates have risen over the last several years, many insurers have changed brokers/reinsurers to avail themselves of better reinsurance arrangements, along with choosing terms and conditions allowing the insurer to retain more of the risk for a reduction in reinsurance cost.

Figure 9: Guy Carpenter U.S. Property Catastrophe Rate on Line Index[38,39]



The reinsurance rate on line or ROL – a measure of cost for reinsurance coverage by an insurer – steadily increased over the last several years through 2023 due to a decrease in global reinsurance capital and increasing expected loss costs outlined in this paper.[40] Reinsurance brokerage Guy Carpenter reported that July 2023 renewals saw reinsurance rates rise between 10% and 50% globally and between 20% and 50% for property/casualty coverage in the U.S.[41]

[38] Guy Carpenter.

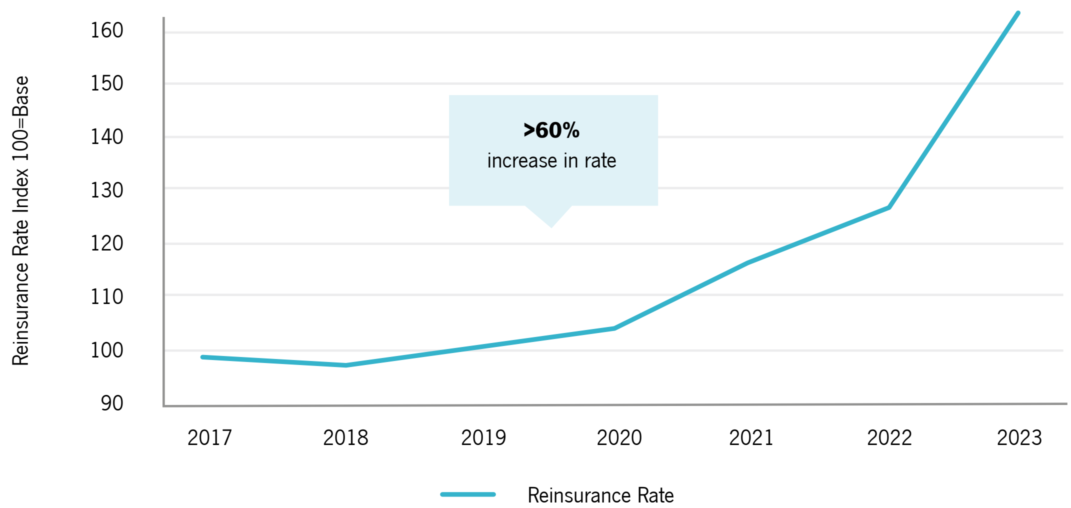
[39] Guy Carpenter; *Estimated. The Guy Carpenter ROL Index measures the dollar change paid for coverage year-on-year on a consistent program base. The index reflects the pricing impact of a growing (or shrinking) exposure base, evolving methods of measuring risks, changes in buying habits, and changes in market conditions.

[40] Figure as of 1/1/24. Guy Carpenter reports that mid-year renewals (as of 6/1/24) were up just 1.2%. See: https://www.artemis.bm/us-property-cat-rate-on-line-index/ Source: Guy Carpenter; Artemis.bm accessed at: http://www.artemis.bm/us-property-cat-rate-on-line-index

[41] https://www.guycarp.com/company/news-and-events/news/press-releases/july-2023-renewals.html

The July 2024 renewals were similar to those in 2023.[42] Another broker, Gallagher Re, said U.S. reinsurance rates for policies that had claims for natural catastrophes rose 30% to 50% during July renewals. While in Florida, the increase was 30% to 40%.[43] Similarly, Gallagher Re reported that improved pricing with risk- adjusted catastrophe placements remained flat for 2024 from 2023 and demand for additional capacity was met.[44]

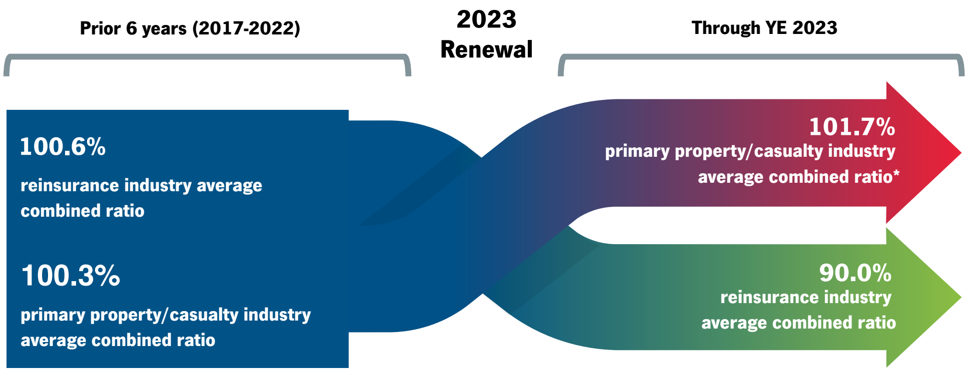
Figure 10: Increasing Property Reinsurance Costs[45]



These stark increases, which followed similar changes in renewals earlier in 2023, only underscore the growing risk from extreme weather and other global events that affect insurers. The challenges caused by the increased frequency and severity of losses' impact on reinsurance rates have been particularly acute in California, where historically consideration of such reinsurance cost increases has not been allowed in the rate-setting process.

[42] https://www.guycarp.com/company/news-and-events/news/press-releases/reinsurance-marketresponds-to-cedents-increased-demand-through-mid-year-2024.html
[43] https://www.reuters.com/world/us/us-property-catastrophe-reinsurance-rates-rise-up-50-july-1-report-2023-07-03
[44] https://www.ajg.com/gallagherre/news-and-insights/2024/july/1st-view-balance-maintained/
[45] Gallagher Re First View

Figure 11: Combined Ratio Over the Years



*Mutual insurers specifically saw an even greater disparity with a combined ratio of 111.7% through YE 2023

THINGS COST MORE TO REPAIR AND REPLACE

During and following the COVID-19 pandemic, supply lines for all sorts of goods found themselves under strains not felt in many years. Unfortunately for home and vehicle owners, many of the items most affected have been those critical to home and auto repair. The Producer Price Index, which tracks commodities such as steel mill, copper, rubber, and plastic products, indicates these commodities saw a sharp increase in 2020, peaked in 2022, and have not nor are expected to return to pre-2020 levels.[46]

- Lumber is a critical residential home repair and reconstruction material. The U.S. Forest Service reported that during the first year of the pandemic, the cost of wood products, such as softwood lumber and plywood, nearly quadrupled, with wholesale prices for plywood increasing from $400 to $1,500 per thousand square feet.[47] DIYers found themselves facing a retail environment where a single sheet of plywood went from $12.80 to $48.[48]
- Copper is one of the top three most used materials and is a vital component in the construction and repair of homes. Throughout 2020 and 2021, copper prices rose sharply from about $6,000 per metric ton to almost $10,000. That increase has leveled off slightly but remains a concern at $8,900 per metric ton.[49]
- Rubber and plastic products are also key in the repair of automobiles and homes. In 2023, the rubber used to manufacture tires hit a peak price of $191.50, which is sharp increase from the 2021 price of $157.90.[50]

[46] U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Inputs to Industries: Net Inputs to Residential Construction, Goods [WPUIP2311001], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WPUIP2311001, December 10, 2024.

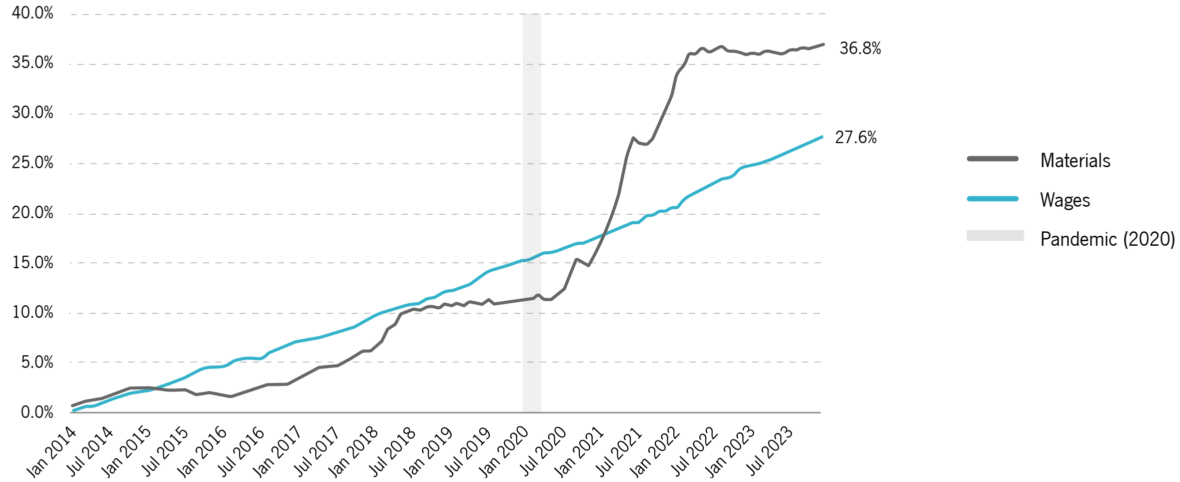
[47] https://www.fs.usda.gov/about-agency/features/how-pandemic-drove-cost-wood-products

[48] https://www.fs.usda.gov/about-agency/features/how-pandemic-drove-cost-wood-products

[49] https://www.statista.com/statistics/675854/average-prices-copper-worldwide/

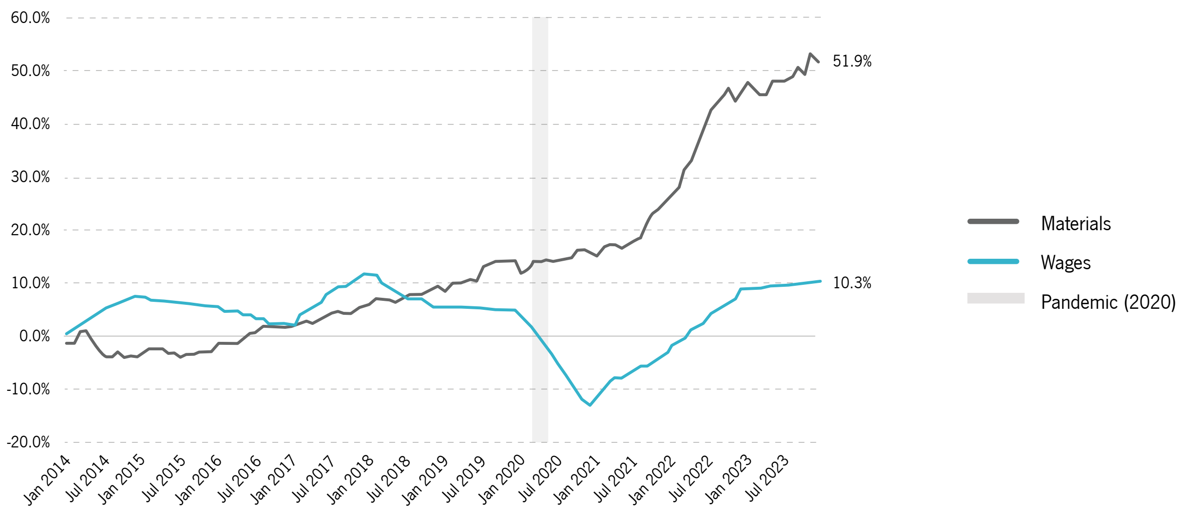
[50] U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Rubber and Plastic Products: Tires [WPU071201], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WPU071201, December 11, 2024;

Figure 12: Construction Costs Over the Last 10 Years[51]



When the price of raw materials goes up so drastically, the prices and values of homes and cars go up, in turn making them more costly to insure.

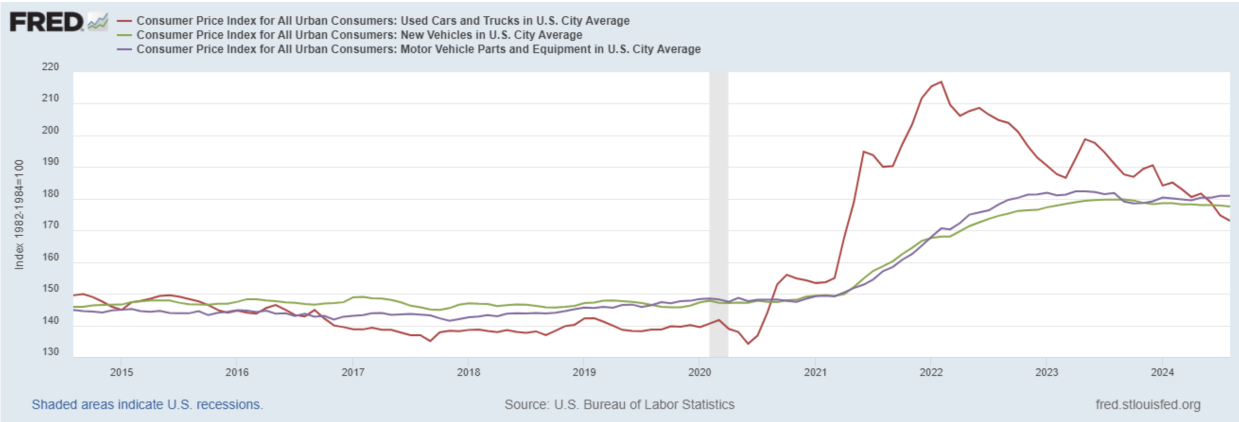
Figure 13: Auto Repair Costs Over the Last 10 Years[52]



[51] U.S. Bureau of Labor Statistics, Employment Cost Index: Wages and Salaries: Private Industry Workers: Construction [ECICONWAG], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/ECICONWAG, December 5, 2024.; U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Intermediate Demand by Commodity Type: Components for Construction [WPSID6122], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WPSID6122, December 10, 2024; U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Intermediate Demand by Commodity Type: Materials for Construction [WPSID6121], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WPSID6121, December 10, 2024.

[52] U.S. Bureau of Labor Statistics, Employed full time: Wage and salary workers: Automotive service technicians and mechanics occupations: 16 years and over [LEU0254510500A], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/LEU0254510500A, December 5, 2024. U.S. Bureau of Labor Statistics, Producer Price Index by Industry: Automotive Parts, Accessories and Tire Retailers [PCU44134413], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCU44134413, December 10, 2024.

Figure 14: Auto-Related Consumer Price Indices Over Time



A Particular Challenge: Localized Hyperinflation
Following a natural catastrophe, demand for the items needed to rebuild naturally surges because many consumers need the same products at the same time. When layered onto already inflated costs and the need for timely repairs, access to critical supplies and contractors becomes even more limited and costly.

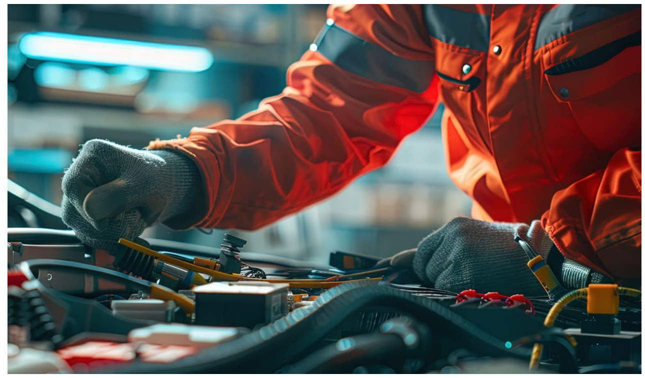
RISKIER ROADS

As NAMIC has outlined repeatedly in publications and testimonies, the new era of risk finds us facing roads that are riskier and packed with vehicles that are more advanced and expensive than ever before.[53] For most Americans, a car remains a necessity. With more than 283 million cars on the road and 76% of American commuters using their cars to move between home and work, the average American sits behind the wheel for more than 51 minutes a day, where the risk of driving a vehicle has never been greater.

The purchase of a vehicle is a major life event for consumers, and for most families a car is the second most expensive purchase they will ever make after a home. As of 2024, the average transaction price for a new vehicle is approximately $49,000; the average used vehicle is $38,000. Post-COVID-19 driving patterns and trends have unfortunately been marked by increases in all areas that impose costs on insurers: more distracted driving, impaired driving, extreme weather, uninsured motorists, vehicle thefts, and medical expenses to accompany parts and labor shortages for increasingly complex vehicles. Collectively, these external pressures forced auto insurers to request and receive approval for significant rate increases throughout 2024. As the cost of vehicles and crashes continues to rise, so does the cost to insurers of keeping the promises made to policyholders and their families.

[53] https://www.namic.org/pdf/publicpolicy/220104_riskier_roads.pdf; https://www.namic.org/pdf/publicpolicy/230117_namic_candid_costs_of_car_ownership_wp.pdf

LABOR COSTS



Insurers helping policyholders rebuild their homes, cars, and lives following a claim rely greatly on skilled labor. In the current environment, many contractors are struggling to find skilled craftsmen to fill needed positions. A recent analysis by the Home Builders Institute estimates that the construction industry is facing a shortage of between 300,000 and 400,000 skilled trade workers while MarketWatch reports that the auto repair industry may need more than 100,000 new technicians during each of the next three years for supply to keep up with demand.[54,55]

This shortage, in turn, leads to longer wait times for consumers and the need for higher wages. As of October 2024, the U.S. Bureau of Labor Statistics reported that the average hourly cost of construction employees was $36.61.[56] While the average hourly cost of auto repair hovers around $130 nationwide, the average salary of an auto technician remains 20% below the national average salary across all industries.[57] These labor challenges, while not stemming from insurance, have a profound impact on carriers and policyholders.

SOLUTIONS

Property/casualty carriers cannot resolve these inflationary concerns on their own, but NAMIC believes there are actions policymakers can take to ease the burdens of inflation on their constituents:

Promote sound underwriting

- Sound underwriting empowers property/casualty insurers to match risk to rate and provide the best coverage at the most accurate cost for consumers, thereby maximizing the benefit to the policyholder;
- Enabling a focus on accuracy reduces market challenges like cross-subsidization and adverse selection;

Embrace consumer choice

- Consumers should have the right to decide where, by whom, and how to have their homes or cars repaired; legislative and regulatory proposals to artificially limit consumer choice should be opposed;
- The availability of aftermarket parts and direct repair programs should be expanded rather than limited;

[54] https://hbi.org/wp-content/uploads/Final-HBI-Construction-Labor-Market-Report-news-release-11-4-21.pdf
[55] https://www.marketwatch.com/guides/car-warranty/auto-tech-shortage/
[56] https://www.bls.gov/iag/tgs/iag236.htm
[57] https://www.bls.gov/oes/current/oes493023.htm; https://www.marketwatch.com/guides/car-warranty/auto-tech-shortage/

Remove restrictions on discounts/rebates

- Insurers want to help policyholders reduce the friction and uncertainty in their home and auto insurance transactions, including offering discounts and rebates for mitigation efforts;
- Discounts and rebates should not only be permitted, they should be encouraged and facilitated by legislators and regulators, especially in the wake of their successful use in recent years;
- Discounts such as autopay, electronic signatures, online payments, and pay-in-full benefit insurers and policyholders;
- Warning and mitigation devices such as water pressure and moisture sensors for homeowners or defensive driving courses should be welcomed by policymakers as efforts that reduce risk;

Enhance the accuracy of records

- Accuracy in state recordkeeping will help improve the accuracy of rates;
- Expanded time periods for recordkeeping by state agencies ensure a more wholistic view of applicants and policyholders;

Preserve territory rating systems

- Where people live affects their risk; denying this simple truth makes for bad policy by legislators and regulators;
- Some areas are more susceptible to crime, crashes, catastrophes, thefts, and vandalism;
- Efforts to limit insurer ability to use geographical or territorial rating should be rejected;

Enhanced studies and education for all citizens

- Insurance should be included as part of all financial literacy course requirements in education;
- States should invest in research by academic institutions to better understand resiliency, mitigation, and traffic patterns; and
- Elected officials should work with the industry and regulators to educate the public about what insurance is and is not.

LEGAL SYSTEM ABUSE

The origins and causes of legal system abuse have been around for several decades. While they may have operated in separate vacuums or silos in years past, in the new era of risk, the trial bar and its member plaintiffs' attorneys have systematically and concertedly whipped many legal hazards into a cost-causing storm reaching a profound crescendo within the legal community. Tactics once viewed as a way to level the playing field for a litigant are now used to extract unwarranted amounts of funds from insurers and defendants in a lottery game where everyone pays for the repercussions.

Never has there been a more organized and coordinated effort to gain advantage in lawsuits, effectively and legally extorting billions of dollars from the insurance industry, defendants, and ultimately the consuming public. While litigation historically had been considered a policyholder's last resort, disputed claims are now seen as fertile ground for racking up attorney fees and outsized verdicts. This is not the result of a single decision but a confluence of developments.

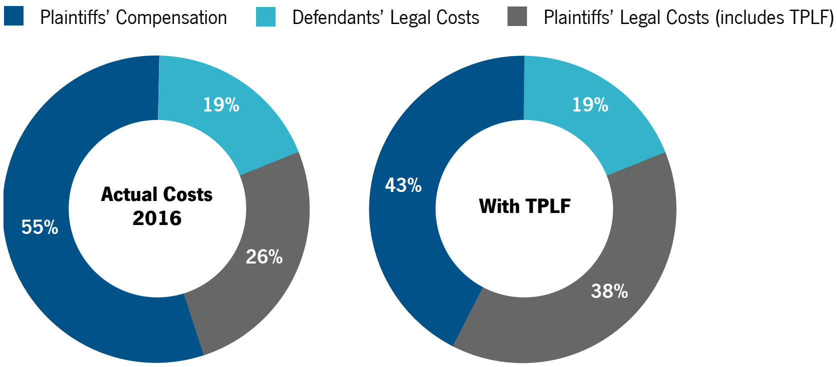
THIRD-PARTY LITIGATION FUNDING EXPANSION

The vanguard of legal system abuse under the new era of risk must begin with third-party litigation funding. Those with the financial strength to inject themselves into litigation provide a mechanism for plaintiffs to prolong litigation, drive up costs unnecessarily, and reject legitimate fair settlement offers over concerns about exorbitant fees to the lenders when cases resolve. It is estimated that this industry has grown to more than $5 billion in the U.S., and its impact on litigation is immeasurable, with more than $13 billion in assets under management nationwide.[58] The multi-billion-dollar TPLF industry of today is not necessarily comprised of advocates providing money to support their causes, but rather profit-seeking investors who simply want to stake a financial claim in a lawsuit that is none of their concern.[59]

[58] See State Lawmakers Wade Into Third-Party Litigation Funding, https://www.lexisnexis.com/community/insights/legal/capitol-journal/b/state-net/posts/state-lawmakers-wade-into-third-party-litigation-funding

[59] www.iii.org/sites/default/files/docs/pdf/triple-i_state_of_the_risk_legal_system_abuse_02262024.pdf

Figure 15: Distribution of Tort System Costs



Premature settlements, untenable jury verdicts, and vast costs to the judicial system make the TPLF industry unprecedented in the litigation scenario. Plaintiffs already have essentially no risk in litigation as they usually do not have to pay their attorneys unless they win the case. Additionally, the legal costs and possibly other concerns such as medical bills and living expenses are paid by the "lenders" to plaintiffs who aren't required to repay unless a settlement or verdict is reached. However, when those settlements or verdicts are reached, there are instances of TPLF funders taking upward of 80% in fees, leaving little or nothing for the plaintiff.

ATTORNEY ADVERTISING

All entities engaged in commerce should be permitted to advertise their services under the doctrines of the First Amendment. However, a line can be crossed when plaintiffs' attorneys inundate markets with ludicrous and defamatory statements about an industry that essentially cannot defend against these false advertisements. In 2023, it was estimated that more than $609 million was spent on placing more than 650,000 national legal service advertisements.[60]

Clearly, these advertisements are in many instances utilized to taint juries into deciding in their favor whatever the issue. These outrageous assertions are difficult to openly address in public. Additionally, under the guise of advertising, the plaintiffs' bar has been reported to be using search engine optimization that redirects unwitting insurance claimants attempting to contact an insurance company to a plaintiff firm and claim-support services.[61]

Ultimately, this may mean attorneys enter the claims process much earlier, driving up claims costs that are passed on to insurance consumers. Insurance companies pay millions of dollars each year in claims, and in many instances, early attorney involvement results in the claimant receiving less than if they had directly worked with the insurance company.

[60] https://www.atra.org/wp-content/uploads/2024/04/Georgia-2023-Legal-Services-Advertising-Report.pdf
[61] https://www.demotech.com/demotech-difference/another-update-on-the-litigation-frontier-tech-enabled-claim-instigation/

NON-ECONOMIC DAMAGES

Non-economic damages have become the ultimate jackpot in the current court system. Non-economic damages are typically awarded by juries for pain and suffering, mental anguish, and other conditions caused by an injury or wrongful death. In many instances, these damages cannot be measured in terms of monetary funds, leaving a jury to decide on an open-ended amount rather than tethered to or contained by the loss in question. Injuries are sensitive subjects, and no amount of funds can pay for a loss of life, especially to a loved one who suffers the loss. Attorneys may be inflating these damages further through the use of “anchoring,” a strategy of asking for dollar amounts well beyond what they believe the jury will award with the expectation that the net effect will be a larger compromise. Without guardrails on these damages, juries are left to produce windfalls that, in many instances, do not bear rational relationship to the injury or loss.[62]

COLLATERAL SOURCE / PHANTOM DAMAGES

Collateral source and phantom damages, while many times discussed synonymously, are different. Collateral source rules prevent the introduction of evidence that an obligation owed by the plaintiff because of an injury is paid by a source other than the defendant. In many instances, this creates a misimpression that the plaintiff still owes these amounts and consequently allow juries to build upon those numbers to come to ultimate verdict amounts.

Phantom damages can allow the plaintiff to use the entirety of a medical bill in arguing his or her damages to the jury when, in fact and is usually the case, the amount of medical bills and costs can be negotiated to lower amounts. These excessive bills that permit plaintiffs to obtain windfalls and double recoveries exacerbate costs to the system that drive up insurance rates.

[62] From 2015 to 2019, the average verdict in the National Law Journal’s Top 100 Verdicts more than tripled from $64 million to $214 million.1 The same data shows there were 30% more cases in 2019 that pierced the $100 million threshold than there were in 2015. National Law Journal’s 2015 and 2019 editions of the Top 100 Verdicts studies. Also see What are nuclear verdicts and why are they occurring? – ALM Property Casualty 360 (July 2, 2023) https://www.propertycasualty360.com/2023/07/21/what-are-nuclear-verdicts-and-why-are-they-occurring/

INSURANCE BAD FAITH STANDARDS

The concept of bad faith by an insurer began as a description of the scenario where an insurer engaged in intentional and illegal business practices across multiple claims. Proving such patterns of behavior required that a high standard be met. However, over the past decades, the standard has deteriorated to a "gotcha" mentality that allows two bites at the apple.

These de minimis allowances for punishment are untenable at the least and gross injustice in many instances. While bad faith is a way to make sure insurers act on claims, their conduct is regulated in this regard in 50 states, D.C., and territories by insurance regulators under the McCarran-Ferguson Act. Lawsuits and claims for bad faith are essentially piling on when a claim, in most instances, has already been paid, or the insurer was attempting to vindicate a denial decision because of inadequate information provided by the claimant.

Case Study: In the Georgia case of Pierce v. Banks, an insurer was held to have violated the standards of bad faith when the insurer paid a settlement claim earlier than discussed, put a comma in the settlement check that had no bearing on its use, and used verbiage that essentially confirmed the claim was settled but didn't meet the standards of syntax for the plaintiff attorney.[63] The U.S. Supreme Court upheld the bad faith claim under these standards.

JOINT AND SEVERAL LIABILITY

Joint and several liability has received probably the most attention in the legal system abuse world by way of reform. The concept holds that those who may only be liable for a small percentage of a loss be in fact liable for the entire amount of a verdict. The unfairness of such a principle is self-evident, as one should only pay for the loss that they caused and not for the actions of others.

ONE-WAY ATTORNEY FEES

For centuries, the American rule of attorney fees has been built on the premise that each party must be responsible for their own attorney fees while engaged in litigation. As a punitive aspect, especially in early civil rights litigation, attorney-fee shifting caused the defendant to pay the plaintiff's attorney fees in addition to damages awarded. These were high-burden cases and violations of constitutional rights. Unfortunately, today this issue has filtered down even to rudimentary bad faith claims that utilize a negligence standard where potentially no harm was exhibited to the plaintiff. Nevertheless, the defendant is exposed when a loss occurs in their defense of the claim to pay attorney fees. Many of these cases are again windfalls to the plaintiff and a piling on of punitive damages against a corporate deep-pocket defendant.

[63] https://www.uschamber.com/cases/insurance/pierce-v-banks

PREJUDGMENT AND POST-JUDGMENT INTEREST

Judgment interest is a concept that attempts to compensate injured parties for the lost investment over time. However, one of the core concepts of judgment interest is that the amount is due and owing, such as concrete principle in a loan transaction. Damages and claims liability are not always certain in the determination of pre- and post-judgment interest calculations.

There are reasonable disputes that can go either way. Further, until a case has finality through appeals, no amount should accrue or be due and owed. Otherwise, there is a presupposition that the defendant is liable and should have paid the amount earlier. Simply because there is a good faith dispute that is litigated, the defendant should not be penalized for exercising the right to litigate such dispute. Further, many interest amounts vastly surpass what the financial markets are paying in the same regard, thereby giving a further windfall to claimants. If it is a tool to force settlements, then it is again a one-sided approach that is unfair to defendants.

SOLUTIONS

The examples mentioned are not an exhaustive list of complications of legal system abuse. When you add these up with other impediments, such as inflation, the insurance marketplace is having to absorb a new era of risk on an unprecedented scale. Issues such as affordability, availability, rating, rate increases, and other regulatory concerns cannot be discussed without including the plague that is legal system abuse. Legitimate claims do get paid, and the industry wants to and does fulfill its contractual obligations, but excessive and redundant legal system abuse is causing an avalanche of rate pressure that must ultimately be borne by consumers if further action is not taken in this regard.

Ensuring the judicial system is transparent with an emphasis on just and balanced outcomes is vital to continued growth of a healthy insurance marketplace. Insurers cannot completely stop litigation abuse or the unscrupulous attorneys who profit from it, but the industry can pursue public policy changes to place guardrails around the identified practices that raise costs for consumers and carriers. To address the specific situations outlined above, NAMIC recommends several reforms:

TPLF should include:

- Reasonable expense rate caps that do not subsume the entire recovery for a plaintiff;
- Registration and regulatory requirements with capacity for revocation of the right to do business;
- Automatic, upfront disclosure of any TPLF agreements to opposing parties without requiring discovery request so that conflicts and other issues can be ferreted out; and
- Tax consequences for third-party funders through the federal tax code.

Attorney advertising should be limited to only truthful statements that can be proven with absolute certainty. Conjecture, innuendo, and false statements should be prohibited and regulated by appropriate state bars, courts, and legislatures.

Non-economic damages should:

- Be capped at a reasonable amount that will compensate a victim for a loss but not provide an untenable windfall that the insurance industry must completely absorb;
- Be subject to more stringent remittitur requirements; and
- Be limited through prohibitions on anchoring by plaintiffs attorneys.

Collateral source and phantom damage reforms should include:

- Consideration of cost incurred versus cost paid – it is not realistic to think that a medical bill will be due and owing in the entire amount under current health care practices, including Medicare fee schedules; and
- Holding some money in trust until actual bills are paid with remainders returned if not expended; this will prevent double recoveries.

Statutes of limitation and statutes of repose should be upheld and only removed when intentional fraud is present and could not have been detected through reasonable investigation.

- Where states believe alleged losses beyond statutory time periods constitute a public concern, they should create and allocate separate funding mechanisms rather than seeking to revive an insurer liability that no longer exists.

Bad faith concerns should most appropriately be addressed by regulators through market analysis and market conduct examinations, not the courts.

- Laws should limit the ability of judges to substitute their assessment for that of the regulator in determining intentional and material harm to consumers.

Joint and several liability should be abolished; parties to litigation should only be liable for amounts they proximately caused in damages.

Attorney-fee shifting should only be allowed for the most egregious intentional conduct of a defendant and not for ordinary claim issues.

- Plaintiffs should be subject to attorney-fee shifting and pay for any claims in which they act in bad faith, violate court standards and rules, or do not actively cooperate.

Interest should only be charged on final verdicts that have exhausted all appeals or the same waived and only in a prospective manner from that date and not preexist the claim in any manner.

Courts should require stringent pleadings and genuine expertise, particularly when medical allegations are in question.

REGULATORY OVERREACH

The insurance industry is robustly governed by a body of statutory law, regulation, and common law that serves to create and protect viable insurance markets, in turn serving and protecting consumers. Historically, regulation of property/casualty insurance has mostly been done at the state level, owing to the uniquely local aspect of insurance. Intuitively, we understand that a vehicle or home on an eastern coastline experiences different perils than property on a farm in the middle plains. The local nature of a state regulator is better designed, prepared, and equipped to monitor and protect their state's insurance market and consumers because of their attention and understanding to those different risk dynamics. For those reasons, NAMIC has been and continues to be a strong advocate for state-based regulation.

As appetites for insurance discussions grow in the mainstream sphere, so does the will of legislators and regulators to be more deeply involved in the insurance business. In simplest terms, if their constituencies have the topic in a higher tier of awareness, policymakers are going to rightly involve themselves in it.

However, that involvement can grow into overreach when policymakers or regulators seek to move that interest into the level of control of private businesses. In fact, when considered en masse, concerted or even indirect control of private industry has the potential to strongly impact, disrupt, and damage insurance markets.

FEDERAL AGENCY GROWTH

As Congress has grown more politically complex and difficult, it has become more difficult to pass complex legislation. Rather, when legislation is passed, the actual prose of a bill is broad and overarching and often defers the "detail" of how a measure works to a federal agency. The deference to federal agencies to find their own path to enforcement has resulted:

- an explosion of federal agency activity/overreach, and
- potentially challenging constitutional issues for agencies applying the Chevron doctrine ***(Chevron U.S.A., Inc. v. NRDC, 467 U.S. 837 (1984))***, a previous Supreme Court's decision that courts must defer to agency interpretation when federal legislation is ambiguous. A more recent case, ***Loper Bright Enterprises v. Raimondo***, upends the doctrine citing that it unworkable, unpredictable, and inconsistent with statute. ***(Loper Bright Enterprises v. Raimondo, 603 U.S. 369 (2024))***

How much agency expansion are we talking about?

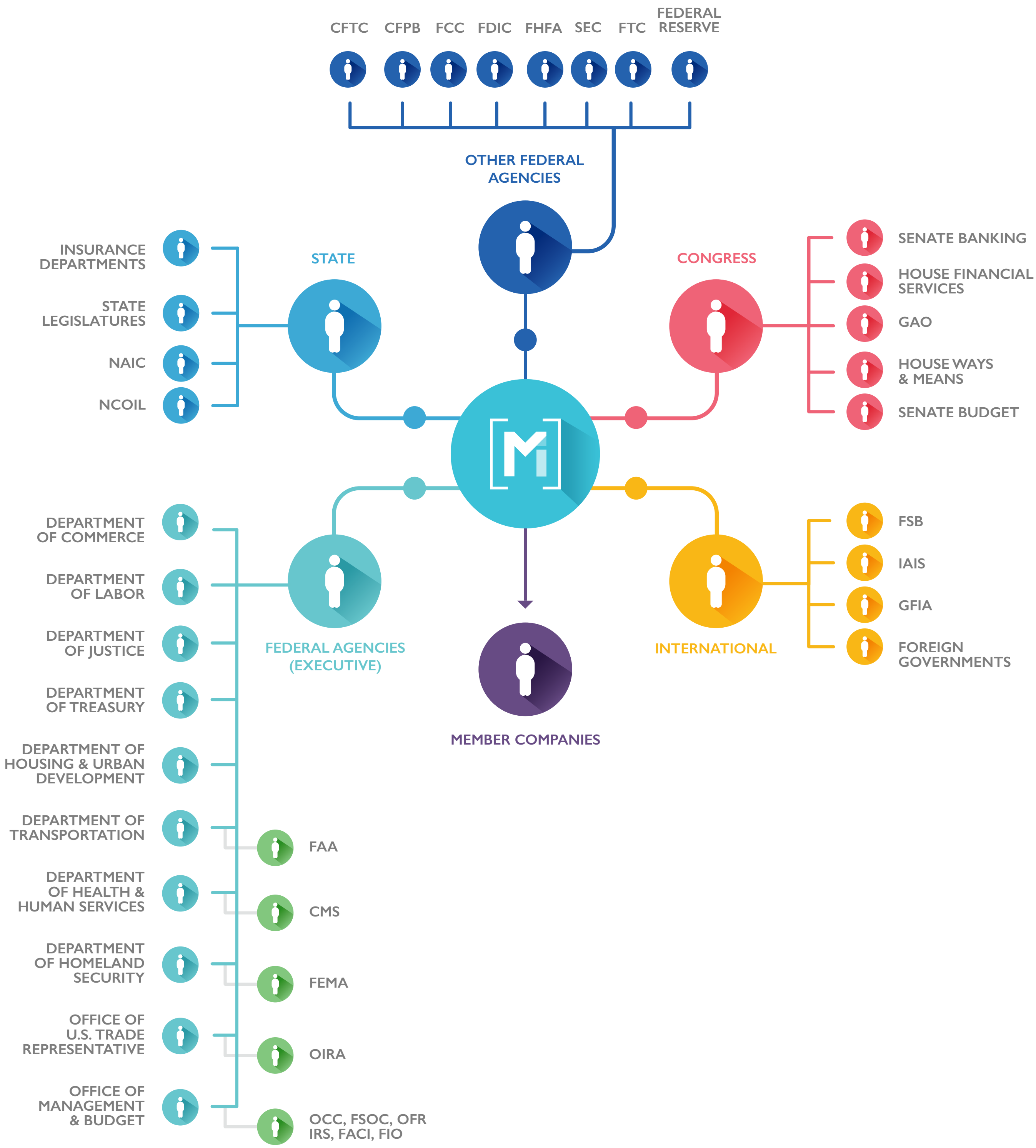
Between December 2020 and March 2024,[64] employment has increased sharply at the Environmental Protection Agency (9.4%), Department of Agriculture (9.6%), Department of Housing and Urban Development (10.7%), Internal Revenue Service (14%), Department of Energy (14.8%), Department of State (18.4%), and the Department of Health and Human Services (18.7%).

Independent agencies have also mushroomed, including the Consumer Financial Protection Bureau (9.8%), Securities and Exchange Commission (11.1%), and Federal Trade Commission (11.6%). Even the White House Council of Economic Advisers increased by one-third during the Biden administration.

In 2024, federal agencies promulgated 5,700 notices, 2,400 rules, and 1,320 proposed rules. NAMIC identified and reviewed more than 1,200 notices, 400 rules, and 180 proposed rules published in the Federal Register that specifically referred to insurance and hundreds of similar references in agency agendas, interpretations, and guidance documents. With respect to a wide range of insurance business-related subjects, such as auto safety, taxation, disparate impact, arbitration, and independent contractor status, NAMIC estimates that association staff reviewed more than 1,500 additional notices, rules, proposed rules, interpretations, and guidance documents.

[64] https://www.wsj.com/opinion/government-workforce-expanding-bureaucracy-regulation-kamala-harris-joe-biden-elon-musk-a5e08412

Figure 16: Regulatory Overreach



STATE REGULATORY OVERREACH

Perhaps partly in response to such aggressive growth in interest from federal agencies, state insurance commissioners have rightly reiterated themselves as the proper regulators of insurance markets. However, regulators have increasingly pushed the boundaries of their role as protectors of solvency and market conduct into increasingly proactive efforts to be policy "makers" instead of enforcement arms of existing state statute.

For example, the appetite for massive troves of data from the insurance industry has increased drastically with little movement to discontinue or remove outmoded data collection and reporting. In addition to the growing wish list of granular and occurrence-specific data, the number of ongoing data calls has ballooned. In a recent effort, NAMIC's compliance team identified nearly 300 recurring state data calls from across the nation, not including financial reporting- and catastrophe-related data calls, which ostensibly are fulfilling some chief responsibilities of regulators toward solvency and consumer assistance post-disaster.

Additionally, the National Association of Insurance Commissioners is a format by which state regulators meet to develop potential efficiencies and model solvency solutions. The appetite for data collection at that level has likewise increased, most recently with the Property & Casualty Insurance Market Intelligence Data Call – the heaviest data set collection undertaken to date with yet-to-be-determined and questionable deliverables for markets.

Growth in scope of regulatory interest is also increasing. In 2022, the NAIC instituted a new letter committee - Innovation, Cybersecurity, and Technology (H) - that seeks to be topical instead of being organized by line of business as committees historically have been. This topic-centric break in tradition may create challenges in impacts to variable lines of insurance as issues are explored. It also signals interest by some to delve more deeply into prospective policy development as opposed to policy enforcement.

THE PROBLEM WITH OVERREACH

If the interest is there, why is this an issue?

When managing markets, businesses must keep their core missions at mind. For property/casualty insurance companies, that means ensuring they have the means and modality to keep their promises to their policyholders. In most instances, the key element of that relationship is making sure there are enough resources to pay claims and other debts, also known as solvency.

When regulatory action, even if intended to be to the benefit or protection of consumers at large, results in poor outcomes for consumers through strained insurance markets, then we've crossed from oversight into overreach.

Regulatory agencies can and must view the industry as a partner to ensure functioning and even thriving insurance markets that protect and serve consumers. Only in that partnership, with an eye toward adapting to the new era of risk, can insurance markets adjust and overcome.

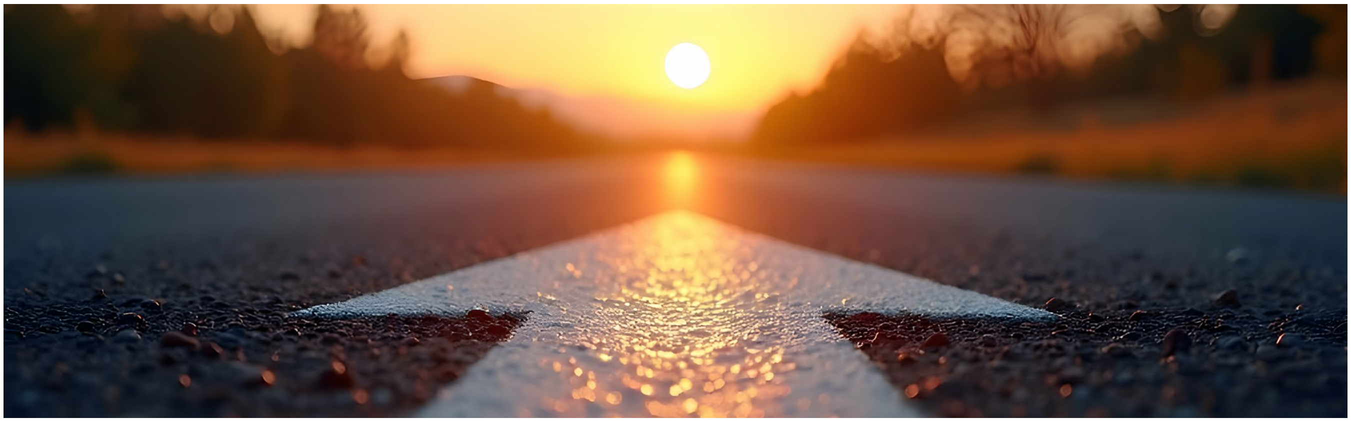
SOLUTIONS

State-based regulation is the appropriate oversight

- Restrict and avoid federal agency involvement in the business of insurance to best protect state insurance markets.
- Federal interest in insurance should be done to the benefit of communicating and coordinating with other insurance markets across the world. It should not add layers to regulatory compliance.
- Where federal engagement is undertaken to coordinate with world partners, it should be done through and with the nation's state regulators.
- Restrict noninsurance-related federal agency involvement or application to the business of insurance. Layers or application of broader regulation to insurance is duplicative and potentially in conflict with the state laws that protect availability and affordability that comes with functioning markets.

Reduce regulatory appetite – Stick to solvency

- Regulatory overreach into the daily business of insurance companies is unwarranted and not in service to consumers.
- By focusing on regulatory inspection and protection of insurer solvency, state insurance departments fulfill their venerable responsibility to insurance markets and the consumers they serve.
- Restricting market conduct regulation to a focus on the legal obligation between a company and consumer enables a regulator to best protect markets. Broad and overly transactional control of insurance companies is not in service to insurance companies or the consumers they serve.
- Conduct analysis on the effectiveness of existing regulatory processes through states and the NAIC to determine efficiencies, potential duplication, and even discontinued necessity.



PLOWING AHEAD IN THE NEW ERA OF RISK

Yes, the world is changing. In the new era of risk, the need to better understand and manage risk increases as technology and products evolve. The challenges of keeping up with these kinds of changes should not surprise us. For example, consider that according to a survey by Pew Research Center, in 2011 about 35% of people owned smartphones while in 2023 that number had grown to 97%.[65] What has undoubtedly changed is the pace and the intensity of the collective changes we face as an industry and a society.

In the mid-1990s, author Peter L. Bernstein published the "Against the Gods: The Remarkable Story of Risk." The book detailed the important historic role of insurance in enabling more widespread homeownership, innovation, and businesses to enable the "mastery of risk," and the value of those esteemed mathematicians, scientists, and others who through contributing to knowledge of "how to understand risk, measure it, and weigh its consequences, [they] converted risk-taking into one of the prime catalysts that drives Western society."[66] Indeed, Bernstein stresses insurance's value to capitalism: "[t]he capacity to manage risk, and with it the appetite to take risk and make forward-looking choices, are key elements of the energy that drives the economic system forward."[67] Given these wide-ranging impacts of being able to manage risk through insurance, concerns about and solutions within the new era of risk should not be limited to considering the impact on insurers but should also consider the benefits to the country and the citizenry more broadly.

Old ways of managing risk will not find success in the new era of risk.

As insurers take on the new era of risk, active advocacy to advance and enact positive public policy while limiting proposals that undermine healthy competition and markets is more essential than ever. As society faces growing uncertainty, insurers must stand firm in their roles of identifying, assessing, and pricing risk and lean into the future with all the tools at their disposal to help policyholders manage and mitigate risk as it actually is, not as people would like it to be.

[65] https://www.pewresearch.org/internet/fact-sheet/mobile/
[66] Bernstein, Peter L., Against the Gods: The Remarkable Story of Risk (1996), p. 1.
[67] Bernstein, Peter L., Against the Gods: The Remarkable Story of Risk (1996), p. 3.

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