



The Insurance Policy Advisory Committee (IPAC) Record of Meeting

June 13, 2024

Washington, District of Columbia

1. Opening Comments

The IPAC Chair opened the meeting, welcoming all members to the first in-person meeting of 2024.

2. Roundtable Discussion on the Current Macroeconomic Environment

The IPAC Chair facilitated a roundtable discussion among IPAC members on their observations of current market conditions and their expectations of conditions over the next year. Members observed that property and casualty (P&C) insurers are seeing the impact of rising weather-related claims; inflation, particularly of repair costs; and increased liability claims and reserves. Members noted that higher interest rates coupled with a greater demand for life products post COVID, and demand for retirement funding solutions have contributed to strong growth for some life insurance products. Members commented that current credit spreads are below historical averages but discussed the potential for defaults and a credit downturn as a key risk for life insurers' investment portfolios. Members discussed the role the insurance industry should play in financing real estate transactions and development. While it was noted that insurers could increase their allocations towards related asset classes, members also noted that real estate valuations currently appear high, particularly in city centers.

Members discussed trends in offshore reinsurance by life insurers and the use of sidecars, used to attract capital to the industry in place of earnings retention. Recent changes in the Bermuda regulatory environment related to these trends were discussed as part of this.

3. Discussion Regarding Geopolitical Risk and Its Effect on Insurers

The IPAC Chair facilitated a discussion on geopolitical risk and how it could affect insurers. Members commented that geopolitical risks could affect every insurer in the United States due to their economic ripple effects. The members expressed that geopolitical risk is not new and that it could impact risks in traditional risk categories (e.g., credit). Members highlighted that geopolitical risk could amplify concerns tied to the inverted yield curve, defaults, supply chain logistics, investment holdings, and sovereign debt.

4. Discussion on Potential Voluntary Information Solicitation Related to FHLB Usage and Bond Market Conditions

The IPAC Vice Chair facilitated a discussion on proposals to solicit voluntary information related to Federal Home Loan Bank (FHLB) usage and bond market conditions.

IPAC members discussed the scope of the solicitation to understand insurer's usage of the FHLB and how this usage could be impacted if the FHLB's mission were revised. Members discussed differences in usage between life and P&C insurers and how this should be reflected in any data collection. Members supported limiting the survey to IPAC members, which was viewed as a good representation of the industry. Members thought it would be important that any responses to the voluntary solicitation be confidential, particularly on how firms utilize FHLB lending. FRB staff members presented and

discussed the corporate credit conditions survey, which would provide monetary policymakers with information on current financial market conditions. IPAC members discussed confidentiality and scoping on this survey. Additionally, a few IPAC members commented that state regulators may prefer to gather this information and recommended further discussions with the National Association of Insurance Commissioners (NAIC).

5. IPAC ICS Working Group Update

IPAC Secretariat staff and IPAC ICS Working Group members provided an update on their continued work and informed members that the IPAC's scalar report has been posted to the American Academy of Actuaries website.¹ Working Group members stated that the Working Group is collecting views and offering perspectives on possible outcomes for the upcoming approval of the Insurance Capital Standard (ICS) and a related decision regarding the U.S.-developed Aggregation Method (AM). The International Association of Insurance Supervisors (IAIS) plans to adopt the ICS in December 2024. Ahead of that decision, the IAIS is determining whether the AM results in comparable outcomes to the ICS, and therefore whether it may be used as the U.S. implementation of a group capital standard for internationally active insurance groups. IPAC members agreed to share perspectives with Board Vice Chair for Supervision Michael Barr ahead of the decisions at the IAIS.

6. Climate Working Group Presentation on Homeowner's Insurance Market Dynamics and the Impact to Consumers and the Economy

The Climate Working Group discussed the structure of the homeowners insurance markets, rate regulation, limits on insurers ability to withdraw from certain states, the role of state guaranty funds, and residual market mechanisms in five states (California, Florida, Louisiana, New York, and Texas). The working group indicated that there are challenges on insurance availability and affordability in some of the markets due to both the structural aspects of the markets along with increased loss costs.

7. Discussion on Property Insurance Affordability and Insurability

The IPAC Chair facilitated a discussion on property insurance affordability and insurability. Members commented on Fannie Mae and Freddie Mac recently updating their guidelines to clarify that replacement cost coverage is required on their mortgages. IPAC members discussed the impact of these new guidelines and whether they could disrupt the home mortgage market.

8. Future IPAC Working Groups

The IPAC Secretary, Chair, and Vice Chair led a discussion on the consideration of two working groups for 2025. Some IPAC members expressed support for the continuation of the Climate Insurance Working Group to conduct a scenario analysis. Other members expressed support for a new working group focusing on Life Insurance Systemic Risk. Members agreed to postpone a vote to open another working group.

The IPAC Chair then closed the meeting and thanked IPAC members for their engagement.

¹ https://www.actuary.org/sites/default/files/2024-06/IPAC_Scalar_Report_Feb.2024.pdf