December 4, 2023

Office of Information and Regulatory Affairs
Office of Management and Budget
Executive Office of the President

Re: Federal Insurance Office Climate-Related Financial Risk Data Collection for U.S. Homeowners Multi-Peril Underwriting Data

At the intersection of climate change and homeowners insurance, there are millions of American families worried that they cannot afford to protect their most significant asset, their home, or that the options to buy coverage and the quality of that coverage are shrinking. The fact that spiking insurance prices, diminishing availability, and coverage gaps in the homeowners insurance market could cause significant and systemic problems cannot be ignored. One critically important but sorely lacking resource for federal policymakers and regulators, emergency response agencies, and the public generally is data concerning the impact of climate-related risks on affordability, availability, coverage, and losses in the homeowners insurance market. The Federal Insurance Office's (FIO) updated proposed "Climate-Related Financial Risk Data Collection for U.S. Homeowners Multi-Peril Underwriting Data" ("data call"), while more modest than was originally proposed, is an important step toward filling the information gap concerning the nation's property insurance coverage gaps. The Consumer Federation of America (CFA), an association of 250 consumer organizations that works to advance the consumer interest through research, advocacy, and education, and the Center for Economic Justice (CEJ) urge the Office of Management and Budget (OMB) to approve the data call and clear it to begin.

The data collection is an essential part of FIO's work in response to President Biden's 2021 Executive Order on Climate-related Financial Risk (EO 14030), and we believe it is vitally important for FIO to collect granular and comprehensive data on homeowners insurance to better understand climate risk. The data call also helps to fulfill FIO's statutory mandates to monitor the extent to which traditionally underserved communities and consumers, people of color, and low-and-moderate-income consumers have access to affordable insurance. The data are essential for assessing financial stability, another of FIO's statutory purposes, pursuant to its participation in the FSOC.

Below, we highlight some of the reasons that FIO's efforts are critical and urgent, and identify certain data elements that have been either removed from the current proposal or were not originally included that we believe should be, at the very least, added to a future data call by FIO in order to yield even more robust understanding of the impact of climate risk and scale of coverage gaps around the country.

Climate Change Is Already Increasing Insurance Costs for Consumers and Companies

The effects of climate change include extreme temperatures, heat waves, heavier and more frequent precipitation, flooding, stronger hurricanes and tropical storms, increased coastal erosion, and rising sea levels. These increasingly prevalent and severe weather hazards are *already harming* consumers and leading to skyrocketing insurance costs, especially in vulnerable areas.[1] According to the Fifth National Climate Assessment, the estimated annual cost to the U.S. economy from extreme weather events caused by climate change is $150 billion.[2]

Over the past year homeowners insurance costs have risen across the nation, with the average nationwide cost of insurance reaching $1,900 per year and thousands of dollars more in certain areas.[3] In its notice FIO itself observes that "multiple homeowners insurers have announced decisions to exit certain areas or to decline certain policies." In Florida, Farmers Insurance decided to stop offering policies in the state, claiming this was a necessary decision to manage its risk exposure in the hurricane-prone state.[4] When insurers choose to stay, they are sharply increasing premiums, forcing some consumers to drop coverage altogether. At least a dozen insurers in Louisiana have gone bankrupt and many households have no options for insurance aside from Citizens, the state-backed insurer of last resort.[5]

As the effects of climate change are felt by more consumers, lawmakers are increasingly paying attention and conducting hearings. On September 7th, 2023 the Senate Committee on Banking, Housing, and Urban Affairs held a hearing on the challenges and rising costs in the property and casualty insurance market, where CFA's Director of Insurance Douglas Heller was a witness.[6] On November 2nd, the House Financial Services Committee held its own hearing on the high costs of insurance for consumers.[7] Recently the Senate Budget Committee sent letters to forty major insurers seeking documents that show in what areas the insurers have started dropping consumers or are considering dropping consumers.[8] Clearly, there is a need for the proposed data collection, a responsibility clearly within the remit of FIO to "monitor all aspects of the insurance industry"[9] and "(A) receive and collect data and information on and from the insurance industry and insurers;… (C) analyze and disseminate data and information; and

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[1] "Homeowners Face Rising Insurance Rates as Climate Change Makes Wildfires, Storms More Common." By Ken Sweet. Associated Press. September 20th, 2023. Available at https://apnews.com/article/homeowners-insurance-climate-change-wildfire-disasters-9c7129881f12ec478386e4b47c1acbbc.

[2] "Fifth National Climate Assessment." U.S. Global Change Research Program. 2023. Available at https://nca2023.globalchange.gov/#overview.

[3] "Your Homeowners Insurance Bill Is the Canary In the Coal Mine." By Benjamin Keys. The New York Times. May 7th, 2023. Available at https://www.nytimes.com/2023/05/07/opinion/climate-change-homeowners-insurance-housing-market.html.

[4] "Farmers Insurance Pulls Out of Florida, Affecting 100,000 Policyholders." By Jordan Valinsky. CNN.com. July 12, 2023. Available at https://www.cnn.com/2023/07/12/business/farmers-insurance-florida/index.html.

[5] "Louisiana's Insurance Market Is In Shambles. Here's How Lawmakers Hope to Fix It." By James Finn and Michael Finch II. NOLA.com. March 26th, 2023. Available at https://www.nola.com/news/politics/lawmakers-propose-fixes-for-louisianas-insurance-crisis/article_8dfdc00c-ca9d-11ed-8e40-c78d59e9601d.html.

[6] "Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers." United States Senate Committee on Banking, Housing, and Urban Affairs. September 7, 2023. Available at https://www.banking.senate.gov/hearings/perspectives-on-challenges-in-the-property-insurance-market-and-the-impact-on-consumers.

[7] "The Factors Influencing the High Cost of Insurance For Consumers." House Financial Services Committee. November 2, 2023. Available at https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=409012.

[8] "As Climate Shocks Grow, Lawmakers Investigate Insurers Fleeing Risky Areas." By Christopher Flavelle. The New York Times. November 1, 2023. Available at https://www.nytimes.com/2023/11/01/climate/climate-insurance-disasters-senate.html.

[9] 31 USC 313 (c)(1)(A).

(D) issue reports regarding all lines of insurance except health insurance."[10]

The rising costs of homeowners insurance due to climate change also appear to disproportionately harm people of color and amplify existing racial disparities in housing affordability and stability. Communities of color and lower-income consumers are more likely to live in areas that are more vulnerable to the effects of climate change and will face more acute pain due to rising insurance costs and reduced availability. By collecting data at the ZIP Code level, which will provide insights regarding how climate risk and insurance concerns impact historically underserved communities, the proposal meets another key responsibility of FIO: "to monitor the extent to which traditionally underserved communities and consumers, minorities …, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance."[11]

FIO's Updated Proposed Data Call Proposal is Modest, Should Be Approved, and Should Be Improved Upon in Future Years

The updated data call proposal will require a small number of large homeowners insurance companies to provide data about their premiums, claims, and overall homeowners insurance exposures, covering the past six years of underwriting data. This data will be collected at the ZIP code level which will allow for a much deeper understanding of the market and the different ways in which climate risk is impacting different communities' access to coverage than can be drawn from state-level data.

As with Congress, financial regulators are recognizing the new insurance risks driven by climate change and the growing risks to and from unstable risk transfer markets. Recently, the Federal Housing Finance Agency held a two-day insurance symposium to "foster dialogue on the growing challenges related to the availability and affordability of property insurance."[12] The Federal Reserve Bank of New York issued a report recognizing that insurers are a "key channel through which climate risk can threaten broader financial stability."[13] FIO has a duty to respond to emerging threats to financial stability posed by rising insurance and the growing insurance gap, including collecting the data that will help manage climate risks, especially as they impact low-income communities and communities of color.

The information and analysis from FIO's data collection will have actual, timely use for the Treasury Department; Congress; other federal agencies and regulators including the Financial Stability Oversight Council of which FIO is a non-voting member; state and local governments; nonprofit organizations and academic researchers interested in housing, consumer protection, and climate change; other stakeholders; and the public generally. This data collection and analysis will help inform public and private efforts at the federal, state, and local levels to

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[10] 31 USC 313 (e)(1).
[11] 31 USC 313 (c)(1)(B).
[12] "FHFA to Host Property Insurance Symposium." Federal Housing Finance Agency. October 16th, 2023. Available at https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-to-Host-Property-Insurance-Symposium.aspx.
[13] "Measuring the Climate Risk Exposure of Insurers." By Robert Engle, Shan Ge, Hyeyoon Jung, and Xuran Zeng. Federal Reserve Bank of New York. July 2023. Available at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1066.pdf?sc_lang=en.

prevent systemic crises, identify and address significant coverage gaps, target pre-disaster mitigation measures, and increase community resilience.

FIO's updated proposal scales back the data call from its earlier proposal, reducing the number requested data points by more than half, resulting in a significantly narrower focus. First, insurers will only be responsible for providing data related to policies for HO-3 coverage, which is the most common type of homeowners insurance. The data collection form will only have seven data fields instead of the originally proposed fifteen. Information will also now only be gathered from the 14 largest nationwide homeowners insurance groups – those with one percent or more market share.

Because the speed with which climate change is impacting insurance markets is so fast and the need for data is so acute we support the approval of this more modest proposal. However, we will urge FIO to expand its data collection in future years to provide for more robust analysis. It is important to note that the decision to reduce the collection of data from insurers means the resulting analyses will not be as thorough as the public needs. The proposed data call now includes no information on deductibles, no data on the number of claims, outstanding claims, or claims that have been closed without payments.

In addition to excluding data for policies other than HO-3, the data call will not collect information about coverage in the residual markets such as state FAIR Plans or Citizens Property Insurance companies. Nor will there be a collection of data to determine changes in the size of the force-placed property insurance market. For various reasons, excluding data from the property insurance residual markets, force-placed markets, and the less expensive homeowners insurance policy forms and Dwelling Fire policies may lead to an underrepresentation of underserved communities in this data set, and we believe it will be essential to expand a future data call to collect information on homes insured outside of the HO-3 market. Despite the omission of many important data points that we believe would further assist FIO meet its responsibility to assess climate-related risks with respect to insurance coverage gaps, we recognize that the current data call marks FIO's decision to incorporate stakeholder feedback in its final proposal.

Objections and Criticisms by Industry and State Insurance Regulators Are Without Merit

Although FIO has substantially limited the scope of the proposed data call, some regulators and industry representatives continue to question the need for the federal collection of these data. However, despite decades of proposals for state insurance regulators to collect the type of data needed to meaningfully assess insurance market outcomes for consumers, regulators have consistently refused to collect such data. The fact that state insurance regulators are currently discussing the potential collection of such data speaks volumes about the absence of such necessary data from state insurance departments. Similarly, objections by the insurance industry do not hold up to scrutiny. The industry has consistently opposed proposals for enhanced insurance market outcome data collection for decades. We also note that the property casualty insurance industry opposed climate risk disclosures for decades and has failed to prepare for the impacts of climate change on insurance risk and loss mitigation. This resistance to data collection related to the impacts of climate change on the insurance sector remains even as carriers are nonrenewing the homeowners insurance policies of millions of Americans in response, the companies declare, to the growing threat of climate change.

FIO's proposed data call will provide the granular data necessary to better assess the systemic risks and related concerns that derive from climate change's impact on homeowners insurance markets. The stakes involved in this issue are huge. It is essential that we have good data available as we determine what is to be done.

Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

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