November 15, 2021

Attn: Elizabeth Brown
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202-597-2869
Room 1410 MT
Department of the Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

Re: FIO Insurance Sector and Climate-Related Financial Risks

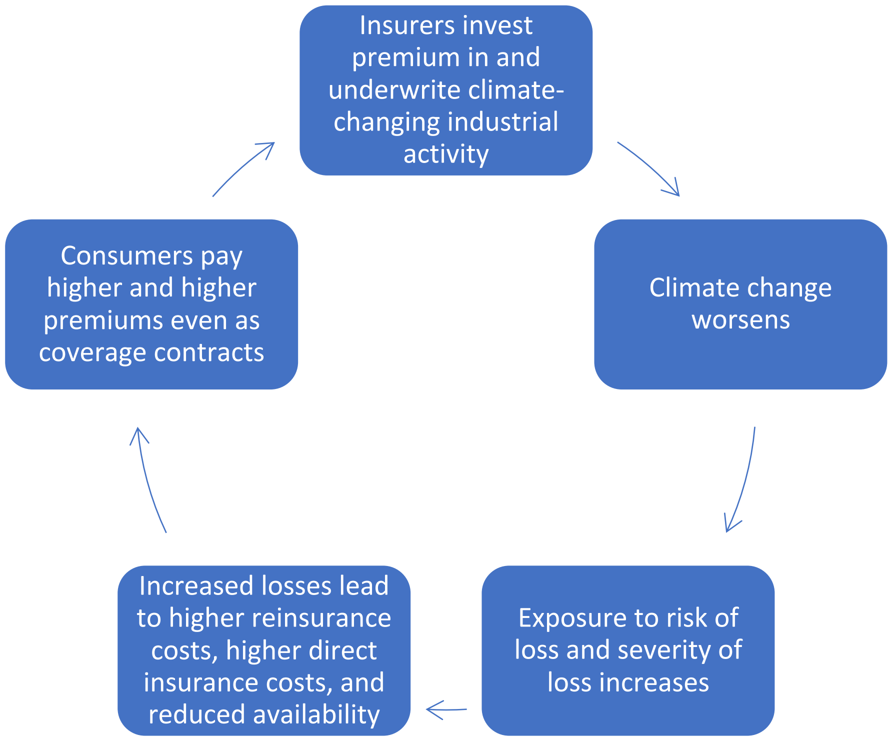
The global climate crisis is undeniably upon us and the race to avert calamity will, even if successful, be marked by significant and increasing weather-related catastrophes in the near future as well as tragic catastrophes resulting from the inadequate global response to climate change. Avoiding cataclysmic results requires the global community, and highly industrialized nations particularly, to make dramatic changes that will both reduce long-run exposure to climate risk and improve resiliency in the face of persistent near-and medium-term risks. The insurance sector is central to effectuating those responses, and the Federal Insurance Office (FIO) is well-situated to coordinate the research and strategy development that will guide insurance regulators and the industry through this critical moment.

In this letter, Consumer Federation of America (CFA), which is comprised of more than 250 nonprofit and government consumer protection organizations nationwide, the Center for Economic Justice, the Maryland Consumer Rights Coalition, and Consumer Federation of California respond to FIO's Request for Information (RFI) on the Insurance Sector and Climate-Related Financial Risks. FIO has asked for responses to a series of questions to assess climate-related gaps in the regulation of insurers, identify strategies for mitigation and resilience, and generally better understand the relationship between climate change and the insurance sector.

As a foundational point, it is important to note that the relationship between climate change and insurance, upon which the RFI builds, does not flow in only one direction. While the impact relationship flows exclusively from climate change to, for example, sea-level rise, insurers are both impacted by and contribute to exacerbating or mitigating climate change. On one hand, climate change represents a challenge to insurers' business models, coverages offered, and investments. On the other hand, the insurers facilitate business and sectors that continue to worsen climate change, though they also have the potential to underwrite businesses that address climate change and preserve our planet and humanity. While some European insurers have moved to withdraw from investments in and underwriting of coal, American insurers continue to support and underwrite businesses that exacerbate climate change largely unabated.[1] Therefore, as FIO considers how to approach its opportunities and responsibilities related to the interaction

[1] Alexander Sammon, "The Oil Merchant in the Gray Flannel Suit", *American Prospect*. September 29, 2021. Available at https://prospect.org/environment/oil-merchant-in-the-gray-flannel-suit/.

of climate risk and the insurance sector, it should approach the relationship as a cycle, as illustrated below.



Insurance companies profit when they invest in and underwrite climate-endangering industries or irresponsible developments, because the climate risk associated with the individual investments and insured properties approaches operates on a longer timeline than the insurance policy will be in force or the investment will be held. But the ramifications of investments in coal-burning facilities or the underwriting of tar sands oil extraction, for example, are playing out with growing frequency and intensity. They are increasing the loss costs associated with the property insurance purchased by car and homeowners, renters, small businesses, and farmers. The hurricanes, fires, droughts, floods, and other extreme weather events stemming from those industrial activities result in higher premiums or coverage unavailability for individual consumers. In other words, homeowners facing higher wildfire risk struggle to find an insurance policy from the industry that profited by facilitating the increase in risk; the insurance industry is, in essence, down-streaming the burden of climate change from the firms that create it to the communities that suffer under it.

It is through this frame of analysis that we respond to the Request for Information. We note, as well, that while detailed projections about the various impacts of climate change on insurable property are an important aspect of the issue, we do not attempt to address them here except to reiterate that increasingly severe wind, water, heat, drought, wildfire, and other weather events are the result of global warming. The increasing risk, as well as the fact that exposure has already expanded due to climate change,[2] demand actions in all sectors of society and the economy, including the risk transfer sector operated by insurers and overseen by state insurance departments across the country.

Our comments are also informed by a recognition that the effects of climate change and the impacts on insurance markets will not be equally distributed but will disproportionately burden lower-income residents and communities of color. These communities are more likely to be in low-lying neighborhoods with less resilient buildings and infrastructure; they are less likely to receive the community investments that mitigate the risk of catastrophic loss; they are more likely to face a lack of access to capital for rebuilding; and they are more likely to pay higher insurance premiums for lesser coverage. Researchers have noted that "low-income groups, minorities, and women (through links to poverty) suffer disproportionately from disasters and are often living in areas or in construction that is at higher risk. Disasters can act as tipping points for families and individuals on the edge, pushing the marginally homeless into homelessness, those living paycheck-to-paycheck into debt and financial insecurity, and can consume all small savings being built for housing, education, or other purposes."[3]

Building upon the directive of President Biden's Executive Order on Climate-Related Financial Risk and FIO's broad mandate to promote coordination in the insurance sector, especially with respect to matters of national and international importance, FIO is in a position to help U.S. insurance markets in their dual obligations to manage and mitigate climate risk in a manner that will better protect consumers when catastrophes come and help consumers and communities reduce future exposure to catastrophic loss. Toward this end, we urge FIO to develop Climate Risk workstreams focused on the following four areas:

1) Insurance industry investing and underwriting practices with climate impacts;
2) Availability and affordability of property insurance and the impact of climate change, particularly on lower income and minority communities;
3) Coordinating a national effort to develop and implement mitigation and resilience standards and strategies to reduce exposure to climate change-driven risk including how insurance companies might contribute to such mitigation as part of the insurance package; and
4) Developing federal and regional strategies to meet expanding capital needs for reinsuring catastrophic risks and to address critical needs when private reinsurance prices spike.

Below, we provide a framework for each of these workstreams, though we recognize that further stakeholder engagement will be necessary to flesh out the precise data that FIO should collect.[4]

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[2] The changes already impacting catastrophic risk can be seen across the nation – in Louisiana's loss of marsh and wetlands (since the 1930s, the state has lost over 2,000 square miles of land, an area approximately the size of Delaware), in the West's longer and fiercer wildfire season resulting from warmer and drier conditions, and in the encroaching ocean along the eastern seaboard as the flooding of low-lying regions intensifies.
[3] "The Role of Insurance In Coastal Adaptation: Workshop Findings." Carolyn Kousky and Helen Wiley. March 2020. Wharton School of the University of Pennsylvania. Available at https://riskcenter.wharton.upenn.edu/wp-content/uploads/2020/03/The-Role-of-Insurance-in-Coastal-Adaptation-Workshop-Findings.pdf.
[4] While our response does not respond directly to each of the questions outlined in the RFI, we incorporate relevant responses within the structure of our response. Moreover, we hope that FIO will continue to solicit input from the

We also note that aspects of each of these ideas have percolated in different ways around the country. For example, several state insurance departments have asked insurers to submit Climate Risk Disclosure Surveys; Florida has a public catastrophe reinsurance fund, and there are state-based mitigation and insurance discount programs to help incentivize risk reduction. But these disparate programs are not sufficient to address the scale of climate risk and the gaps in regulatory and industry engagement with climate risk far outweigh the limited efforts currently underway.

Workstream 1: Insurance industry investing and underwriting practices with climate impacts. The insurance industry can be regarded as two businesses working in tandem: 1) the underwriting of customers' exposure to loss in which policyholders pay a premium to the insurer so as to manage their personal or business risk to improve their financial security, and 2) the investment of policyholder premium to generate claims paying capacity and profits. Because risk transfer (insurance underwriting) is critical to the viability of industrial activity and because the insurance industry wields extraordinary financial influence as an investor of trillions of premium dollars, the insurance industry's role in facilitating the increase in climate risk and its potential to facilitate a move toward a low-carbon economy must be addressed. While some insurers in the U.S. and abroad have recognized their role in climate change and developed strategies for becoming positive forces in this effort, federal involvement is needed to facilitate a move toward what we might call Net Zero Insurance in which insurers' investing and underwriting portfolios, as well as their own operations, achieve Net Zero greenhouse gas emissions by 2050.

This workstream would gather data about insurance industry investments that contribute to climate change as well as data measuring insurer efforts to reduce those investments and to make investments that actively counteract climate change and/or build resiliency. It would also conduct research about the underwriting of climate change-inducing industry by insurers and the extent to which insurers in the U.S. and abroad are withdrawing from the market for covering climate-change inducing industry.

Workstream 2: Availability and affordability of property insurance and the impact of climate change. To assess the impact of climate risk on availability and affordability of insurance and the potentially disproportionate burden faced by lower-income residents and communities of color, we need to analyze data on availability and affordability generally. FIO should study property insurance affordability in the U.S., similar to research conducted by FIO about the auto insurance market. FIO should conduct a data call for personal lines property coverage as well as for commercial policies covering damage to multi-tenant residential properties and small businesses that gathers information about sales, premium, non-renewals, and other ZIP code level data that can help map where affordability availability problems are most acute. Layered onto that analysis would be data on the regional effects of climate change, which would help to assess the market and regulatory responses to climate-related risk and identify geographic and product areas in which consumers are most at risk of an increasing coverage gap. This mapping would also shed a light on the extent to which climate-related insurance risk is being borne by underserved populations and where economic vulnerability of some communities may require different policy responses than are needed in other communities.

consumer organizations as it refines its approach to the Executive Order, at which time we will be able to provide additional technical and policy input.

Workstream 3: Coordinating a national effort to develop and implement mitigation and resilience standards and strategies to reduce exposure to climate change-driven risk. To refine the underwriting and pricing tools that signal to consumers, for example, what home hardening actions they can take to meet insurers' eligibility requirements and earn premium discounts, FIO should work with other federal, state, and local agencies as well as insurers, consumer organizations, modeling firms, and other stakeholders to identify the most effective risk mitigations and their actuarial implications. While some insurers already include mitigation discounts, many others do not. Similarly, some states have coordinated mitigation grant and insurance discount programs, but most do not. As a data repository and convenor on these issues, FIO would help the industry and regulators incentivize effective loss mitigation strategies through premium relief as well as assist state and federal funders to determine the most effective ways to deploy mitigation and resiliency resources, giving special attention to how to assist lower-income Americans achieve safer homes, schools, and businesses.

Workstream 4: Developing federal and regional strategies to meet expanding capital needs for reinsuring catastrophic risks and to address critical needs when private reinsurance prices spike. With increasing climate change-induced exposure, private and public insurers will face larger and more expensive reinsurance needs to manage their risk. FIO should develop a series of options for creating a public reinsurance fund or funds to which insurance companies, public insurers, and quasi-public entities could cede some of their catastrophe risk at a lower price than is available in the private reinsurance market. Because a public catastrophe fund would not have a profit factor and would have different tax treatment than a private firm, this may be a way to address the growing concern that insurers will not have the capacity to insure regions that are particularly exposed to climate risks. Further, a facility such as this could be called upon to intervene in the marketplace to dampen price spikes after a large catastrophe if unregulated private reinsurers react with pricing in excess of the actuarially sound level as was seen in Florida after the 2004-2005 hurricane seasons.[5] This workstream would serve to gather input and data about existing programs and other ideas that would inform the creation of a public catastrophe fund or some other facility to help insurers and public agencies manage the increasing catastrophe exposure associated with climate change.

Conclusion

The Federal Insurance Office has begun the incredibly important task, as initiated by President Biden's Executive Order, of directing resources toward understanding the complex relationship between climate change and the insurance industry and the dangers and opportunities it presents. We urge FIO to develop an approach to convening thought leaders, collecting data, and developing strategies for confronting climate risk that emphasizes mitigation and resilience, affordability and availability, and accountability and encouragement. The insurance industry, its regulators, and its consumers have too much at stake to think small or avoid challenging topics, and we look forward to working with FIO as it takes on this very big challenge.

Please direct any questions about this letter to mdelong@consumerfed.org.

[5] Florida Office of Insurance Commissioner, March 1, 2007. Presumed Factor Report. Available at https://www.floir.com/siteDocuments/PresumedFactorReport.pdf.

Sincerely,

Center for Economic Justice
Consumer Federation of America
Consumer Federation of California
Maryland Consumer Rights Coalition