AFR EF Americans for Financial Reform Education Fund

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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
ICR Reference Number: 202311-1505-001

Americans for Financial Reform Education Fund writes to express our strong support for the Office of Management and Budget's (OMB) approval, without delay, of the Department of the Treasury's Federal Insurance Office (FIO) final proposed "Climate-Related Financial Risk Data Collection for U.S. Homeowners Multi-Peril Underwriting Data" ("data collection" or "data call") from top nationwide homeowners insurers.

We appreciate the opportunity to add our perspective as an organization dedicated to promoting housing and climate justice and advancing equitable and just housing opportunities and fair insurance markets for all people and communities. We are concerned that climate-related financial risk (CRFR) threatens these goals and will negatively impact consumers, the housing market, and financial stability, as evidenced by recent insurance disruptions and the growing insurance "protection gap."[1]

The data collection is an essential part of FIO's work in response to President Biden's Executive Order on Climate-related Financial Risk, which called on FIO to "assess, in consultation with States, the potential for major disruptions of private insurance coverage in regions of the country particularly vulnerable to climate change impacts."[2] The executive order calls on regulators to analyze and mitigate the risk climate change poses to homeowners and consumers, businesses and workers, and the financial system and the Federal Government itself.

[1] Christopher Condon and Bloomberg, "Janet Yellen sees a 'protection gap' between insurance and climate change—just 60% of 2020's $165 billion in losses got covered," *Fortune*, July 30, 2023. https://fortune.com/2023/07/30/janet-yellen-protection-gap-insurance-climate-change-disasters-treasury-secretary/#
[2] "Executive Order on Climate-Related Financial Risk," *The White House*, May 20, 2021. https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/

The data collection will also advance FIO's statutory mandates, including to "monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable non-health insurance products" and to "monitor all aspects of the insurance industry."[3] Further, this data will be critical for managing systemic risk and informing progress on the goals of the President's Executive Order on Advancing Racial Equity and Support for Underserved Communities through the Federal Government.[4]

Below, we highlight some of the reasons that FIO's efforts are critical and urgent, and identify certain additions to the data call we believe are necessary to fully achieve the goals laid out by FIO in future iterations of the data collection.

Dual Climate Change & Insurance Crises

According to the Fifth National Climate Assessment—The estimated annual direct cost to the US economy from extreme weather events caused by climate change is currently $150 billion, which includes droughts, floods, severe storms, tropical cyclones (i.e., hurricanes), wildfires, and winter storm events. Based on this research coordinated by 14 participating US government agencies, the U.S. now experiences, on average, a billion-dollar weather or climate disaster (adjusted for inflation) every three weeks, compared to once every four months in the 1980s.[5]

Increasingly prevalent and severe weather hazards caused by climate change pose a massive threat to the housing stability, affordability, and safety of communities nationwide.[6] Purchasing insurance policies is one of the few actions individuals can take to protect their property from the effects of climate-driven disasters.

The availability and affordability of insurance is a crucial housing issue: it will determine who is able to afford to live in areas that are vulnerable to extreme weather, and who will be most able to recover from climate-related disasters. Lack of availability of affordable insurance will affect not only homeowners, tenants, and small businesses, it may soon have serious implications for

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[3] "About FIO," *U.S. Department of the Treasury*, https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/about-fio

[4] "Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government," *The White House*, January 20, 2021. https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/

[5] Jay, A.K., A.R. Crimmins, C.W. Avery, T.A. Dahl, R.S. Dodder, B.D. Hamlington, A. Lustig, K. Marvel, P.A. Méndez-Lazaro, M.S. Osler, A. Terando, E.S. Weeks, and A. Zycherman, "Fifth National Climate Assessment (NCA5)," *U.S. Global Change Research Program*, 2023. https://doi.org/10.7930/NCA5.2023.CH1; https://nca2023.globalchange.gov/

[6] "Climate Change Impacts," *National Oceanic and Atmospheric Association*, December 20, 2022. Available at: https://www.noaa.gov/education/resource-collections/climate/climate-change-impacts; "FACT SHEET: The Impact of Climate Change on American Household Finances," *FIO*, September 29, 2023. https://home.treasury.gov/news/press-releases/jy1775

financial stability.[7] Unfortunately, neither the public nor even financial regulators currently have access to the data necessary to comprehensively and systematically understand insurance trends on a national level; the harm to consumers and the geographic, racial, and economic distribution of those harms; or to monitor the potential for systemic financial risk that may spill over into the broader financial system.

FIO's Submitted Data Call

FIO has accurately assessed that consistent, comparable, and granular data are needed to evaluate how climate change is harming insurance consumers and to fulfill its mandate to evaluate impacts on "traditionally underserved communities and consumers, minorities, and low- and moderate-income persons." FIO took a necessary step with this data call to better understand how climate change is affecting insurers' coverage and pricing decisions for consumers.

The data call will require certain homeowners insurance providers to disclose details about their premiums, claims, and overall climate-related exposures and how that affects insurance availability for policyholders, covering the past six years of underwriting data. This data will be collected more granularly, by zip code, rather than at the state or nationwide level where more information is currently available. However, FIO scaled back the data call from its earlier proposal, reducing the number of insurers impacted and cutting back the requested data points by half, including those related to claims denials.

Still, despite strenuous opposition from the insurance industry and some state insurance commissioner offices, FIO has rightly moved forward with this action. FIO appropriately proceeded with the data call, after it determined that state insurance regulators and the National Association of Insurance Commissioners (NAIC) could not provide, in a timely manner, the type of nationwide, granular data that FIO has a duty to collect to identify issues or gaps that could contribute to a systemic crisis in the insurance sector. We support FIO's moving forward with this data collection and making this data public, because the ability for federal, state and local governments and other stakeholders to make tailored policies to protect communities from the physical and financial impacts of climate change depends on publicly available, granular data.

The NAIC's August 2023 vague proposed data call[8] would be insufficient to generate adequate data and monitoring of this growing threat. NAIC's announcement came a year after the FIO's proposal and it is unclear on 1) a proposed timeline for implementation, 2) whether all state insurance regulators would participate, 3) whether that data would be sufficiently granular and representative of the experiences of communities across the country, and 4) whether, or how it would be shared. The NAIC and state insurance regulators should benefit from the data collected

[7] "Groups Call on FSOC to Take Action on Insurance," *Public Citizen*, November 1, 2023. https://www.citizen.org/article/groups-call-on-fsoc-to-take-action-on-insurance/#_ftn6
[8] "NAIC to Issue Data Call to Help Regulators Better Understand Property Markets," *NAIC*, August 15, 2023. https://content.naic.org/article/naic-issue-data-call-help-regulators-better-understand-property-markets

by FIO, and collaborate with FIO to improve future efficiencies in data collection and sharing. It is critical that FIO proceed in directly collecting this climate-related data from insurers rather than waiting on unanimous consent from all members of the NAIC in order to generate this type of nationwide, granular data. The NAIC should continue its important Task Force on Climate Related Financial Disclosure[9]-aligned climate disclosure data collection from members,[10] as that data is complementary to this being sought by FIO.

Costs and Benefits of Insurer Climate Data Collection

FIO has designed its data collection to efficiently produce accurate information that will be highly beneficial in informing consumers of growing climate risks. It will help FIO monitor the potential for major disruptions of private insurance coverage in climate vulnerable regions of the country and the extent to which traditionally underserved communities and individuals have access to affordable insurance products, which aligns with FIO's mandate and the stated goals of the data collection.

The data call will be efficient, minimally burdensome, and useful for many stakeholders

The information and analysis from FIO's data collection will have actual, timely use for the agency, the public and other stakeholders, and other federal regulators (financial and nonfinancial), especially the Financial Stability Oversight Council (FSOC) for which FIO plays an advisory role. This data collection and analysis should help inform private and public efforts at the federal, state, and local levels to target pre-disaster mitigation and resilience measures and to improve policy in this area.

In an attempt to "streamline" the collection of data and respond to industry concerns, FIO has trimmed down its collection from the initial proposal to the final proposal, for example from 15 data fields to only 7 data fields, and cut Homeowners Multi-Peril with six form types down to one form type covering only Owner Occupied Homeowners (form type HO-3). In our view these changes amount to substantial unnecessary concessions, in the words of FIO, to "facilitate a more effective implementation of the collection."[11] Nonetheless, the remaining data fields are important and additive and complementary to the data which has been previously collected from NAIC related to CRFR.

[9] "Task Force on Climate-related Financial Disclosures," 2023. https://www.fsb-tcfd.org/

[10] "Proposed Redesigned NAIC Climate Risk Disclosure Survey," *NAIC*, March 2022. https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey_0.pdf

[11] "Treasury's Federal Insurance Office Advances First Insurer Data Call to Assess Climate-Related Financial Risk to Consumers," *U.S. Department of the Treasury*, November 1, 2023. "https://home.treasury.gov/news/press-releases/jy1867#:~:text=The%20data%20collection%20is%20part,regions%20of%20the%20country%20particularly

FIO has considered and addressed concerns in its data call related to privacy and proprietary information[12] by proposing to publish its analyses based on group-level submissions that will be aggregated across insurance groups to the ZIP Code level.

The data call will allow a clearer assessment of fiscal risks
Systemic risks such as those arising from climate impacts on the insurance markets can lead to large fiscal impacts, where the public is likely to be left to shoulder costs. Information that would help quantify the extent and nature of insurance coverage gaps is increasingly important because, as noted in the U.S. Senate Budget Committee hearings in July 2023, "…it is the federal government who is disproportionately footing the bill for billions in grants and loans to expedite reconstruction of this infrastructure, for example, in Florida."[13] Insurance coverage gaps, when combined with accumulating shifts in normal weather conditions, contribute to economic stress on states, counties, municipalities, the federal government, as well as ratepayers and taxpayers, and can reduce revenues that could be used for other public works expenditures.

Analysis from the data call will be used by federal financial regulators to assess threats to financial institutions' safety and soundness and financial stability
Unlike other stakeholders such as state insurance departments, FIO has a duty to respond to emerging threats to financial stability posed by the growing insurance gap, promoting measures that build the capacities of financial institutions, municipalities and consumers—particularly in LMI and BIPOC communities— to manage climate risks, and that ensure a just allocation of risks and related costs.[14]

Additionally, FIO serves as a bridge between the insurance markets and federal financial regulators who are increasingly concerned about insurance, seeking more information about the exposure of their supervised institutions and risks to the agency backstop funds, and could benefit from this data collection in a way they might not if conducted by other parties such as the NAIC. Examples showing the growing recognition from financial regulators of CRFR to and from insurers include:

- FSOC's Climate Related Financial Risk Committee (CFRC) Risk Assessment Working Group has concluded that "Given their role in mitigating climate-related risks for other actors, insurers and reinsurers are closely interconnected with other financial institutions,

[12] Pg. 23. "Agency Information Collection Activities; Submission for OMB Review; Comment Request; Federal Insurance Office Climate-Related Financial Risk Data Collection for U.S. Homeowners Multi-Peril Underwriting Data," *Department of the Treasury*, https://home.treasury.gov/system/files/136/FIO-Revised-Data-Collection-Federal-Register-Notice.pdf

[13] "Beyond the Breaking Point: The Fiscal Consequences of Climate Change on Infrastructure," *US Senate Committee on the Budget*, July 26, 2023. https://www.budget.senate.gov/hearings/beyond-the-breaking-point-the-fiscal-consequences-of-climate-change-on-infrastructure

[14] "Groups Call on FSOC to Take Action on Insurance," *Public Citizen*, November 1, 2023. https://www.citizen.org/article/groups-call-on-fsoc-to-take-action-on-insurance/#_ftn6

including banking institutions, mortgage lenders, and other capital market participants such as asset managers and alternative investment vehicles."[15]
- The Federal Reserve Bank of New York emphasized in a recent staff report[16] that insurers are a "key channel through which climate risk can threaten broader financial stability."
- The Federal Housing Finance Agency held a two-day insurance symposium on November 15 and 16, 2023 to, "... foster dialogue on the growing challenges related to the availability and affordability of property insurance."[17]

More Data Needed

We urge OMB to approve FIO's data collection, because there is no time to waste as the climate crisis proceeds and the insurance markets falter. However, we also wish to note that FIO scaled back this data collection from what it had earlier proposed when it should have in fact gone further in its final proposal. We need more data, not less, to fully capture the harm to consumers from steep increases in prices or withdrawals of coverage, disparate impacts on BIPOC and underserved communities, and the potential for systemic financial risk that may spill over into the broader financial system.

Additional data that we seek through FIO but which has not been included in this data collection, includes:

- Information on policy cancellations and underinsurance;
- Disaggregated non-renewals data to differentiate between non renewals that are policyholder-initiated or insurer-intiatied (i.e., renewals denials); information on reason for either type of non renewal, for example if the policyholder switched insurers or could no longer afford any type of insurance;
- Data collection at the census tract level, including additional information needed to establish economic, racial discrimination, or other discrimination within census tracts;
- Public data on specific companies or groups, comparisons and analysis of results across insurers, and information on the solvency of insurance companies or groups based on the data collected;
- Data on additional policyholder types affected by climate change such as renters and mobile (manufactured) homeowners;
- Data on total dollar amount of insurance deductibles;
- Data on outstanding claims, claims delays and underpayments, or claims closed without payment; and,
- Additional types of insurance (e.g., auto) affected by climate change.

[15] "Climate-related Financial Risk: 2023 Staff Progress Report," *FSOC*, July 28, 2023. https://home.treasury.gov/system/files/261/FSOC-2023-Staff-Report-on-Climate.pdf
[16] https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1066.pdf?sc_lang=en
[17] "News Release: FHFA to Host Property Insurance Symposium," *FHFA*, October 16, 2023. https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-to-Host-Property-Insurance-Symposium.aspx

In addition, FIO should host field hearings across the country and roundtables with homeowners, renters, local government officials and community-based organizations, including housing counseling agencies to understand how climate-related insurance issues are presenting on the ground.

Despite the omission of many important data points that we believe are needed for FIO to fully meet its goals in assessing climate-related financial risks to consumers, the current proposed collection will efficiently produce valuable information in furtherance of FIO's mission, and the data collection must commence as soon as practicable as the insurance crisis is expanding each year. We hope to see the additional data points included in future iterations of FIO's annual data collection.

Conclusion

We thank OMB for its thoughtful review of FIO's data collection request and urge swift approval.

Sincerely,
Americans for Financial Reform Education Fund

AFREF and partners submitted a more detailed comment with recommendations in December 2022 in response to FIO's initial data call proposal.