December 20, 2022

Via Federal eRulemaking Portal (http://www.regulations.gov)

Federal Insurance Office
U.S. Department of the Treasury

**Re: FIO Climate-Related Financial Risk Data Collection Comments**

To Whom It May Concern:

Environmental Defense Fund ("EDF") respectfully submits the following comments to the Federal Insurance Office ("FIO") of the Department of the Treasury regarding the FIO's proposed Climate-Related Financial Risk Data Collection ("Proposal").[1] One of the world's leading international nonprofit organizations, EDF creates transformational solutions to the most serious environmental problems. To do so, EDF links science, economics, law, and innovative private-sector partnerships. As detailed below, EDF supports the Proposal and its swift finalization, and additionally offers a set of recommendations for the FIO's consideration.

## I. Background and Need for the Proposal

EDF supports the FIO's proposal to collect information from property and casualty insurers regarding current and historical underwriting data on homeowners' insurance. This data collection would mark a critical step towards understanding how climate-related disasters may affect the availability and affordability of insurance for U.S. households. This data is also needed to assess the systemic risks that climate change could pose to both the insurance industry and the U.S. financial system more broadly.[2] In the FIO Act, Congress authorized the FIO to monitor issues relating to availability, affordability, and systemic risk in the insurance industry,[3] and to

[1] Dep't of the Treasury, Agency Information Collection Activities; Proposed Collection; Comment Request; Federal Insurance Office Climate-Related Financial Risk Data Collection, 87 Fed. Reg. 64,134 (Oct. 21, 2022) [hereinafter "Proposal"].
[2] FIN. STABILITY OVERSIGHT COUNCIL, REPORT ON CLIMATE-RELATED FINANCIAL RISK 3 (2021), https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf ("Climate change is an emerging threat to the financial stability of the United States.").
[3] 31 U.S.C. § 313(c)(1) ("The Office, pursuant to the direction of the Secretary, shall have the authority . . . to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system . . . [and] 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.").

gather information from insurers in order to carry out these functions, in coordination with other regulators.[4] In light of the severe and increasing impacts of climate change, this Proposal is important for the FIO's fulfillment of its statutory responsibilities.

The nation-wide, all-hazard approach and geographic granularity of reporting are key aspects of the Proposal's effectiveness because climate change impacts manifest throughout the U.S. but vary within and across regions in terms of impact type and severity.[5] Likewise, the FIO's focus on underwriting for purposes of this collection is sensible. As noted by the Proposal and described by EDF in a 2021 joint comment letter to the FIO,[6] climate-related risks intersect with insurers' investing activities and other market activities as well as their underwriting activities. As such, the FIO should consider additional future actions to comprehensively assess these intersections of climate-related risks with the FIO's statutory mandate.

## II. Recommendations

In response to the questions posed in the Proposal, EDF offers the following recommendations for the FIO's consideration.

### A. The FIO should consider collecting data from a longer time period to better assess climate shocks (Question 6)

The FIO proposes collecting data across a five-year period from 2017 to 2021. The FIO acknowledges that 2017 was a record year of catastrophe losses and, therefore, would be an important benchmark to include. However, disaggregating how insurers respond to both catastrophic shocks (events) and the longer-term knowledge of increasing risk (trends) will be important to project how markets will evolve across time. Incorporating data prior to high-loss years would provide a more complete record to help distinguish between events and trends. Accordingly, the FIO should consider collecting historical data across a ten-year period, from 2011 to 2021.

### B. The FIO should consider planning for ongoing monitoring of climate-related risks (Question 11)

Collecting data on an initial baseline for market performance is important. However, much of the impact that climate change will have on catastrophic loss events in the U.S. is yet to come.[7] Understanding that there will be important learnings from this initial climate data call and other developments, the FIO should consider establishing an ongoing, periodic data call to track

[4] 31 U.S.C. § 313(e).
[5] Alexa Jay et al., *Overview, in* IMPACTS, RISKS AND ADAPTATION IN THE UNITED STATES: FOURTH NATIONAL CLIMATE ASSESSMENT, Volume II 47-50 (D.R. Reidmiller et al. eds., 2018).
[6] Letter from Inst. for Policy Integrity, Env't Def. Fund, Sabin Ctr. for Climate Change Law, & Initiative on Climate Risk and Resilience Law to FIO, Request for Information on the Insurance Sector and Climate-Related Financial Risks (Nov. 15, 2021), https://www.icrrl.org/files/2021/11/FIO_RFI-Comments.pdf.
[7] *See, e.g.*, NOAA, Geophysical Fluid Dynamics Lab., Global Warming and Hurricanes: An Overview of Current Research Results (Nov. 28, 2022), https://www.gfdl.noaa.gov/global-warming-and-hurricanes/.

changes in markets over the coming decades. Planning for periodic data requests from the outset will help inform how the initial data call is structured and enable insurers to establish efficient workflows.

### C. The FIO should consider including population exposure, social vulnerability, and climate projections in its determination of top "potential climate-vulnerable states" (Question 9)

EDF supports the approach of collecting data from the majority of the insurance market for states that face a high level of climate-related risk. However, the designation of the ten states with the highest Expected Annual Loss ("EAL") in the Federal Emergency Management Agency ("FEMA") National Risk Index does not necessarily capture the states with the highest number of households at risk, nor the states with the most households that would endure significant financial impacts by insurance market changes. This is especially important when considering shifts in the homeowner insurance market, as FEMA's EAL is a composite of broader economic impacts that would not directly translate into home insurance response (such as agriculture markets). Additionally, the impact of changes to insurance underwriting and pricing will hit lower-income households harder, as they have less capacity to afford higher insurance or self-insure. Without assessing these aspects, the data collection may not sufficiently cover the markets where the most households would be most severely affected by insurance market shifts.

In developing its set of priority states, the FIO should continue to identify the top states in terms of EAL, but also identify the states with the highest number of households exposed and the largest populations that would be socially and economically disrupted by insurance market shifts. The priority climate-vulnerable states for the purposes of the FIO's data collection should encompass all states that rank highly on any of these criteria, and should exceed ten if need be.

The FIO should also consider including climate projections in its determination of priority states for data collection, particularly in preparation for the ongoing monitoring recommended above. The FEMA National Risk Index relies on historic events to estimate expected annual loss; this is appropriate when looking at historical data. However, it does not capture where projected climate change impacts may worsen disasters (with the exception of coastal flooding due to sea level rise). To estimate which states may face the greatest climate impacts in future years, the FIO should refer to additional datasets, such as those included in the Climate Mapping for Resilience and Adaptation tool,[8] that project expected climate impacts going forward. Any state facing high projected impacts not already included in the priority states should be added from the outset to ensure a robust baseline analysis.

[8] Climate Mapping for Resilience and Adaptation, https://resilience.climate.gov/ (last visited Dec. 8, 2022).

### D. The FIO should consider collecting policy data that captures dropping perils and underinsurance (Question 4)

The Proposal focuses on multi-peril homeowners' insurance, as it is directly impacted by weather-related events and typically includes a variety of perils. As currently structured, the Proposal treats "all-peril" homeowners' insurance as a comparable and consistent product across providers and time. However, long-standing trends in insurance have shown that instead of dropping all underwriting immediately, insurers may instead begin to create holes in policies and limit payouts, placing more risk back on the insured – and the policyholder might not be aware. For example, insurers are imposing sub-limits on certain types of damages (that is, limiting payouts to far less than the coverage cap for designated impacts, such as a burst pipe or certain types of roof damage), putting in place higher deductibles for disasters (such as so-called "hurricane deductibles" in the Southeast), and excluding certain damages altogether (even beyond flood damage, which has long been excluded), such as mold damage. Furthermore, there is increasing post-disaster evidence that many policyholders may be underinsured, meaning they have insufficient coverage to fully rebuild, and that underinsurance can hamstring recovery. A data collection that does not capture peril-dropping and underinsurance would miss key signals about how insurers may be decreasing underwriting of damage, even if the number of policies remains the same.

EDF recommends that the FIO collect more specific policy coverage data to better capture policy limitations and underinsurance. The FIO could, for instance, define the perils that it expects would comprise a "multi-peril" policy; for all homeowners' policies that do not match that definition, insurers could indicate the categories of hazards covered in their policy types. In addition to "Total Replacement Cost Value" of the policy coverage, the FIO could request total replacement cost value of the home as well.

### E. The FIO should consider including private flood and wind insurance policies in the data call (Question 2)

The market for private peril-specific insurance continues to grow, often in markets where perils have been carved out of homeowners' policies. As written, this data call excludes these insurers, citing other data analysis efforts through the NFIP. However, there are no complete historical records of the growth of private peril markets, how they relate to changes in all-peril homeowners' underwriting, and what their underwriting stability has been. The National Association of Insurance Commissioners ("NAIC") includes private flood insurers in its Financial Annual Statement as of 2021,[9] but that cannot provide comparative data to the FIO's intended establishment of a historical baseline.

EDF recommends including private peril (typically flood and wind) insurers in the data call within the priority states. Paired with policy data that capture dropped perils in homeowners'

[9] NAIC, Private Flood Insurance Data Call, https://content.naic.org/industry_private_flood_data_call.htm (last visited Dec. 8, 2022).

insurance, as recommended above, this would provide a robust picture of how risk is shifting between insurers and policy types in some markets.

### F. The FIO should consider gathering data at the census tract scale (Question 7)

The FIO data call proposes gathering policy data at United States Postal Service ("USPS") zip code level. While geographically granular data is key, aggregating data at the census tract scale, rather than the zip code scale, could offer important advantages for integrating with demographic and socioeconomic data, facilitating more accurate analysis of impacts to vulnerable communities. First, USPS zip codes are not geographically consistent over time and space, and are not Census-defined geographies that match socioeconomic data collected through the Census Bureau.[10] Techniques for comparison with census data, such as using zip code tabulation areas or crosswalk files based on population distribution data,[11] introduce imprecision into estimates.[12] Second, while zip codes tend to be roughly comparable in land area, census tracts are more comparable in terms of population.

EDF recommends that the FIO construct the data call to be at the census tract scale, to enable accuracy, consistency, and efficiency when integrating this data with other relevant datasets in future analysis. This format would also align with current public data of other insurance programs, such as NFIP, and would enable better analysis across these programs.

### G. The FIO should consider further collaboration with the broader research and regulatory community and publication of aggregated data and analyses (Question 14)

The Proposal notes that data collection will be conducted securely and that it will not publish confidential firm-specific data, in accordance with the confidentiality provisions of the FIO Act,[13] though it may publish aggregated analyses. Though the FIO's data call presumably corresponds with a research and analysis plan, the Proposal does not detail how analysis of the requested insurance data would be structured and what other data would be used in generating analysis of climate-related market trends or affordability issues. There is much expertise in the fields of climate risk, disaster recovery, and insurance research that could be called upon as the FIO refines research design, control techniques, and definition of key variables or outputs.

EDF recommends that the FIO continue to engage with other regulatory agencies and external experts, including further engagement with NAIC, as it refines its plans for collection and use of this data. For instance, the FIO could formalize engagement through an advisory panel of researchers, state regulators, and other federal agencies that conduct relevant research. EDF also

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[10] U.S. Census Bureau, ZIP Code Tabulation Areas (ZCTAs), https://www.census.gov/programs-surveys/geography/guidance/geo-areas/zctas.html (last visited Dec. 8, 2022).
[11] Dep't of Housing and Urban Dev., HUD USPS Zip Code Crosswalk Files, https://www.huduser.gov/portal/datasets/usps_crosswalk.html (last visited Dec. 8, 2022).
[12] Tony H. Grubesic & Timothy C. Matisziw, *On the use of ZIP codes and ZIP code tabulation areas (ZCTAs) for the spatial analysis of epidemiological data*, 5 INT'L J. OF HEALTH GEOGRAPHICS 58 (2006).
[13] 31 U.S.C. § 313(e)(5).

recommends that the FIO make non-sensitive, appropriately aggregated data and analytical products available publicly and to researchers to the extent possible, consistent with its confidentiality obligations. This would create transparency and facilitate secondary research that may prove valuable in understanding the many facets of climate-related risks to the insurance system.

## III. Conclusion

The FIO's Proposal is a crucial step towards better understanding climate-related risks to the availability and affordability of insurance for U.S. households, as well as to the stability of the insurance industry and financial system more broadly. The Proposal addresses issues that implicate the FIO's core responsibilities and should be swiftly finalized pursuant to the FIO's clear and express authority granted by Congress in the FIO Act. EDF appreciates the FIO's attention to these issues and its consideration of these comments.

Respectfully submitted,

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