

VIA EMAIL

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Attention:  
Steven Seitz  
Director, Federal Insurance Office

Re: Federal Insurance Office Climate-Related Financial Risk Data Collection  
Comments

Dear Director Seitz:

On behalf of the Natural Resources Defense Council (NRDC), we are pleased to submit these comments on the Proposed Collection on Climate-Related Financial Risk Data for insurance entities issued by the Federal Insurance Office (FIO). NRDC is an international nonprofit environmental organization with more than 3 million members and online activists. Since 1970, our lawyers, scientists, and other environmental specialists have worked to protect the world's natural resources, public health, and environment. NRDC has offices in New York City, Washington D.C., Los Angeles, San Francisco, Chicago, Montana, and Beijing. Through its finance and legal experts, NRDC remains engaged in financial regulation and views sensible financial regulation as an integral part of mitigating climate change.

We appreciate the FIO taking this major step to assess climate-related exposures, their effects on insurance availability for policyholders, and how they can disrupt insurance coverage in regions of the country vulnerable to climate change impacts.

The overview section sensibly describes the threat posed by climate change, both from physical risk and from transition risk, on both the asset and liability side of an entity's balance sheet. It is paramount that the collected data allow the FIO to identify and accurately assess climate change-related impacts insurance entities' exposures and underwriting.

FIO should collect transition risk data as part of the proposed data collection

Although we appreciate that the proposed data collection is intended to focus on how climate change physical risk may jeopardize insurance policy availability, we believe the current exercise is a valuable opportunity to collect data on the transition risk residing on the asset side of insurance companies' balance sheets.

Impairments and market declines in the value of investments facing transition risk, such as investments in fossil fuel producers, is a major concern that needs to be addressed. Insurance companies' liabilities on their balance sheets stem from payouts of policies that they sell. To pay for these liabilities, insurers generally invest the premiums they receive from customers in the capital markets, making insurance companies some of the most significant institutional investors in the market. According to one estimate, U.S. insurance companies have \$582 billion invested in fossil fuels<sup>1</sup>. In order to understand the risks insurers face beyond policy payouts, we must assess their investment portfolios and the impact climate will have on the asset side of the balance sheet.

To help assess the extent of the financial risk to insurance company balance sheets posed by climate change, the FIO should expand its data collection to encompass transition risk, such as the risk posed by investments in the fossil fuel industry.

The FIO should request information on wind insurance, private flood, supplemental insurance, and renter's insurance.

Property and casualty insurance will provide baseline data for assessments, but it does not provide all pertinent data needed to fully grasp the climate-related exposures on insurers. The FIO should request data on the uptake of supplemental coverages, such as basement backup policies in urban areas where flooding is not caused by a river or storm surge, but rather caused sewage backing up into their house. We also recommend that the FIO determine which states have active private flood insurance markets, for both residential and commercial properties. Additionally, the FIO should look at renters' insurance coverage in addition to homeowners. This will provide a more complete view of the residents in climate disaster-prone areas, and how exposed an insurer's liabilities are to climate change. Wind-related disasters are not universally covered by multi-peril homeowner policies. While some states like Texas and North Carolina have their own wind insurance facilities, most states lack wind related policies.

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<sup>1</sup> Mufson, Steven. *What could finally stop new coal plants? Pulling the plug on their insurance.* 26 October 2021. <https://www.washingtonpost.com/climate-environment/2021/10/26/climate-change-insurance-coal/>

Louisiana and Florida, in particular, have seen several insurers declare bankruptcy this year, and this was before Hurricanes Ian and Nicole. The FIO should work to understand which lines of coverage contributed to those failures and what ripple effect it will have across those states.

Puerto Rico and Alaska should be included in the analysis

It is also highly recommended that Puerto Rico and Alaska be included in the analysis. These areas have had their fair share of disasters and climate-vulnerable populations are not well served by traditional approaches. For instance, Puerto Rico is a place where flood risk is often wrapped into a regular homeowners policy, since there are very few NFIP (National Flood Insurance Program) policies there.

The National Risk Index (NRI) is a useful resource but has limitations.

The NRI is based on historical data and does not provide projections of future risk. Thus, for most communities, the Index shows what the risks were, not what will be. Furthermore, the National Risk Index is heavily weighted toward financial exposure—areas rated as highest risk are those with more dense and expensive assets and where property damage totals may be high. However, if one is trying to assess risk faced by low-wealth populations or rural areas then using a metric that is heavily weighted towards expensive properties and assets may not provide the clearest picture. To compensate for only using the financial exposure component of the NRI, the FIO should consider other components of risk, not just financial exposure. Towards that end, the FIO may want to consider a wider array of data such as FEMA (Federal Emergency Management Agency) Individual Assistance grants, health and workers compensation claims data, and information on displacement from homes. These, when combined with NRI, may provide a clearer picture of high-risk areas for low-wealth populations.

FIO should request data of non-renewals for homeowners and rental policies

The FIO needs to understand where gaps of insurance coverage exist due to affordability and/or availability issues. The FIO should request data of policies that have chosen not to be renewed, which could signify geographic areas where gaps in insurance might arise due to affordability issues. For example, in California, the 2017–2018 wildfires caused significant turbulence in the state’s insurance market, with non-renewals of residential insurance policies jumping by 31 percent to

235,250 in 2019 alone<sup>2</sup>. The FIO should also distinguish non-renewals (i.e., policy not renewed at the policy holders' discretion) and termination of coverage by the insurer. It would be helpful, as able, for the FIO to figure out what the insurance gap is in states. Being able to compare the number of multi-peril policies, hazard specific riders, and other hazard specific policies (e.g., flood and wind), that are in place compared to the number of households in each zip code would also be useful.

### Granularity of data should be at census tract-level

Data should be requested at census tract-level for better analytical comparisons. Having census tract-level data is extremely useful, primarily for comparing it with other types of information. While using zip codes make sense, but zip code tabulation areas only reflect USPS (United States Postal Service) service areas—rather than geographic, demographic, or government characteristics—while census tracts are specifically drawn to be comparable to each other, have a standard number of residents, to be internally similar, and align with other geographic units used by the census bureau—therefore they are more useful for analysis.

Disaster prone areas are naturally subject to declining property values, thus can potentially increase the prospect of defaults and uninsured disaster losses. This can cause insurers to withdraw underwriting policies for high-risk areas, which consequently will decrease investments in these communities causing a decline in the local tax base needed to pay for climate resiliency upgrades. Instances of such acts include insurers pulling out of coverage in California due to wildfires<sup>3</sup>, and in Louisiana, where loss from hurricanes could prompt insurers to withdraw from the state<sup>4</sup>; case in point, damage from Hurricane Ida in 2021 caused the shuttering of two regional insurers<sup>5</sup>. For this reason, we need granular data based on census tract data on all geographies to understand where gaps exist in coverage.

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<sup>2</sup> California Department of Insurance. *Data of Insurance Non-Renewals FAIR Plan, and Surplus Lines (2015-2019)*. 19 October 2020. <http://www.insurance.ca.gov/0400-news/0100-press-releases/2020/upload/nr104Charts-NewRenewedNon-RenewedData-2015-2019-101920.pdf>

<sup>3</sup> Vankin, Jonathan. *California's Fire Insurance Crisis: Why It Happened and What Can Be Done to Fix It*. 23 September 2021. <https://californialocal.com/localnews/statewide/ca/article/show/635-california-fire-insurance-crisis/>

<sup>4</sup> Finch II, Michael. *Louisiana's Homeowners Insurance Market Straining Under Weight of 600,000 Claims*. 2 April 2022. [https://www.nola.com/news/article\\_1aa57ff2-b205-11ec-8b04-5391d3bc8214.html](https://www.nola.com/news/article_1aa57ff2-b205-11ec-8b04-5391d3bc8214.html)

<sup>5</sup> AP News. *2 Louisiana Insurance Company Fails After Hurricane Ida*. 5 December 2021. <https://apnews.com/article/business-louisiana-hurricanes-hurricane-ida-8c7ce612e7592879d0f7dbcf5b173f85>

We thank the Commission for its consideration of our comments, and we would be glad to follow up if you wish to speak with us about any aspect of them.

Sincerely,

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