December 20, 2022

Elizabeth Brown
Senior Insurance Regulator Policy Analyst
Room 1410 MT
Department of the Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

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

Dear Ms. Brown,

When Hurricane Ian slammed into Florida's coastal communities, it left tens of billions of dollars in storm damage in its wake and evidence of a growing crisis in Florida's insurance industry. Even before the storm hit, 400,000 consumers had already lost their insurance in 2022 alone as insurers retreated from the state or went under. Consumers had fewer options that cost more and covered less, with the number of consumers relying on Florida's expensive state insurer of last resort, Citizen's, reaching a record-breaking 1 million.

Florida's situation is not unique. Across the country, insurers that fueled the climate crisis with their underwriting and investment decisions are now scrambling to protect their profits at the expense of communities harmed by climate-related disasters like hurricanes, torrential thunderstorms, and wildfires. Due to a history of racist policies and underinvestment, climate risks like flooding and wildfires disproportionately harm minority and low-income communities. Patterns of denials, delays, and underpayments mean that some consumers will survive devastating disasters only to face a multi-year endurance fight with their insurance company.

If these trends continue, the combination of a climate crisis and an insurance industry retreat could create an affordability crisis that threatens Americans' homes, life savings, and the economies of already vulnerable regions. In 2021, President Biden's Executive Order on Climate-Related Financial Risk instructed the Treasury Department to direct FIO to assess the potential for major disruptions of private insurance in regions of the country particularly vulnerable to climate change impacts. Pursuant to that same order, the Financial Stability Oversight Council recognized that climate change poses a threat to financial stability and has given clear direction for all participating agencies to respond to that threat.

Public Citizen and 75 undersigned organizations appreciate this proposal as a crucial step to implement the Executive Order and respond to the threat that climate-related financial risks pose to insurance markets. We agree with FIO's assessment that consistent, comparable, and granular data are needed to evaluate how climate change is harming insurance consumers and to fulfill FIO's mandate to evaluate impacts on low- and moderate-income, minority, and traditionally underserved communities.

To meet these goals, FIO will need to examine a broader set of insurance lines and dwelling types. FIO should expand the current proposed collection to capture data on all residual market facilities, on climate-related perils that may be excluded from multi-peril homeowners insurance, such as wildfire and wind, and on additional insurance lines like renters insurance.

Once the data is collected, FIO should publish the collected data in disaggregated form and in a format accessible for further analysis by academic or independent researchers. It should also provide detailed recommendations on how to maintain access to affordable insurance. The Treasury Department should properly prioritize and support FIO for this data collection effort, as well as future annual collections, reports, and recommendations to match the scale of a growing crisis.

I. To meet the stated goal of evaluating access to affordable insurance for traditionally underserved, minority, and low- and moderate-income communities, FIO should collect data on additional types of insurance.

By collecting data only on select homeowners multi-peril insurance lines, the proposal would capture climate-related effects on a relatively wealthy and white population, undermining FIO's goal of monitoring access for underserved communities. It would also exclude consumers in the highest-risk areas who cannot find coverage in the voluntary market or who need additional fire coverage. And by focusing exclusively on residences, it would miss the broader range of climate-related financial impacts on insurance consumers.

To cover the highest-risk consumers and identify those who cannot afford private insurance, the proposed collection should cover state residual markets. State FAIR plans, created for consumers who cannot find traditional coverage, have grown rapidly. Citizens Property Insurance Corporation in Florida is projected to exceed 1.5 million homes. Consumers use these more expensive and more limited plans when they cannot access insurance in the rest of the market. The number of consumers relying on FAIR plans would be a clear metric for determining the availability of insurance, and the costs they pay for these plans are important data on affordability.

To address the impact of wildfires, one of the most significant climate-related hazards, FIO should include additional analysis of fire insurance. The number of homes at risk from wildfires is projected to reach 80 million over the next thirty years, affecting one in five single-family homes. As wildfires become more frequent and intense, multi-peril homeowners coverage is increasingly insufficient. FIO should collect data on standalone fire insurance and examine the extent to which insurance companies are responding to risk by eliminating coverage for wildfires in homeowners insurance. House Financial Services Chair Maxine Waters recently introduced the Wildfire Insurance Coverage Study Act, which requires studies on homeowners insurance coverage and commercial property insurance coverage for damage from wildfires. FIO should treat the trends and issues outlined in that bill as a baseline.

The proposed collection should also cover additional residence types, with a focus on underserved communities. FIO should expand the proposed collection to cover a wider range of policy types, such as condominium insurance and insurance for condominium associations, as well as renters insurance. Low-income consumers are more likely to rent and often need insurance in order to obtain a lease. FIO should also evaluate the use of force-placed insurance, a controversial practice subject to numerous investigations in which lenders force consumers to pay for more expensive and limited coverage when their policy has lapsed.

Access to affordable insurance for businesses and cars is also crucial to communities seeking to rebuild from climate disasters. FIO has already committed to continually monitor the affordability of auto insurance, and it should take this opportunity to evaluate whether climate-related risks are affecting auto insurance. Small businesses are essential to keeping vulnerable communities financially afloat amidst disasters, and FIO should work toward evaluating commercial multi-peril insurance required for businesses as part of a cumulative effort.

II. FIO should collect data granular enough to examine disparities in access and sufficient to cover multiple ways that insurance companies shift risks to consumers.

Granular data, at least at a zip-code level or, preferably, at the census tract level, are necessary to confirm both the impacts of physical climate risks and whether vulnerable communities disproportionately bear those costs. FIO has the authority to collect and analyze this data and a responsibility to monitor harms to specific communities. Evidence suggests underserved communities also wait longer for private insurance payments and receive less federal aid in the aftermath of disasters. Without sufficiently granular data, FIO may not be able to identify troubling patterns. We also agree that collecting data over five years, from 2017 to 2021, which would include Hurricane Harvey, Maria, and Irma, as well as a series of devastating fires in California, would help evaluate trends over time and examine the impact of major climate disasters.

To ensure that this data keeps pace with a rapidly evolving crisis, FIO should collect nation-wide data on an annual basis. The proposed data collection would allow FIO to examine non-renewals, claims denials or low payments, lower coverage limits, higher deductibles, and premium increases, all of which may change in newly affected zip codes as the crisis worsens. Annual and national data can help consumers, regulators, and legislators better understand the relationship between climate disasters and rising insurance impacts, and develop an early warning system about the consequences of physical climate impacts.

FIO should collect data on cancellations and claims delays, which also affect the availability and affordability of insurance coverage. The proposed collection includes data on the number of policies that are not renewed at the end of the policy term. To inform strategies for moratoriums on cancellations, it should also include the number of policies that were canceled during the policy term. The proposed collection also includes claims closed without payment, but FIO should also collect information on the amount of time it takes for claims to be paid. Long delays can effectively become denials, and these are particularly harmful to vulnerable communities that already lack the credit access to fund repairs. If sufficiently granular data on delays are not available in the Market Conduct Annual Statements filed by insurers the NAIC, FIO should collect this information from insurers.

III. FIO should use the collected data and resulting analysis to inform recommendations to regulators and legislators on how to protect vulnerable communities.

Once the data are collected, FIO should publish the collected data in the most granular form that meets FIO's statutory mandates, for instance, fields collected at a zip code level. Publishing the data would allow academic and independent researchers to produce further analysis to examine particular trends or evaluate proposed solutions. FIO should concurrently publish a report highlighting high-risk areas and work with the Federal Advisory Committee on Insurance and other stakeholders to develop solutions to the threats those communities face. FIO should also highlight broader risks to the mortgage market and financial stability via FIO Director's advisory role on the Financial Stability Oversight Council.

FIO should also encourage insurers and their state regulators to use the tools they have to address the interplay between the climate crisis and insurance markets. This should include incentivizing resilience by requiring insurers to provide discounts to homeowners' who take steps to mitigate physical risks to their homes. Worsening climate change impacts will only further threaten the availability and affordability of insurance in vulnerable areas. Insurers are intensifying these problems, eroding their own markets and harming their consumers by underwriting and investing in high-emitting projects like fossil fuel development. FIO should recommend that regulators encourage or require insurers to stop harming insurance markets and insurance consumers by investing in and underwriting projects that are not aligned with science-based emissions limits, therebying increasing climate-related harms.

In particular, FIO should address how insurers continue to fuel the climate crisis by investing in and providing insurance to the fossil fuel industry. State regulators can follow the lead of the New York Department of Financial Services by encouraging insurers to manage climate-related financial risks by reducing their investments and underwriting of fossil fuels. FIO should also recommend that the Financial Stability Oversight Council and Office of Financial Research investigate the effects of insurer responses to the climate crisis on financial stability.

Conclusion

The proposed data collection and report represents an important step toward evaluating a growing crisis for insurance consumers and providing recommendations for solutions. But to capture the risks facing vulnerable communities, FIO should collect additional data. Moreover, it should use what it learns to make concrete recommendations on how to protect these communities. We look forward to working with you on next steps.

For questions, please contact Yevgeny Shrago at yshrago@citizen.org and Carly Fabian at cfabian@citizen.org.

Sincerely,

Public Citizen
350 Bay Area Action
350 Juneau
Accelerate Neighborhood Climate Action
Americans for Financial Reform Education Fund
Anthropocene Alliance
Black Women Rising
Businesses for a Livable Climate
California Reinvestment Coalition
Call to Action Colorado
CatholicNetwork US
Citizen's Alliance for a Sustainable Englewood
Climate Action California
Climate Hawks Vote
CO Businesses for a Livable Climate
Community for Sustainable Energy
Connecticut Citizen Action Group
Consumer Action
Consumer Watchdog
Corporate Responsibility office - Province of Saint Joseph of the Capuchin Order

Credit Card Management Services, Inc. dba Debthelper.com
E3G
Earth Action
Empire Justice Center
Extinction Rebellion San Francisco Bay Area
Freedom Righteous Organizing Collaborative (ROC)
Friends of the Earth US
Government Information Watch
Greater New Orleans Housing Alliance
Greenpeace USA
Hip Hop Caucus
Honor the Earth
I-70 Citizens Advisory Group
Indivisible Ambassadors
Institute for Agriculture and Trade Policy
Interfaith Center on Corporate Responsibility (ICCR)
Larimer Alliance for Health, Safety and Environment
Louisiana Bucket Brigade
Mayfair Park Neighborhood Association Board
Multicultural Development Center
Mental Health & Inclusion Ministries
Montbello Neighborhood Improvement Association
National Consumer Law Center (on behalf of its low-income clients)
National Housing Resource Center
New Mexico Climate Justice
North Range Concerned Citizens
Open The Government
Parachute Credit Counseling
People Over Profits
Positive Money US
Project on Government Oversight
Rainforest Action Network
RapidShift Network
Revolving Door Project
Risestjames
Rockland Housing Action Coalition, Inc.
Save EPA
Sierra Club
Small Business Alliance
Socially Responsible Investing Coalition

Southwest Organization for Sustainability
Spirit of the Sun, Inc.
Stand.earth
System Change Not Climate Change
Texas Campaign for the Environment
The Committee for Better Banks
The Green House Connection Center
The Greenlining Institute
The People's Justice Council
The Phoenix Group
The Sunrise Project
Transformative Wealth Management, LLC
Unite North Metro Denver
Universal Housing Solutions CDC
Wall of Women
Western Slope Businesses for a Livable Climate
Womxn from the Mountain
Working for Racial Equity