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Federal Insurance Office

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Department of the Treasury

Subject: FIO Climate-Related Financial Risk Data Collection Comments from the Insurance Information Institute

The property/casualty insurance industry is no stranger to the risks associated with climate and extreme weather. The industry also works continuously to ensure that the products it sells are available and affordable to all who need them.

As the Insurance Information Institute (Triple-I) has said frequently in recent years, climate-related risks and challenges can best be addressed by getting in front of damages and losses, rather than simply assuming risks and paying claims after the fact. Our shorthand for this has been to go from “detect and repair” to “predict and prevent.” It is a theme the industry has embraced and acted on in many ways.

Our guidance has been to focus on:

- Improved land-use and building codes;
- Use of sophisticated data and analytical tools to inform underwriting, reserving, and pricing;
- Public- and private-sector collaboration to address the decades-long trend of populations moving into harm’s way, which drives up the cost of extreme events; and
- Educating the public about advanced mitigation and the role of insurance as part of their resilience planning.

The new data-reporting mandate FIO is considering imposing on certain property/casualty insurers raises concerns for several reasons:

Duplicative data calls hurt the people FIO wants to help. Fulfilling this new mandate would require insurers to pull existing staff from work they already are doing or hire staff to do the new work, increasing their operational costs.

As FIO well knows, state-by-state regulation prevents insurers from “tweaking” their cash flows in response to change the way more lightly regulated industries can. Higher costs inevitably drive increases in policyholder premium rates. As a result, the burden of this new federal requirement would fall disproportionately on “traditionally underserved communities and consumers, minorities... and low- and moderate-income persons” – the very people FIO and the insurance industry are trying to help.

FIO’s aim to “assess the potential for major disruptions of private insurance coverage in U.S. markets particularly vulnerable to climate change impacts” can be met using information insurers already report, as

well as other publicly available data. While there might be value in seeking more granular versions of this data from insurers, it isn't clear that any benefits would exceed the negative consequences.

Further, Triple-I suggests "assessing the potential" for disruptions might not be as productive an effort as working to prevent such disruptions by collaborating with the industry.

Using ZIP Code-level data could lead to misleading conclusions. ZIP Codes, despite their granularity, are problematic when it comes to assessing weather- and climate-related risk. They represent U.S. Postal Service delivery routes, not geographic features that affect flood, fire, or wind behavior. Using ZIP Code-level versions of existing data as a proxy for more relevant metrics could lead to confusion and bad decision making.

As the National Association of Insurance Commissioners (NAIC) points out in its response to FIO's request, "It is unclear how FIO will use the data they intend to collect, and it is likely that any analysis will be misinterpreted and produce fallacious results in trying to identify climate risk."

Many concerns raised in public discussions of insurance availability and affordability demonstrate widespread lack of understanding about how the industry is regulated and how state-by-state regulation affects underwriting, reserving, product pricing, and capital adequacy. Triple-I agrees with NAIC that marrying the requested data to demographic data "can provide insight into affordability, generally, but will not reflect the impact of climate risk on pricing or underwriting."

This disconnect could result in the information FIO seeks being used in ways that muddy the waters, rather than shedding light on the subject at hand.

FIO can secure the information it needs from existing, publicly available data. Triple-I, NAIC, the American Property Casualty Insurance Association (APCIA), the Insurance Institute for Business and Home Safety (IBHS), and many other nonprofit, for-profit, and academic organizations have long been informing and educating the world on how to adapt physically to changing conditions. They have generated massive amounts of data-driven insights to inform policy conversations around climate risk and its potential impacts on the economy and vulnerable populations.

Just a few examples:

- [Triple-I's Resilience Accelerator](#) provides news and analysis on weather- and climate-related resilience, data-rich displays of flood-insurance take-up rates, and community resilience ratings to help inform policymaking;
- The [IBHS Research Center](#) provides insights into building codes and standards, as well as data to improve modeling methods and outputs and reduce fraud; and
- The [Wharton Risk Center](#) interactive flood insurance market e-platform; San Jose State University's [Wildfire Interdisciplinary Research Center](#); and the [University of Alabama's Center for Insurance Information Research](#), all receive substantial industry support.

Triple-I – on its own and in cooperation with partners inside and from outside the insurance industry – has published a great deal on climate-related topics, most recently:

- [Tamping Down on Wildfire Threats](#) (in collaboration with Capgemini)
- [Stemming a Rising Tide: How Insurers Can Close the Flood Protection Gap](#) (in collaboration with Capgemini)
- “State of the Risk” [Issues Briefs](#) on:
 - [Hurricanes](#)
 - [Floods](#)
 - [Severe Convective Storms](#)
 - [Wildfires](#)

We also have been engaged in the public conversation around insurance rate and pricing equity through our [work with the Casualty Actuarial Society](#) and publication of “Trends and Insights” Issues Briefs on:

- [Race and Insurance Pricing](#)
- [Risk-Based Pricing of Insurance](#)
- [Drivers of Homeowners Insurance Rate Increases](#)
- [Personal Auto Insurance Rates](#)

There is no dearth of information to help FIO and policymakers address the conditions contributing to climate risk. Catastrophe-modeling firms, for example, prepare their industry exposure data bases from public sources, not insurer data calls. Likewise, plenty of public data exists regarding the needs of vulnerable populations and the risks to which they are subject.

What is needed is to build on existing efforts and draw on the voluminous data and analysis already extant to target problem areas that are well understood. This abundance should be more than enough upon which to base recommendations for Congress to effectively spend the \$375 billion allocated to climate risk under the 2022 Inflation Reduction Act – starting with community risk reduction.

Recommendations

Insurance availability and affordability are inextricably linked to reducing damage and losses. The best way to keep insurance available and affordable is to reduce the amounts insurers have to pay in claims. Less damage leads to reduced claims, helping to preserve policyholder surplus and enabling insurers to limit premium rate increases over time.

Population shifts into disaster-prone areas are a thoroughly documented source of catastrophe-loss increases in recent decades. Research also has shown that improved zoning and building codes reduce losses – nevertheless, few jurisdictions have adopted modern codes. These are both areas worthy of FIO’s attention that would not involve onerous new data requirements.

Volumes also have been published about the effectiveness of nature-based solutions – such as buffer zones against wildfire and restoration of dunes, mangrove forests, barrier islands, and other features that could protect property against wind and storm surge – in reducing property damage and losses.

FIO should delve into this existing research to inform its efforts.

Conclusion

Insurers are taking a responsible approach toward promoting a more sustainable and resilient environment and economy. In addition to serving as financial first responders, they are working with the communities and industries they serve to get out in front of climate risk, reduce the impact of extreme events, and improve resilience.

The most pressing need at this time is to help communities adapt to climate-related risks and make sure they are adequately insured against events that can't be prevented. The NAIC, as well as residual-market administrators in Florida, Louisiana, and California – states where the impacts of climate risk already are playing out – can provide relevant data and insights to FIO and help translate them into actionable policy proposals to protect vulnerable populations.

Triple-I agrees with the NAIC that FIO should leverage publicly available data and work with state insurance regulators, who fully understand the risks, market and operational dynamics, and policy structures and can spare FIO and insurers unnecessary work and the public unnecessary confusion. We appreciate the opportunity to comment on this proposal and stand ready to help inform the discussion and further efforts to address climate risk and its impacts.

Regards,

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