



# **Federal Insurance Office: Update on Climate-Related Work**

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**Federal Advisory Committee on Insurance**

**December 8, 2022**

## Executive Order Tasking:

“The Secretary of the Treasury shall direct the Federal Insurance Office

- To assess **climate-related issues or gaps in the supervision and regulation of insurers**, including as part of the FSOC’s analysis of financial stability, and to
- Further assess, in consultation with the States, the **potential for major disruptions of private insurance coverage** in regions of the country particularly vulnerable to climate change impacts. “

--E.O. 14,030 (May 20, 2021)

## FIO's 2022 Priorities

1

**Supervision and Regulation:** Assess climate-related issues or gaps in the supervision and regulation of insurers, including their potential impacts on U.S. financial stability.

2

**Quantitative Analysis:** Assess the potential for major disruptions of private insurance coverage in U.S. markets that are particularly vulnerable to climate change impacts; facilitate mitigation and resilience for disasters.

- **Transition risk** of investments

*Focus of presentation*

- **Physical risk** of P&C underwriting

3

**Stakeholder Engagement:** Increase FIO’s engagement on climate-related issues, leverage the insurance sector’s ability to achieve climate-related goals.

# By the Numbers



## \$110B

*Estimated losses from 2022 hurricane season, including \$65B in insured losses; likely third most expensive to date.<sup>1</sup>*

## \$53-74B

*Estimated insured losses from Hurricane Ian.<sup>2</sup>*

## 70%

*Global insured losses from secondary perils in 2021.<sup>3</sup>*

## \$20B

*U.S. economic losses in 2021 from wildfires, droughts, and excessive heat, including \$8.7B in insured losses.<sup>4</sup>*

## 7M

*Number of acres burned nationally to date in 2022 wildfires.<sup>5</sup>*

## 557K

*Increase in Florida residual market policies Jan. 31, 2021 to Oct. 31, 2022.<sup>6</sup>*

## 9

*Number of insurers that have become insolvent in Louisiana in the past year.<sup>7</sup>*

- <https://www.munichre.com/topics-online/en/climate-change-and-natural-disasters/natural-disasters/storms/hurricanes2022.html>;
- <https://www.rms.com/newsroom/press-releases/press-detail/2022-10-07/rms-estimates-us67-billion-in-insured-losses-from-hurricane-ian>;
- <https://www.swissre.com/institute/research/sigma-research/sigma-2022-01.html>;
- <https://www.iii.org/article/background-on-wildfires>;
- <https://www.nifc.gov/fire-information/statistics>;
- <https://www.citizensfla.com/policies-in-force>;
- [https://www.nola.com/news/business/article\\_1ba479a2-410d-11ed-a47a-db6df367cb9b.html](https://www.nola.com/news/business/article_1ba479a2-410d-11ed-a47a-db6df367cb9b.html).



# FIO's Data and Analytical Efforts

In August 2021, FIO issued a request for information with **several questions on climate-related data and FIO's data collection and dissemination authorities**. Responses highlighted the importance and current lack of granular, nationwide data on climate-related risk in the insurance industry.

On October 18, 2022, FIO issued a proposed data collection to assess climate-related financial risk across the United States. FIO is seeking public input on a proposed collection of data from property and casualty insurers regarding **current and historical underwriting data on homeowners' insurance**. This proposed collection **would not include personally identifiable data on individual homeowners or specific businesses**.

The request for comment is part of a broader effort to explore the various avenues FIO has to fulfill its statutory mandate. It is also consistent with the Executive Order's tasking for FIO to assess the potential for **major disruptions of private insurance coverage** in regions of the country that are **particularly vulnerable to the impacts of climate change**. That analysis could include an assessment of availability of insurance for policyholders, as well as affordability.

Federal Register Notice

Data Template

Instructions

# Proposed Scope of Data Collection (1/2)



Proposed Key Elements	Proposed Scope for Public Consultation
<b>1 Underwriting Focus</b>	Physical risk from underwriting by P&C insurers, excluding liability risk
<b>2 Insurance Lines of Business</b>	Homeowners' multi-peril line of business (excludes flood) <ul style="list-style-type: none"><li><i>Flood damage typically not covered by homeowners' multi-peril policies</i></li><li><i>FEMA conducting analyses on flood insurance; FIO coordinating with FEMA</i></li></ul>
<b>3 Insurers</b>	<ol style="list-style-type: none"><li>Nationwide insurers writing above a premium threshold of \$100 million in 2021 homeowners' insurance premiums</li><li>Additional insurers in order to achieve an 80% market share threshold in each of 10 states that are potentially the most vulnerable to climate-related disasters</li></ol>
<b>4 Data Elements</b>	Information regarding claims, premiums, and losses that correspond to data fields reported by U.S. insurers to state insurance regulators in annual filings, as well as additional policy information not collected on statutory filings

# Proposed Scope of Data Collection (2/2)



Proposed Key Elements	Proposed Scope for Public Consultation
<b>5 Reporting Framework</b>	Accident year reporting basis
<b>6 Reporting Period</b>	Five years of underwriting data (2017-2021)
<b>7 Geographic Granularity</b>	ZIP Code level for all U.S. ZIP Codes applicable to in-scope insurers
	<p><i>FIO chose ZIP Code level data because:</i></p> <ul style="list-style-type: none"><li>• <i>State-wide information would not provide sufficient granularity.</i></li><li>• <i>Insurers price policies based on risk in a localized area.</i></li><li>• <i>FIO has mandate to assess the availability of insurance products and the affordability of such products for vulnerable communities, including minority and low- and moderate-income populations.</i></li><li>• <i>ZIP Code information is collected as part of homeowners' address.</i></li><li>• <i>ZIP Codes are unique, numerical identifiers.</i></li><li>• <i>ZIP Code analyses have been conducted by state insurance regulators in certain circumstances.</i></li></ul>
<b>8 Geographic Scope</b>	Nationwide
<b>9 Reinsurance Impact</b>	Direct business basis only, excluding reinsurance

- ▶ **Determining Potentially Climate-Vulnerable States:** FIO selected ten potentially climate-vulnerable states using the FEMA National Risk Index, a publicly available dataset on natural hazards and social vulnerability, which combines historical (not projected) risk data across 18 event types, including information on economic losses.
  - FIO aggregated the National Risk Index's Expected Annual Loss data across 15 hazards that were determined to be in scope to find potential climate-vulnerable states
  - Insurance groups and stakeholders have noted the usefulness of the National Risk Index as a resource
  
- ▶ FIO would not use the collected data for:
  - Publishing confidential, firm-specific data from individual submissions
  - Measuring the impact on earnings or capital of individual insurance companies or groups

# Proposed Data Template



**FIO's proposed collection of ZIP Code level data focuses primarily on data fields provided through annual statutory filings in order to minimize burden**

**Legend:** Not italicized = In statutory filings | *Italicized* = *Not in statutory filings*

## **Category I: Premiums**

- Direct Premiums Written
- Direct Premiums Earned
- *Amount of Direct Premiums Written Renewed or Retained*

## **Category III: Losses**

- Total Direct Losses Paid
- Total Direct Incurred Losses

## **Category II: Claims**

- Number of Claims Reported
- Number of Claims Closed with Loss Payment
- Number of Claims Closed Without Loss Payment
- Cumulative Number of Claims Closed with Loss Payment
- Cumulative Number of Claims Outstanding
- Cumulative Number of Claims Reported

## **Category IV: Policy Information**

- *Number of Policy In-Force Exposures*
- *Total \$ Value of Coverage for Dwelling and/or Other Structures, and Personal Property*
- *Total \$ Replacement Cost Value*
- *Total \$ Amount of Insurance Deductible*



- ▶ The data collection is currently at the proposal stage and FIO is seeking public comment and engagement on the questions posed in the proposal. In general, FIO's climate-related work will be a sequential and capacity building exercise. The initial steps are intended to consolidate foundational knowledge to develop more comprehensive approaches to address climate-related financial risks.
- ▶ FIO will continue to engage with FOCI members, the NAIC, state insurance regulators, the insurance industry, policyholder groups, academics, and others to help inform the next steps of our work.

# Topics for Public Comment



## FIO is requesting comment on:

<b>Underwriting focus</b>	<b>Insurance lines of business</b>	<b>Selection of insurers &amp; states</b>	<b>Data elements</b>	<b>Reporting framework</b>
Focus on underwriting by P&C insurers	Additional insurance lines to consider; inclusion of NFIP and private flood policies	Premium threshold and use of National Risk Index to select potential climate-vulnerable states	Elements to include or exclude; inclusion of reinsurance and additional living expenses	Use of Accident Year reporting basis
<b>Reporting period</b>	<b>Granularity &amp; scope</b>	<b>Burden</b>	<b>Periodicity</b>	<b>Availability &amp; affordability</b>
Appropriateness of five-year period (2017-2021)	Proposal to collect ZIP Code level data with nationwide scope	Estimates of burden and ways to minimize it	Collection of data on an annual basis	How FIO should assess the impact of climate-related risks on the availability of insurance, as well as on affordability

# Submission of Comments



- ▶ FIO requests comments on its proposed data collection **by December 20, 2022**.
- ▶ Commenters can submit:
  - **Electronically (recommended):** Federal eRulemaking Portal at <http://www.regulations.gov>.
  - **By mail:** Federal Insurance Office, Attn: **Elizabeth Brown**, Senior Insurance Regulatory Policy Analyst, [Elizabeth.Brown@treasury.gov](mailto:Elizabeth.Brown@treasury.gov), (202) 597-2869 or **Silab Mohanty**, Senior Insurance Regulatory Policy Analyst, [Silabhadra.Mohanty@treasury.gov](mailto:Silabhadra.Mohanty@treasury.gov), (202) 945-7062, Room 1410 MT, Department of the Treasury, 1500 Pennsylvania Avenue NW, Washington, DC 20220.