



Insurance Sector and Climate-Related Financial Risk: Federal Insurance Office Request for Information

**Presentation by FIO to
the Federal Advisory Committee on Insurance**

December 2, 2021

Presidential Executive Orders on Climate-Related Risks



E.O. 14,008 – Tackling the Climate Crisis at Home and Abroad (January 27, 2021)

Sets forth the Administration’s initial climate goals and policy to “organize and deploy the full capacity of its agencies to combat the climate crisis to implement a Government-wide approach.”

E.O. 14,030 – Climate-Related Financial Risk (May 20, 2021)

Emphasizes the insurance sector’s important role in combatting climate change; tasks FIO 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
- “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.”

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.

- Monitor the integration of climate-related financial risks into insurance supervisory practices and regulatory frameworks;
- Assess whether sufficient data, methodologies, and tools exist for supervisors to manage the solvency of insurers and protect them against the long-term risk of climate change; and
- Assess supervisory practices and resources, including but not limited to examination policies and procedures, solvency assessment and techniques, data availability and integrity, public disclosures, modeling, and forward-looking assessments (e.g., scenario analysis, stress testing).

2. Markets and Mitigation: 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.

- Examine the insurability of disasters that are produced or exacerbated by climate change (e.g., wildfires, hurricanes, flood, wind damage, and extreme temperatures);
- Assess the availability and affordability of insurance coverage in high-risk areas, particularly for traditionally underserved communities and consumers, minorities, and low-and moderate-income persons;
- Look at solutions, including identifying best practices for mitigation that can increase resiliency, including solutions that can help ensure sufficient availability/affordability of insurance for consumers; and
- Examine the role of insurers in supporting climate resiliency in critical infrastructure, as well as in supporting green investment initiatives.

3. Insurance Sector Engagement: Increase FIO's engagement on climate-related issues, leverage the insurance sector's ability to achieve climate-related goals.

- Engage with the insurance sector and its stakeholders to assess how the sector may help achieve national climate-related goals, including mitigation, adaptation, and the transition to a lower carbon economy; and
- Consider ways to address the lack of common methodology and standardization in measuring financed emissions.



FIO's Request for Information (RFI)

- FIO published the [RFI](#) in the Federal Register on August 31 seeking public input on FIO's future work relating to the insurance sector and climate-related financial risks, FIO's initial climate-related priorities, and how FIO's data collection and dissemination authorities can best be used.
- RFI noted that the lack of available climate-related data complicates climate risk assessments.
 - Government and private sector stakeholders have noted significant issues caused by the lack of available data to assess climate-related financial risk within the insurance sector.
 - Access to high-quality, reliable, and consistent data will be necessary for accomplishing all three of FIO's climate-related priorities.
- The RFI buckets questions into six categories:
 1. The Executive Order on Climate-Related Financial Risk,
 2. FIO's Initial Climate-related Priorities,
 3. Data Needs, Data Availability, Standardization of Data, and FIO's Data Collection and Dissemination Authorities,
 4. Insurance Supervision and Regulation,
 5. Insurance Markets and Mitigation/Resilience, and
 6. Insurance Sector Engagement.
- Public comments were due by **November 15, 2021**.

By the Numbers:

- Over 50 unique RFI responses filed through regulations.gov.
- Over 5,300 signatories to RFI responses, including over 95 organizations.
- Submissions made on behalf of over 900,000 organizations, affiliates, members, supporters, and individuals.
- Submissions received from, among others:
 - Insurers and reinsurers,
 - Insurance brokers,
 - Data analytics/ modeling firms,
 - Investment managers,
 - Trade associations,
 - Members of Congress,
 - State insurance regulators,
 - States attorneys general,
 - Climate advocacy groups,
 - Consumer advocates,
 - Academics and researchers,
 - Other organizations, and
 - Individuals.

General Observations:

- Comments generally noted the importance of climate-related issues for the insurance sector.
- Broad range of comments on proposed next steps, with a diverse spectrum of views.
- Many comments also noted the important role of FIO in contributing to and leading this work

Data:

Data issues highlighted by commenters included:

- Coordination and sequencing of disclosures with Federal agencies, the NAIC and state regulators;
- Comprehensive review of existing public and regulatory disclosures (including TCFD);
- Harmonization of best practices with international supervisors;
- Understanding limitations of analytics and methodologies which are still evolving; and
- Consultations with experts; third party services; public-private partnerships.

Insurance Supervision and Regulation:

RFI comments varied widely on:

- Whether or not climate-related financial risks pose a systemic risk to the insurance sector and the financial sector as a whole.
- Whether state-based regulation is able to effectively address climate-related financial risks or whether greater state and federal oversight is necessary because only some states have begun to take actions to address climate-related financial risks either through disclosure requirements, enhanced ORSA requirements, or other actions.

RFI comments were generally supportive of:

- FIO working with the states and the NAIC to better understand and address climate-related financial risks.
- FIO sharing information and best practices with other national supervisors and international organizations. Among the organizations that were mentioned in one or more comments: IAIS, TCFD, SIF, NGFS, OECD, EIOPA, the Bank of Canada, the Canadian Office of the Superintendent of Financial Institutions, and UK PRA.

Insurance Markets and Mitigation/Resilience:

Varying views presented in response to questions on insurance markets, insurance availability and affordability, and mitigation/resilience, but several commenters noted:

- Low-income and minority communities face the greatest risk from climate change based on tending to live in high-risk zones, and not having the financial resources available to mitigate risks.
- The insurance industry generally supports mitigation and resilience measures.
- Public-private partnerships are worth consideration.

Insurance Sector Engagement:

RFI comments suggest:

- FIO engage with a variety of stakeholders
- FIO undertake a broad range of activities to help the U.S. insurance sector achieve national climate-related goals.



Next Steps and Other Climate-Related Initiatives

Next Steps:

- FIO will continue to analyze and assess RFI responses and proposals.
- FIO will continue with other climate-related initiatives.

Other Climate Related Initiatives:

- **International Forums:** FIO represents the United States at the International Association of Insurance Supervisors and is a member of the Executive Committee. FIO is also a member of the UN's Sustainable Insurance Forum, and the OECD's Insurance and Private Pensions Committee.
- **U.S.-EU Insurance Project:** FIO will engage with EIOPA, EU members, NAIC, and U.S. state insurance regulators on the Project's two new workstreams:
 - Climate Risk Financial Oversight (which includes climate risk disclosures, supervisory reporting, and other financial surveillance) and
 - Climate Risk and Resilience (including innovative technology, pre-disaster mitigation and adaptation efforts, and modelling).
- **Federal and State Coordination:** FIO represents Treasury on the Mitigation Framework Leadership Group and coordinates with the NAIC and U.S. states on mitigation and resilience issues for the insurance sector.
- **Federal Advisory Committee on Insurance:** FIO looks forward to ongoing engagement with FACI as its climate work moves forward.



Thank You to all who submitted comments!