Ceres Ceres Accelerator for Sustainable Capital Markets

November 30, 2023

Elizabeth Brown
Senior Insurance Regulatory Policy Analyst
Federal Insurance Office
Room 1410 MT
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Dear Ms. Brown,

We appreciate the opportunity to offer comments in response to the Federal Insurance Office (FIO) Climate-Related Financial Risk Data Collection notice published in the Federal Register (88 FR 75380) on November 2, 2023.[1]

The proposed data collection is intended to seek approval from the Office of Management and Budget (OMB) for the collection of information from certain property and casualty insurers regarding their current and historical underwriting data on homeowners insurance, to assist FIO's assessment of climate-related exposures and their effects on insurance available, including whether climate risk may create the potential for any major disruptions of private insurance coverage in regions of the country particularly vulnerable to climate change impacts.

Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world's greatest sustainability challenges. The Ceres Accelerator for Sustainable Capital Markets works to transform the practices and policies that govern capital markets in order to reduce the worst financial impacts of the climate crisis. It spurs action on climate risk as a systemic financial risk – driving the large-scale behavior and systems change needed to achieve a net-zero emissions economy.

Ceres also includes the Investor Network on Climate Risk and Sustainability, which consists of over 220 institutional investors managing a combined $45 trillion in assets, who advance leading investment practices, corporate engagement strategies, and policy and regulatory solutions to address sustainability risks and opportunities. These investors have indicated that mandatory corporate climate disclosure is a top priority for them. For many years, Ceres has worked with state insurance commissioners, the National Association of Insurance Commissioners (NAIC), insurers, investors and other federal financial regulators on how climate risk affects insurers and

[1] Agency Information Collection Activities; Submission for OMB Review; Comment Request; Federal Insurance Office Climate-Related Financial Risk Data Collection, The Federal Register, November 2, 2023.

policyholders and how insurers can proactively take actions to reduce climate risks. Our research reports on these issues include Addressing Climate as a Systemic Risk (which provides 10 recommendations for state and federal insurance regulators), Scaling U.S. Insurers' Clean Energy Infrastructure Investments, Insurer Climate Risk Disclosure Survey Report & Scorecard, and Assets or Liabilities? Fossil Fuel Investments of Leading U.S. Insurers. From July through October 2022, we produced a series of trainings for the insurance companies that have completed their TCFD reports, most for the first time. This ten-hours of on-line content, co-hosted in conjunction with the NAIC and including remarks from several state insurance regulatory leaders, was aimed at helping insurers use the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, How Insurers are Rising to the Challenge of Climate Risk Disclosure. Most recently, Ceres published the following reports to provide critical research, analysis, and solutions for the U.S. insurance industry: Inclusive Insurance for Climate-Related Disasters January 2023 , which provides discussion and analysis of inclusive insurance and incorporates parametric insurance commentary; Climate Risk Management in the U.S. Insurance Sector July 2023 , an analysis and summary of the TCFD climate disclosures submitted by nearly 480 insurers; and The Changing Climate for Insurance Investments August 2023 an analysis and summary of the investment portfolios of over 400 insurers.

Preparing these national reports highlighted for Ceres the importance of country-wide data for insurers. This national-level data provides vitally important information about an industry facing unprecedented financial and climate risks.

Collecting and analyzing data regarding the impact of climate risk on the availability and affordability in the U.S. homeowners' market is a critical issue, and we thank FIO for their efforts in this arena. We believe collecting and analyzing data regarding the impact of climate risk on insurance coverage and making it available to the market, including investors and other stakeholders, is important.

Ceres submitted comments to FIO on November 15, 2021, and December 19, 2022 responding to a request for input on how FIO could play a constructive role working with the insurance industry, state regulators and other global policymakers in climate policy.[2] In those comments we noted that the U.S. insurance industry (like other portions of the financial sector including banks) is vulnerable to the growing effects of climate risk on both the investment and the liability side of their balance sheets and made thirteen specific recommendations. The Swiss Re Institute annual report, which looks at losses from natural catastrophes such as floods, hurricanes, and wildfires, estimates the total economic losses will reach $260 billion in 2022. That's down 11% from last year, but still well above the 10-year average of $207 billion. The United states alone has experienced climate change related extreme events that cost over $150 billion annually in

[2] Steven M. Rothstein, Comment Re: Federal Insurance Office Request for Information on the Insurance Sector and Climate-Related Financial Risks, Ceres, November 15, 2021. Steven M. Rothstein, Comment Re: Federal Insurance Office Request for Information on the Insurance Sector and Climate-Related Financial Risks, Ceres, December 19, 2022.

recent years with the U.S. suffering [$2.645] trillion overall in economic losses due to extreme weather events since 1980.

While this work on data collection is important, we also respectfully request that our recommendations outside of a data collection exercise continue to be considered.

A recommendation included in our November 2021 comment letter and reiterated in our December 19, 2022 comment letter was that FIO should engage in a request for detailed data "surrounding climate insurance exposures from insurance carriers, brokers, and reinsurers with coverage and take-up broken down by sector, working with the SEC, FEMA, other federal agencies, NAIC and state insurance regulators to explore how to have as much public data interoperability and transparency as possible."

Our comments here are submitted in furtherance of the principles in that recommendation. Key to our views is an acknowledgement and appreciation of the increasing global harmonization benefit of use of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) reports, and their inclusion in 2022 as submissions to the state insurance commissioners. The TCFD reports and their standards are becoming the de facto inter-operability vehicle for tracking and analyzing insurer financial and coverage data.

Before highlighting specific comments on the questions posed by FIO, we also want to recognize the vital role of the NAIC and state insurance commissioners. We deeply appreciate the regulatory leadership they provide on so many issues important to insurance consumers across the nation. There is a growing list of state insurance departments and the NAIC that deserve praise for their leadership on climate risk issues. Ceres recognizes that there is a vast quantity of information collected by the NAIC on behalf of the states, with time-tested and standardized data definitions, and sophisticated information analysis capacity.

We continue to urge FIO to work collaboratively with the NAIC to explore the most appropriate ways to share information, and leverage data already collected to reduce any requirement on insurers to submit information twice, with different data definitions. Exploring how this information could be used effectively by FIO and NAIC is an important goal. Ceres hopes the NAIC and FIO can work collaboratively to harmonize data requests to the greatest extent possible. This will benefit industry and consumers alike.

Notwithstanding the other recommendations we made in November 2021 and December 2022, and specifically about the narrowed focus of the proposed data collection template and its focus, as outlined in the request, we offer the following comments to this request for comments:

> Focus on Underwriting
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> Focusing on underwriting is a sound choice. We suggest consideration be given to broadening the project's focus to include consumer-facing claims data - such as average days from claim to settlement - which is reported to the states via the NAIC's Market Conduct Annual statement (MCAS) to augment the creation of a comprehensive picture

of the impact of climate risk on consumers.[3] While there are important issues on the investment side the initial focus on underwriting makes sense.

Selection of Insurance Lines

We understand FIO's decision to narrow the scope of this initial data collection to only HO-3 homeowners insurance policies, which represent owner-occupied homes. This standardization addresses insurer concerns about aggregating data across policy forms. However, Ceres believes it is important for FIO to expand the policy forms included in future data collections. HO-3 policies reflect just one segment of the homeowner’s insurance market. Other policy forms cover renter-occupied homes, mobile homes, and secondary residences - all of which may experience climate risks differently. For example, lower-income renters are more vulnerable to housing displacement from disasters. Excluding renter-occupied policies could overlook important equity concerns. Similarly, mobile home residents tend to have lower incomes and fewer resources to recover from disasters. Isolating trends in this policy type could illuminate the impacts on this vulnerable group. Lower income communities, that disproportionally do not have single-family homes, are especially at risk in the insurance industry due to the growing climate risks. Capturing data beyond only primary owner-occupied homes provides a more complete picture.

In summary, while limiting collection to HO-3 policies is a reasonable start, Ceres urges FIO to expand to other policy forms in future data calls to fully capture risks across living situations, income levels, and property types. The diversity of America's housing landscape must be reflected in the data.

Selection of Insurers

We understand FIO's rationale for limiting this initial data collection to the 14 largest homeowners’ insurance groups, representing over 70% of the market. This approach reduces the burden and addresses concerns about potential misuse of insurer-specific data. However, we believe it is important for FIO to expand the sample of insurers covered in future collections. Limiting collection to the very largest insurers provides an incomplete picture of market dynamics. Smaller regional insurers in high-risk areas may make underwriting decisions differently than multistate insurers. Excluding them could miss important trends in climate-vulnerable regions. Additionally, the aggregated data from a sample representing over 70% of the market may mask more severe impacts occurring in the other 30%. If some vulnerable communities are only served by smaller insurers, their risks could be obscured in the national-level data. Ceres suggests that after establishing a baseline with this initial focused sample, future collections should expand to include a representative sample of small and mid-sized insurers, especially those operating regionally in areas prone to climate impacts. Capturing data across the full

[3] Market Conduct Annual Statement (MCAS), NAIC, February 1, 2023.

spectrum of the market is important for fully understanding climate-related risks.

In summary, while we agree the "representative sample" approach is sensible for this initial report, FIO should take care to ensure it does not result in blind spots regarding vulnerable communities reliant on smaller insurers. Broadening the market coverage in future data calls will provide a more complete view.

Data Fields

While we understand FIO's rationale for limiting the data fields in this initial collection, there are several excluded fields that could provide important additional insights into climate risks and impacts. FIO initially proposed but then removed fields related to deductible amounts, premiums earned, and number of claims reported. Data on deductible amounts and trends could reveal growing issues of underinsurance if deductibles are rising over time beyond what many homeowners can afford to pay out-of-pocket after a loss, forcing them to cover costs through high-interest debt. Premiums earned data would allow analysis of the health of the overall market alongside premiums written. Declining premiums earned could reflect restrictions in coverage availability in high-risk areas. Tracking the number of claims reported, including those denied by insurers, would shed light on any systemic issues homeowners face in accessing their insurance benefits after a loss. An increase in denied claims could indicate coverage shrinking. Ceres recommends FIO incorporate these fields in future collections.

FIO also removed fields intended to capture policy and claim information specifically tied to weather events and natural catastrophes like hurricanes, floods, and wildfires. While Ceres understands the challenge for insurers to isolate this data, understanding loss and claim trends attributable to specific climate impacts is incredibly valuable. Capturing geographical detail on major weather events alongside insurance market trends can reveal causal relationships important for quantifying climate risk impacts. We urge FIO to engage with insurers on feasible ways to collect event-specific data going forward.

Additionally, FIO initially proposed but then removed fields intended to capture differences across income levels, like separate tracking of policies and claims for low/moderate income households. Income is a major factor in vulnerability to climate risk, so understanding the differential impacts across income brackets is important. Breaking data down across income levels could illuminate if lower-income homeowners face disproportionate impacts, such as larger premium increases or higher rates of non-renewal. This could exacerbate existing housing inequities. We recommend adding income demographic variables into future data call analysis. Capturing this additional data would provide fuller insights into the on-the-ground impacts of climate risk on household financial security and the systemic risks if insurance becomes unaffordable or unavailable, especially for vulnerable communities. We urge FIO to prioritize expanding data collection to illuminate climate-related impacts on traditionally underserved communities.

Ceres recommends FIO incorporate the fields described above into future collections to gain a fuller view of climate risks and equities. Robust data is key to developing solutions that protect all Americans.

Reporting Framework

We support FIO's clarification that loss- and claim-related data should be reported on an accident year basis, while premium and policy data should be reported on a calendar year basis. Aligning the reporting with standard industry practices will facilitate accurate data collection.

However, Ceres believes collecting some key metrics on both an accident year and calendar year basis could provide additional insights. For example, understanding both accident year and calendar year loss trends could shed light on shifts in seasonality of claims due to changes in climate patterns. We suggest FIO consider collecting some fields, such as total losses paid and incurred, using both reporting frameworks in future data calls.

Selection of Reporting Period

Expanding the requested reporting period from 5 years to 6 years is a positive step that will allow analysis of more recent climate event impacts, like Hurricanes Ian and Nicole. Many in the insurance industry have indicated that more reliable and meaningful modeling and analysis requires a longer horizon. We recommend a period of ten years, which would include notable severe hurricane and wildfire experiences prior to 2017 to result in the most broadly useful underwriting analysis. The additional burden of data collection and analysis would be belied by the additional broad usefulness of the resulting data. We encourage FIO to continue expanding the reporting period in future collections to allow longer-term trend analysis. The effects of climate risk occur over years and decades, so data covering 10 years or more would provide much greater analytical power to identify changes over time. In future data calls, Ceres urges FIO to continue increasing the reporting period time horizon to build a robust long-term dataset.

In summary, while the current reporting framework updates are reasonable, we believe FIO should continue refining and expanding the data collection methodology to empower more sophisticated trend analyses over time. This will enable tracking the compounding effects of climate risk and evaluating the success of policy interventions. We support FIO in building out our knowledge base to protect America's homeowners.

Revised Instructions

We support FIO's decision to remove the instruction to exclude non-weather-related losses and claims. Capturing all sources of loss provides a more complete picture of the homeowners insurance market and improves data accuracy. Given insurer's feedback that isolating weather-related claims is infeasible with current IT systems, requiring this would introduce inconsistencies and burden. Furthermore, since most homeowners claims stem from climate perils like hurricanes and floods, the inclusion of non-weather claims should not overly dilute the data's relevance to understanding climate impacts.

While we believe there is still value in collecting details on losses attributable specifically to climate events, we agree this initial data call is not the appropriate mechanism due to data limitations. The comprehensive inclusion of all losses and claims is a prudent simplification for this initial report. For future collections, we suggest FIO engage insurers on potential solutions to enable capture on climate-specific loss details without undue burden, such as through improved data standards and reporting processes.

Revised Burden Estimate

We cannot comment on the specific financial projections in the notice for comment. However, as suggested earlier, we urge FIO to explore working with the NAIC and data already collected for the states by the NAIC. We believe that collaborative approach would harmonize data collection, reduce the human labor and cost burden on insurers, improve the quality of the data received, improve the ability of the data to be meaningful.

As we have previously recommended, FIO should urgently seek to convene climate and insurance related panels and work groups including under the Federal Advisory Committee on Insurance (FACI) and in other venues to encourage and support the broadest possible participation to elevate best practices and promote broad understanding both inside and outside the insurance industry and regulatory world as to the profound impacts of climate risk in insurance and insurer policyholders' scope and growth in size and types of risks.

For future data collections, we would recommend FIO consider expanding the scope and including additional data fields that could provide further insights. Collecting data broken out by demographic factors like income, race, and home value could help reveal disparate impacts on disadvantaged communities. More detail on factors driving policy non-renewals and claim denials would also be useful.

Ceres also encourages FIO to collect data on mitigation measures like home hardening upgrades that could reduce climate risks. Understanding the extent to which such measures are being implemented and incentivized across regions could inform efforts to expand resilience.

While this initial streamlined collection is a reasonable start, we urge FIO to broaden the data over time to fully illuminate climate risks and solutions. Rigorous, comprehensive data is the foundation for protecting America's homeowners and communities. Ceres supports FIO in this important work.

Thank you for the opportunity to submit comments. As always, we welcome opportunities to facilitate further discussions or to assist in organizing dialogues and discussion with regulatory and industry leadership. Please feel free to contact us at srothstein@ceres.org or jdemediccibruneau@ceres.org.

Sincerely,

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