

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

12/20/22

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

Dear Ms. Brown,

Americans for Financial Reform Education Fund, Consumer Federation of America, California Reinvestment Coalition, and the National Consumer Law Center write to indicate our strong support for the Federal Insurance Office's (FIO) proposed "Climate-Related Financial Risk Data Collection" from insurers. Our organizations work to ensure equitable and just housing opportunities and fair insurance markets for all people and communities. We appreciate the opportunity to inform the FIO's data collection from the perspective of housing and climate justice and to ensure that this effort aligns not only with the President's Executive Order on Climate-Related Financial Risk, but also with the January 20, 2021 [Executive Order](#) on Advancing Racial Equity and Support for Underserved Communities through the Federal Government. Below, we highlight some of the reasons that FIO's efforts are critical and identify certain additions to the data call we believe are necessary to achieve the goals laid out by FIO.

The increasingly prevalent and severe weather hazards caused by climate change pose a massive threat to the housing stability, affordability, and safety of Americans nationwide.¹ Purchasing insurance policies is one of the few actions individuals can take to protect their property from the effects of climate-driven natural disasters. Many Americans who own their home do not have a choice as to whether to purchase these policies, as their mortgage lenders generally require them to take out homeowner's insurance, and, depending on location, flood, wind, or fire policies. While renters do not take out these insurance policies directly, they contribute to insurance experiences indirectly by paying rent and relying on their landlord's ability to rebuild after a disaster. Renters may also purchase renter's insurance to cover their personal property in their home. Therefore, the cost and availability of insurance is deeply related to a household's monthly housing costs and their ability to recover from damages following severe weather.

The availability and affordability of insurance is a crucial housing issue: it will determine who is able to afford to live in areas that are vulnerable to extreme weather, and who will be most able to recover from natural disasters. Lack of availability of affordable insurance is also a growing impediment to nonprofit affordable housing development, counter to housing justice goals.

¹ National Oceanic and Atmospheric Association, Climate Change Impacts, accessed December 20, 2022. Available at: <https://www.noaa.gov/education/resource-collections/climate/climate-change-impacts>

Unfortunately, we do not currently have access to the data necessary to systematically understand insurance trends on a national level and the harm to consumers, or the data to monitor the potential for systemic financial risk that may spill over into the broader financial system.

Because of our nation's history of segregation and racist housing and community development policies, climate hazards will not be felt equally but will amplify existing racial disparities in housing affordability and stability. The legacy of racial discrimination and housing segregation in the US continues to be seen today, where BIPOC communities and lower-income people are more likely to live in areas that are more vulnerable to damage caused by climate change. For example, an analysis of health outcomes data found that people of color are at a higher risk of climate-related health impacts from heat, extreme cold, hurricanes, flooding, and wildfires than white people.² Similarly, an analysis of flood insurance payments following US hurricanes found that flooding disproportionately harms nonwhite neighborhoods,³ and a 2021 Redfin study found that redlined neighborhoods have a larger share of homes in high risk flood zones than non-redlined areas.⁴

Redlining itself did not create those risks; rather, redlining reflected and reinforced existing patterns of racial and ethnic housing segregation. Residents of redlined communities were often originally relegated to these neighborhoods because they were located in less desirable and more vulnerable areas. For example, they may have been more prone to environmental hazards such as flooding, landslides, or fire, or they may have been located next to noxious industrial facilities.⁵ Regardless, the impact of cutting off entire neighborhoods from affordable federally-backed home loans for a generation created a cycle of disinvestment that resulted in lower property values and many homes falling into disrepair.⁶ Federal urban renewal “slum clearance” and highway construction programs further concentrated their activities in these neighborhoods, both due to the lower cost of acquiring land and because of racial animus, while white flight to suburbs devastated the tax base of cities.⁷

² Alique G Berberian, David J X Gonzalez, and Lara J Cushing, Racial Disparities in Climate Change-Related Health Effects in the United States, Current Environmental Health Reports, 2022. Available at: <https://pubmed.ncbi.nlm.nih.gov/35633370/>

³ Thomas Frank, Scientific American, Flooding Disproportionately Harms Black Neighborhoods, 2020. Available at:

<https://www.scientificamerican.com/article/flooding-disproportionately-harms-black-neighborhoods/>

⁴ Lily Katz, Redfin, A Racist Past, a Flooded Future: Formerly Redlined Areas Have \$107 Billion Worth of Homes Facing High Flood Risk—25% More Than Non-Redlined Areas, 2021. Available at: <https://www.redfin.com/news/redlining-flood-risk/>

⁵ Haley M. Lane, Rachel Morello-Frosch, Julian D. Marshall, and Joshua S. Apte, Historical Redlining Is Associated with Present-Day Air Pollution Disparities in U.S. Cities, Environmental Science and Technology Letters, 2022. Available at: <https://pubs.acs.org/doi/full/10.1021/acs.estlett.1c01012>

⁶ Andre M. Perry, Jonathan Rothwell, and David Harshbarger, Brookings Institute, The devaluation of assets in Black neighborhoods, 2018. Available at:

<https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/>

⁷ Jessica LaVoice, The Long-Run Implications of Slum Clearance: A Neighborhood Analysis, 2021. Available at:

https://egc.yale.edu/sites/default/files/2021-04/2021-0423%20EconHistory%20Conference/UrbanRenewal_Short%20ada-ns.pdf

Taken together, these practices have resulted in the further destruction of communities, weakened municipal infrastructure, poor housing conditions, and lower property values. As a result, the built environment of these communities is less resilient to natural disasters and extreme weather events. Additionally, the growing racial wealth gap limits the financial ability of people of color to prepare for and recover from natural disasters,⁸ which has been shown to create even further inequality.⁹

These developments have had disastrous impacts on the availability of affordable insurance products for consumers, especially for BIPOC and low-income households. In 2021, following yet another unusually severe summer of wildfires, California’s insurance commissioner issued a one-year moratorium on fire insurance policy non-renewals in several counties. This move, following two years of similar moratoria in the wake of other fires, was seen as necessary by state insurance regulators because of widespread policy cancellations following previous fires: in 2019, for example, insurers failed to renew fire insurance policies for 230,000 homeowners.¹⁰ Following Hurricane Sandy, many Long Island residents reported that their insurance companies had dropped them from their homeowners’ insurance,¹¹ and Florida homeowners have similarly seen insurers drop coverage in recent years.¹² In a practice known as “bluelining,” insurers have taken similar actions to reduce policy coverage in higher-risk areas, often raising premiums and decreasing coverage amounts, even to levels that leave homeowners out of compliance with mortgage mandates.¹³ In areas where private insurers have withdrawn from the market state-run Fair Access to Insurance Requirements (FAIR) plans provide last-resort coverage to consumers with no other options.

This data call is thus a welcome first step in addressing one aspect of the insurance industry’s role in responding to physical climate risk. But oversight of the industry’s response to—and creation of—climate-related risk must ultimately contend not only with their property insurance lines of business, but also their investments and underwriting of fossil fuel expansion. Private

⁸ Connor Maxwell, Center for American Progress, *America’s Sordid Legacy on Race and Disaster Recovery*, 2018. Available at:

<https://www.americanprogress.org/article/americas-sordid-legacy-race-disaster-recovery/>

⁹ Junia Howell and James R. Elliott, *Damages Done: The Longitudinal Impacts of Natural Hazards on Wealth Inequality in the United States*, Society for the Study of Social Problems, 2018. Available at:

https://www.unisdr.org/preventionweb/files/63206_the-longitudinal-impacts-of-natural-haza.pdf

¹⁰ Jonathan Vankin, *California’s Fire Insurance Crisis: Why it Happened and What Can Be Done To Fix It*, California Local, 2021. Available at:

<https://californialocal.com/localnews/statewide/ca/article/show/635-california-fire-insurance-crisis/>

¹¹ John Callegari, *Insurers dropping Long Islanders post Sandy*, Long Island Business News, 2013. Available at: <https://libn.com/2013/06/24/insurers-dropping-long-islanders-post-sandy/>

¹² Becky Sullivan, *Florida’s property insurance market was already under stress. Ian could make it worse*, NPR, 2022. Available at:

<https://www.npr.org/2022/10/06/1127083845/hurricane-ian-florida-property-insurance>

¹³ Lindsey Jacobson, *Banks consider climate risk for home loans, a process called ‘underwaterwriting’ or ‘blue-lining’*, CNBC, 2021. Available at:

<https://www.cnbc.com/2021/09/20/blue-lining-and-underwaterwriting-banks-consider-climate-change-risk.html>

insurers' decisions to continue to invest in and provide insurance coverage to carbon-intensive industries is significantly contributing to climate change that is harming property insurance policyholders.¹⁴

Despite profiting heavily from financing and facilitating carbon emissions, insurance companies continue to withdraw from providing coverage in neighborhoods that are more susceptible to climate risk. **The idea that neighborhoods that are harmed by corporate conduct might then be deemed too risky to serve due to the impacts of that corporate conduct is egregious, yet it is the scenario that is currently playing out.** Insurers are effectively downstreaming the costs of climate change while taking enormous profits upstream. UN Assistant Secretary-General for Climate Action Selwin Hart said in 2021 “[w]e are staring down the barrel of a humanitarian catastrophes of staggering proportions, as climate change puts more lives, livelihoods and properties at risk...The insurance industry is uniquely positioned to bolster the transition to net zero and build resilience to climate shocks.”¹⁵

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. We further recommend that the FIO should take the following actions to expand and finalize its data collection scheme to better uncover racial and economic disparities, and recommend appropriate regulatory interventions to prevent further harm to consumers and the growth of systemic risk.

FIO should expand the collection to include additional types of insurance, claims delays and underpayment, policy cancellations, underinsurance, and renewal denials.

In addition to homeowner multi-peril insurance from private insurers, the data collection should be expanded to include additional types of insurance—some of which are more prominent in low-income and BIPOC communities—and to cover all relevant climate-related risks. These should include:

- state residual homeowner markets (including FAIR plans, Beach and Windstorm plans, and the state “Citizens” companies),
- wind-only policies,
- renters home insurance (HO-4) policies,
- condo/co-op home insurance (HO-6) policies,

¹⁴ Insure Our Future, *2022 Scorecard on Insurance, Fossil Fuels and the Climate Emergency*, 2022. Available at:

<https://insure-our-future.com/wp-content/uploads/2022/11/SP-IOF-2022-Scorecard-v0.8-online-1.pdf>;

Alexander Sammon, *The Oil Merchant in the Gray Flannel Suit: Why aren’t insurance companies aggressively fighting climate change, and minimizing catastrophes? Look at their balance sheets*, The American Prospect, 2021. Available at:

<https://prospect.org/environment/oil-merchant-in-the-gray-flannel-suit/>

¹⁵ Remarks of Assistant UN Secretary-General for Climate Change, Selwin Hart, to Insurance Development Forum event at COP26, Glasgow, 3 Nov 2021. Available at:

<https://www.insdevforum.org/knowledge/blog/remarks-of-assistant-un-secretary-general-for-climate-change-selwin-hart-to-insurance-development-forum-event-at-cop26-glasgow-3-november-2021/>

- fire/dwelling coverage policies,
- surplus lines home insurance policies,
- lender-placed (force-placed) homeowners insurance
- auto insurance policies that cover property damage from catastrophes,
- private flood policies, and
- National Flood Insurance Program policies.

Without these policies in the data set, the holes in the information gathered will diminish the value of any analysis derived from this effort. These segments of the insurance market hold a disproportionate share of catastrophic risk and, in many cases, are the only policies available to those most directly impacted by increasing climate risk. Critically, information must be collected regarding state Fair Access to Insurance Requirements (FAIR) plans and the other residual market companies, as these plans serve as insurers of last resort for people who would otherwise be denied insurance coverage due to being in a high-risk area or being deemed high risk themselves. Because they serve the communities most harmed by loss of affordable insurance due to climate change, FAIR plan data would allow regulators and the public to better understand the impacts of climate change on insurance coverage. FAIR plan data collection would also help us understand how private insurance companies assess risk in certain areas and what class of policyholders they deem to be risky.

Many homeowners across the country increasingly need to juggle a patchwork of insurance policies to cover different perils, and FIO must examine the manner in which wind, flood, fire, and multi-peril policies work together—or don't—and how this complicates post-disaster recovery. Flood insurance premiums continue to rise in BIPOC communities far more quickly than consumers can withstand, resulting in a slow-motion disaster for LMI housing affordability.¹⁶ FIO should collect a full range of data needed to truly assess climate-related insurance gaps, and analyze the data in tandem to form a holistic picture from the viewpoint of the impacts on homeowners.

FIO should also collect data on policy cancellations, claims delays and underpayments, and renewal denials, which also affect the availability and affordability of insurance coverage. The proposed data call would establish the number of policies not renewed year over year by a particular insurer, but additional information regarding the reason for nonrenewal would help distinguish between households that are denied renewal, those that select different types of coverage, and those that forgo coverage due to rising costs.

With respect to claims data, we see no reason to exclude certain claims experience from the data collection. The data call should simply require reporting of claims experience broken out into categories such as physical damage to structure, additional living expense (ALE) claims (which we believe is important despite FIO's concern that ALE is not always a standard

¹⁶ Samuel Stein and Caroline Nagy, *Rising Tides, Rising Costs: Flood Insurance and New York City's Affordability Crisis*. Center for NYC Neighborhoods, 2014. Available at: https://cnycn.org/wp-content/uploads/2014/09/Rising-Tides-Rising-Costs-2014_compressed.pdf

coverage), and all other losses. Additionally, multi-peril losses should be disaggregated by peril, and losses from major catastrophes should be separately cataloged.

FIO should collect data annually at the census tract level, include additional information needed to establish economic or racial discrimination *within* census tracts, and share data and analysis with the public.

The proposed collection would be disaggregated by zip code, but collection instead at the census tract level would provide a more accurate and precise picture of how climate change is creating racial and economic disparities in insurance access and affordability. If census tract level data is not pursued, nine digit zip code level data would be far more effective than five digit zip aggregation. Extensive research has shown that zip code level data is insufficient to establish geographically specific phenomena and can produce findings contrary to those observed via data at the tract and block group levels, a discrepancy which tragically delayed the response by public officials to the Flint water crisis.¹⁷

FIO should encourage state insurance regulators to require collection of racial and economic demographic data for policyholders and incorporate similar data requirements in the federal data call when and if states adopt such requirements. FIO should analyze the resultant data in the context of promoting racial and economic equity.

FIO should collect data, make it publicly available, and produce a public report of major findings annually to provide appropriate monitoring and dissemination of climate-related impacts on availability and affordability of insurance. This should include summary and trends of the collected data for each census tract across the country so that consumers understand how climate change is likely to affect their insurance costs and availability outlook, and to guide decisions at the local, state and federal level about what kind of climate mitigation and resilience efforts are needed—and where—to protect housing affordability and community stability. It would be negligent and unacceptable for the FIO to collect this data and analyze trends, but not share this information with affected or soon-to-be-affected homeowners, communities, and officials.

FIO should host field hearings across the country and roundtables with homeowners, renters, local government officials and community-based organizations, including housing counseling agencies to understand how climate-related insurance issues are presenting on the ground.

¹⁷ Richard Casey Sadler, *How ZIP codes nearly masked the lead problem in Flint*, 2016. Available at: <https://visionscarto.net/zip-codes-flint>; Frank Donnelly, *The Trouble With Zip Codes: Solutions For Data Analysis And Mapping*, At These Coordinates, 2020. Available at: <https://atcoordinates.info/2020/05/11/the-trouble-with-zip-codes-solutions-for-data-analysis-and-mapping/>; Nancy Krieger et al, *Zip Code Caveat: Bias Due to Spatiotemporal Mismatches Between Zip Codes and US Census–Defined Geographic Areas—The Public Health Disparities Geocoding Project*, American Journal of Public Health, 2002. Available at: <https://ajph.aphapublications.org/doi/10.2105/AJPH.92.7.1100>

To contextualize the collected data, improve on-the-ground monitoring, assess regional variation in experiences of insurance loss, raise awareness among the public and with insurers, and to connect affected households with helpful resources, FIO should host field hearings across the country. Additionally, FIO should welcome community-based organizations from vulnerable areas, affordable housing developers, and others to roundtables to inform further policy interventions. Such field hearings and roundtables will provide FIO with critical information about the ways in which insurance availability and affordability in areas affected by climate-driven disasters are impacting households, communities and regions in a way that data collected from insurance companies cannot do.

FIO should make appropriate recommendations to state insurance regulators, federal banking regulators, the Federal Housing Finance Agency (FHFA), the Financial Stability Oversight Council (FSOC), and the Office of Financial Research (OFR).

To date, the New York Division of Financial Services and Connecticut Insurance Department have issued climate-related supervisory guidance¹⁸ for insurers, and FIO should support efforts to expand such actions in other states.

Using the resultant data from this call, FIO should work with insurers and state regulators to incorporate climate risk and climate scenarios—such as those outlined by the Network for Greening the Financial System (NGFS)—into supervisory guidance and examinations, and publish the aggregate results annually.¹⁹ Climate insurance supervision should incorporate discussion and monitoring of identified physical and transition risks for all lines of business, risk management best practices, culture and governance, and scenario analysis results.

Critically, insurance supervisory guidance should outline safe, just, and equitable ways for insurers to manage their climate risks. With the help of FIO, and informed by the data collected through this process, state insurance regulators and other policymakers should design risk mitigation strategies that do not result in blue-lining or rapid changes to the availability and affordability of insurance.

To assess impacts on consumers more holistically, FIO should work with banking regulators and FHFA to study how climate-related disasters relate to foreclosure and mortgage availability for those with and without affordable insurance access and adequate coverage. FIO should also work with FHFA to obtain data about the role of mortgage servicers in the process of insurance payouts for homeowners' insurance, which is handled directly by servicers. Already there are signs of credit rationing in areas where climate change is exacerbating flood risk, and notably,

¹⁸ New York Department of Financial Services, *Insurance Circular Letter No. 15*, 2020. Available at: https://www.dfs.ny.gov/industry_guidance/circular_letters/cl2020_15; State of Connecticut Insurance Office, *Bulletin No. FS-44*, 2022. Available at: https://portal.ct.gov/-/media/CID/1_Bulletins/Bulletin-FS-44.pdf

¹⁹ Network for Greening the Financial System, *Scenarios Portal*, accessed December 20, 2022. Available at: <https://www.ngfs.net/ngfs-scenarios-portal/>

mortgage availability is shifting towards wealthier borrowers with higher FICO scores.²⁰ Additionally, beyond the availability and affordability of insurance, it matters whether homeowners can use the insurance meaningfully to pay for repairs post-disaster, which can significantly impact rebuilding efforts.

In addition, we urge FIO to use the data collected to urge the Financial Stability Oversight Council (FSOC) and other offices within the Treasury Department to engage in appropriate oversight of the insurance industry. Specifically, FSOC should repeal the 2019 guidance on designating non-banks as systemically important financial institutions (SIFIs) and use the statutory authority given in Title I of Dodd-Frank to apply a climate change and racial equity lens when designating a non-bank financial company as a SIFI; and the Office of Financial Research (OFR) should be fully staffed to ensure robust analysis of threats to financial stability due to the climate-exacerbated insurance gap.

For large private insurers that are found to either underwrite business projects of or invest in climate-harming industries while also progressively pulling insurance coverage or raising rates at an untenable pace for climate-affected households, FIO should urge state regulators to strengthen their oversight and, if state regulators fail to address instability created by such practices, FSOC must step in and designate those insurers for enhanced supervision by the Federal Reserve.

We thank you for initiating this important data call, and we encourage you to expand the scope and begin data collection and analysis on an expeditious timeline. We encourage you to solicit more public feedback through field hearings and roundtables throughout this process. For more information, please reach out to Caroline Nagy ([caroline@ourfinancialsecurity](mailto:caroline@ourfinancialsecurity.org)) and Alex Martin (alex@ourfinancialsecurity.org).

Sincerely,

Americans for Financial Reform Education Fund
California Reinvestment Coalition
Consumer Federation of America
National Consumer Law Center (on behalf of its low-income clients)

²⁰ Sastry, Parinitha. *Who Bears Flood Risk? Evidence from Mortgage Markets in Florida*, MIT Sloan School of Management, 2021. Available at: https://psastry89.github.io/website/psastry_JMP.pdf