Commissioner Ricardo Lara and Director Lori Wing-Heier
Climate and Resiliency Task Force
National Association of Insurance Commissioners
444 North Capitol Street NW,
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Washington, DC 20001

January 18, 2023

Re: NAIC Draft Climate Resilience Strategy for Insurance

On behalf of Public Citizen, the Center for Economic Justice, and the Consumer Federation of America and five undersigned organizations, we welcome the opportunity to comment on the Draft National Climate Resilience Strategy for Insurance. We appreciate the NAIC's recognition that this is a national problem, and we agree that comprehensive data, climate-informed solvency tools, and pre-disaster mitigation are essential priorities. However, we also urge the NAIC to work proactively with other stakeholders on data collection, make data and models available to the public, and find ways to shift insurers' investments toward communities and away from polluting industries.

A comprehensive data strategy should address broader financial risks and impacts on marginalized communities.

The data collection in this strategy is a welcome proposal, and we appreciate the NAIC's recognition that comprehensive collection of insurance data is essential to inform strategies for climate resilience and advocacy for state, local, and federal investments. A data collection that includes deductibles and coverage limits is particularly crucial to draw attention to and enable better analysis of the unfolding underinsurance crisis, as insurers transfer risks in subtle ways that ordinary consumers may not recognize.

While the strategy recognizes the need for greatly expanded data reporting by insurers, for regulators, policymakers and the public to effectively monitor how insurer reactions to climate risk are affecting insurance availability and affordability, resilience and financial stability, the reliance on a one-time special data call is clearly inadequate. Just as insurance financial regulators collect granular financial data on a quarterly basis, so must consumer insurance market outcome data be reported by insurers and published by insurance regulators – transaction-detail data provided on at least a quarterly basis. This approach is already the standard for some lines of insurance through the use of statistical agents and that approach should be used to modernize and improve insurer data reporting – updating statistical plans to reflect current data needs and data processing capabilities – for a variety of regulatory and public policy purposes.

While a data collection from the NAIC is an important step, we also urge the NAIC to work collaboratively with federal partners, particularly the Federal Insurance Office (FIO). Granular data are essential to inform mitigation investments and for monitoring the potential systemic financial risks and impacts on marginalized communities. The NAIC's strident opposition to the FIO climate data collection has appeared out of touch with growing attention to this issue, particularly when the NAIC has been unable to provide basic data or even a proposed data template.[i] While the NAIC argues it is best positioned to collect this data, the draft strategy omits any mention of potential systemic financial risks or disproportionate impacts on marginalized communities, providing no reassurance that an NAIC data collection would be sufficient on its own. The NAIC and the insurance industry continue to ask the federal government for investments in insurance modeling and climate mitigation while at the same time attempting to block federal regulators from assessing basic data to evaluate the impacts of an insurance crisis on the rest of the economy.

While the NAIC should work collaboratively with federal stakeholders on monitoring systemic risks, the NAIC can and should address the threat to marginalized communities in its own proposed data collection. The strategy suggests the NAIC will pair insurance data with climate and economic data, but this should also include demographic data. It is widely recognized that climate change disproportionately impacts homeowners and renters in low-income communities and communities of color due to a history of redlining and underinvestment that continues to this day.[ii] As the climate crisis accelerates, insurers may recreate the same patterns of racial and economic exclusion as previous redlining activities through the developing practice of "bluelining," as they avoid offering insurance or raise costs to unaffordable levels in areas they identify as having higher environmental risk. Regulators should use granular data to ensure that insurers' actions that are characterized as risk-based actions do not provide cover for unfair discrimination and that local, state, federal and industry investments prevent a climate-driven insurance crisis from reinforcing existing disparities.

The NAIC should develop a public source of granular insurance data and explore the development of public catastrophe models.

The NAIC should develop a public database of timely, granular data, with careful attention to confidentiality. The draft strategy rightly recognizes the value of insurance data to inform regulators' advocacy, but a wider range of stakeholders, including consumer advocates, independent researchers, and community planners, need access to data to prepare for climate impacts.[iii] While a protection gap dashboard and aggregation of state level data could be useful for illustrating broad patterns, rigorous research requires zip-code level data, or preferably census-tract data. As attention to insurance markets grows, the problem of a lack of public data will only become more glaring. Additionally, as the insurance industry increasingly presents higher premiums as a form of climate risk communication[iv]—price signaling that informs ratepayers about climate-related risk—it cannot continue to oppose publicly sharing data necessary to evaluate climate impacts properly.

The NAIC should provide clear assessment and oversight of existing catastrophe models and explore the development of public models. Transparency is crucial to illuminate limitations and uncertainties of these models, particularly given the nascent state of efforts to model wildfires risks and integrate climate modeling into catastrophe modeling and recent high-profile misses.[v]

Transparency is also essential to examine the potential for unfair biases and address conflicts of interest between insurers and modelers. Additionally, while the draft strategy highlights that catastrophe models could be a valuable tool to inform regulators' advocacy for mitigation investments, the high cost to access proprietary catastrophe models currently makes them prohibitive for most other users, including most researchers, consumer advocates, businesses, communities, and local governments. Climate data and models should be a public good, particularly when they rely in part on data from public institutions,[vi] and the NAIC should work with federal partners to explore the development of catastrophe models that could serve as public resources.[vii]

The NAIC should help insurers make credible plans to invest in communities and shift away from the industries driving climate change.

Just as the draft strategy highlights that many homeowners are not powerless to address risks to their homes, the strategy should likewise recognize that insurance companies are not powerless to address climate risks and have more options than simply pulling out of markets. In fact, the industry's unique access to data, tremendous profits, political muscle and role as financial gatekeepers gives them unique influence. Regulators should harness these factors to ensure insurers invest in the communities most vulnerable to climate change.

In addition to advocating for public investments in pre-disaster mitigation, the draft strategy should explicitly recognize that regulators can require and incentivize investments from the industry. Sustained public pressure on insurers has led in the past to meaningful investments in loss reduction research,[viii] and the strategy recognizes the value of insurers' existing investments into mitigation research through the Institute for Business and Home Safety. To ensure this research translates to tangible risk reductions, regulators should also ensure the industry invests directly in policyholders by requiring insurers to provide premium discounts to homeowners who take steps to reduce risks to their homes and to consider homeowner mitigation steps in non-renewal decisions. To facilitate broader investments, state regulators can also look to the Community Reinvestment Act for inspiration on long-term strategies to incentivize insurers to provide meaningful investments in the most vulnerable communities.

As part of a long-term climate resilience strategy, regulators should also require scenario analysis and transition planning, including requiring insurers to develop credible plans to meet their own publicly announced climate goals. This is not only a climate resiliency imperative but also a consumer protection and prudential imperative. As attention grows to the connection between climate change and insurance markets, insurers' ties to oil, gas, and coal, including half a trillion in investments and underwriting strategies that greenlight new oil and gas projects, have become increasingly untenable.[ix] By betting on fossil fuel expansion, insurers undermine their policyholders, erode their own markets, and increase the threat from transition risks to their own companies and the broader market.[x] Further, some major insurers engaging in this conduct are attempting to hold themselves as climate leaders and have made public climate commitments they appear not to be honoring.[xi] As they drop homeowners suddenly, the public is unlikely to accept the argument that insurers and regulators are somehow powerless to shift towards investing and underwriting strategies that do not actively increase the risks from climate change.

The draft strategy rightly recognizes that scenario analysis and stress-testing can aid in assessing long-term climate risks, and it should recognize transition risks. Insurers cannot continue to pick and choose only the tools that allow them to raise prices on homeowners now without oversight, while continuing to quietly oppose requirements to use tools like scenario analysis and stress-testing to evaluate and disclose long-term financial risks.[xii] Regulators should also require insurers to disclose the impacts of particular risk management strategies on vulnerable communities. At the same time, scenario analysis can significantly underestimate climate risk, as existing scenarios struggle to capture risk transmission channels, as well as perils like flood, climate tipping points like the destruction of the Amazon rainforest, and second order impacts like food scarcity. As a result, the Institute and Faculty of Actuaries recently warned that current models can produce “artificially benign results that can easily serve as an excuse for delaying action”[xiii] and that additional tools are needed. Still, it is better to begin engaging in the analyses, mindful of their shortcomings, and iterate and improve on them over time as the capacity to do so increases.

Insurers appear to agree that greater advance planning is necessary. At least forty-five insurers have made some commitment to restrict coal underwriting, thirty-one have made net-zero commitments, and at least twenty-eight formed a voluntary industry alliance to reduce their emissions in line with net-zero by 2050.[xiv] However, the question remains whether these are meaningful efforts to facilitate the energy transition or attempts to greenwash for the public.[xv] Public records suggest insurer coal commitments are riddled with loopholes, the Senate Budget Committee has highlighted the lack of clarity around insurers’ commitments, and high-profile exits from the Net Zero Insurance Alliance confirm that insurers cannot hold each other accountable.[xvi] Fundamentally, insurers are not acting quickly enough because they do not expect to pay the price themselves. This is precisely the type of moral hazard regulators are tasked with addressing.

As the industry struggles to make and meet credible commitments on its own, it is time for regulators to step in. To manage risks that are difficult to quantify, transition planning, which is set to become mandatory for insurers in the European Union,[xvii] should be an essential tool for ensuring that the industry is prepared to proactively manage transition risks. Without meaningful net-zero requirements for insurers, the public will be expected to foot an ever-increasing bill to fund mitigation, while the powerful companies who finance, insure, and profit from the climate crisis will not, amounting to a bailout that will virtually guarantee more drastic action is needed in the future.

Conclusion

We appreciate that the NAIC recognizes this is a national problem that requires a coordinated approach on data collection, solvency tools, and pre-disaster mitigation. We urge the NAIC to recognize that attention to the absence of public data, the impacts of an insurance crisis on marginalized communities, and the climate impact of insurers’ investments and underwriting will only grow over time. To address each of these, the NAIC should work proactively with other stakeholders on data collection, develop public data and models, and identify ways for the industry to invest in community resilience.

Please contact us at cfabian@citizen.org with any questions. We look forward to working with you on next steps.

Sincerely,

Public Citizen
Center for Economic Justice
Consumer Federation of America
Americans for Financial Reform
Consumer Watchdog
Revolving Door Project
Rise Economy (formerly California Reinvestment Coalition)
E3G
U.S. PIRG

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[i] NAIC, "NAIC Data Call to Provide Robust Look at Property Insurance Availability, Affordability" (Nov. 2, 2023).

[ii] Thomas Frank, "Flooding disproportionately harms Black neighborhoods," Scientific American (June 2020); Leigh Hataway, "Wildfires disproportionately impact the poor" UGAToday (September 2022).

[iii] Gregory Squires, Sally O'Connor, and Josh Silver, "The unavailability of information on insurance unavailability: Insurance redlining and the absence of geocoded disclosure data," Housing Policy Debate Vol. 12, 2001; Zac Taylor and Manuel Albers, Climate Gentrification: Risk, Rent and Restructuring in Greater Miami, 112 Annals AM. Ass-n Geographers 1685; Daniel Schwarcz, "Transparently Opaque: Understanding the Lack of Transparency in Insurance Consumer Protection," 61 UCLA L. Rev. 394 (2014); Madison Condon, "Climate Services: The Business of Physical Risk," 55 Arizona State Law Journal 147 (2023), p. 206

[iv] Chad Hemenway, APCIA, RAA Testify Before Senate Committee on Property Insurance Market," Insurance Journal, (September 7, 2023).

[v] Steve Evans, "Hurricane Otis a "monumental" weather model miss," *Artemis* (October 26, 2023).

[vi] Madison Condon, "Climate Services: The Business of Physical Risk," 55 Arizona State Law Journal 147 (2023).

[vii] White House, "Memorandum on Tools to support the management of near-term macroeconomic and financial climate risks," (December 22, 2023); Executive Office of the President, President's Council of Advisors on Science and Technology, "Extreme Weather Risk in a Changing Climate: Enhancing prediction and protecting communities," April 2023.

[viii] Ralph Nader, "Insurers can be sentinels for health and safety," (September 21, 2023).

[ix] Ceres, ERM, and Persefoni, "The Changing Climate for the Insurance Industry," (August 2023); Insure Our Future, "50 Years of Climate Failure: 2023 Scorecard on Insurance, Fossil Fuels and the Climate Emergency," (2023).

[x] Hyeyoon Jung, Robert Engle, Shan Ge, and Xuran Zeng, "Measuring the Climate Risk Exposure of Insurers," Federal Reserve Bank of New York, Number 1066 (July 2023).

[xi] See, e.g., Public Citizen and Insure Our Future, "Covering Coal: The Top Insurers of U.S. Coal Mining," (September 2023).

[xii] American Property Casualty Insurance Association, "California's Insurance Marketplace is Fragile, the Time has Come to Reform Proposition 103," (July 7, 2023); InfluenceMap, "Industry Influence on the

IAIS Climate Risk Work," (November 2023); InfluenceMap, "The US Insurance Sector and Climate-Related Financial Regulation: How the sector is delaying and diluting emerging key regulations," (May 2022).

[xiii] Sandy Trust, Sanjay Joshi, Tim Lenton, Jack Oliver, "The Emperor's New Climate Scenarios: Limitations and Assumptions of Commonly Used Climate-change Scenarios in Financial Services," Institute and Faculty of Actuaries and the University of Exeter (July 2023.)

[xiv] Insure Our Future. "Number of Companies with Fossil Fuel Exclusion Policies, by Sector"; Insure Our Future. Insurance company fossil fuel underwriting policy weblinks and extracts.

[xv] Evan Halper, "Companies made big climate pledges. Now they are balking on delivering." *The Washington Post* (December 2023).

[xvi] Public Citizen and Insure Our Future, "Covering Coal: The Top Insurers of U.S. Coal Mining," (September 2023); "Budget Committee Launches Investigation into Major Insurance Companies' Climate Risk Evaluation, Fossil Fuel Support" Chairman's Newsroom (June 9, 2023); Tommy Wilkes, "Insurers' climate alliance loses nearly half its members after more quit" *Reuters* (May 30, 2023).

[xvii] World Wildlife Fund, "Due Diligence Directive deal ignores financial sector as driving force of environmental damage," (December 14, 2023).