Remarks by Assistant Secretary for Financial Institutions Graham Steele at Event Hosted by the Brookings Institution's Assessing Insurance Regulation and Supervision of Climate-Related Financial Risk

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As Prepared for Delivery

INTRODUCTION

Thank you, Carlos. It is my pleasure to be with you all today, both those in the room and watching virtually.

As the Assistant Secretary for Financial Institutions, my portfolio includes developing the Department's policy views on banks, credit unions, consumer protection, access to capital, and financial sector cybersecurity matters. My remarks will focus on the work that Treasury, through the Federal Insurance office (FIO), is doing to understand and help address the financial risks that our changing climate poses in the insurance sector.

Work on climate-related financial risk and the insurance sector is a top priority for the Biden-Harris Administration, the Treasury Department, and FIO. Established by the Dodd-Frank Act, FIO has an important role to play in the discussions regarding climate-related risk. Within our traditionally state-based system of insurance oversight, FIO has a unique statutory mandate to, among other authorities, monitor all aspects of the insurance industry and consult with the states regarding insurance matters of national importance. As a non-voting member of the Financial Stability Oversight Council (FSOC), FIO's Director also collaborates with, and provides advice regarding, insurance matters to FSOC and its committees.

We're continuing to see an increase in climate-related disasters in the United States and around the world. Recently, we've seen wildfires in Canada that affected air quality in the United States; severe tornados and hailstorms in the central and southern states this Spring; historic drought and periodic, intense rainfall in the American West; and the heavy toll inflicted by Hurricane Ian in Florida last year. Extreme weather events exacerbated by climate change cause significant damage and disruption to communities, households, and businesses. There has been at least a five-fold increase in the annual number of billion-dollar disasters in the past five years as compared to the 1980s – even after adjusting for inflation.[1] Hurricane Ian alone caused at least 157 deaths and almost $100 billion in damages. These figures demonstrate the urgent need for the federal government, state insurance regulators, the National Association of Insurance Commissioners (NAIC), and others, to work together to understand and mitigate risks from these events. Indeed, the Biden-Harris Administration has already made historic investments in the climate transition and in climate resiliency that represent critical steps taken toward resolving these issues.

In May 2021, President Biden issued Executive Order to address these and other climate-related financial risks. Addressing such risks is necessary to ensure that insurers continue serving their role in the economy. Insurance companies are both investors and risk managers, and they serve as a key risk transfer resource that helps protect policyholders from loss and assists in enabling recovery from climate-related disasters.

That Executive Order gave FIO two taskings:

- The first is "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."
- The second tasking is to "assess, in consultation with States, the potential for major disruptions of private insurance coverage in regions of the country particularly vulnerable to climate change impacts."

Today, I'll address both efforts. I will first discuss key findings of a report that FIO released this morning in response to the first tasking and discuss its relevance to climate-related risk work being undertaken at the state level and across the federal government. I will also provide an update on FIO's proposed collection of historical and current underwriting data from certain homeowners insurers, which FIO proposed in response to the second tasking of the Executive Order. The recent widely reported market developments in the insurance sector — including the withdrawal of several large insurers from writing new policies in the California homeowners insurance market and the insurer pullbacks in other areas — underscore the importance of both efforts.

SUMMARY OF REPORT FINDINGS

Today, FIO released its report on *Insurance Supervision and Regulation of Climate-Related Risks.* The report is a culmination of two years of work — including a public request for information — to assess the efforts state insurance regulators and the NAIC have undertaken to incorporate climate-related risks into the supervision and regulation of insurers.

The report highlights current efforts by the NAIC and some state regulators while also providing recommendations to better integrate climate-related considerations into U.S. insurance regulation.

The report's key findings include the following:

- Climate-related risks, including transition, physical, and litigation risks, present new and increasingly significant challenges for the insurance industry.
- The oversight of climate-related risks is therefore an emerging and increasingly critical topic for state insurance regulators. Climate-related risks also warrant careful monitoring by financial regulators, policymakers, and insurers.
- State insurance regulators and the NAIC are increasingly focused on incorporating climate-related risks into supervision and regulation. You'll hear more about these efforts shortly from Virginia's Insurance Commissioner Scott A. White and Deputy Superintendent Avani Shah from the New York Department of Financial Services in today's panel.
- But, in most cases efforts to incorporate climate-related considerations into insurance supervision and regulation remain at a preliminary stage.

RELEVANCE OF REPORT FOR STATE INSURANCE REGULATORS

FIO's report makes 20 policy recommendations to the NAIC and state insurance regulators on ways to improve management and supervision of climate-related risks. The report also proposes areas of focus for future work by the NAIC and state insurance regulators.

The good news is that the current regulatory framework provides state insurance regulators with tools they can adapt to better consider climate-related risks. Importantly, they are already beginning to do this work and the report recommends they should prioritize it further.

All state insurance regulators should develop and adopt climate-related risk monitoring guidance appropriate for their markets, which should include expectations for insurers to incorporate climate-related risks into their annual financial planning, as well as into their long- and short-term risk management processes, as some states have done.

The NAIC and state insurance regulators should also prioritize the creation of new tools and processes, for example, the development of scenario analysis and increased use of the NAIC's Catastrophe Modeling Center of Excellence.

Treasury looks forward to working in collaboration with the NAIC and state insurance regulators on these efforts.

RELEVANCE OF REPORT FOR WORK ACROSS FINANCIAL SYSTEM

The report highlights that more work is needed to better understand the nature of climate-related risks for the insurance industry, and the implications of those risks for insurance regulation and supervision. It also helps to further our understanding of how climate-related financial risks can affect financial stability through exposures to the broader financial system, including housing markets and the banking sector.

Impacts in the insurance market can have potentially significant consequences for homeowners and their property values, which can spill over to other parts of our interconnected financial system. For example, financial institutions and investors hold assets like mortgages and securities that are directly or indirectly affected by insurance coverage. By addressing FIO's recommendations, state insurance regulators can help support insurers in better understanding and addressing climate-related financial risks in ways that mitigate risks to other parts of the financial system

FIO will continue working with state insurance regulators, banking agencies, and the Federal Housing Finance Agency — including through FIO's role on FSOC — to better understand and address climate-related risks.

MARKET DEVELOPMENTS AND DATA CALL

Finally, I would like to address the recent developments in some insurance markets. There is growing anecdotal evidence indicating that climate change may be associated with a decline in the availability of property insurance in the U.S., especially in certain markets.

In response to rising insured losses, some insurers are raising rates or pulling back from high-risk areas. This has caused more customers to turn to residual markets to find coverage or to go without insurance. These developments are not just occurring in California, which has been in the news recently. Insurer withdrawals and insolvencies as well as residual market growth and significant premium increases are occurring in multiple states across the country.[2]

According to one source, in 2022, insurance covered only 60 percent of $165 billion in total economic losses from climate-related disasters.[3] This "protection gap" may indicate that Americans are facing challenges in finding available and affordable insurance in their area.

Studies have shown that traditionally underserved and disadvantaged communities and consumers, including those who are low- and moderate-income, are hardest hit by climate change.

[4] These populations may also have disproportionate challenges in obtaining property insurance to cover the risks posed by climate-related disasters.[5]

The report FIO released this morning discusses some of the available tools that insurance regulators could use to address market disruptions, such as state guaranty funds, residual markets, and mitigation and resilience initiatives. The report also recommends ways in which these tools can be strengthened.

But our analysis and assessment of these market developments could be improved. We are simply not seeing the full picture of climate change's impacts on our nation's property insurance markets. Current data on insurance provide information at the national or state level, with limited information on availability at a more granular level. As we've seen recently, changes in insurance availability can be quite localized, with some insurers declining to write policies in high-risk areas or certain ZIP Codes.

This brings me to the second tasking from the Executive Order that I mentioned: assessing the potential for climate-related disruptions of private insurance coverage.

In order to conduct its assessment, FIO needs consistent, comparable, and granular data across the country. That's why FIO proposed the collection of historical and current underwriting data on homeowners insurance from certain insurers.[6]

FIO received many helpful and substantive responses to its request for public comment on its proposed data collection. Commenters expressed a range of viewpoints and included individuals, brokers, insurance industry trade associations, state insurance regulators, public interest groups, consumer advocates, climate and environmental groups, and others. FIO has also met with representatives of well over a dozen organizations to further discuss the proposed data call.

Assessing climate-related insurance market disruptions requires comprehensive assessments that pair high-quality socioeconomic and real estate information with granular insurance data. Developing a thoughtful, coordinated approach will be a more long-term, iterative effort for FIO as it partners with state and federal colleagues in this endeavor. That is why FIO intends to actively continue its work in this area and intends to take further steps later this summer. I'm glad to be here today with Commissioner White and Deputy Superintendent Shah, as FIO Director Steven Seitz and the rest of the FIO team will continue coordinating with the states and NAIC on this important effort.

CONCLUSION

I'm sure people are eager to hear more from our panelists, so I'll close with one final observation. While insurance markets in the U.S. are regulated at the state level, climate change is affecting our entire planet. It does not respect the distinctions between different zip codes, state lines, or national borders. That means that we all have a role to play, and a duty to work together, to address the threats posed by climate change. With that, let me turn it over to them. Thank you again for having me here today.

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[1] NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2023). https://www.ncei.noaa.gov/access/billions/

[2] E.g., Jean Eaglesham, Home Insurers Curb New Policies in Risky Areas Nationally, Wall Street Journal, June 8, 2023, https://www.wsj.com/articles/home-insurers-curb-new-policies-in-risky-areas-nationally-c93abac0.

[3] Insurance Information Institute (III), "Facts + Statistics: U.S. Catastrophes," https://www.iii.org/fact-statistic/facts-statistics-us-catastrophes. III's source information is from Aon and includes "Natural disasters that cause at least $25 million in insured losses; or 10 deaths; or 50 people injured; or 2,000 filed claims or homes and structures damaged." Insured losses caused $99B in damage out of $165B in total economic losses.

[4] White House Council of Economic Advisors, Economic Report of the President (March 2023), Box 9-2, https://www.whitehouse.gov/wp-content/uploads/2023/03/ERP-2023.pdf.

[5] See, e.g., Carolyn Kousky & Karina French, Inclusive Insurance for Climate-Related Disasters: A Roadmap for the United States (2023), available through https://www.ceres.org/resources/reports/report-inclusive-insurance-climate-related-disasters.

[6] Federal Insurance Office, Federal Insurance Office Climate-Related Financial Risk Data Collection, 87 Fed. Reg. 64,134 (Oct. 21, 2022), https://www.federalregister.gov/documents/2022/10/21/2022-22880/agency-information-collection-activities-proposed-collection-comment-request-federal-insurance.