

# U.S. DEPARTMENT OF THE TREASURY

## Remarks by Secretary of the Treasury Janet L Yellen at Federal Advisory Committee on Insurance Meeting

March 29, 2023

*As Prepared for Delivery*

Good afternoon, everyone. I'm glad to be with you today. I want to first welcome John as chair of the Federal Advisory Committee on Insurance. Let me also thank Dan for his tremendous service as this Committee's past chair.

I wanted to join you today to thank you for all that you do on this Committee.

For over a decade, the Federal Insurance Office – FIO has been critical to monitoring and assessing the financial health of the insurance industry. A broad and diverse set of outside perspectives is important to any endeavor we undertake here at Treasury. But it is particularly important for FIO's broad statutory mandate. This office is in charge of monitoring an industry with over \$2.5 trillion in written premiums, over \$11 trillion in total assets, and thousands of licensed insurers – and one that provides services and products that are crucial for households and businesses. Over the years, FIO has benefited from your expertise in areas from pandemic preparedness to protecting Americans' retirement security to international market access.

You have also been indispensable in providing advice on one of FIO's main priorities this year: improving our understanding of climate-related financial risks in the insurance industry.

The Financial Stability Oversight Council identified climate change as an emerging threat to U.S. financial stability in October 2021. Climate change poses various risks to our financial system. A major one is physical risk: the harm to people and property that arises from acute disaster events like hurricanes, floods, and wildfires – as well as more chronic phenomena like warming temperatures. We've already seen an acceleration of these physical risks in the United States. There's 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. Notably, in 2022, Hurricane Ian caused at least 157 deaths and almost \$100 billion in damages.

There is growing evidence that these trends in physical risks have led to a decline in the availability and affordability of insurance in certain areas. We've seen insurers in states like California, Florida, and Louisiana raise rates or pull back from high-risk areas in response to rising insured losses. And we know that insurance may be especially difficult to find in traditionally underserved communities. According to one source, in 2022, insurance covered only 60 percent of \$165 billion in total economic losses from climate-related disasters. This “protection gap” may indicate that Americans are facing challenges in finding available and affordable insurance in their area. This can have significant consequences for homeowners and the values of their assets. In turn, these developments can have cascading effects on the financial system.

In October 2022, FIO issued a proposed data collection from certain property and casualty insurers on their current and historical underwriting data on homeowner's insurance. The aim is to gather consistent and granular data – down to the zip code level – that can help provide a nationwide understanding of the availability and affordability of insurance. It will help us assess how insurance coverage is being affected by climate-related risks. This would be the first-ever quantitative assessment of its kind.

This data collection would build on the other steps that FIO has taken in the past 18 months to bolster its climate work. That includes ramping up its engagement with the insurance sector domestically and internationally. It also includes producing an upcoming report that will focus on assessing climate-related issues or gaps in the supervision and regulation of insurers.

FIO has benefited greatly from this Committee's significant expertise – particularly that of the Climate-Related Financial Risk Subcommittee. And we will continue to do so. We know that many stakeholders have submitted public comments in response to FIO's proposed data collection. We look forward to continued engagement with stakeholders, as well as this Committee, as we advance this work.

I want to end by thanking you again for your service. Not only on climate-related work, but across all of FIO's priorities. The work that you are doing as part of this Committee is crucial to bolstering

the health of the U.S. financial system.

I'm deeply grateful for your time and efforts.

Thank you.

####