FIO Climate-Related Financial Risk Data Collection Comments

8th proposal to collect market data from property and casualty insurance companies across the United States. As the primary regulators of this sector, state insurance regulators are on the frontlines of natural catastrophe preparedness and response, protecting policyholders and maintaining well-functioning insurance markets. State insurance regulators, through the NAIC, have had a climate-specific working group for more than a decade, which evolved into our Climate and Resiliency Task Force that serves as the coordinating NAIC body for discussion and engagement on climate-related risk and resiliency issues. This Task Force builds on existing efforts to address the economic consequences of natural disasters, including efforts to mitigate their toll. While the role of the climate in influencing the frequency and severity of natural disasters has received more specific attention over the last decade, our work is built on decades of expertise and experience in managing the economic fallout of these disasters.

While we recognize the Treasury ¶ desire to better understand the impact of climate risk and weather-related exposures on the ava

process Treasury employed thus far is a missed opportunity to work collaboratively with regulators on an issue we have both identified as a priority.

FIO has failed to demonstrate a good faith effort to

(NAIC) provides expertise, data, and analysis for insurance commissioners to effectively regulate the industry and protect consumers. The U.S. standard-setting organization is governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. For more information, visit www.naic.org.

as part of a collaborative effort. We would further emphasize additional collaborations such as Team USA on the international prudential front and the TRIA program to name some joint efforts that have produced positive results. These examples reflect the fact that states and the federal government have a mutual interest in this information, but for distinct purposes and only in furtherance of specific statutory

Affordability and availability analysis will also pick up the impact of social inflation, building codes, land use policies, labor and construction costs, the legal environment, housing stock and pricing, and other socio-economic variables that could be misinterpreted as climate risk. Policy language, exclusions, and provisions are also important to assessing the adequacy of coverage as an under-insured consumer may be more difficult to detect than an uninsured consumer, but both will not be able to fully recover from a loss. Further, excluding certain coverages such as liability, medical payments and living expenses from the policy and claims information on a historical basis may prove prohibitively challenging to provide.

For example, the Surfside Condominium collapse in Florida, which occurred in an area prone to severe weather and would therefore be impacted by increasing climate risk, is a good example of a large loss in 2021 that was not climate related but resulted in significant premium increases for similarly situated buildings in the Florida market due to construction characteristics. Looking at premium and loss data without additional context may produce false positives or false negatives in trying to identify the role climate risk plays across different markets.

Additionally, FIO should be leveraging the expertise of state-based regulators who have significant and widespread expertise in this field to ascertain and discern the potential meaning of any data collected. FIO has not clearly defined the purpose and scope of this data, and it would appear to be counter productive to get the data first, and then find a meaning.

FIO should leverage publicly available data and work with state regulators to better inform a data collection effort to fit its ill-defined purpose. A number of states QRWHG LQ UHVSRQVH WR) that there are other data available in the public domain or with state insurance regulators that more specifically speaks to the risks faced in their market and the cost of catastrophic events. This would include data from several of the states identified as climate vulnerable. While FIO noted a few of these in the proposal, it implied that the information was inadequate because it does not fit their proposal precisely. However, state insurance regulators are better aware of the risk and the structure of policies available in their markets to better inform a data collection effort fit for purpose. For example, state statutes or regulatory guidelines may require rating characteristics that would be helpful to identify in a data call and vary by state. Examples include rating factors by coastal band or distance to the coastline, named-peril deductibles issued as a percentage of the policy and deductibles that can be applied for a single named-storm or all disaster events occurring within a season. These are the types of nuances best known by the state that reviews the policies written in that state, nuances that may often be unfamiliar or misunderstood. Many states, and the NAIC, have already performed data collections following major natural catastrophes that seHP WR EH IDU PRUH JH, and indeed have historically been shared with Treasury when appropriate.

to ignore working with state insurance regulators, and the ultimate cost to policyholders including the potential disruption of the most robust regulatory system for insurance on a global basis, moving forward has many more substantial material costs than taking a more measured and good faith collaborative approach.

Thank you for the opportunity to provide our perspective.

Sincerely,

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