THE BROOKINGS INSTITUTION

FALK AUDITORIUM

# Assessing insurance regulation and supervision of climate-related financial risk

Tuesday, June 27, 2023

OPENING REMARKS

CARLOS MARTÍN
David M. Rubenstein Fellow, Brookings Metro

KEYNOTE REMARKS

GRAHAM STEELE
Assistant Secretary for Financial Institution, U.S. Department of the Treasury

PANEL DISCUSSION:

CARLOS MARTÍN
David M. Rubenstein Fellow, Brookings Metro

STEVEN SEITZ
Director, Federal Insurance Office, U.S. Department of the Treasury

AVANI SHAH
Deputy Superintendent, New York State Department of Financial Services (DFS)

SCOTT WHITE
Commissioner, Virginia Bureau of Insurance
Secretary-Treasurer, National Association of Insurance Commissioners (NAIC)

MODERATOR: XAVIER DE SOUZA BRIGGS
Senior Fellow, Brookings Metro

* * * * *

**MARTÍN:** Morning, everyone. I will ask folks to take their seats. Welcome. Hi, my name is Carlos Martín. I'm a David Rubenstein fellow here at Brookings Metro, and it is my pleasure to welcome all of you, especially today's speakers and panelists, as well as those participants who are joining in virtually. Thank you for coming.

So I say this is a pleasure on two counts. The first is a personal one. Certainly the report that is going to be discussed today speaks to the research work that I have done, that I've done with colleagues from outside of Brookings, including Dr. Colin Kuski [ph] at Environmental Defense Fund. And so for us, this is an incredibly relevant conversation to have about the federal role in insurance. But second, let's talk about the practical importance of the societal role of insurance regulated by states and making sure that every state has that that tool within their toolbox for responding to disasters. Certainly the relationship between federal mitigation and state-regulated insurance is one in dire need of clarity, particularly given climate change, its effects and the rise in the frequency and severity of climate-related acute disasters that are yielding unprecedented property damages and claims payouts. This reality presents new and increasing challenges for the insurance sector and certainly for the policyholders, and especially at the state level, regulators and insurance commissioners. So given these risks, President Biden issued Executive Order 14030 in May 2021, which called on Treasury Secretary Janet Yellen to direct the Federal Insurance Office to assess climate-related gaps in the supervision and regulation of insurers. And today we see the first of many products from this directive.

Brookings Metro is happy to host Graham Steele, assistant secretary for financial institutions at the Department of Treasury, who will share details from the just-released report, as well as colleagues from the National Association of Insurance Commissioners and several state insurance commissioners offices that have taken to heart the consideration of current and future risks into their regulatory purview. Assistant Secretary Steele will also highlight other work at FIO on the potential for major disruptions of insurance coverage. After the assistant secretary speaks, we will have a panel to discuss the reactions to the report and implications for current efforts at the U.S. state level. There will be an opportunity to ask questions at that point. So we invite you, those of you who are here in the room, to tee up your questions and keep them in mind until that point. Online viewers can submit questions by emailing events at Brookings dot edu or tweeting to at Brookings Metro using the hashtag hashtag Climate Financial Risk. Without further ado, it's my pleasure to introduce Assistant Secretary Steele. Graham Steele is nominated and confirmed as assistant secretary for the Office of Financial Institutions in 2021. He is an expert on financial regulations and financial institutions. With more than a decade of experience working at the highest levels of law and policy here in Washington, D.C. Graham was previously the director of the Corporations and Society Initiative at the B-school at my alma mater, Stanford, and prior to Stanford, Graham was the federal -- worked at the Federal Reserve Bank of San Francisco, was the minority chief counsel for the United States Senate Committee on Banking, Housing and Urban Affairs, and was leg assistant for Ohio Senator Sherrod Brown, where he also had a stint as a staff director for the Subcommittee on Financial Institutions and Consumer Protection. Mr. Steele, congratulations to you and your team for responding so forcefully and clearly to the president's executive order with this report. And I invite you to the podium to report on it. A round of applause.

**STEELE:** Thanks, Carlos, for that introduction. It's nice to see everyone here and thanks for having me today, both those in the room and those watching virtually. So as the assistant secretary for financial institutions, my portfolio includes developing the department's policies around banks, credit unions, consumer protection, access to capital, insurance, financial sector, cybersecurity as well. But my remarks will focus specifically on the work Treasury, through the Federal Insurance Office or FIO, is doing to understand and help address the financial risks that our changing climate is posing in the insurance sector. Specifically work on climate-related financial risk in the insurance sector as a top priority for the Biden-Harris administration, the Treasury Department, and for FIO established by the Dodd-Frank Act. FIO has an important role to play in 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, or FSOC, FIO's director also collaborates with and provides advice regarding insurance matters, FSOC and its committees. We're continuing to see an increase in climate-related disasters in the United States and around the world. We've recently seen wildfires in Canada that have affected and frankly are still affecting air quality in eight states. Severe tornadoes and hailstorms in the central and southern states this spring. Historic drought and intense periods of intense rainfall in the American West, as well as 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'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, including when adjusted for inflation. Hurricane Ian alone caused at least 157 deaths and almost $100 billion in damage. These figures demonstrate the urgent need for the federal government, state insurance commissioners, the National Association of Insurance Commissioners and others to work together to understand and mitigate the 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 toward resolving some of these issues.

In May 2021, as Carlos said, President Biden issued an 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 key risk transfer resources that help protect policyholders from loss and assist in enabling recovery from climate related disasters. That executive order gives FIO two specific 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 the states, the potential for major disruptions of private insurance coverage in regions of the country that are particularly vulnerable to climate-related impacts. Today, I'll address both efforts, first by discussing key findings of the report that FIO released this morning in response to the first tasking and also discuss its relevance to climate-related risk work being undertaken at the state level and across the federal government. I'll 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 contained in that 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 homeowner's insurance market and the insurer pullbacks in other areas underscore the related importance of both efforts. So today, FIO released its report on insurance supervision and regulation of climate-related risks. The report is a culmination of two years of work by the hard-working staff at the Federal Insurance Office, including a public request for information to assess the efforts state insurance regulators and the NAIC have taken to incorporate climate-related risks into the supervision and regulation of insurers. The report -- and it's checking in at a light 65 pages -- 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.

Among the report's key findings include the following: First, the climate-related risks, including transition, physical, and litigation risks, present new and increasingly significant challenges to the insurance industry. At the same time, the oversight of climate-related risks is an emerging and increasingly critical topic for state insurance regulators. Climate-related risks also warrant careful monitoring by other financial regulators, policymakers and insurers themselves. In addition, state insurance regulators and the NAIC are increasingly focused on incorporating climate-related risks into supervision regulation. And you'll hear more about that in the panel from Virginia's Insurance Commissioner Scott White and Avani Shah from the New York Department of Financial Services later on today's panel. But in most cases, efforts to incorporate climate-related considerations in insurance supervision and regulation are still at a preliminary stage. So FIO's report makes 20 recommendations to the NAIC and state insurance regulators on ways that we might improve management and supervision of climate-related risks. The report also proposes areas of focus for future work by the NAIC and insurance regulators. The good news is that the current regulatory framework provides state insurance regulators with tools that they can adapt to better consider climate-related risks. Importantly, they're already beginning to do this work, and the report recommends that they should further prioritize it. All state insurance regulators to 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 their long- and short-term risk management processes some states have already 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 in the state insurance regulators on these efforts.

The report also highlights that more work is needed to better understand the nature of climate-related risks for the insurance industry, as well as the implications of those risks for insurance regulation and supervision. It 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 as well as the banking sector. Impacts in the insurance market can have potentially significant consequences for homeowners and their property values, as we are seeing, which can spill over to other parts of the 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 and 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 the FSOC to better understand and address climate-related risks.

Finally, I also want to address the recent developments in some insurance markets. There's 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 entirely. 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. According to one source in 2020 to insurance coverage covered only 60% of the $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 areas. Studies have shown in particular that traditionally underserved and disadvantaged communities and consumers, including those who are low- and moderate-income, are hardest hit by climate change. These populations may also have disproportionate challenges in obtaining property insurance to cover the risks posed by climate-related disasters. The report FIO released this morning discusses some of the available tools that insurance regulators could use to address market disruptions to the 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 our assessment of these market developments could be improved. We're 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 the more granular level. We've seen recently changes in insurance availability can be quite localized, with some insurers declining to write policies either in high-risk areas or in certain zip codes.

This brings me to the second tasking from the executive order that I mentioned: assessing the potential for climate-related disruption 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 collecting the historical and current underwriting data on homeowners' insurance from certain insurers. FIO receive 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 environmental groups and others. Maybe

Brookings filed its own comment, I don't know. 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's why FIO intends to actively continue its work in this area and intends to take further steps later this summer. So I'm glad to be here today with Commissioner White, Deputy Superintendent Shah, as FIO Director Stephen Seitz and the rest of the FIO team continue coordinating with the states and NAIC on this important effort. So I'm sure people are eager to turn it over and hear more from our panelists, so I'll close with one final observation on insurance markets in the U.S. are regulated at the state level. Climate change affects our entire planet. It does not respect the distinctions between different zip codes, state lines, or national borders. That means we all have a role to play and a duty to work together to address the threats posed by climate change. So with that, let me turn over to the panel and thank you again for having me today.

**DE SOUZA BRIGGS:** Assistant Secretary Steele, thank you again. Welcome, everybody. I'm Xavier de Souza Briggs or Xav, I'm a senior fellow here at the Brookings Institution. It's my pleasure to welcome you and to work with this panel to explore the content of the new report and important developments across the country, especially at the state level. We'll have some discussion here on the panel and then we'll open it up to the room and to folks who are watching online as well. So joining me here on stage, my colleague Carlos Martín, to my immediate left, who opened the event, Carlos, who's a David Rubenstein fellow here at Brookings Metro. Avani Shah, deputy superintendent, New York State Department of Financial Services. Scott White, commissioner of the Virginia Bureau of Insurance and secretary treasurer of the National Association of Insurance Commissioners. And finally, Stephen Seitz, who is director of the Federal Insurance Office at the U.S. Department of Treasury. It's Stephen's team that issued the report this morning. Thank you all. And Stephen, first question to you. What are the major recommendations of the report and what are the things you want the average person beyond the industry to understand about it? What's most important now?

**SEITZ:** First, you know, thanks to Brookings for hosting the event. You know, and as Graham mentioned, climate-related risks present new challenges for the insurance industry. You know, that warrant careful monitoring not just by insurance regulators, but also policymakers and consumers. And you know, this is why FIO's climate report issued today, you know, it's timely and highly relevant to the current discussions regarding climate risk. You know, it is a comprehensive and national examination of these issues across all areas of insurance, supervision, and regulation. And as Graham mentioned, it contains a detailed set of recommendations and background on the U.S. insurance regulatory framework. But just at the start, I also would just like to thank our team at FIO for all of its work in putting together the report that was issued this morning. You know, our report is structured around three main categories of insurance regulation: prudential, macroprudential, and market conduct. And then it also discusses some of the disclosure initiatives of the NAIC in the states and also touches on some of our other FIO climate priorities.

You know, I think first, I would reiterate a point that we make a few times in the report and Graham mentioned, which is that there is important work underway by the NAIC and the state insurance regulators. And I think that's demonstrated by the remarks you'll hear from Scott and Avani later on in the panel. You know, these efforts are fragmented across the states and limited in some important ways. And I think our report, it highlights the current efforts by the NAIC and some of the state regulators, how they're addressing climate-related risk, while also providing recommendations on how to better integrate climate-related considerations within the context of U.S. insurance regulation. The first area covered in the report is prudential regulation, and that focuses on protecting policyholders by seeking to ensure the financial stability and safety of insurers and providing for a strong and viable insurance market. You know, in many of the key recommendations in the report are in this area. These recommendations include those mentioned by Graham, which is the need for state-level guidance on climate, you know, the creation of new tools and processes to assess these risks, as well as the need for more consistent, granular, and comparable data. We also recommend that the NAIC adopt and some of the state insurance regulators implement, you know, enhancements to some of their day-to-day tools, whether it be the Financial Analysis handbook, the Financial Condition Examiners handbook, and the ORSA. You know, implementation of these recommendations, in our view, will help state insurance regulators and insurers to both better measure and address the risks that are faced by insurers and consumers as the frequency and severity of these events increase.

The second area that our report covers is macroprudential regulation. And here we're focused on the activities of insurance groups and seeks to identify and ensure the control of risks that could pose sector-wide vulnerabilities in the sector, as well as potential shocks to the financial system and the economy. And here in this section, FIO recommends that the NAIC and states prioritize monitoring trends that could indicate wider issues in our insurance markets, and that includes the hardening of the reinsurance market, the growth in the residual and surplus lines markets, and the potential climate-related risks for the state guaranty funds. You know, these issues, as Graham's highlighted, which include the growth in residual markets and a significant number of insurer insolvencies in some states, you know, it provides anecdotal evidence of market disruptions, and we're seeing this in various states already. And as Graham mentioned, these disruptions could negatively impact other parts of the U.S. financial system. And there we're particularly looking at the interconnections between the real estate, banking, and insurance sectors.

The third area in our report deals with market conduct regulation and that deals with protecting the functioning of insurance markets and protecting policyholders from unfair practices. And our key recommendation in this area is that the NAIC, state regulators, the insurance industry, and FIO should work together to both increase consumer education and outreach regarding climate-related risk and also increase their efforts on pre-disaster mitigation. And in this area, we highlight the importance of public-private partnerships which can really aid in reducing the losses that are faced by consumers. We also are recommending increased efforts to increase some of the education regarding policyholders and what's in their insurance policy and the steps they can take to mitigate the potential damage they face from climate-related disasters. And these activities can help lower some of the economic and insured losses that consumers are going to face in the future.

The final substantive area that our report covers are climate related disclosures and the work by the NAIC to increase the transparency around insurers' business conduct by informing investors and market participants about key business information, and also how this allows for the comparison by stakeholders across insurance companies. With regard to disclosures, the report recommends that the NAIC in the state regulators support continued efforts to improve climate-related disclosures by the insurance sector and that all state regulators adopt the NAIC Climate Risk Disclosure Survey. We also recommend that the NAIC continue its efforts to monitor responses to the survey and publish an annual report that summarized the survey results and looks at how the survey is meeting its original six purposes. And I think just in conclusion, as you can see, FIO's recommendations recognize the work that's being taken by the NAIC and the state regulators, and we encourage them to build on their work today. As we take our work forward, FIO's going to continue to prioritize our work in this area, and that's in collaboration with the insurance sector and also with our state and federal partners. But I think that's a high-level overview of the report.

**DE SOUZA BRIGGS:** Stephen, we appreciate it. And before I turn to Scott and ask about indeed what's happening at the state level and and at the NAIC, again, if I'm the average person -- I mean, let me say this back to you, you tell me what I've gotten wrong -- I'm the average person, I've gotten a notice in the mail or I've heard a news story maybe about a major insurer, you know, refusing to write policies to cover certain kind of hazard risk. It sounds to me like you're saying the report recommends stronger protections for consumers, a better-informed marketplace, better disclosure and more consistency across states as well. Is that fair? What have I missed?

**SEITZ:** Yeah, no, I think that's a good representation of some of what's in the report. I mean, we do try to highlight the need for broader take-up and better integration of climate risk across the insurance regulatory construct, but also discussing how, you know, the need for increased consumer education and awareness, not just on what's in your policy, you know, you have numerous issues and studies looking at the lack of understanding of what's in your flood policy, but also looking at areas of mitigation. I think that's something that was mentioned upfront here, is looking at what steps can be taken from a policyholder's perspective to mitigate the losses before the event occurs.

**DE SOUZA BRIGGS:** Got it. Thank you. And we are going to explore that further. Scott, what are the states doing and the NAIC and how can we together hear the report sort of in that context, your views?

**WHITE:** Right. So thanks, Shaz. So let me start by saying, on behalf of the NAIC and our members, I do want to thank the Brookings Institution for hosting this event and giving us the opportunity to be here today and talk about this very important issue. And I always start with the observation that the NAIC, the member states, we have a very diverse membership. We regulate very different markets and we have diverse views on any number of issues. But we all, as states, face the same risks of natural perils. Right? And we also have the same vested interest in protecting consumers. And when you combine those two things, you can actually get a lot done. And that's that's something I think that's reflected in the report and what I'd like to talk about here today. And when it comes to our our focus on in the area of risk management and resiliency, I would say our three-part broad goals are mitigation, are making sure that there's a fallibility and affordability for all consumers to purchase insurance if they need it, and also to close protection gaps, which is a growing issue.

And I want to emphasize also that we have been focused on climate risk and resiliency for a long time, going back over ten years. But we have definitely stepped up our efforts in this area over the past few years. I'll start with, we created a special Climate Risk and Resiliency Task Force back in 2020. And what that does is serve as a coordinating body of the NAIC for us to have that discussion and the engagement on climate-related risk and resiliency issues. And within that, we have really focused on four core areas, four different workstreams. And I'd like to just touch on each of those briefly. I think Stephen mentioned most of those. I'm going to start with solvency. And the reason I start with solvency is that is the foundation of the state-based system. You know, our role is to make sure insurance companies make good on their promises to pay claims. And I believe our solvency framework is very well-suited to manage climate risk. The key component, or one of the components of our risk base, our solvency framework, is a risk-focused examination. That's where we go in and examine insurance companies, the domestic regulator, they're there to verify and validate that company's financial condition. And we have incorporated climate risk into that exam process going back over a decade and more recently, we are proposing further enhancements to that when it comes to climate. So, for example, if it's considered a prospective risk, we're going to be asking that company corporate governance, risk management, we're going to be requiring them to do stress testing as part of its investment and underwriting, also part of its mitigation risks. On top of that, the regulators are going to be doing their own independent review of their exposures through detailed testing. They're going to look at it in different areas, such as their reinsurance program, just use one example. So you have that piece of it.

The other thing I'll mention is our risk-based capital framework. This is critical. This is the backbone of our solvency framework. And quite simply, it's there to ensure that insurance companies maintain enough capital to pay claims, whether it's now or down the road. So our RBC charge has long included a separate charge for natural catastrophes. We broke that out about ten years ago to focus on hurricane risk and earthquake. Right now, it might not surprise you that we're looking at wildfire risk, right? So we're collecting data, doing modeling and expect to add that very quickly. We also have a few perils that we're also going to be thinking about incorporating down the road. So that's solvency. The other thing is our climate risk survey. We have been doing this dating back to 2010, but we made a significant change last year. We adopted a revised survey tool that is really aligned to the Financial Stability Board's Task Force, Task Force on Climate Related Financial Disclosure. It's a mouthful. Most of you may know that as the TCFD, and that's a survey that requires companies to publicly disclose their governance strategy, their risk management practices, how they measure and monitor climate risk. Really, we're looking at things like trends, vulnerabilities, best practices. I want to I want to emphasize it is not intended to push insurance companies in one direction or another. It's a tool that we as regulators use to gather insights from market participants. Right? So where are we now on this? We had our first one back in November. We had 15 states participate. That doesn't sound like a lot, but that actually captured over 85% of our market and we expect about 27 states to participate this year. So we're very proud of the work we're doing in that area.

The next piece I want to talk about is catastrophe modeling. So obviously property insurers, this is a critical thing they use to to -- they rely on these modeling in different areas to estimate potential losses for perils. They do that for capital reserve setting. They do that for their reinsurance programs. And a lot of it do it for a risk-based pricing to get a more granular view of their pricing. So we know we need to have the expertise as regulators to look at these models and to see and understand how they're being used. And one of the things we did last year was we created what's called the Catastrophe Modeling Center of Excellence. We're very excited about this. It's it provides state insurance regulations with the necessary technical expertise we need, the tools, the education, so we can better understand these models that companies are using for these separate perils.

The last thing I want to mention, and Steven talked about this, is we really think regulators in the industry and all kinds and all very stakeholders can make a real difference and move the needle when it comes to risk mitigation and consumer awareness. This is a key component to any effective risk management strategy. You hear these different numbers that that that $1 spent in pre-disaster mitigation can save up to $5 down the road. I don't know if that's the right number, but certainly it's impactful. And we all need to be focusing on this. And we're really focused on how risk can be reduced, how loss is avoided through better property resilience. And I would also point out we really think this highlights the strength of the state-based system, right? You have this the built in flexibility that the states have in the system where they kind of function as laboratories. We can see these innovative approaches that some states are using and take those back to our own states and see if they work for our own particular markets. And I want to give a very quick example in this area that I think is very illustrative of what that is, and that's the effort to make homes more resistant to damage, whether it's from hurricanes or wildfire risk. And they're really about to approach two separate approaches that are being ued here in this space. You have a number of states that provide grants funding whether it's matching or non non match non-matching grants to help folks retrofit properties based based on what's called the IBH Fortified Standard. Many of you may be familiar with that. So Alabama has really been the leader in this regard, but you also have South Carolina and Florida. And the other approach it to, either through product design or premium incentives, you've seen states like California and Oregon provide premium incentives to harden homes against wildfire risk. So again, those that's just one example, but it really illustrates where there's a lot of opportunity in that space. And I'm going to stop there. Obviously, that's not the only work we're doing. We're doing a any number of things, but hopefully that gives you a flavor of some of the main work going on at the NAIC and with the individual states.

**DE SOUZA BRIGGS:** Scott, thank you. Avani, I want to turn to you. New York State finalized insurer guidance in late 2021. It's got a lot of attention. What are some of the major elements of the guidance that you put out and and why do they matter?

**SHAH:** Thank you for the questions, Xav. And thank you to Brookings and Treasury for organizing this event and inviting me to join the panel today. So at a very high level, the guidance sets out DFS' expectations that New York insurers start integrating the financial risks from climate change in five key areas. First, governance frameworks. The insurer's board is expected to understand climate risks and oversee the team that's responsible for managing them. The insurer should have a written risk policy that's adopted by the board on how it manages material climate risks. The insurer should also make sure that its organizational structure clearly defines the roles and responsibilities of those that are overseeing or managing climate risks. Second, business strategies. Insurers should be aware of changes in their business environments and address them strategically. What does that mean? Insurers should be asking which business areas might be exposed to physical or transition risks. How material are those risks? Does it make sense to scale back or discontinue business in certain areas while potentially ramping up in other areas? Third, risk management processes. You know, the guidance doesn't expect insurers to create a whole new enterprise risk management framework, but insurers should be incorporating climate risks into their existing risk management functions, and they should be analyzing the impact of climate change on existing risk factors. The NAIC Financial Condition Examiners Handbook has, you know, a list of of risk factors that should be addressed, you know, pricing risk, underwriting risk, market risk, credit risk, strategic risk, reputational risk, and climate risks can be viewed through the lens of those existing risk factors. Fourth, scenario analysis. When climate risks are determined to be material, insurers should use scenario analysis to inform their business strategies, their risk management, even if they're starting qualitatively rather than quantitatively. And then finally, disclosure. Insurers should disclose their climate risks, ideally in line with recognized disclosure approaches like the TCFD that Commissioner White just mentioned.

A few things that are worth highlighting. We did not reinvent the wheel. We started with international regulators, supervisory statements and guides, and tailored it to apply to New York insurers. We recognized the importance of regulatory consistency, you know, minimizing the burden on our companies, many of whom are subject to requirements from different jurisdictions all around the world. Consistent with our mandate, the guidance is focused on the financial stability of insurers in the face of climate change. So, you know, we don't require insurers to contribute to the low carbon transition, you know, or make climate commitments to achieve net zero emissions. But we do note that, you know, everyone should do their part to, you know, support climate adaptation and mitigation efforts, particularly in disadvantaged communities which are disproportionately impacted by climate change. We adopted a measured approach that recognizes the importance of proportionality and materiality. We regulate a wide range of insurance companies, you know, different sizes, different levels of complexity, different lines of business, and there is no one size fits all solution. But regardless of these differences, we do expect all insurers to analyze the climate risks that impact them on both the underwriting and investment sides of their balance sheets.

And then finally, we did the best we could to make the guidance clear and easy to understand. We wanted to make it really user friendly, so it's grounded in existing risk management principles that the industry is already familiar with from NAIC manuals, from New York insurance law. And it's written in plain English to the extent that that's possible for people who are not experts in either climate or insurance regulation.

**DE SOUZA BRIGGS:** Avani, thank you. Boy, I think the plain talk is so important. I mean, we know complexity in this area, especially as a consumer experience as it is, is a really tricky challenge. A follow up, if I may, just briefly. I know this is a big question, but how have insurers -- you talked about the guidance -- how have insurers in their practices begun to address climate-related risks? What are some of the highlights that you've seen for insurers operating in New York state, obviously?

**SHAH:** So we started examining insurers on their management of the financial risks from climate change in January of 2022. And as expected, there's a wide range of sophistication among insurers in their understanding, assessment, management of climate risks. Large or international insurers, they tend to be more advanced than small or U.S.-based insurers. Property casualty insurers, they tend to be more advanced when it comes to things like modeling and scenario analysis than other insurers. That's not surprising given that natural disasters directly impact property and casualty insurers' liabilities. Most insurers have designated board members or committees to oversee climate risks, as well as senior executives that are responsible for managing them; it's often folded into the overall ESG function. And then many companies have started incorporating the consideration of climate risks into their risk management frameworks. Many of them do have either standalone written climate risk policies or have incorporated climate risks into their broader risk management policies. We do see that most insurers still think of climate risks in terms of physical risk, but we are increasingly seeing companies, you know, considering transition risks as well. This is especially true of life insurers, which tend to have longer-dated assets than other insurers. But I think in general, we are seeing companies make progress, but it's something that we continue to continue to monitor. You know, during the examination process in our review of companies' responses to the NAIC Climate Risk Disclosure Survey, you know, in reviewing their TCFD reports, and also in our increasing engagement with insurance companies, we've been focusing particularly on, you know, some of the larger insurers that face the greatest potential climate risks and also have the resources to invest in this space, but also insurance companies that may be lagging behind their peers.

**DE SOUZA BRIGGS:** Terrific. Thank you. Carlos, before I turn to you, just a reminder to folks that are tuned in online, if you'd like to send in a question to one of the panelists or about the report specifically, you can tweet it to hashtag climate financial risk or email it to events at Brookings dot edu. Carlos, we've we've heard risk reduction and mitigation mentioned a few times. I think most of us understand that risk reduction is a good thing in general. Tell us about the importance of risk reduction and resilience efforts as a complement to and the support of the private insurance market that we rely on so heavily in this country and how we can make that resilience work more equitable to all.

**MARTÍN:** Certainly, the question speaks to the federal role and the federal investment in a lot of these places. And to be honest, I'm really enjoying hearing the states and hearing the how the states are responding to a specific report. But we have to think about the context in which the federal government plays within this bigger space, which is why I think I mean, the rubber hits the road with the states. So hearing these comments has been very helpful. So let me take a step back and think about what the federal role is. Certainly, FIO within its authority has provided a North Star in this report that I think is very helpful for states. But putting that in the context of the amount of federal investment in places in this country that allow insurers to insure the properties on that space. So we're talking everything from mitigation efforts all the sea gates, the levees, the the range of interventions, the infrastructure that the federal government plays -- and certainly we have the -- the federal government plays has a stake in this beyond the authority allotted to FIO. if you think about after events happen, after environmental hazards occur, the federal government is typically the backstop for the relief in response and recovery funds that the federal government invests, along with states, certainly is a big chunk of change. So there are multiple ways in which I think it's important to think about how this ecosystem of protection at the state level is informed by the federal intervention. I do want to note, I mean, obviously the federal government obviously has to play an obvious role. Federal government has maintains and runs the National Flood Insurance Program that interacts with other, those insurance policies that are covered by states in very interesting ways. I guess the last point I want to make about this set of mitigation resources and in the context of the federal and state authorities are the multiple investments that the federal government makes in the viability of places that allow insurers to insure. So I mentioned the physical infrastructures for protection, that sort of thing. But we're talking about economic development, transportation funds, all the streams of resources that come from the federal government to local places that allow them to thrive and allow insurers to work there. Everything from, think about FHFA, the Federal Housing Finance Authority, that in turn monitors the Fannies and Freddies that require their mortgage lenders to require insurance, appropriate insurance policies, that allow. So there are multiple strings I think that we have to think about. So when I think about mitigation and preparations on the federal level, I think about all of the ways in which we make places viable.

**DE SOUZA BRIGGS:** Got it. Thank you. I want to get the audience in here. Karen, do we have any questions, folks on line?

**SLACHETKA:** We do, but they've already been answered.

**DE SOUZA BRIGGS:** Okay. We're ahead of the game. right here in front, please.

**AUDIENCE MEMBER:** Hi. Thank you. Anne Pirro from Public Citizen. Thanks for the opportunity to hear about the report. So a couple of folks, Assistant Secretary Graham and others, have mentioned the disproportionate impacts to low income communities. We know BIPOC communities face these disproportionate impacts. I'll just note that many of these communities aren't acting to create or willingly assume these risks. They just happen to live in vulnerable areas and, often due to previous redlining. So the big question is what are the ways to more justly allocate responsibilities for risks and cost, including to those entities, creating the risk through, for example, large insurers continuing to underwrite and finance emissions, large banks as well? Or, we know costs are going up. Will taxpayers just continue to foot the bill? Because that's what's happening now. And there's a related question. You know, stating the obvious, the higher the emissions, the greater the risks. You mentioned, you know, the need to emphasize reducing risks. So I assume that means moving away from underwriting the fossil fuel industry. I mean, that's the question here. So I'm just kind of elephant in the room, I think is the finance emissions angle. And I'd love some thoughts on that. Thanks very much.

**DE SOUZA BRIGGS:** Thanks so much. And we'll try to get several questions in here. So I will watch the clock. Stephen, I want to give you a chance to respond and bring other panelists in.

**SEITZ:** No, I think to start. You know, Graham mentioned in his remarks, I mean, and that is an area we're focused on with the proposed data collection. It's one of the reasons FIO's proposal on private homeowners insurance, it was at a more granular level in the proposal. Right. It was at a zip code level. There's a lot of very good information in the current statutory reporting filings at a state level. But one area that we're looking at is, you know, to look at the impacts you highlighted. You know, what level of granularity is needed to really assess the climate work going forward. And, you know, we're still working through that process, as Graham mentioned in his remarks. But it's really, I think, the next priority on us as we take our work forward.

**DE SOUZA BRIGGS:** Carlos, you've worked on risk reduction and in equities, in risk exposure, and also how we think about risk reduction for a very long time. Your thoughts?

**MARTÍN:** Thank you so much for that question. I think the equity question is the next one, right? So if we look at the federal government's interventions and risk rating 2.0 for the National Flood Insurance Program, right? Which has increased people's premiums, including people who purchase their properties without knowing the risks, unbeknownst to them, or they inherited their properties, etc.. So there are a whole slew of people whose premiums are going up. So now we're asking states to include the same risks and and in the insurance policies that are relevant to state authority. So it poses huge issues about equity. There have been calls at the for the federal level. So just using NFIP as example to develop a means tested assistance program for lower-income people to act, with mitigation incentives and buyout incentives in cases of sort of extreme exposure. So thinking about those models and being ones that can be imposed, that are suggested to states and that states can adopt, I think is going to be the next real trick. And the equity question is the one that keeps me up at night when it comes to insurance for a wide number of reasons. Fortunately, we are at a point in this country where we're more equitable in terms of the premium costs, in terms of race and income and geographic diversity income. The policy coverage, the policy premiums. There's still some ambiguity about claims treatment for different people. But how we think about equity as we consider these environmental hazards is absolutely critical. I don't want I don't want to take too much time on this, but after Katrina, people came to Lower Ninth Ward and told people this is the wrong place to live. There are a lot of pundits who are out there who are still saying this about places that are extreme climate exposed, and that is not only inhumane, it's it's racist, basically. So thinking about the slew of policies that are available at the federal and state level to ensure that we're actuarially accounting for climate risks while still accounting for people who are exposed, reasons beyond their control, I think is critical.

**DE SOUZA BRIGGS:** Thank you. Avani, Scott, did you like that on this?

**WHITE:** Yeah, I think it's a good question and I think it raises a number of different issues. As I mentioned at the outset, protection gaps is one of the key focuses of the NAIC and state regulators. And what we see here is a very challenging market for for many insurance companies. And I think they're sending strong signals in many cases about their ability or willingness to insure these properties that unless there are proper risk mitigation and resiliency efforts to impact with these growing natural catastrophe risks. But certainly we focus a lot on consumers, individual consumers, when we talk about risk mitigation and risk awareness. I think you're raising a good point about vulnerable communities that may benefit very strongly from what we call whole community protection. So underserved communities, either ones that are most, that are least likely to be able to have adequate insurance, right? And they're also the least likely to be able to afford these retrofitted properties. So that's where we're very focused on public-private partnerships, I think is a very important concept that needs more discussion. We're working with nonprofit organizations and state residual markets to make sure that folks can afford these retrofitted properties that would otherwise be uninsurable. And the last thing I'll mention again, there's a lot of risk. And I mentioned the FIO report, market risk, credit risk. But we're also at the NAIC monitoring and assessing transition risks from moving away from insuring traditional energy companies. And what is the impact on availability and affordability there and on economic impacts on end user consumers, whether it's individuals or small businesses. So I think the bottom line is there's a number of different areas we need to be focused on and we have a lot of work to do.

**DE SOUZA BRIGGS:** Avani, anything to add?

**SHAH:** I don't have much to add. I mean, I agree with everything that was said on this panel. I think resiliency measures are incredibly important. You know, as insurance regulators, one of the things we do is we regulate rates in most cases. And, you know, it's our responsibility to ensure that rates are sufficient to cover losses. You know, at the same time, we don't want rates to become so high that people can't afford them and that the risks essentially become uninsurable. So, you know, there are a lot of mechanisms built into the insurance system to make sure that insurers are able to get coverage. You know, Scott, Commissioner White mentioned some of them earlier. You know, the residual market, you know, we have excess and surplus lines, markets. And there are some cases where the federal government has stepped in because the risk was just either too great or couldn't be adequately priced, you know, such as flood risk, where you have the National Flood Insurance Program, terrorism risk, where you have the federal backstop. So, you know, it's a very good question, with no good answer, but it's one that we have to keep asking ourselves, because it's it is, I think, one of the most important questions.

**DE SOUZA BRIGGS:** Thank you so much. Other questions. And I would suggest that maybe we we hear a couple of them since we're coming up to time and then we can do our best with a lightning round on the panel is please.

**AUDIENCE MEMBER:** Oh, this is for deputy Avani. How do you envision the insurance sectors role in addressing climate change evolving in the coming years?

**DE SOUZA BRIGGS:** Thank you. So I'll hold that question and remember it.

**AUDIENCE MEMBER:** Going back to the equity and the risk mitigation issue, I think it's it's great that the this panel is focused on that. It reflects the fact that this is more about a a risk crisis than an insurance crisis, right? But I would cite or ask a question around the Community Disaster Resilience Zone Act, which is going into effect. So this summer, hundreds of communities around the country and in Virginia and in New York will be designated CDRZ communities, which is supposed to coalesce both public and private sector capabilities. I wonder if the NAIC or state regulators have considered what role they could play and in helping the industry engage at a local level with those communities that are CDRZ designated.

**DE SOUZA BRIGGS:** Thank you. Let's maybe we'll get in one more over here. Karen, thank you so much. Thank you.

**AUDIENCE MEMBER:** Hi there. I'm Katherine Burgess with Smart Growth America. I'd be interested to hear the panelists' thoughts on how these efforts align with federal and other efforts to address the housing supply and housing access crisis, especially as we see a lot of growth in regions where there is significant climate risk.

**DE SOUZA BRIGGS:** Thank you very much. I'm going to suggest we just go down the panel. These will be last words. Respond where you can. And Steven, that will give you final word. Carlos, we'll start with you.

**MARTÍN:** I'll start with the last question, because it's the one that hurts me the most that say that we don't have really good answers about considering my primary concern are existing properties, right? And and that certainly there is a lot we can talk about in terms of the federal role in creating thriving communities that will add new housing, right? That will hopefully be in less exposed places and that sort of thing. But there are people who are currently living in places that are more increasingly exposed. Those costs are either going to be insurmountable or nobody's going to want to live there. So I don't think we're at a point now where we have good solutions without thinking about the federal, state and local roles in where housing is provided and the incentives in the land to ensure that less exposed lands are explored.

**DE SOUZA BRIGGS:** Avani.

**SHAH:** I think I want to focus on the importance of consumer education and outreach. You know, one of the things we've noticed is a lot of times when we ask insurers, what are you doing to manage climate risks, a lot of times they'll start talking about the steps they're taking to reduce greenhouse gas emissions or serve as customers in the event of a natural disaster. And, you know, they're basically focused on the impact of climate change on their operations, which is important, You know, but from our perspective, what's more important is understanding the impact of climate change on their underwriting and their investment practices. You know, I think that really highlights the importance of education and outreach. I mean, one of the things that we've tried to do in all of our efforts is to, you know, organize seminars so that insurance companies can understand what climate risks are and how best to manage them. We also issued a couple of reports, one that was related to insurer, New York insurers transition risk through their investments. Another one that relates to best practices based on our analysis of insurers' responses to the NAIC Climate Risk Disclosure Survey, TCFD reports. And then all sorts of engagement with insurers. We really need to make sure that everyone understands what the true climate risks are and what they should be doing to manage them, because it's it's a very technical area that I think, you know, deserves and warrants the focus on consumer education.

**DE SOUZA BRIGGS:** Thank you. We've got just about a minute left, everybody. So sorry to rush you, but Scott and then Steven.

**WHITE:** Well, I agree with her in terms of the the importance of consumer education to the consumers who are living in these areas, exposed to these, you know, high event catastrophe risks. Understand the exposure. Are they are they are they buying the coverage they need and the risk mitigation enhancements that are out there? To your question over here. This kind of emphasizes what I was saying earlier about the need for public and private partnerships, particularly in the area of mitigation and resiliency. We cannot insure our way out of this climate risk issue. And the industry plays a critical role both on the underwriting side and the investment side, right? So on underwriting side, insuring some of these companies with the renewable renewable strategies or the climate and the climate resiliency products. And then on the investment side, the investments are very critical. Think about investing in municipal bonds, for example, or other assets that help these communities, you know, make these improvements they need to what we all recognize in some cases are very aged infrastructure, right? So there's a role for the regulators to play in the industry to play and policymakers. So collectively, I think that the takeaway there is we're all going to have to work together to manage this, this emerging risk.

**DE SOUZA BRIGGS:** Thank you. Steven, last word.

**SEITZ:** Just very briefly, I would just, you know, I think really agree with what Scott said earlier, just saying there's a lot of work to do. And I think you've heard a lot of the work that's being done at the New York department, a lot of the work that's being done at the NAIC. And I think just from the FIO perspective, you know, we view our climate work as an iterative and capacity building exercise. It's a very complex topic. And we built up our resources over the last several years here. And I hopefully that today's report and its release is a is a foundational step. So the state and federal authorities can take this work forward meaningfully. So thanks again for for hosting the event.

**DE SOUZA BRIGGS:** Well, thank you and congrats again on the report. Thank you all for joining us. Please join me in thanking the panel.