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Climate and Resiliency Task Force  
National Association of Insurance Commissioners  
444 North Capitol Street NW,  
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Re: NAIC Draft Climate Resilience Strategy for Insurance  

On behalf of Public Citizen, the Center for Economic Justice, and the Consumer Federation of America, 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 that requires a unified approach, 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 insurance data are essential to inform strategies for climate resilience and advocacy for state, local, and federal investments. A multi-year 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 a data collection from the NAIC is an important step, we also urge the NAIC to work collaboratively with federal partners. 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 Federal Insurance Office 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. 1 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. Moreover, neither the NAIC nor the insurance industry can continue using one hand to ask the federal government for investments in insurance modeling and climate mitigation while using the other hand to attempt 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.\textsuperscript{ii} Regulators should use granular data to ensure that insurers’ seemingly 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.\textsuperscript{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\textsuperscript{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.\textsuperscript{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,\textsuperscript{vi} and the NAIC should work with federal partners to explore the development of catastrophe models that could serve as public resources.\textsuperscript{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, 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 gas projects, have
become increasingly untenable. 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. 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. 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. 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
climatic 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” 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. However, the question remains whether these are meaningful efforts to facilitate the energy transition or attempts to greenwash for the public. 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. 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, 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 communities.

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
NAIC, “NAIC Data Call to Provide Robust Look at Property Insurance Availability, Affordability” (Nov. 2, 2023).


Steve Evans, “Hurricane Otis a “monumental” weather model miss,” Artemis (October 26, 2023).


Ralph Nader, “Insurers can be sentinels for health and safety,” (September 21, 2023).


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).

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.)


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).