

Insurers face wave of inquiries over climate risks

E&E News

The nation's property insurance industry is coming under unprecedented scrutiny with the launch of three inquiries into how climate change is causing premiums to soar and pushing insurers to withdraw from at-risk regions.

The moves by the Treasury Department, two U.S. senators and a national group of state regulators point to growing concern that climate change is destabilizing the industry and forcing millions of property owners to pay much higher rates or forgo coverage.

"Climate change is making it increasingly difficult for homeowners and consumers to find available and affordable insurance," said Graham Steele, Treasury's assistant secretary for financial institutions.

The inquiries come as some major insurers are retreating from disaster-prone areas and as some small insurers have been driven out of business by disaster claims that overwhelmed their finances. That has pushed millions of homeowners to buy insurance from state programs of last resort.

Treasury's Federal Insurance Office announced Wednesday that it will collect data from the nation's largest property insurers to pinpoint areas vulnerable to "major disruptions" in insurance coverage.

The federal effort, which has never before been undertaken, will assess "the increasing impacts of climate change on household budgets" and help officials develop ways to make property insurance more available, Treasury Secretary Janet Yellen said in a statement.

Three hours after Treasury's announcement, Sens. Sheldon Whitehouse of Rhode Island and Ron Wyden of Oregon, both Democrats, said they are investigating how climate change threatens the solvency of major insurers in four disaster-ravaged states. They sent letters to 40 insurers in California, Florida,

Louisiana and Texas seeking information and documents that would show how the companies are dealing with climate change and where they have pulled back coverage.

Whitehouse, chair of the Budget Committee, and Wyden said they feared that climate change and insurance scarcity will create “a widescale decline in property values.”

A third inquiry, planned by an organization of state insurance regulators, will collect data from property insurance companies to show “localized protection gaps” in the U.S. where coverage is expensive or scarce.

The National Association of Insurance Commissioners is still finalizing the details of that inquiry. But the group expects to ask major insurers for information in each ZIP code they serve about premiums, losses, nonrenewals of policies and other items, association spokesperson Kim Stewart told E&E News.

Although state insurance regulators have extensive information showing how insurers are affected by inflation, reinsurance costs and climate-fueled disasters, they lack data showing the effects on availability and affordability in individual areas, the association has said.

The near-simultaneous probes are likely to increase pressure on insurance companies and regulators to focus on climate change and its threat to insurers from increased property damage during natural disasters. In recent years, wildfires have destabilized insurance markets in California and Colorado, and hurricanes have upended markets in Florida, Louisiana and Texas.

“We know the problem is out there. We just don’t know how big a threat it is to the safety and soundness of the banking system,” said Amy Bach, executive director of United Policyholders, a California-based consumer advocacy group.

Public Citizen, another consumer advocate, hailed the Treasury Department’s move as “a major step toward understanding and responding to an unfolding crisis.”

“There’s little to no timely, granular data to study the problem,” said Carly Fabian, the group’s policy advocate.

Treasury’s data collection is likely to be the most significant and contentious of the three inquiries

because of its breadth and its potential to raise concerns about the disclosure of confidential information. Treasury will seek ZIP code-level data from 2017 through 2022. The agency said any resulting public reports will show only nationwide figures aggregated from insurer data.

House Republicans have opposed the effort by introducing two related bills. The “Insurance Data Protection Act” would strip the Federal Insurance Office of its authority to issue data calls. The “Federal Insurance Office Elimination Act” would eliminate the office.

The Treasury office “is attempting to bypass state insurance commissioners and add massive new costs onto policyholders’ bills through an unprecedented mandatory climate data call,” Rep. Warren Davidson (R-Ohio) said Thursday during a House Financial Services subcommittee hearing about insurance affordability.

The insurance industry has also raised concerns. A senior official at the National Association of Mutual Insurance Companies told E&E News on Wednesday that compiling data for Treasury would “require tens of thousands of hours and millions of dollars.”

The data is “at best tangentially related to climate change impacts,” Jimi Grande, the group’s senior vice president for federal government affairs, said in an email.

“What Americans don’t need is a new study or more costly and duplicative data collection,” Grande added. Rather, the U.S. needs “solutions that can make a difference” such as making communities more resilient to disasters and to “stop overdeveloping and populating the riskiest areas of our country.”

The Insurance Information Institute, an industry group, said that Treasury’s plan to analyze risks in ZIP codes is “problematic” because “ZIP codes are not based on geographic features that affect flood, fire or wind behavior.” Yet the institute acknowledged that Treasury has the authority to collect the data and said it hopes the data “provides something valuable.”

The federal government has little authority over insurance companies, which are regulated by states. Both Treasury and Whitehouse and Wyden could issue reports and suggest changes, but they would have difficulty enacting laws or policies regulating insurers.

A senior Treasury official acknowledged that “the federal government has a pretty limited role to play in

establishing insurance policy.”

Treasury is undertaking the data collection in response to President Joe Biden’s executive order in 2021 on climate and financial risk that directs the department to assess the “potential for major disruptions” to insurance in areas vulnerable to climate impacts.

Treasury had proposed the data collection in October 2022. After receiving widespread industry criticism, Treasury narrowed its proposal and now plans to collect insurer data covering seven topics instead of 15.

Treasury published its latest plan Thursday morning in the Federal Register and must receive approval from the Office of Management and Budget after a 30-day public comment period. The data collection is expected to occur in the first half of 2024.