



MORTGAGE BANKERS ASSOCIATION

October 15, 2021

Elizabeth Brown
Senior Insurance Regulatory Policy Analyst
Room 1410 MT
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: Response to FIO RFI on insurance sector and climate-related financial risks

Dear Ms. Brown:

The Mortgage Bankers Association (MBA) is pleased to respond to the Request for Information (RFI)¹ issued by the Federal Insurance Office (FIO). In the RFI, FIO requests information on the insurance sector and climate-related financial risks, in response to President Biden's May 20, 2021 Executive Order on Climate-Related Financial Risk.² MBA is the national association representing the entire real estate finance industry, including life and property and casualty insurance companies that invest in commercial real estate through both debt and equity. Our response therefore concentrates on the investment side of insurance companies, with a particular focus on commercial and multifamily mortgage assets.

Supervision and regulation of climate-related risk

Among other elements, the RFI requests input on issues or gaps in the supervision and regulation of financial risk of insurance companies.

The mortgage-related risks that arise in the face of climate change, including both physical risk and transitional risk, are not new or independent categories of risk. Rather, the impacts of mortgage-related risks that arise in the face of climate change can be addressed within the context of traditional categories of mortgage risk, including credit risk, market risk, liquidity risk, and operational risk.

Supervision and management of credit risk, for example, captures the impacts of physical risks related to climate change that could reduce the income a commercial property generates and/or reduce the value of the property that is securing a loan.

Supervision and management of credit risk also captures transition risks related to climate change. For example, policy changes related to building emissions or energy use, as well as

¹ 86 Fed. Reg. 48814 (Aug. 31, 2021); available at: <https://www.govinfo.gov/content/pkg/FR-2021-08-31/pdf/2021-18713.pdf>

² Exec. Order No. 14,030 § 201, 86 Fed. Reg. 27967 (May 20, 2021); available at: <https://www.govinfo.gov/content/pkg/FR-2021-05-25/pdf/2021-11168.pdf>

changes in tenant preferences related to climate-change impacts, are factors that could reduce the income a commercial property generates and/or reduce the value of the property that is securing a loan.

Notably, regulators and insurers already have the supervisory and enterprise risk management (ERM) frameworks in place to address the climate-related risks related to mortgages across these traditional categories of risk. As a result, we believe that there is no structural gap in the supervision and regulation of financial risk of mortgages held by insurance companies.

The challenge, therefore, is for regulators and insurers to incorporate climate-change impacts into those existing supervisory and ERM frameworks, which is already underway. The National Association of Insurance Commissioners (NAIC) took steps in 2020, including identifying climate change as one of its top regulatory priorities and establishing a Climate and Resiliency Task Force under NAIC's Executive Committee. The purpose of the Task Force is "to serve as the coordinating NAIC body for discussion and engagement on climate-related risk and resiliency issues, including dialogue among state insurance regulators, industry, and other stakeholders."³

At the state level, the recent Financial Stability Oversight Council (FSOC) Report on Climate-Related Financial Risk (FSOC Report) highlights how state insurance regulators and insurance companies are incorporating climate-related financial risks into their supervisory practices and ERM frameworks.⁴ For example, the FSOC Report highlights that 15 state insurance regulators have taken preliminary steps to expressly address climate-related financial risks and that at least three states – New York, Connecticut, and Vermont – are additionally in the process of implementing laws or regulations that would require insurers domiciled in their states to integrate climate-related risks into their risk management strategies.⁵

The FSOC Report also highlights that many insurers are choosing to evaluate certain climate-related risks as part of their Own Risk and Solvency Assessments (ORSAs), such as underwriting, credit, market, and operational risk. The ORSA requires the insurer to "analyze all reasonably foreseeable and materially relevant risks affecting its ability to meet its obligations to its policy holders." The ORSA is supported by a continuous process that constantly evolves depending on the changing risk factors, including the risk that climate change poses towards mortgages. In all 50 states, medium and large insurers, defined as those that write more than \$500 million and \$1 billion, respectively, of annual direct written and assumed premium, are required to conduct

³ See Task Force webpage at: https://content.naic.org/cmte_ex_climate_resiliency_tf.htm

⁴ FSOC Report on Climate-Related Financial Risk (Oct. 21, 2021); available at: <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>

⁵ Id. at pp. 39-40; and see, e.g., New York State Department of Financial Services, Insurance Circular Letter No. 15; available at https://www.dfs.ny.gov/industry_guidance/circular_letters/cl2020_15 [NYSDFS Ins. Circular Letter 15]

ORSAs as part of the insurers' ERM frameworks, and New York requires insurers to consider climate-related risk explicitly in their ORSAs.⁶

The work of continuing to integrate climate-change impacts into supervisory and ERM frameworks will require the continual development and sharing of data, research, best practices, and policy initiatives across the insurance industry and across industries and disciplines. As we describe below, FIO can play an important role in that information flow.

An important climate-related role for FIO

FIO is uniquely situated to foster the continuation and evolution of incorporating climate-change impacts into supervisory and ERM frameworks related to mortgages held by insurers by facilitating the flow of information, data, research, best practices, and policy initiatives across the insurance industry and across industries and disciplines.

As a member of FSOC, FIO has access to information and best practices of the federal prudential regulators. This is significant in the context of insurers' mortgage holdings because the financial risk of mortgage lending is already a key area of focus for those federal regulators. Insurers and their regulators therefore may be able to leverage information, guidance, and lessons learned on climate change and mortgage by those other prudential regulators.

FIO can similarly be a conduit for information developed by international bodies, including those focused on the businesses of banking and insurance. FIO is a member of the Executive Committee at the International Association of Insurance Supervisors (IAIS) and a member of the OECD Insurance and Private Pensions Committee (IPPC). FIO is also a member of the Sustainable Insurance Forum (SIF), which is an international network of insurance supervisors and regulators committed to working together on sustainability challenges facing the insurance sector. As a result, FIO should consider identifying and disseminating relevant, evolving climate- and mortgage-related data, information, and best practices from international bodies to NAIC and to the insurance industry.

We note that these roles for FIO would be consistent with recommendations in FSOC Report.⁷ The Report recognizes that FSOC members are likely to face common challenges related to climate data and urges them to work together to solve those challenges. The FSOC Report also recommends that FSOC members coordinate with their international regulatory counterparts to “identify and fill data gaps, address data issues, and develop definitions, data standards, metrics and tools.”⁸

We understand that FIO already has a strong information-sharing relationship with NAIC and with the insurance industry, which FIO can leverage to identify and disseminate the evolving data,

⁶ FSOC Report at pp. 40-41.

⁷ Id at p. 121.

⁸ Id. (Recommendation 2.6).

information, and best practices most likely to be helpful to insurers managing climate-related risk and helping regulators supervise that risk management.

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We appreciate this opportunity to provide input into on FIO's assessment of the current state and how FIO can best add value in the evolving area of climate change and any financial risk to the insurance industry. The RFI and FIO's consideration of the responses will be only one of many appropriate steps for ensuring that insurers and their regulators incorporate the impacts of climate change into their risk-management and supervisory processes.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Broeksmit". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert C. Broeksmit, CMB
President and Chief Executive Officer
Mortgage Bankers Association