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The Honorable Mark Calabria
Director
Federal Housing Finance Agency
Office of the Director
400 Seventh Street, S.W.
10th Floor
Washington, DC 20219

April 19, 2021

RE: RAA Comments in Response to FHFA January 2021 Request for Input on "Climate and Natural Disaster Risk Management at the Regulated Entities"

Dear Director Calabria:

This letter is submitted by the Reinsurance Association of America (RAA) on behalf of and in coordination with its numerous interested members in response to FHFA's January 2021 Request for Input on "Climate and Natural Disaster Risk Management at the Regulated Entities" ("2021 Climate RFI").[1] The RAA is a national trade association representing reinsurance companies doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance company affiliates.

On behalf of the RAA and its members, we applaud your leadership to address the issue of how the FHFA can manage the climate and natural disaster risk of its regulated entities, the Government Sponsored Enterprises (GSEs), including Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. The RAA also supports the goal of enhancing the FHFA's supervision and regulation of the GSEs' management of these risks.

The RAA has had a longstanding policy on climate change and is committed to working with policymakers, regulators, and the scientific, academic and business communities to assist in promoting awareness and understanding of the risks associated with climate change.[2] Consistent with its broader climate policy goals, the RAA is focused on how the risks of the GSEs can be managed to help improve their safety and soundness. Credit risk associated with GSE-backed residential properties includes climate and natural disaster risk. Therefore, it is important for FHFA to address these risks and, separately, well in advance of the next significant flood, earthquake, or other devastating natural disaster event. Addressing these risks urgently is

[1] https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Issues-RFI-on-Climate-and-Natural-Disaster-Risk-Management-at-the-Regulated-Entities.aspx
[2] https://www.reinsurance.org/Advocacy/RAA_Policy_Statements/

particularly important as the frequency, severity, devastation, and costs of many natural disasters continue to increase due to climate change.

RAA also recommends that FHFA consider the responses submitted by RAA members and the Insurance Institute for Business & Home Safety.[3]

Natural Disaster Insurance Protection Gap

Homeowners and renters, property owners, mortgage investors, taxpayers, and communities face risks due to climate change and the lack of natural disaster insurance coverage or underinsurance of such coverage. There is a serious and significant natural disaster insurance protection gap in the United States. The U.S. Department of the Treasury's Federal Insurance Office's Federal Advisory Committee on Insurance (FACI) has a subcommittee that is dedicated to addressing it. Several RAA members serve on both the FACI and the "Subcommittee on Addressing the Protection Gap through Public-Private Partnerships and Other Mechanisms." During FACI's December 2019 meeting, the Subcommittee cited statistics to provide examples of the insurance protection gap in the U.S. and issued recommendations that FHFA should consider.[4] The National Association of Insurance Commissioners (NAIC) has published alarming statistics about the disaster insurance protection gap. For example, one NAIC statistic cited in the Subcommittee's presentation is that "Only 1% of properties outside of flood zones have flood insurance, yet half of U.S. floods occur in these areas." Various studies and reports, including a 2018 report by AIR Worldwide, have warned that the next big earthquake to impact California, likely by 2044, could result in $170 billion in total damage and almost half would be residential-related loss, $37 billion of which would be uninsured.[5] Given the likelihood of future, significant, and costly natural disasters throughout the U.S. and uninsured residential costs, RAA recommends that FHFA:

- **Understand the risk exposure.** Work with the GSEs to clearly understand the natural disaster insurance protection gap, including previous and potential, future loss potential that a variety of natural disaster perils pose to residential and multifamily properties. To better understand this exposure, FHFA might consider requirements for the GSEs to release additional data, especially data related to flood and earthquake risk, to allow interested private-sector (re)insurers to analyze the GSEs' exposure to these risks and offer different perspectives and risk transfer solutions to address them;

- **Coordinate with other regulators.** Initiate a coordinated effort with the Treasury, the NAIC, other relevant federal agencies, state and local officials, and the private sector, including reinsurers and rating agencies, to determine a comprehensive strategy to identify and address the natural disaster insurance protection gap in the U.S. and the risks it poses to the GSEs, homeowners and renters, property owners, individuals, businesses,

[3] https://www.reinsurance.org/RAA_Members/; https://ibhs.org/
[4] https://home.treasury.gov/system/files/311/December2019FACI_ProtectionGapPresentation.pdf; https://home.treasury.gov/system/files/311/December2019FACI_ProtectionGapProposedRecs.pdf
[5] https://www.air-worldwide.com/Publications/Infographics/Who-Will-Pay-for-the-Next-Great-California-Earthquake-/

and taxpayers – particularly as it relates to frequent and potentially severe perils, such as floods and earthquakes; and

- **Help close the insurance protection gap.** Use its regulatory influence to help initiate efforts to close the insurance protection gap via traditional insurance and risk transfer. FHFA also can help to facilitate a private market for flood insurance, potentially providing consumers with more flood insurance options. One way to achieve this is for FHFA, in coordination with HUD, to align FHFA and HUD's FHA regulations and/or guidance for private flood insurance with those issued in 2019 by federal lending regulators.[6] (In 2020, HUD issued a proposed regulation to align its regulations and guidance with that of the 2019 federal lending regulators[7]).

RAA also recommends that FHFA consider other studies and reports on closing the insurance protection gap, including:

- Various studies on "Closing the Disaster Insurance Gap" and "Closing the Flood Insurance Gap" by The Wharton Risk Management and Decision Process Center, affiliated with the Wharton School at the University of Pennsylvania;[8]

- S&P Global's 2020 comments on "COVID-19 Highlights Global Insurance Protection Gap On Climate Change";[9]

- A 2019 study on "The Protection Gap in Homeowners Insurance" by Rutgers Law School Professor and Co-Director of the Rutgers Center for Risk and Responsibility Jay Feinman;[10] and

- The Geneva Association's 2016 report on "Harnessing Technology to Narrow the Insurance Protection Gap".[11]

Value Chain of Climate and Natural Disaster Risk Exposure

As previously indicated, climate-related and natural disaster risk exposure is broad-ranging. These risks are widespread, geographically diverse, and include a range of natural disaster perils impacting homeowners and renters, property owners, servicers, mortgage investors, taxpayers, and communities. Within FHFA's jurisdiction and in coordination with other financial institution regulators, it is important to ensure that these risk exposures are addressed and

[6] https://www.fdic.gov/news/financial-institution-letters/2019/fil19008.html
[7] https://www.federalregister.gov/documents/2020/11/23/2020-25105/acceptance-of-private-flood-insurance-for-fha-insured-mortgages; https://www.hud.gov/press/press_releases_media_advisories/HUD_No_20_191
[8] https://riskcenter.wharton.upenn.edu/policy-incubator/closing-disaster-insurance-gap/; https://riskcenter.wharton.upenn.edu/policy-incubator/upgrading-flood-insurance/closing-the-flood-insurance-gap/
[9] https://www.spglobal.com/ratings/en/research/articles/200928-covid-19-highlights-global-insurance-protection-gap-on-climate-change-11617761
[10] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3452947; https://crr.rutgers.edu/call-for-participants-the-protection-gap-in-property-insurance/
[11] https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/harnessing-technology-to-narrow-the-insurance-protection-gap.pdf

mitigated. Mitigation includes physical enhancements to better protect residential properties and other infrastructure against damage caused by natural disasters and financial mitigation to protect against any mortgage credit default risk associated with natural disaster risk.

In the financial services sector, property casualty insurers are the most exposed to natural disasters, especially those impacted by climate and weather. Within the insurance sector, reinsurers have the greatest financial stake in appropriate risk assessment. The industry is at great financial risk if it does not understand global and regional climate impacts, variability and developing scientific assessment of a changing climate. Integrating this information into the insurance system is an essential function. Insurance is a critical component for economic and social recovery from the effects of extreme weather and climate driven events. Open market insurance pricing is also a mechanism for conveying the consequences of decisions about where and how we build and where people chose to live. In this regard, it must be proactive and forward looking in a changing climate/weather environment.

Our industry is science based. Blending the actuarial sciences with the natural sciences is critical to providing the public with the financial resources needed to recover from natural catastrophic events. As the scientific community's knowledge of climate change continues to develop, it is important for our communities to incorporate that information into the exposure and risk assessment process and that it be conveyed to stakeholders, policyholders, the public and public officials that can or should address adaptation and mitigation alternatives. Developing an understanding about climate and its impact on, for example, droughts, heat waves, the frequency and intensity of tropical hurricanes, thunderstorms and convective events, rising sea levels and storm surge, more extreme precipitation events and flooding – is critical to our role in translating the interdependencies of weather, climate risk assessment and pricing.

Given that climate change, natural disaster, and related credit risk impact a variety of mortgage market stakeholders and the insurance sector's interest and expertise, RAA recommends that FHFA:

- Enlist the insurance sector's expertise to help evaluate the risks climate change and natural disasters pose to the GSEs and mortgage-market participants in the value chain;

- Host a summit to explore issues for consideration and perspectives of various stakeholders on addressing climate and natural disaster risk and the GSEs; and

- Consider restoring the capital credit afforded through credit risk transfer (CRT), recognizing that climate change will have far reaching impacts on swaths of the economy impacted by climate change.

Solutions

The RAA believes a variety of solutions should be used to improve risk management across the board to the benefit of all those in the value chain of climate and natural disaster risk exposure. It also is important to address the geographic, natural disaster peril, and socioeconomic diversity that are part of GSE-related mortgage credit risks. Some traditional solutions, like property

insurance protections for homeowners with GSE-backed mortgages, certainly can and should be utilized, but new analytical capabilities that increasingly and intelligently reduce risk and direct resources to achieving that goal also should be pursued.

Primary Insurance. Traditional insurance solutions, such as primary property insurance protection, including earthquake, wind, fire, and flood insurance – are critical for people, property, jobs, businesses, communities, and the GSEs to be resilient in the aftermath of natural disasters. That is especially true since federal disaster assistance is provided only when there is a federally declared disaster and typically results in a fraction of what insurance assistance can provide. For example, according to FEMA, in 2019, the average, annual flood insurance premium was $700 (about $58 per month) and the average claim payout was $53,000.[12] Meanwhile, in 2019, federal disaster assistance was capped at $34,900 with an average annual payment of $6,246.[13] Ensuring that the protection gap is bridged, and property insurance adequately covers the climate and natural disaster risk(s) involved are of utmost importance. Risk transfer products that protect each stakeholder from climate and natural disaster risks can play an important role.

Parametric Insurance. To supplement traditional insurance solutions – including to provide coverage for evacuation and to infuse liquidity quickly into a community to cover immediate post-disaster expenses – parametric insurance addresses the protection gap and enhances community resilience. Parametric solutions have been developed for earthquake, wind, fire, and flood risks. This coverage can be tailored to meet the needs of individuals, public entities, and lenders.

Risk Transfer. Risk transfer, including reinsurance, is a successful solution used by both the public and private sector including (re)insurers, financial institutions, federal and state programs, and Fannie Mae and Freddie Mac. One notable example of a federal program's use of risk transfer is FEMA's Reinsurance Program. In the program's first year (2017), FEMA collected $1.042 billion to help pay the cost of National Flood Insurance Program losses and claims resulting from Hurricane Harvey. The coverage cost $150 million, and the program successfully renewed the subsequent year. This example is a true testament of successful private public partnerships. The reinsurance industry also successfully has partnered with the California Earthquake Authority (CEA) on reinsurance protection for its earthquake risks as well as the recently created California Wildfire Fund, which also is administered by the CEA. Similarly, risk transfer has been an important part of the Florida Citizens and the Florida Hurricane Cat Fund for many years.

Identifying the Most in Need and Most at Risk. Low-income and minority neighborhoods are disproportionately impacted by natural disasters.[14] Due, in part, to the GSEs' public missions, this fact must be a priority consideration for FHFA as it works to understand and address the climate and natural disaster-related risks of the GSEs. To this end, an innovative approach to addressing climate and natural disaster resilience developed by RAA could be instructive to

[12] https://www.fema.gov/data-visualization/historical-flood-risk-and-costs

[13] https://www.federalregister.gov/documents/2018/10/22/2018-22884/notice-of-maximum-amount-of-assistance-under-the-individuals-and-households-program; FEMA communication with RAA, 4/16/2021

[14] https://www.americanprogress.org/wp-content/uploads/2013/08/LowIncomeResilience-2.pdf

FHFA. The RAA has developed a data analytics tool that utilizes publicly available data to very clearly, by county and census tract in each state, understand where natural perils, older housing stock, and disadvantaged populations converge. We are urging policymakers, such as FHFA, to use this information, particularly FEMA's National Risk Index (NRI) supplemented with data from the U.S. Census Bureau's American Community Survey, to understand the U.S. landscape and pinpoint and prioritize communities that are most in need and most at risk of significant natural disasters, diversified by state, geography, and natural disaster peril.[15] There is great potential for FHFA to work with the GSEs using the above mentioned data, proprietary GSE data, and private sector insights to very clearly understand the greatest climate and natural disaster risks within the GSEs' portfolios. With this understanding, FHFA can take informed and strategic action to reduce those risks while simultaneously enhancing housing resilience, housing sustainability for homeowners and renters, and GSE safety and soundness.

Resilience. In December 2019, the National Institute of Building Sciences issued its "Natural Hazard Mitigation Saves" report, which was funded by the U.S. Department of Housing and Urban Development.[16] The report describes that federal disaster mitigation has saved $6 for every $1 invested since 1995 and other mitigation-related activities, such as updating building codes to ensure resilient structures, and investments can save between $4 and $11 for every $1 spent. According to NOAA, "Each state has been affected by at least $1 billion-dollar disaster since 1980."[17] There is demand, but the supply is inadequate.

Reducing the impact of climate and natural disaster risk in the first place, followed by other protections like traditional insurance and risk transfer, particularly to benefit low-income and minority homeowners and renters should be the top public and private-sector priority for climate and natural disaster resilience and risk management. That can be achieved by, first, identifying the communities that are most in need and most at risk of significant natural disasters as described above. And second, it can be achieved by creating statutory and regulatory structures and incentives that direct public and private sector investments in infrastructure resilience. Congress is considering ideas to direct more public and private sector funds toward infrastructure resilience, which includes housing, in this way. The U.S. Department of Housing and Urban Development's Housing Trust Fund and the U.S. Department of the Treasury's Capital Magnet Fund should direct funding resources toward achieving housing climate and natural disaster resilience for "extremely low- and very low-income households" that face significant natural disaster risk and particularly that expose the GSEs to climate and natural disaster risks.[18] In general, FHFA should partner with FEMA, HUD, Treasury, and other Financial Stability Oversight Council members to focus climate and natural disaster resilience efforts for federally funded and federally-backed residential properties in these most in need and most at risk areas.

[15] https://hazards.geoplatform.gov/portal/apps/MapSeries/index.html?appid=ddf915a24fb24dc8863eed96bc3345f8; https://www.census.gov/programs-surveys/acs

[16] https://www.nibs.org/projects/natural-hazard-mitigation-saves-2019-report

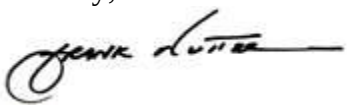
[17] https://www.climate.gov/news-features/blogs/beyond-data/2010-2019-landmark-decade-us-billion-dollar-weather-and-climate

[18] https://www.hudexchange.info/programs/htf/; https://www.cdfifund.gov/programs-training/programs/cmf

Conclusion

The RAA fully supports the FHFA's initiative as presented in its 2021 Climate RFI and believes that our industry can greatly assist FHFA in helping to address the protection gap and the risks to the FHFA's regulated entities and housing finance value chain. We particularly urge FHFA to publicly release additional data related to GSE earthquake risk to help start this process. We would like to offer a briefing to FHFA to demonstrate the use of publicly available data and how it can be used to identify communities that are the most in need and most at risk of significant natural disasters in order to direct public and private sector investments in resilience for housing and other infrastructure in these communities to reduce the risk. We are committed to work with you to expeditiously address the GSEs' exposure to climate and natural disaster risk and to improve the resilience of our communities.

Sincerely,



Franklin W. Nutter
President