

Climate Risk And State Insurance Policy



Climate risks proliferating throughout the financial system

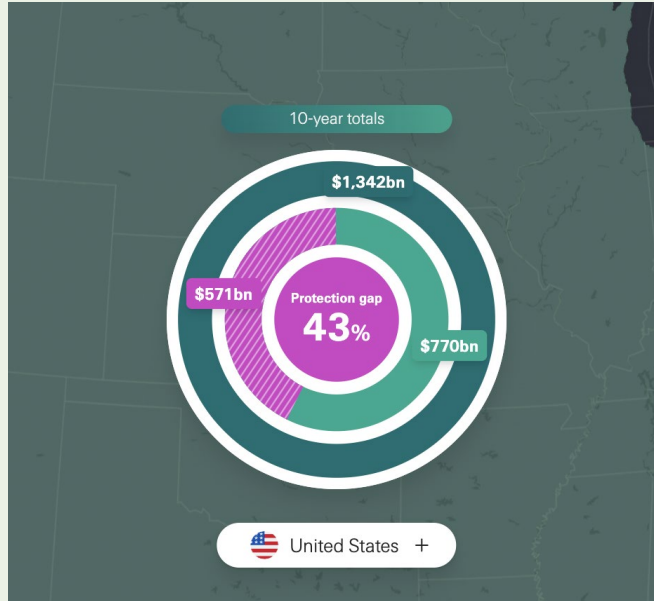
- Climate risk transmitted through:
 - Direct exposure
 - Asset liquidation
 - The “protection gap,” which impacts:
 - Insurance markets
 - Real estate markets
 - Municipal bond markets



“If you fast-forward 10 or 15 years, there are going to be regions of the country where you can’t get a mortgage.”

-Federal Reserve Chair **Jay Powell**

Defining the “protection gap”



Source: Swiss Re data from 2015 -24

“[The protection gap from uninsurance] can have significant consequences for homeowners and the values of their assets. In turn, these developments can have cascading effects on the financial system.”

- Former Treasury Secretary **Janet Yellen**

Insurance Regulation: States have the power

- McCarran -Ferguson (1945): Preemption against federal antitrust/regulation in insurance
- States are now the primary regulator for complex, interconnected insurance giants, including several formerly designated as Systemically Important Financial Institutions (SIFIs)
- State insurance offices don't have adequate capacity



Insurance Regulation: Defining the markets

- Admitted market: Insurers licensed to do business in the state are subject to rate review and solvency regulations.

- Residual markets: 36 states have state -enabled insurers of last resort, subject to minimal state oversight. Expensive, barebones coverage.

- Non -admitted markets:
 - Surplus lines: Not subject to the same regulatory and consumer protections as admitted market policies. Do not pay into state guaranty fund.
 - Captives: Self -insurance, not subject to the same regulatory and consumer protections as admitted market policies. Do not pay into state guaranty fund .

Insurance Regulation: States have the power

Delaware:

- Ranking in domiciled carriers : 12th
- Ranking in state insurance office staff capacity : 40th
- Rate review system : File and Use
- Insurer of last resort: FAIR Plan with 1,200 policies
- Notes:
 - Has become the fourth highest ranking state in terms of number of domiciled captives.
 - Primary regulator for 1 top 20 p/c insurer (WR Berkley)

Maryland:

- Ranking in domiciled carriers :34th
- Ranking in state insurance office staff capacity : 17th
- Rate review system : Prior approval
- Insurer of last resort: MDJIUA with 700 policies

Insurance Regulation: States have the power

Pennsylvania:

- Ranking in domiciled carriers : 7th
- Ranking in state insurance office staff capacity : 18th
- Rate review system : Prior approval
- Insurer of last resort: FAIR Plan with 9,000 policies
- Notes:
 - Ranks fourth nationally in terms of highest premium increases 2021 -24, with an estimate average of 44% premium increase across PA.
 - Primary regulator for 1 top 20 p/c insurers (Erie)

Puerto Rico:

- Notes:
 - In contrast with all 50 states, the only U.S. jurisdiction where some private flood insurance is available as part of the admitted market.

Insurance Regulation: States have the power

New York:

- Ranking in domiciled carriers : 1st
- Ranking in state insurance office staff capacity : 2nd
- Rate review system : Prior approval
- Insurer of last resort: NYPIUA with 20,000 policies
- Notes:
 - Ranks 1st in Risk Retention Groups (including NYCHA)
 - Primary regulator for 3 top 20 p/c insurers (Travelers; Zurich; and AIG)
 - NYDFS is now the primary regulator for two former SIFIS: AIG and MetLife.

New Jersey:

- Ranking in domiciled carriers : 16th
- Ranking in state insurance office staff capacity : 8th
- Rate review system : Prior approval
- Insurer of last resort: NJIUA with 7,000 policies
- Notes:
 - Primary regulator for 1 top 20 p/c insurer (Chubb)
 - The only state where surplus lines contribute to state guaranty fund
 - NJ DBOI is now the primary regulator for one former SIFI (Prudential)

Insurance Regulation: States have the power

Connecticut:

- Ranking in domiciled carriers : 21st
- Ranking in state insurance office staff capacity : 20th
- Rate review system : File and Use
- Insurer of last resort: FAIR Plan with 1,200 policies
- Notes:
 - Hartford is known globally as a major insurance hub, although that's more true for life/health insurance than p/c
 - Primary regulator for 3 top 25 p/c insurers (Hartford, Fairfax, Axa)
 - Passed legislation in 2021 establishing a climate risk supervision framework

Rhode Island:

- Ranking in domiciled carriers : 48th
- Ranking in state insurance office staff capacity : 48th
- Rate review system : File and Use
- Insurer of last resort: FAIR Plan with 16,000 policies
- Notes:
 - 25% of premiums written in the state from an insurer rated by Demotech, per *WSJ* reporting
 - Director Beth Dwyer is President-Elect of the NAIC/the non-voting insurance commissioner designee to the FSOC

Insurance Regulation: States have the power

Vermont:

- Ranking in domiciled carriers : 19th
- Ranking in state insurance office staff capacity : 45th
- Rate review system : Use and File
- Insurer of last resort: None
- Notes:
 - Home to 551 captive insurance companies, the world's largest captive insurance market

New Hampshire:

- Ranking in domiciled carriers : 31st
- Ranking in state insurance office staff capacity : 41st
- Rate review system : File and Use
- Insurer of last resort: None

Insurance Regulation: States have the power

Massachusetts:

- Ranking in domiciled carriers : 25th
- Ranking in state insurance office staff capacity : 34th
- Rate review system : File and Use
- Insurer of last resort: FAIR Plan with 214,000 policies
- Notes:
 - Primary regulator for 5th largest p/c insurer (Liberty Mutual)

Maine:

- Ranking in domiciled carriers : 49th
- Ranking in state insurance office staff capacity : 42nd
- Rate review system : File and Use
- Insurer of last resort: None
- Notes:
 - LD 1: Bipartisan legislation enacted in 2025 to support flood resilience/home fortification in part through fees from Bureau of Insurance

New York S. 8583

- Reforms NYPIUA to make it more accountable to NY Government
- Mandates data collection around climate risk, including for multi-family properties
- Factors hazard mitigation into insurance modeling
 - Modeled after 2025 law in CO
 - Similar bills introduced in ID, GA, NM, OR, and WA

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