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Opening Statement
Full Committee Hearing: 21st Century Communities: Climate Change, Resilience, and Reinsurance
July 20, 2021 at 10:00 AM

Thank you, Mr. Chairman.

Today, the Committee will discuss climate-related risks and the ways in which the insurance and reinsurance industries are evolving and adapting in response. This hearing is meant to be about reinsurance, though apparently we will also hear proposals for massive new federal infrastructure spending based in part on misleading claims regarding climate-related risks. To the extent that policy proposals are based on misrepresentations of science, they could lead to very bad results.

At the outset, let me acknowledge that global warming is real. However, we must also recognize three important points. First, there is actual significant debate within the scientific community about global warming's impact on man and the economy. Second, direct economic damages associated with extreme weather events have actually decreased both globally and in the United States when measured against GDP. Third, insurance and reinsurance companies, whose existence depends upon the presence of uncertain risks, have always adjusted to changing risk, and climate-related risks are no exception.

In March, all 12 Republicans on this Committee sent a letter to Fed Chairman Jay Powell expressing concern that financial regulators were seeking to impose costly new rules based on highly uncertain climate models. Unfortunately, proposals to assess climate-related risks to financial institutions are too often based on outdated scenarios and unrealistic assumptions.

Even the Financial Stability Board acknowledges the massive uncertainty. They just issued a report stating that "financial institutions' exposures to climate-related risks are generally subject to greater uncertainty than those relating to other financial risks." The report notes that this uncertainty

derives from the difficulty in modeling such risks and a lack of reliable historical data.

Despite substantial modeling and data limitations, President Biden recently issued an unjustified executive order directing financial regulators to consider integrating climate-related risks into supervision and regulation. But good policy rests on a foundation of good science. As one recent publication in the leading science journal Nature stated, calls to integrate climate science into risk disclosure and economic decision-making “has leap-frogged the current capabilities of climate science and climate models by at least a decade.”

Despite the great deal of uncertainty regarding climate-related risks, many in the media and politics assert that the frequency and severity of extreme weather events are increasing as a result of climate change. This assertion grossly misrepresents the data, including assessments by the IPCC, the organization widely considered to be the world’s leading climate authority.

The reality is that leading climate scientists do not agree on whether or not—or to what extent—climate change is causing an increase in the frequency or severity of weather events. There can be no debate, however, that economic damage from such events is shrinking as a portion of our economy, as one of today’s witnesses, Dr. Roger Pielke, will explain in greater detail. And that decrease is despite the tremendous amount of development in exposed areas.

Further, the overwhelming reason for increased disaster losses is that locations exposed to loss have grown in wealth and population—not that global warming has increased the frequency or severity of extreme weather events.

Behind the drive to impose climate-related regulations on financial institutions is a fatal conceit of progressivism: Bureaucrats know the risks to business better than the business itself. But as we will hear from one of today’s witnesses, insurance industry expert Jerry Theodorou, it has actually occurred to financial institutions that potential climate-related risks might affect their operations, and they are responding accordingly.

Perhaps no industry has done more to adapt and evolve than insurance and reinsurance. Among other things, large property/casualty insurance

companies covering approximately 70 percent of the U.S. market have been reporting climate risk for over ten years. They've modified their underwriting practices and they've diversified their investment portfolios.

In addition, insurance policies and products are generally short term and are re-priced annually or withdrawn as conditions change. Nevertheless, property/casualty insurance is readily available across the United States. Increased risk is not a prohibitive problem for insurance or reinsurance because their business models depend upon accurately pricing risk—at whatever level.

Regulators must avoid the temptation to think they're smarter than the market. Assessing and pricing risk is the core competency of insurance companies, and they will apply hundreds of years of experience as risks evolve.

When was the last time any major insurer or financial institution failed as a result of extreme weather? Or the last time an insurance company failed to pay a policyholder claim because of extreme weather?

Finally, I'd like to note that states, not the federal government, have been the primary regulators of insurance for the past 150 years. Congress explicitly endorsed this state-based regulatory approach with the McCarran-Ferguson Act.

State-based regulation has worked and it has worked well for both the insurance industry and more importantly for the consumers it serves. It would be profoundly misguided for the Biden administration to throw the state-based insurance regulatory regime out in pursuit of its climate agenda.

Let me conclude where I began: global warming is real, and it likely will present new risks. However, we simply have too little understanding of the near-term effects climate change will have on any particular place to justify imposing huge new regulatory costs on the consumers who would ultimately pay for them.