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

November 15, 2021

Re: FIO Insurance Sector and Climate-Related Financial Risk

Dear Ms. Brown,

On behalf of the 40 undersigned organizations and their millions of members and supporters, we welcome the opportunity to comment on the Federal Insurance Office's (FIO's) Request for Information on the Insurance Sector and Climate-Related Financial Risks. We agree with FIO's assessment that the significant risks posed by climate change to insurers are likely to ultimately harm consumers, especially in underserved communities, and the broader financial system. We also applaud FIO's recognition that insurers play a key role in influencing climate-related activity in other spheres of the U.S. economy and are pivotal to securing a zero carbon future. We urge other offices within the Treasury to adopt similar stances as they engage with other parts of the financial system.

A. Insurers are both major enablers of the climate crisis and exposed to its effects.

Insurance is a necessity for companies to produce and transport fossil fuels. According to AXA CEO Thomas Buberl, for fossil fuel companies: "without insurance there is no financing."[1] As global pressure has led many insurers to adopt coal exit policies, coal production and coal-based generation have sharply declined, while a similar trend in oil sands has driven up the costs for projects like the Transmountain Pipeline.[2]

These examples show that insurers can reduce emissions by phasing out their coverage for fossil fuels, and those that refuse are complicit in driving the climate crisis. The Intergovernmental Panel on Climate Change has noted that every fraction of a degree matters to averting catastrophe.[3] So when an insurance company enables new production or

[1] Steve Mufson "What could finally stop new coal plants? Pulling the plug on their insurance," THE WASHINGTON POST, Oct. 26, 2021.
[2] Corbin Hiar "Coal, oil sands feel growing insurance squeeze," E&E NEWS, Sept. 10, 2020.
[3] IPCC, 2021: Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [MassonDelmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. Cambridge University Press.

helps keep an existing source online, it's increasing the likelihood and magnitude of future climate harms.

The worsening climate crisis itself harms insurers, who then impose further costs onto already climate-impacted customers. Property and casualty insurers experienced record losses over several recent California wildfire seasons.[4] In response, insurers have reassessed their underwriting, often with the effect of raising prices or reducing coverage availability in wildfire-prone areas, driving a rebound in profits at the expense of customers.[5]

Along with their role as risk managers, major insurers are among the largest investors in the world, including in fossil fuels. Those investments help enable fossil fuel production, further exacerbating the impacts of the climate crisis on insurers. And as the clean energy transition accelerates, insurers in need of strong returns will find their investment portfolios negatively affected by stranded assets, falling asset prices, and ongoing reputational harm.

As society's risk managers and major investors, insurers have an important role to play in an orderly transition to a low-carbon economy. Yet U.S. insurers lag behind their international counterparts in fulfilling this responsibility.[6] Many major U.S. insurers continue to underwrite coal and oil and gas without any restrictions. This behavior exposes U.S. insurance companies to ever-increasing physical, transition, and reputational risks.

This comment discusses how this state of affairs affects each of FIO's three priorities. First, FIO should raise the alarm about troubling gaps in state and federal oversight of insurers' climate-related risks. Then, it must bring attention to the true victims of this continued irresponsible conduct by most insurers and regulators: low-income communities, communities of color, and other vulnerable populations who are most at risk from both the climate crisis, threats to financial stability, and insurers' rate increases and market exits. Third, it must inform the public about the contribution that insurers make to the climate crisis and provide an accurate assessment of how well they meet their own sustainability commitments.

B. State and federal regulators aren't doing enough to oversee insurers' climate risks.

Despite years of warnings that climate change threatens insurers, and despite significant regulatory developments abroad, U.S. climate-related supervision and regulation of insurers remains in its infancy. Although a few states have taken meaningful steps toward assessing the climate risk borne by insurers, only New York has made any meaningful effort to mitigate that risk, and many others have taken no action to date. In addition, the Financial Stability Oversight Council is not overseeing large, systemically risky insurers at all, much less on climate. Regulators lack an adequate view of the risks that most insurers face from the climate crisis and have yet to develop the tools to mitigate those risks. Given that other financial institutions offload their risk to insurers and that climate risk is hard to model due

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[4] Leslie Kaufman and Erik Roston, "Wildfires are Close to Torching the Insurance Industry in California,", BLOOMBERG, Nov. 10, 2020.
[5] "Climate risks for insurers: Why the industry needs to act now to address climate risk on both sides of the balance sheet," S&P GLOBAL, Aug. 27, 2021.
[6] 2021 Scorecard on Insurance, Fossil Fuels and Climate Change, Insure Our Future, November 2021.

to its complexity and uncertainty, this void is a recipe for introducing unchecked, widespread systemic risk to the financial system.

FIO is not a regulator, and it lacks the authority to require state or federal regulators to take action to fill these gaps. But it can lead by highlighting the gaps that exist and recommend approaches to filling them. FIO should:

- Conduct a study and publish a comprehensive report on state and federal action on climate-related financial risk in the insurance industry, including gaps and recommended best practices based on state and international developments.
  - This report should explicitly reflect the White House's recommendation of using a precautionary approach,[7] as well as the recognition that financing and insuring emissions contribute to systemic risk.
- Work with the Office of Financial Research (OFR) to conduct a scenario analysis of insurer exposure to physical and transition risks, and the financial stability implications of those risks. The report should cover the entire country, and highlight particularly vulnerable sectors and regions.
- Recommend that the FSOC incorporate climate risk and insured and financed emissions into its assessment of whether a U.S. nonbank financial company could pose a threat to the financial stability of the United States.
- Participate and lead in developing international regulatory frameworks that implement a precautionary approach and recognize that financing and insuring emissions contribute to systemic risk.

C. Insurers' risk mitigation approaches are already harming the most vulnerable communities, and the problem will only get worse.

As the impacts of climate change become more severe, they exacerbate long-standing issues of environmental racism. Environmental racism is the product of choices over decades by governments and corporations, from land use permissions to lax enforcement, that result in communities of color and low-income communities suffering disproportionate exposure to environmental threats even as they are denied the resources to address them.[8] Climate change will increase the frequency and impacts of harm these communities face from such threats.

As insurers start to recognize the negative impacts of the climate crisis, these structural disadvantages are increasingly reflected in "bluelining."[9] This is the practice of identifying areas as at higher environmental risk and avoiding underwriting or raising costs in those areas. An insurer's seemingly risk-based analysis will recreate the same boundaries as previous redlining decisions that create and perpetuate racial and economic inequality in the United States. Already, flood insurance markets are exhibiting this dynamic, with communities of color, located in preexisting flood zones and denied equitable investments in

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[7] A Roadmap to Build a Climate Resilient Economy, The White House, October 14, 2021, at 17.
[8] Michela Zonta and Zoe Willingham, "A CRA To Meet the Challenge of Climate Change: Advancing the Fight Against Environmental Racism," Center for American Progress, December 2020.
[9] Abraham Lustgarten, "How the Climate Crisis Will Shape Migration in America," THE NEW YORK TIMES, Sept. 15, 2021.

drainage and sewage projects, experiencing the most severe impacts of rising premiums.[10] Now, in California, property insurance prices are skyrocketing in wildfire-prone areas.[11] These rising insurance costs will most harm communities with a tax base already depressed by disinvestment. Indeed, the high costs of adaptation may drive out homeowners and cause that tax base to dwindle further, making it harder to fund necessary improvements. Further hindering recovery for these communities is the practice of insurers in hurricane-impacted areas of dragging their feet on paying their claims obligations.[12] Such practices are particularly harmful to low-income communities that may not have access to credit to start rebuilding while they fight for insurance payments.

While many of these challenges have been documented in newspaper articles, academic studies, or by individual state regulators, there is no systematic, nationwide picture of what the climate crisis is doing to availability and affordability of insurance, or how it is impacting vulnerable communities. To fill this gap, FIO must:

- Work with states to collect data from insurers on rate increases, rates of nonrenewals, and claims denials in climate-impacted areas, with a specific focus on the effects on underserved communities and consumers, minorities and low-and-moderate income persons.
- Publish a report highlighting the effects on climate disasters on insurance affordability and availability, as well as long-term trends driven by the climate crisis.
- Repeat this data call and report regularly to identify trends and newly emerging threats.

D. State and federal governments must do more to encourage insurers to reduce their insured emissions.

Insurance is a critical lever for meeting both public and private climate commitments. As investors, customers, employees and other stakeholders increasingly demand that the companies they engage with act responsibly, most major insurance companies have made public commitments to reduce their emissions to net zero by 2050, in line with Paris climate targets. But stakeholders do not always have the information to know if an insurer's climate commitments are serious or simply "greenwashing." Unfortunately, due to the lack of standardized methods for measuring financed and insured emissions, insurers' can too easily claim to be "green" while failing to use their most important levers of underwriting and investment.

To be serious, insurer commitments must include reducing financed and insured emissions in line with science-based targets. Insurers themselves admit that the emissions from their operations are trivial relative to the emissions of their underwriting clients.[13] Yet, major insurance companies mostly don't incorporate these bigger sources of emissions into their net zero pledges. For instance, American International Group (AIG) has a net zero commitments that applies only to its own operations, failing to address the climate impact of its underwriting business as one of the top global insurers of coal, oil and gas or its

[10] Jie Jenny Zou, "Insuring Catastrophe", Center for Public Integrity, Feb 25, 2020.
[11] California Department of Insurance, "Virtual Investigatory Hearing on Homeowners' Insurance Availability and Affordability," Oct. 19, 2020.
[12] Mike Smith, "Tired of Crying," THE LAKE CHARLES ADVOCATE, May 16, 2021.
[13] "2020 Environmental, Social, and Governance Report," American International Group, June 2021.

investments in fossil fuel assets.[14] To date, no state has required disclosure of these emissions. The Securities and Exchange Commission (SEC) plans to write a disclosure rule that may provide further information for large insurers. But the SEC has not yet published a proposed rule, much less taken public comment or finalized it. And any eventual rule may take additional time to go into full effect. Given the climate benefits of pushing insurers toward quick adoption of meaningful net zero commitments, FIO should not rely solely on other regulators.

FIO can use its convening and data collection authorities to encourage insurers to make and follow through on meaningful net zero commitments, including reductions to their financed and insured emissions. To accomplish this, FIO should:

- Support the Partnership for Carbon Accounting Financials and the Net Zero Insurance Alliance on developing an insured emissions metric that captures the amount of greenhouse gas emissions underwritten by each insurer.
- Work with the states to collect data on insurers' insured and financed emissions, as well as their underwriting premiums from and investment in fossil fuel companies and projects.
- Publish an annual report or annually updated database highlighting which insurers have made meaningful net zero commitments and how their current emissions align with those commitments.
- Support and encourage state regulators to follow Connecticut's lead in encouraging all insurers to adopt meaningful net zero commitments.

Conclusion

The Biden administration has described the 2020s as the decisive decade for climate action.[15] To effectively meet the challenges of the climate crisis, the administration must use every lever at its disposal. Insurance is among the most powerful tools available, yet insurers have done little more than pay lip service to the need for action, while continuing to prioritize their short term profits. FIO must use its powers to monitor the threats that insurer activities pose to financial stability, vulnerable communities, and the safety and habitability of the planet, and engage with state and federal regulators to encourage rapid action commensurate with the challenges they face. FIO's RFI demonstrates a recognition of the problems and the necessary solutions, but it must be followed by the efforts discussed in this comment to spur action by insurers, states and federal regulators.

We look forward to continuing to engage with you and Treasury on these issues.

For questions, please contact Yevgeny Shrago at yshrago@citizen.org and David Arkush at darkush@citizen.org.

Sincerely,

Public Citizen
Americans for Financial Reform Education Fund

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[14] 2021 Scorecard on Insurance, Fossil Fuels and Climate Change, Insure Our Future, November 2021.
[15] Oriana Gonzalez, "Biden official: 2020-2030 is the "decisive decade" for climate change action," AXIOS, Apr. 28, 2021.

350 Butte County
350 Colorado
350 New Orleans
350 Silicon Valley
Action Center on Race and the Economy
Connecticut Citizen Action Group
Client Earth
Consumer Watchdog
Earth Action, Inc.
Extinction Rebellion New Orleans
Extinction Rebellion San Francisco Bay Area
Friends of the Earth
Friends of the San Juans
GASP (Greater-Birmingham Alliance to Stop Pollution)
Greenpeace USA
Health and Safety Associates
Hip Hop Caucus
Houston Climate Movement
ICCR (Interfaith Center on Corporate Responsibility)
Institute for Agriculture and Trade Policy
ISAIAH (MN)
Long Island Progressive Coalition
Louisiana Bucket Brigade
Minnesota Interfaith Power & Light
Miriam's Family
Mothers Out Front - National Leadership Team
National Fair Housing Alliance
People's Climate Movement - NY
Positive Money US
Rachel Carson Council
Rainforest Action Network
Revolving Door Project
Rise St. James
Sierra Club
Sunrise Project US
Texas Campaign for the Environment
U.S. PIRG
urgewald
Women's Earth and Climate Action Network (WECAN) International

Additional Organizational and Personal Narratives From Signers:

These narratives reflect the views of the submitting organizations or individuals.

GreenFaith:
"GreenFaith is an international, interfaith climate justice organization that works with religiously-based organizations across the US and internationally. We work with many frontline communities - in the US and abroad - that suffer the impacts of floods, droughts,

and extreme weather events. Fossil fuel companies are largely responsible for the increasing frequency of these events - but they remain shielded from the true cost of their activities because they remain able to secure insurance coverage.

GreenFaith is seeking to take action on this in part by calling on GuideOne, a property insurance firm which has long served the faith community in the US, to end its new practice of underwriting insurance for the coal industry. GuideOne has taken this on as a new line of business, and GreenFaith is working with other faith-based groups to pressure the company to abandon this destructive practice."

Texas Campaign for the Environment:
"Millions of Texans have suffered in the last few years from climate disasters including tens of thousands of Texas Campaign for the Environment supporters. These events include repeated hurricanes including Hurricane Harvey with it's unprecedented rainfall. This past February Winter Storm Uri killed as many as 700 Texans and unbelievable hardship for many, many more. On top of the fallout from the weather events are increases in insurance rates."

Sharon Lavigne, Executive Director of Rise St. James - St James, Louisiana
When Sharon Lavigne's ceiling began dripping water after a major storm hit southeast Louisiana in April 2021, Sharon's insurance company offered her a small sum of money that would cover repair of the ceiling but not address the root cause of the dripping water – a damaged roof.
When Sharon was unable to repair the damaged roof before Hurricane Ida arrived in early August 2021, the dripping ceiling began to fall apart as the roof became further damaged.

Several weeks later, in mid-September 2021, Hurricane Nicholas tore the tarps off of the roof, and water began pouring into Sharon's bedroom and living room. Sharon works in her house during the day, and travels each night to sleep at her granddaughter's house while waiting for the major home repair (a 45 minute drive).

 

In response to a second claim to the insurance company, the company offered her only $33,000, despite the fact that its own estimate of cost to repair her roof and interior damage was $61,000, and her policy provides $284,000 in coverage. The $33,000 is, in the company's estimate, the 'Actual Cash Value' minus depreciation based on the age and condition of the property. The insurance company informed Sharon that while she pays for 'Replacement Cost' coverage, she can qualify for this benefit only if she first pays for repairs or replacement of the damaged property. The company further notes, however, that the amount she'll receive through Replacement Cost coverage might not cover all of the payments she makes for repair or replacement of damaged property. Although this was only the first time she has filed an insurance claim for damage to her home, she's seen a more than 50% increase in her insurance premium, from approximately $3000 to $4800.