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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 Public Citizen, a national public interest advocacy group, and more than 500,000 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. This comment provides additional information about the severity of those risks and recommends actions that FIO can take, using its authorities, to fill emerging gaps.

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. Recognition of the critical role the financial system and its regulation can play in reducing emissions was unfortunately absent from the report on climate-related financial risk recently published by the Financial Stability Oversight Council.<sup>1</sup> We urge other offices within Treasury to adopt similar stances to FIO as they engage with other parts of the financial system. This comment recommends how FIO can serve as a model for Treasury and other state and federal regulators in engaging with insurers on reducing emissions and achieving national climate goals.

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

*Insurers have long known that the climate crisis threatens their own business, and that threat is only growing.*<sup>2</sup> 2020 set U.S. records for costly disasters, with 22 weather and climate

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<sup>1</sup> See Evergreen Action, "[FSOC Report Establishes Baseline for Action on Climate-Related Financial Risk](#)," Oct 21, 2021.

<sup>2</sup> Alex Sammon, "[The Oil Merchant in the Gray Flannel Suit](#)," THE AMERICAN PROSPECT, Sept. 29, 2021.

disasters that cost at least \$1 billion. 2021 is following close behind, with 18 such disasters as of October 8th.<sup>3</sup> The increased frequency and severity of these disasters leads to higher insured losses, often in ways insurers are unprepared for. In total, the first six months of 2021 had the second highest level of natural disaster insured losses on record, with \$33 billion.<sup>4</sup>

The changing climate has already caused insurers to reassess their underwriting, often with the effect of raising prices or reducing coverage availability in climate vulnerable areas.<sup>5</sup> By supporting fossil fuel expansion, which contributes to worsening climate harms, insurers are increasing the obligations they will have to pay in the future. Not only will this threaten the business of insurers, it will also slow recovery efforts in climate-impacted areas as premiums continue to rise and coverage availability falls.

Along with their role as risk managers, major insurers are among the largest investors in the world. Investment in fossil fuel-related assets exposes insurers to risks from stranded assets, falling asset prices, and reputational harm. Indeed, a recent Société Générale report found that deciding to exit coal could increase an insurer's valuation by as much as +9%, and suggested a similar premium was available for insurers that choose to exit oil and gas.<sup>6</sup> Similarly, a 2020 Moody's report found that insurers' retreat from coal is "credit positive, as it protects them against potential climate change liability risk, and reduces the risk of their investment assets becoming 'stranded.'"<sup>7</sup> On the other hand, as the clean energy transition accelerates, insurers in need of strong returns will find their investment portfolios negatively affected by stranded assets and falling asset prices, and will face increasing reputational harm.

*These risks are partially self-inflicted. 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."<sup>8</sup> He added "...If you get the majority of the market together to align on principles of insuring in a climate-friendly way, it will have an even bigger effect on financing." Events have borne him out. 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.<sup>9</sup>

These examples show that insurers can reduce emissions by phasing out their coverage for fossil fuels. Those that refuse are complicit in driving the climate crisis and their own destruction.

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<sup>3</sup> National Oceanic and Atmospheric Administration, "[Billion Dollar Weather Disasters](#)," Updated Oct. 8, 2021.

<sup>4</sup> Heather A. Turner, "[Insured losses for first-half 2021 natural disasters total \\$42B](#)," PROPERTYCASUALTY360, Aug. 19, 2021.

<sup>5</sup> S&P Global, "[Climate risks for insurers: Why the industry needs to act now to address climate risk on both sides of the balance sheet](#)," Aug. 27, 2021.

<sup>6</sup> Tim Quinson, "[Insurers Can Afford to Choose Oil and Gas, But Many Won't](#)," BLOOMBERG GREEN, Aug. 25, 2021.

<sup>7</sup> "[Insurers' retreat from coal is positive, reducing stranded asset risk, limiting liability risk](#)," Moody's, Feb. 24, 2020.

<sup>8</sup> Steve Mufson "[What could finally stop new coal plants? Pulling the plug on their insurance](#)," THE WASHINGTON POST, Oct. 26, 2021.

<sup>9</sup> Corbin Hiar "[Coal, oil sands feel growing insurance squeeze](#)," E&E NEWS, Sept. 10, 2020.

The Intergovernmental Panel on Climate Change’s August 2021 report confirmed that there is a rapidly closing window to avoid the worst case climate scenarios.<sup>10</sup> Exceeding the Paris Agreement’s 2.7°F threshold will trigger catastrophic climate impacts that dwarf even today’s climate-driven wildfires, hurricanes and flooding. Every fraction of a degree of warming above this threshold will worsen the climate harms that the planet faces.

According to the International Energy Agency, expanded fossil fuel production and the infrastructure that supports it are incompatible with meeting that threshold.<sup>11</sup> Following the IPCC’s report, the United Nations Secretary General, implored that “this report must sound a death knell for coal and fossil fuels, before they destroy our planet.”<sup>12</sup>

When an insurance company enables new fossil fuel production or helps keep an existing source online, it’s increasing the likelihood and magnitude of future climate impacts. Every fraction of a degree matters to averting catastrophe. Insurers have an important role to play in an orderly transition to a low-carbon economy and have a lot to lose if the transition comes too late.

*Yet U.S. insurers lag behind their international counterparts in fulfilling their responsibility or addressing their vulnerability.* The Insure our Future Coalition publishes an annual Insurance, Fossil Fuels, and Climate Change Scorecard, which assesses insurers based on the Paris alignment of their underwriting and investment policies. As of 2021, only one major American insurer was among the leaders, while six major American insurers brought up the rear.<sup>13</sup> Many major U.S. insurers continue to underwrite coal and oil and gas without any restrictions, and none of the U.S. insurers assessed have committed to aligning their underwriting and investments with the Paris Agreement’s goal of limiting warming to 2.7°F.

That is where U.S. insurers are today: underwriting fossil fuel projects that will increase the likelihood of insurer losses by raising emissions, even as they continue to invest in fossil fuel assets that become riskier every day. The remainder of this comment discusses how this situation should affect each of FIO’s three priorities. First, we assess the supervisory and regulatory shortfalls of the U.S. insurance system and their serious implications for financial stability. Then, we discuss the current and developing effects on the true victims of this continued irresponsible conduct by both insurers and regulators: low-income communities, communities of color and other vulnerable populations who are most at risk from both the climate crisis and threats to financial stability. Third, we discuss the limited efforts to date by insurers and regulators to reduce insured and financed emissions, as well as what can be done to

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<sup>10</sup> 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.

<sup>11</sup> IEA (2021), [Global Energy Review: CO2 Emissions in 2020](#), IEA, Paris

<sup>12</sup> “[Secretary-General’s statement on the IPCC Working Group 1 Report on the Physical Science Basis of the Sixth Assessment](#),” Aug. 9, 2021.

<sup>13</sup> [2021 Scorecard on Insurance, Fossil Fuels and Climate Change](#), Insure Our Future, November 2021.

ease this process. In each section, we provide recommendations for how FIO can use its authorities to address these challenges and push insurers, legislators, and federal and state regulators to take further action.

## **B. Deficiencies in climate-related supervision and regulation of insurers pose serious risks to financial stability and individual insurer solvency.**

Although U.S. insurance regulators have known for years that climate change is harming insurers, and have seen their global counterparts begin to respond in recent years, climate-related supervision and regulation of insurers in the U.S. remains in its infancy. Although a few states have started assessing the climate risk borne by insurers, only New York has made any meaningful effort at mitigating that risk, and many others have taken no action at all. 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 to its complexity and uncertainty, this void is a recipe for introducing unchecked, widespread systemic risk to the financial system.

### *1. Current federal and state oversight of insurers' climate-related risk is limited.*

U.S. insurance regulators are well behind their European peers in incorporating climate risk into their oversight of insurers and are making only limited strides in catching up. Thirteen state regulators, with oversight of over 70% of the U.S. insurance market, administer the National Association of Insurance Commissioners (NAIC) Insurer Climate Risk Disclosure Survey to insurers licensed in those states. This survey is deeply flawed. It asks only general, high-level, qualitative questions. It was designed in 2009 and has not been brought into alignment with global standards for climate risk disclosure.<sup>14</sup> Analysis by the American Academy of Actuaries shows that the current survey format yields only the bare minimum reply from the majority of insurers.<sup>15</sup> The NAIC is in the process of revising the survey, but the revisions will take time and are not guaranteed to yield meaningful improvements in disclosure. So far, the NAIC's Climate and Risk Subcommittee has not provided recommendations on other assessment or mitigation options regulators should pursue. The Solvency Workstream has issued an exposure draft seeking comment on enhancements or changes to solvency tools, but it is unclear what recommendations will come out as a result of this process or the timeframe for issuing and adopting them.<sup>16</sup>

In 2016, California made an effort to better assess the climate-related transition risk of the investments of insurers it oversees.<sup>17</sup> The state reviewed and published the fossil fuel exposure of

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<sup>14</sup> Insurers are permitted to submit their Task Force on Climate-Related Financial Disclosures (TCFD) report in lieu of a survey. Eight insurers chose to do so in 2019.

<sup>15</sup> ["NAIC Climate Risk Disclosure Survey Responses of Insurers Coming Into Sharper Focus,"](#) JDSupra, Sept. 9, 2021.

<sup>16</sup> Solvency Workstream of the Climate and Risk (EX) Subcommittee, ["Exposure Drafts"](#), National Association of Insurance Commissioners.

<sup>17</sup> [Climate Risk Carbon Initiative](#), California Department of Insurance, Jan. 25, 2016.

insurers in a searchable database, and worked with the 2 Degree Investing Institute to conduct a forward-looking assessment of insurer risks. The assessment found that California-licensed insurers had investments in fossil fuels that were more consistent with a 5.4°F world (which would threaten human civilization) than the 2.7°F threshold that global agreements and national commitments aim for.<sup>18</sup> California has not announced any supervisory action requiring insurers to mitigate their exposure to that risk.

Two states have started to try to mitigate insurer exposure to climate-related financial risks. In June 2021, the Connecticut General Assembly directed the Connecticut Department of Insurance to take climate risk into account in its supervision and regulation of insurers.<sup>19</sup> The Connecticut Insurance Department is in the process of developing policies and procedures for implementing this law. Meanwhile, the New York Department of Financial Services has adopted guidance on supervision of climate-related risk for insurers.<sup>20</sup> That guidance defines the risks that insurers face from the climate crisis, identifies the key areas that insurers must focus on to better manage that risk, and provides recommendations for developing resilience in the face of the climate crisis. Importantly, New York’s guidance casts doubt on the ability of insurers to treat climate-related risk as just another risk to be modeled and hedged, and suggests that reducing exposure to risks in ways that do not harm vulnerable communities is the most prudent approach. The guidance represents an important first step for managing climate-related financial risk at insurers, and should serve as a model for all other states. But even New York has not begun to consider incorporating climate-related risk into its regulatory capital requirements, which means that even the U.S. leader on climate-related risk lags European insurance regulators.<sup>21</sup>

Unless most other states follow New York toward better supervision and Europe toward exploring regulatory capital requirements, it will be difficult for any state regulator to assess and mitigate the climate risk that large insurance groups face. The lack of systemic risk oversight by state regulators was a key driver of the 2008 financial crisis. In that crisis, a London-based AIG subsidiary with limited U.S. regulatory oversight wrote credit default swaps against risky subprime assets, based on assumptions it made about its ability to appropriately assess the risks they posed.<sup>22</sup> Not only did this business model help encourage risky lending that inflated the housing bubble; it concentrated the risk of a housing bubble collapse on AIG’s balance sheet. When the housing crash showed that prices were far more correlated than AIG’s models had predicted, it needed a massive bailout from the Federal government.

To address the dangers of fragmented insurer oversight, the Dodd-Frank Wall Street Oversight and Consumer Protection Act created FIO to monitor emerging risks from the insurance market.

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<sup>18</sup> 2 Degree Investing Initiative, “[Insurance Companies Operating in California](#),” 2018.

<sup>19</sup> Public Citizen, [In Global First, Connecticut Passes Bill Addressing Insurers’ Participation in Risky Fossil Fuel Finance](#), June 17, 2021.

<sup>20</sup> New York Department of Financial Services, [Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change](#), Nov. 15, 2021.

<sup>21</sup> Ivana Baranovic et al., “[The challenge of capturing climate risks in the banking regulatory framework: is there a need for a macroprudential response?](#),” European Central Bank, October 2021.

<sup>22</sup> McDonald, Robert L., and Anna Paulson. 2014. “AIG in Hindsight”. *JOURNAL OF ECONOMIC PERSPECTIVES*. 29(2): 81–106.

It also established the Financial Stability Oversight Council (FSOC) to oversee emerging systemic risks, and empowered it to require additional federal supervision of nonbank financial institutions that could pose a risk to the financial stability of the United States. In the years after enactment, the FSOC identified and designated three insurers, AIG, Prudential and MetLife, for enhanced oversight. Unfortunately, the Trump administration rescinded the designation of all three firms and issued guidance making it more difficult for the Council to issue designations. Although the FSOC has discussed climate risk, its recent report did not mention the possibility of incorporating climate risk into consideration of systemically important firms.<sup>23</sup> This omission, coupled with the lack of action on rescinding the Trump-era guidance or designating any firms, leaves a void of oversight for the systemic nature of insurer climate risks.

*2. Insurers need additional oversight due to the nature of climate risk and the consequences of improper risk management.*

The White House’s government-wide climate risk strategy has identified climate risk as a systemic risk to U.S. financial markets and institutions.<sup>24</sup> The nature of climate-related risks makes them particularly dangerous if insurers and regulators treat them like business-as-usual risks. To help avoid a crash, FIO must publicize the dangers that climate-related risk poses to insurance markets and financial stability, and encourage state and federal regulators to use all their authorities to address it.

Insurance companies operate by assessing, pricing, and managing risks. They do this by using models, hedging, and other forms of financial engineering to optimize the level of risk they’re exposed to. But, as New York’s climate guidance states, climate risks are “non-linear, correlated, and irreversible.”<sup>25</sup> The lesson of the 2008 financial crisis is that even supposedly sophisticated risk managers, like AIG, cannot engineer away unpredictable threats. The size and uncertainty of harms from climate change will fuel similar or even bigger threats to those that caused the financial crisis.

The risk of a financial crisis is particularly high because of the role insurers play in the broader financial system as risk managers and allocators. As Federal Reserve Governor Lael Brainard noted in a recent speech:

Banks and other financial institutions often rely on insurance and other hedging strategies to reduce potential losses . . . . While reinsurance contracts and agreements among investors can transfer risk across the financial system, some level of risk is likely to remain. Climate-related risks could build up in hidden ways that could result in cascading losses.<sup>26</sup>

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<sup>23</sup> [“Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability,”](#) Department of the Treasury, October 21, 2021.

<sup>24</sup> [“A Roadmap to Build a Climate Resilient Economy”](#), The White House, October 14, 2021 at 17.

<sup>25</sup> DFS Proposed Guidance at 4.

<sup>26</sup> Governor Lael Brainard, [Building Climate Scenario Analysis on the Foundations of Economic Research](#), Speech, Oct. 7, 2021.

Indeed, as banks, asset managers and other financial institutions recognize the magnitude of their own climate-related risk, they are likely to seek opportunities to reduce their exposure. If regulators do not treat climate-related risk as a systemic threat, they will allow that risk to build up on insurers' balance sheets, on the assumption that it can be appropriately managed via usual processes. When that assumption turns out to be false, it could lead to the failure of a major insurer. Without consolidated prudential oversight, that collapse may be sudden and unpredictable, triggering additional fire sales of assets, defaults on newly uninsured assets, and broader systemic contagion

Unfortunately, the alternative of insurers' unmanaged withdrawal from climate-impacted assets and geographies poses its own systemic risks. Leaving aside the effect this decision has on consumers, discussed in Part C, an abrupt withdrawal by insurers will pull the rug out from financial institutions. Returning to Governor Brainard's speech, she notes: "Stress could be transmitted through a sudden repricing of insurance contracts or by a withdrawal of coverage, as we are already seeing in the case of wildfires and flooding in certain areas." So an act that's prudent for an individual insurer and pleasing to a climate-conscious state regulator may still threaten the broader financial system. Such an unmanaged withdrawal might even make the concentration of risk worse, as insurers with models that underestimate the effects of climate change will be the ones that linger longest in a given market. This type of adverse selection would only raise the likelihood of an eventual insurer failure transmitting shockwaves through the whole financial system.

Insurers' investment decisions can also fuel systemic climate-related risks. A recent New York DFS analysis of licensed insurers concluded that most of their portfolios are overweight in fossil fuel assets relative to existing market benchmarks, much less benchmarks aligned with global emissions reduction needs.<sup>27</sup> Not only are these fossil fuel assets at a high risk of becoming stranded; the global movement away from fossil fuels increases the chances of fire sales. Investors may all conclude quickly that they do not want to be holding worthless investments when the music stops.

Perversely, growing climate harms on the underwriting side of the books have actually pushed insurers to increase their exposure to fossil fuels in their investment portfolios. A New York Fed analysis found that in the wake of natural disasters, insurers seek greater yields by increasing their exposure to private equity and other risky asset classes, which are often heavily tied to fossil fuels.<sup>28</sup> This shift into illiquid, risky securities is the opposite of what insurers should be doing at a time when the need to pay claims related to massive climate disasters will only grow. An insurer failing to hold enough reserves to cover the impacts of an unexpected spate of climate disasters could be forced to start liquidating these assets at the worst possible moment, sparking a fire sale that threatens the whole financial system.

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<sup>27</sup> Degree Investing Initiative, "[An Analysis of New York Domestic Insurers' Exposure to Transition Risks and Opportunities from Climate Change](#)," June 10, 2021.

<sup>28</sup> Fulvia Fringuellotti and João A. C. Santos, "[Insurance Companies and the Growth of Corporate Loans' Securitization](#)," Federal Reserve Bank of New York, August 2021.

The only safe passage through this minefield is for state and federal regulators to adopt a precautionary approach. The White House’s climate risk strategy endorses such an approach, and reflects the reality that every “fraction of warming that can be prevented will mean lives saved and economic costs reduced.”<sup>29</sup>

The appropriate precautionary approach for regulators means acting even in the absence of perfect information, and putting additional weight on reducing the probability of the large and irreversible damages from climate and financial crises. It also means regulators must direct insurers to reconsider their actuarial models, which are based on historical data, and take on less risk than these models suggest is acceptable. In particular, a precautionary approach would incorporate estimates of increasing frequency and severity of extreme climate events. It would also lead insurers to reduce or eliminate risks that they cannot adequately model where doing so will not have adverse impacts on the broader financial system. That means an end to financing new fossil fuel projects that will become stranded before they pay off, and a managed drawdown of existing fossil fuel investments.<sup>30</sup> It also means building larger margins of error into risk management procedures, rather than trusting insurer policies and procedures based on a stated risk appetite. And it means assuming every part of an insurer’s business is subject to climate risk, even if it seems implausible, because what is plausible has changed quickly as the climate crisis worsens.

This precautionary approach also counsels aligning insurers’ contribution to global emissions with science-based targets to reduce the danger that insurers pose to their own solvency. To avoid drastic and potentially uninsurable physical impacts, global warming must be kept below 2.7°F above pre-industrial levels. Avoiding the separate threats of a disorderly transition means a 45% reduction of emissions by 2030 and net-zero emissions by 2050. Insurers who finance or insure emissions in excess of those targets will contribute to harms to insurance markets and threats to financial stability. Reducing insured and financed emissions is therefore not just an environmental imperative but a prudential one.

To reduce this systemic risk, regulators should direct insurers to incorporate into their governance and strategy a credible plan to align their investment and underwriting with science-based targets. Adopting this approach in the US is not radical: it would bring regulation in line with global best practices, as the United Kingdom has announced a Sustainable Investment Roadmap to require financial institutions to publish and comply with net zero targets in the next few years.<sup>31</sup> The European Central Bank has also begun discussing the importance of net zero transition plans for financial institutions.<sup>32</sup> FIO and the Treasury must join global leaders in recognizing that the only way to keep the financial system safe is to avoid the consequences of under-mitigated climate change.

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<sup>29</sup> A Roadmap to Build a Climate Resilient Economy at 9.

<sup>30</sup> David Arkush, “[Unsafe at Any Charge](#),” Roosevelt Institute, May 26, 2021

<sup>31</sup> [Greening Finance: A Roadmap to Sustainable Investing](#). October 18, 2021.

<sup>32</sup> Vice Chair of the European Central Bank Supervisory Board Frank Elderson, “[Overcoming the tragedy of the horizon: requiring banks to translate 2050 targets into milestones](#),” Speech to Financial Market Authority’s Supervisory Conference, October 20, 2021.

### 3. *Recommendations for FIO on supervision and regulation of insurers.*

FIO is not an insurance regulator and cannot require state or federal regulators to take action on these principles. But it can lead by highlighting the gaps that exist and recommending how to fill them. FIO should do the following:

- Conduct a study and publish a comprehensive report of 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 would be consistent with FIO's statutory authority to identify gaps in the regulation of insurers that could lead to a systemic crisis.
  - This report should explicitly reflect the White House recommendation of using a precautionary approach, 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. Such a report would be consistent with FIO's authority to identify gaps in the regulation of insurers.
  - In particular, the report should assess the way that banks and other financial institutions rely on insurers to help manage their own climate risk, and model the impact of multiple correlated climate shocks causing severe stress or even failure at a major insurer. FIO and OFR should collect data on insurer and bank assumptions regarding climate risk, hedging and insurance, using their data collection authorities as needed.
- Recommend that the FSOC incorporate climate risk and insured and financed emissions into its assessment of whether the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the U.S. nonbank financial company could pose a threat to the financial stability of the United States. This could be done via the FIO Director's advisory role on the FSOC.
- Participate and lead in developing international regulatory frameworks that implement the precautionary approach and that recognize that financing and insuring emissions contribute to systemic risk. This could be done under FIO's authority to coordinate and develop federal prudential policies on insurance matters.

#### **C. Insurer's 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 when communities of color suffer disproportionate exposure to toxins and other environmental threats.<sup>33</sup> It is the product of choices over decades by governments and corporations across a range of decision making areas,

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<sup>33</sup> Michela Zonta and Zoe Willingham, "[A CRA To Meet the Challenge of Climate Change: Advancing the Fight Against Environmental Racism](#)," Center for American Progress, Dec. 2020.

from land use permissions to lax law enforcement for polluters. For similar reasons, climate change will disproportionately hurt communities of color and low-income communities. For instance, communities of color comprise a majority of the two million Americans who reside within a mile of locations vulnerable to increasing flooding.<sup>34</sup> Due to decades of disinvestments and the resulting low tax base, these communities lack both the drainage and sewer infrastructure necessary to withstand more frequent flooding, and the resources to build it. Other effects of outdated housing and infrastructure will also expose already vulnerable communities disproportionately to increasing severity and frequency of extreme weather and heat.<sup>35</sup>

1. *The climate crisis is already reducing the availability and affordability of insurance for vulnerable communities.*

As insurers recognize the negative impacts of the climate crisis on their business, these structural disadvantages are increasingly reflected in the practice of “bluelining,”<sup>36</sup> or identifying areas as at higher environmental risk and raising costs or avoiding underwriting in those areas. An insurer’s seemingly risk-based analysis will follow the same or similar boundaries as those established by previous redlining decisions that have created and perpetuated racial and economic inequality in the United States. This bluelining itself will further entrench inequality and racial disparities. Areas that avoided the negative effects of bluelining can use their existing tax base to invest in climate adaptation, which will allow them to retain insurance, while the loss of insurance in bluelined areas will lower property values, degrade the tax base, and make it harder for those communities to invest in necessary adaptation.

#### *a. Flood insurance*

Developments in the flood insurance market are a preview of the severe impacts that climate change is having on the affordability of insurance in underserved communities. The National Flood Insurance Program, administered by the Federal Emergency Management Administration, offers 96% of flood insurance nationwide.<sup>37</sup> Started in 1968 because private insurers refused to provide flood coverage in high risk areas, the program guarantees insurance for all customers in flood zones, protecting availability.

But as the climate crisis has worsened coastal and riverine flooding, program premiums have risen.<sup>38</sup> Rate increases are capped at 18%, and the most expensive homes and wealthiest communities have the largest divergence between their cost to the program and the premiums

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<sup>34</sup> Id.

<sup>35</sup> Johanna Bozuwa and Thomas Hanna, “Building Community Wealth Through Community Resilience” 14 COMM. DEV. INNOV. REV. 1, 87, Oct. 2019.

<sup>36</sup> Abraham Lustgarten, “[How the Climate Crisis Will Shape Migration in America](#),” THE NEW YORK TIMES, Sept. 15, 2021.

<sup>37</sup> Jie Jenny Zou, “[Insuring Catastrophe](#),” Center for Public Integrity, Feb. 25, 2020.

<sup>38</sup> Lee Harris, “A Flood of Risk,” THE AMERICAN PROSPECT, Sep. 22, 2021.

they pay.<sup>39</sup> The result is a program that is deeply in deficit and offers policies that are hard for low- and middle-income homeowners to afford. The rising premiums have particularly impacted majority-minority communities, like Canarsie in New York City, where officials have warned of a looming foreclosure crisis driven as the premiums become unaffordable.<sup>40</sup> There is also evidence that in many cases, people who cannot afford rising premiums have simply stopped purchasing flood insurance, putting them in default on their mortgage and leaving them vulnerable to losing everything in the next flood. In this way, unaffordably high insurance premiums, driven by worsening climate impacts, will endanger the wealth that communities of color have managed to accumulate.

Perhaps just as dangerous for availability and affordability of insurance is that current flood maps, which largely dictate who must obtain coverage, exclude many properties that are vulnerable to flooding. The nonprofit First Street Foundation has estimated that at least 6 million homes at severe risk of flooding are located outside of FEMA designated flood zones.<sup>41</sup> This estimate includes only coastal and riverine flooding, and does not fully take into account basement flooding from rising groundwater, which may also be excluded from many insurance policies. Properties outside of flood zones were purchased without the expectation of needing flood insurance. As it becomes necessary, and its costs rise to reflect the worsening flood risk of these areas, the added cost will again fall on those who are the most housing stressed and communities that have been denied the tax base to invest in better drainage and adaptation measures.

#### *b. Wildfire insurance*

The increasing frequency and severity of wildfires presents a similar threat to availability and affordability of insurance. The 2017 and 2018 California wildfire seasons caused record losses for California property insurers.<sup>42</sup> In 2019, nonrenewals in zip codes in California with moderate to high fire risk rose 31% from 2018.<sup>43</sup> Responding to this threat, the California Department of Insurance (CDI) imposed a moratorium in 2020 on non-renewals of insurance policies in wildfire perimeter and adjacent zip codes.<sup>44</sup> The moratorium, extended into 2021, covers millions of affected homeowners. But premiums for homes exposed to wildfire risk continue to rise sharply, with one insurer seeking an 80% increase in premiums for homes exposed to high wildfire risk.<sup>45</sup> Homeowners who are already facing financial strain to keep their homes may be forced to underinsure their properties or drop coverage altogether, creating what is known as a

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<sup>39</sup> Christopher Flavelle and Emily Cochrane, "[Chuck Schumer Stalls Climate Overhaul of Flood Insurance Program](#)," THE NEW YORK TIMES, Mar. 18, 2021.

<sup>40</sup> Zou, *supra* note 37.

<sup>41</sup> First Street Foundation, "[The First National Flood Risk Assessment](#)," Jun. 29, 2020.

<sup>42</sup> Leslie Kaufman and Erik Roston, "[Wildfires are Close to Torching the Insurance Industry in California](#)," BLOOMBERG, Nov. 10, 2020.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.*

<sup>45</sup> California Department of Insurance, "[Virtual Investigatory Hearing on Homeowners' Insurance Availability and Affordability](#)," Oct. 19, 2020.

protection gap.<sup>46</sup> Indeed, California’s overall wildfire losses in 2017 and 2018 totaled \$45B, of which only \$35B was insured.<sup>47</sup> There is little information about the distribution of these uninsured losses, but low-income communities and individuals already paying a significant fraction of their income in housing expenses could bear a disproportionate share.

To date, tools that can address insurance affordability and availability challenges for wildfire risk are also likely to leave behind low-income and minority communities. One path identified by the CDI for reducing risk, and thus insurance premiums, is retrofitting existing housing to meet fire resistance building standards.<sup>48</sup> Houses built or upgraded to post-2008 standards are less likely to sustain significant damage in a wildfire. But unless insurers, banks, or the government help fund those retrofits on affordable terms, the investments will only exacerbate inequalities. Historical patterns of credit and relief funding allocation suggests that low-income and minority communities will not receive their fair share of such funding. That will leave those living in the most vulnerable housing stock unable to invest in retrofits and facing higher insurance premiums.

Another tool that states have to guarantee availability is insurers of last resort. California homeowners unable to obtain wildfire insurance between 2014 and 2019 flocked to the state’s FAIR Plan. The plan, which is jointly administered by state insurers, must write policies for anyone who seeks one.<sup>49</sup> But this plan is more expensive and covers less than a private homeowner’s policy, which makes it a bigger burden for those who already lack resources. It is likely that, absent thoughtful intervention, widespread adoption of FAIR-style plans will end up similar to the National Flood Insurance Program, with low-income and minority communities bearing a disproportionate share of the costs in ways that threaten the wealth they have accumulated.

## *2. Insurers often deny or delay claims payments in climate-impacted areas.*

The aftermath of increasingly frequent and severe hurricanes highlights another threat to vulnerable communities: increasing claim delays and outright denials. A claim denial is a version of a nonrenewal: the policyholder cannot get coverage for a specified harm, and they have no opportunity to financially prepare for their lack of coverage. Slow processing and underpayment functionally reduce the value of the policy that a customer pays for, which is another way of stealthily increasing the cost of policies. Low-income communities are more likely to experience these denials due to existing economic disparities, particularly access to help navigating the claims process and legal representation.

One Louisiana homeowner reported to Public Citizen that a series of underpayments from her insurer has had disruptive consequences.<sup>50</sup> After an April 2021 storm, her insurance company, a

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<sup>46</sup> Climate Insurance Working Group, California Department of Insurance, “[Protecting Communities, Preserving Nature and Building Resiliency](#)” at 38, Jul. 22, 2021.

<sup>47</sup> *Id.*

<sup>48</sup> *Id.* at 36.

<sup>49</sup> *Id.*

<sup>50</sup> *See* Appendix.

Lloyd's Coverholder, offered her enough money to repair her dripping ceiling, but not to fix the root cause — a damaged roof. Subsequent hurricanes worsened the damage, making her house unliveable. Her insurance company offered her only \$33,000, only half the cost of repairs and far less than the \$284,000 in coverage her policy provides. Although the homeowner pays for Replacement Cost coverage, she must first pay for those repairs out of pocket, and there is no guarantee that the insurance company will cover her full expenses. Meanwhile, the company has raised her insurance premium by 50%.

Such stories are common in hurricane-stricken parts of Louisiana. After Hurricane Ida, State Farm refused to pay evacuation expenses for Louisiana homeowners who were prudently advised by public officials to leave their homes but were not under a mandatory evacuation order.<sup>51</sup> This decision conflicted with the Louisiana Insurance Commissioner Jim Donelon's determination that actions by public officials short of a mandatory order triggered the need to pay these expenses. Even if State Farm does eventually pay the claims, the delays will be most harmful to those who lack the resources to cover unexpected expenses. The additional credit card debt, missed bill payments, and other financial hardships will only widen existing wealth gaps. A similar story has developed as a result of Winter Storm Uri in Texas, with insurers denying large numbers of claims due to freeze damage.<sup>52</sup>

Even where claims are not formally denied, communities of color in Louisiana have seen long wait times and insufficient settlements in the aftermath of devastating hurricanes. Over 30% of claims from 2020 storms Hurricane Laura and Hurricane Zeta had not been paid as of October 2021, a year later.<sup>53</sup> The volume of complaints were enough to trigger an ongoing market conduct study by Commissioner Donelon. Lake Charles, Louisiana, which is roughly 50% Black, is a prime example of a community whose recovery has been slowed by these delays, with homeowners reporting the need to tap retirement savings or take on debt to make needed repairs while they wait for insurers to act.<sup>54</sup>

As the climate crisis worsens and extreme weather becomes more severe, this problem will worsen. If insurers are not prepared for the increased frequency of extreme events, they may not have enough claims adjusters on hand to quickly process claims, slowing payment. As unexpected weather, like the Texas winter storm, creates harms that consumers and insurers did not contemplate, vague policy exclusions could limit or outright deny claims payments. And if insurers and regulators do not adequately account for rising costs, the temptation to limit payouts and preserve profit margins will only grow.

- 3. The threat that the climate crisis poses to insurance markets goes beyond homeowners, and will get broader as the climate crisis worsens.*

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<sup>51</sup> [Commissioner Donelon Orders Insurers to Pay Evacuation Expenses for Hurricane Ida](#), Louisiana Department of Insurance, Sept. 8, 2021.

<sup>52</sup> Kenneth Artz and Mark Moore, "[How insurance claims will become litigation claims from the Texas ice storm](#)," PROPERTYCASUALTY360, Mar. 15, 2021.

<sup>53</sup> KTBS, "[Insurance suits over Hurricanes Laura and Delta run from Gulf to Shreveport](#)," Oct. 18, 2021.

<sup>54</sup> Mike Smith, "[Tired of Crying](#)," THE ADVOCATE, May 16, 2021.

The harms of the climate crisis have consistently been broader, and come faster, than even climate scientists have anticipated.<sup>55</sup> This unpredictability means that some seemingly “safe” lines of insurance that insurers rely on to maintain profitability could see rising costs and declining availability, as they too are impacted by the climate crisis. Although homeowners and renters insurance have received the lion’s share of attention from climate impacts to date, other parts of the property and casualty market and other types of insurance are already being affected. These effects may become more severe as the climate crisis grows broader and deeper.

a. *Business interruption insurance*

The COVID-19 pandemic has shown how business interruption insurance will be affected by climate-driven evacuations, which are already increasing in frequency. Shutdown orders designed to stem the spread of the pandemic cost many small businesses millions of dollars. Yet insurers have denied claims for business interruption as a result of these orders, because most policies require “direct physical loss or damage” for payment.<sup>56</sup> These denials have triggered over 2,000 lawsuits. The lawsuits have had mixed results, but litigation means additional delays and costs for policyholders seeking to recover.

We may see a similar trend as more frequent climate disasters trigger more evacuation orders. When the path of a hurricane or a wildfire does not ultimately enter an evacuation zone or a business is spared physical damage, insurers may use the precedents from shutdown orders to deny claims. At the same time, to the extent that businesses receive compensation for climate-related interruptions, the price of coverage will likely rise much as it has for homeowners. If that happens, it will slow small business formation and threaten the economic recovery of climate-impacted areas. Again, this challenge will harm low-income communities and communities of color, which are already underserved by small businesses as well as insurance.

b. *Auto insurance*

Auto insurance is subject to many of the same pressures as homeowner’s insurance. More frequent natural disasters will destroy automobiles via flooding, fire, and wind, just as they do homes. More frequent and severe extreme heat will negatively affect a car’s operation, increasing the chance of tire blowouts, engine failures, and other potentially liability-generating events.<sup>57</sup> If a spike in claims leads to delays or underpayments, it will deny many consumers access to transportation, while rising premiums will make the total cost of automobile ownership more expensive.

c. *Worker’s compensation and long-term disability insurance*

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<sup>55</sup> See, e.g., Naomi Oreskes, Michael Oppenheimer and Dale Jamieson, “[Scientists Have Been Underestimating the Pace of Climate Change](#),” *Scientific American*, Aug. 19, 2019.

<sup>56</sup> Daniel B. Schwarcz, [Redesigning Widespread Insurance Coverage Disputes: A Case Study of the British and American Approaches to Pandemic Business Interruption Coverage](#), *DEPAUL LAW REVIEW*, Forthcoming.

<sup>57</sup> Bethany Cramer, “[Can the Heat Affect Your Car](#),” *Ohio American Automotive Association*, Jul. 6, 2020.

Along with acute disasters, the climate crisis is also causing more frequent and more severe extreme heat.<sup>58</sup> Excessive heat in the workplace not only causes direct injuries in the form of heat illness and death, but also increases the frequency of other workplace accidents. Hotter temperatures are already causing an estimated 20,000 excess workplace injuries each year in California alone, with an estimated social cost of up to \$875 million.<sup>59</sup> These injuries are particularly concentrated among low-income and Black and Brown workers.<sup>60</sup> To cover the increased frequency of workers compensation claims due to rising heat, it's likely that benefit payments will continue to fall, as they have for some time.<sup>61</sup> Since workers compensation already covers only a fraction of the cost of injuries to a worker, rising heat stress and other heat-related injuries will further exacerbate the disproportionately negative effects of a workplace injury on low-income and Black workers. To the extent that these injuries have long-term effects, they may also put pressure on long-term disability insurance, making those programs less affordable and further limiting opportunities that heat stress affected workers have to protect their livelihoods.

#### *d. Renewable energy and electrification*

Another sector that has been negatively affected by climate-driven impacts is, ironically, renewable energy. Unfortunately, many of the areas that are ideal for solar energy generation have also been subject to increasing frequency of climate disasters, such as wildfires and hail storms.<sup>62</sup> As a result, premiums for the solar market increased by up to 400% in 2019 and 2020, and the available coverage had higher deductibles and lower sublimits for catastrophe damage. The capacity crunch is particularly severe for large solar projects seeking more than \$20 million in coverage. Insurance is a major component of the cost of photovoltaic solar plants, which means rising premiums may significantly dampen the solar development needed for a clean energy transition.<sup>63</sup> To meet its renewable energy goals, the Biden administration must find ways to unlock affordable insurance for renewable energy generation.

#### *4. Recommendations for FIO on affordability and availability of insurance*

While many of these challenges have been documented in newspaper articles, academic studies, or even state specific reports, 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 use its statutory authority to monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products. To do this, FIO must:

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<sup>58</sup> Environmental Protection Agency, "[Climate Change and Extreme Heat](#)," Oct. 2016.

<sup>59</sup> R. Jisung Park, Nora Pankratz, and A. Patrick Behrer, "[Temperature, Workplace Safety, and Labor Market Inequality](#)," IZA Institute of Labor Economics Discussion Paper Series, July 2021.

<sup>60</sup> Abi Velasco, "[The Impact of Heat Stress on Workers of Color](#)," Public Citizen, Nov. 5, 2021.

<sup>61</sup> "[Executive Summary: Workers' Compensation: Benefits, Costs, and Coverage \(2018 Data\)](#)," National Academy of Social Insurance, Nov. 2020.

<sup>62</sup> Jason Kaminsky and Sam Jensen "[Climbing Insurance Premiums](#)" in Norton Rose Fulbright Project Finance NewsWire at 6, Dec. 2020.

<sup>63</sup> Amy Schwab, Andy Walker, and Jal Desai, "[Insurance in the Operation of Photovoltaic Plants](#)" National Renewable Energy Laboratory, Dec. 2020.

- Work with all states to collect data from insurers on rate increases, rates of nonrenewals, and claims denials and underpayments in climate-impacted areas. This data collection should be fine-grained, at the census tract or community level, to identify underserved communities and specific climate-impacted areas. If states do not cooperate, FIO should issue a data call to gather this information itself.
  - FIO should also collect data on how insurers encourage adaptation measures through product terms and pricing, and on the uptake of those measures in underserved communities.
  - Review existing state insurer of last resort programs and publish an analysis of how those programs operate, how uptake levels change in the wake of climate disasters, and the effect that uptake has on availability and affordability.
  - Publish a report highlighting the trends identified by this recommended data collection, including a review that focuses on underserved communities, and identifying near- and long-term climate-related threats to availability and affordability of all lines of insurance.
- Repeat these data collection efforts and report on a regular cadence to identify trends and newly emerging threats.
- Work with renewable energy producers to assess the insurance needs and challenges for that sector and recommend executive and legislative actions to improve availability and affordability of insurance.

**D. State and federal governments must do more to encourage insurers to reduce their financed and insured emissions and support renewables development.**

President Biden has committed the United States to reducing emissions by 50-52% by 2030 and reaching net zero by 2050, in line with his decision to rejoin the Paris Agreement. As discussed above, reducing insured and financed emissions can be a critical lever for meeting such climate commitments. Yet major U.S. insurers are failing to reduce those emissions. Many still underwrite coal without any restrictions, and none have commitments to end insurance for oil and gas.<sup>64</sup> Treasury and FIO do not have the direct regulatory authority to require insurers to take this step, but there is much they can do to help guide the industry’s progress.

1. *Many major U.S. insurers have made no commitments to reduce their financed or insured emissions in line with climate goals.*

To be serious, insurer commitments must include reducing financed and insured emissions in line with science-based targets. Major U.S. insurance companies like AIG, Travelers, Berkshire Hathaway, and WR Berkley have either made no commitments to reducing emissions in line with science-based targets or only committed to reducing emissions from their own operations.<sup>65</sup> Insurers themselves admit that the emissions from their operations are trivial

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<sup>64</sup> 2021 Scorecard supra at note 13.

<sup>65</sup> See American International Group, “[2020 Environmental, Social, and Governance Report](#),” (June 2021); Travelers, “[Sustainability Report 2020](#),”; WR Berkley, “2019 Sustainability Report”; Joe Smyth

relative to the emissions of their underwriting clients.<sup>66</sup> Excluding insurance and financing for high emissions industries like fossil fuels fails to address the many ways insurers fuel the climate crisis.<sup>67</sup>

AIG, one of the top global insurers of coal and oil and gas, provides a case study for how major U.S. insurers are failing to take needed action to meet climate goals. It has publicly insisted that rapidly decarbonizing its insurance portfolio is not in the public's best interest, even as it has not taken any steps to require clients to actually adopt sustainable transition paths.<sup>68</sup> AIG has been linked to the Trans Mountain tar sands pipeline in Canada and has failed to rule out underwriting the project, despite environmental impacts and failure to obtain the Free, Prior, and Informed Consent (FPIC) of all Indigenous communities impacted.

The steps that AIG has taken to date show how insurers sometimes use green language to assuage customer, shareholder, and employee concerns, without actually committing to reducing the emissions they enable. In a June 2021 report, AIG said it was conducting a "carbon exposure assessment of [its] investing and underwriting portfolios".<sup>69</sup> However, the company has not disclosed how it will use the assessment to *reduce* the emissions related to its portfolios, when it will be completed, nor committed to making the results public. The lack of transparency and accountability behind voluntary commitments like AIG's fail to address the significant contributions to climate change from its underwriting of and investments in fossil fuel companies and projects.

2. *To meet climate goals, regulators must require disclosure of insurers' absolute financed and insured emissions and move toward requiring meaningful net zero plans.*

Disclosure of financed and insured emissions is critical to ensuring meaningful reductions, whether through voluntary action or regulatory policy. At present, there are no public disclosure requirements for financed emissions or fossil fuel underwriting. In the United States, only California has published detailed information about insurers' fossil fuel holdings, and that data is now several years out of date. The Securities and Exchange Commission (SEC) plans to write a disclosure rule that may provide further information from large insurers.<sup>70</sup> 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. FIO can use its data call authority to fill the gaps until states and the SEC generate the needed information.

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["Warren Buffett doesn't want to disclose his companies' climate risks,"](#) Energy and Policy Institute, Apr. 22, 2021.

<sup>66</sup> AIG 2020 ESG Report, *supra* at 65.

<sup>67</sup> 2021 Scorecard *supra* at note 13.

<sup>68</sup> East Peterson-Trujillo and Hannah Saggau, ["Sustainability Smokescreens: AIG is still risking our future,"](#) Public Citizen, Jul. 20, 2021.

<sup>69</sup> AIG 2020 ESG Report, *supra* at 65.

<sup>70</sup> Gary Gensler ["Prepared Remarks Before the Principles for Responsible Investment 'Climate and Global Financial Markets' Webinar,"](#) Jul. 28, 2021.

The emerging global consensus on what must be disclosed is clear: insurers should publicly disclose both their financed and insured emissions. The latest guidance from the Task Force on Climate-Related Financial Disclosures, a global disclosure standard setter that many US insurers claim to comply with, says “financial sector organizations are specifically encouraged to disclose GHG emissions related to their investing, lending, and underwriting activities.”<sup>71</sup> The Principles for Carbon Accounting Financials, a UN-backed working group that includes numerous major global banks and insurers, has already developed standardized metrics for assessing the emissions of many types of investments.<sup>72</sup> It is currently collaborating with the UN-backed Net Zero Insurance Alliance, a group of major global insurers, to develop specific metrics for measuring insured emissions.<sup>73</sup>

As these metrics develop, some insurers will push for standards that disclose only the carbon intensity of insured emissions, as opposed to the absolute level of insured emissions. Carbon intensity is a measure of tons of carbon emitted divided by some denominator, such as millions dollars of revenue. Using carbon intensity metrics, alone, is effectively greenwashing. U.S. climate commitments and science-based climate targets are expressed in absolute emissions, not intensity, and this is for good reason. What matters for preventing climate catastrophe is the absolute volume of greenhouse gases we put in the air, not the volume per unit of GDP or some other measure. We have already emitted a dangerously high amount.

Intensity-based targets do not reduce carbon emissions, and in fact they can mask and greenwash increased emissions. An insurer that adds millions in revenues and grows its absolute level of insured emissions is directly contributing more climate harm, not making progress on climate targets. The same is true of an insurer that continues covering coal at its current rate and adds underwriting for new natural gas plants. In either of these cases, the insurer will look better under an intensity metric even as it actively exacerbates the climate crisis. To be effective, disclosures must include absolute emissions.

An effective disclosure framework should also specifically require disclosure of underwriting and investment for companies or projects that are opening up new oil and gas fields, new fossil-fired power plants, or new infrastructure for transporting fossil fuels. There’s a scientific consensus that new fossil fuel production is incompatible with a 2.7°F future.

Ultimately, disclosure alone will not be enough. The continued willingness of insurers to fund and insure the climate crisis, sowing the seeds of their own destruction, shows that the private sector cannot be trusted to reduce emissions. But importantly, many U.S. states have adopted binding emissions limits. Connecticut’s new insurance and supervision law is the first to acknowledge the state insurance regulator’s role in aligning insurer underwriting and

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<sup>71</sup> [“Guidance on Metrics, Targets and Transition Plans,”](#) Task Force on Climate-related Financial Disclosures, Oct. 2021.

<sup>72</sup> [“The Global GHG Accounting & Reporting Standard for the Financial Industry, First Edition”](#) Partnership for Carbon Accounting Financials, 2020.

<sup>73</sup> [“Partnership for Carbon Accounting Financials collaborates with UN-convened Net-Zero Insurance Alliance to develop standard to measure insured emissions,”](#) Partnership for Carbon Accounting Financials, Sep. 6, 2021.

investment with the state's climate law.<sup>74</sup> As Connecticut's regulations develop, other states will need to follow suit, bringing most of the US insurance market in line with state emissions limits.

### 3. *Recommendations for FIO on insurer engagement:*

FIO and the Treasury can play an important role in aligning U.S. insured and financed emissions with national climate commitments. FIO should do the following:

- Publicly embrace the position that aligning insured and financed emissions with science-based targets is a key pathway to meeting U.S. climate commitments.
- Support the Partnership for Carbon Accounting Financials and the Net Zero Insurance Alliance on developing an absolute insured emissions metric that accurately captures the impact that underwriting has on enabling fossil fuel development and other sources of emissions.
- Work with 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 net zero commitments, and key data needed to evaluate insurers compliance with those commitments, such as each company's absolute insured and financed emissions, investments in fossil fuel projects and companies, and total cover provided to fossil fuel projects.
- Encourage other states to follow Connecticut's lead in directing insurers to align their business with state emissions limits. Provide technical assistance for states seeking to implement these limits via supervision and regulation.
- Engage with insurers directly and encourage them to make meaningful net zero commitments.

## **F. Conclusion**

The Biden administration has described the 2020s as the decisive decade for climate action.<sup>75</sup> 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.

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<sup>74</sup> Public Citizen, [In Global First, Connecticut Passes Bill Addressing Insurers' Participation in Risky Fossil Fuel Finance](#), June 17, 2021.

<sup>75</sup> Oriana Gonzalez, ["Biden official: 2020-2030 is the "decisive decade" for climate change action,"](#) Axios, Apr. 28, 2021.

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Sincerely,  
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