To: State of Connecticut Insurance Department
Andrew N. Mais, Commissioner
Re: Proposed Insurance Department Bulletin Concerning Guidance For Connecticut Domestic Insurers On Managing The Financial Risks For Climate Change

Dear Commissioner Mais,

On behalf of the undersigned 18 organizations, we welcome the opportunity to comment on the Connecticut Insurance Department's ("Department") Proposed Insurance Department Bulletin Concerning Guidance for Connecticut Domestic Insurers on Managing The Financial Risks For Climate Change. Thank you for moving forward in addressing the financial risks of climate change in the insurance industry.

The Bulletin should be strengthened in line with the Department's mission to protect consumers and the public interest. Recent changes in Connecticut law recognize that climate change poses a unique risk to insurance companies and vulnerable communities and that management of that risk, particularly through reducing insured and financed emissions, is key to protecting consumers and the insurance industry.

In this comment, we recommend that the Department 1) direct insurers to develop whole-of-business plans to mitigate climate-related risks, including by using scenario analyses and reducing financed and insured emissions in line with the Global Warming Solutions Act; 2) detail climate change as posing unique risks; 3) ensure that climate risk management does not harm vulnerable communities and 4) provide for increased transparency by clarifying the materiality of disclosures of Scope 3 emissions in the National Association of Insurance Commissioners' (NAIC) Climate Risk Survey.

Insurers have long known that the climate crisis threatens their own business, and that threat is only growing.[1] In total, 2021 had the second highest level of natural disaster insured losses on record globally, at $120 billion.[2] By investing in and insuring fossil fuel projects and companies, insurance companies contribute to climate change and increase the obligations they will have to pay in the future. Investment in fossil fuel-related assets also exposes insurers to risks from stranded assets, falling asset prices, and reputational harm.

Connecticut insurers' activities are not aligned with state law setting greenhouse gas emissions reductions requirements. Connecticut's legislation requires statewide greenhouse gas emissions be reduced to 45% below 2001 levels by 2030, and 80% below 2001 levels by 2050.[3] As of 2022, no Connecticut insurer had committed to aligning its underwriting and investments with Paris Agreement goals.[4] To meet this charge, state regulators should require the industries they

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[1] Alex Sammon, "The Oil Merchant in the Gray Flannel Suit," The American Prospect, Sept. 29, 2021.
[2] Sims, Tom and Hübner, Alexander, "Natural disasters cost insurers $120 billion in 2021, Munich Re says," Reuters, Jan. 10, 2022.
[3] Connecticut Department of Energy and Environmental Protection, "Climate Action Timeline for Connecticut," updated February 2022.
[4] Public Citizen Analysis of American International Group's 2022 Climate Commitments, March 2022.

oversee to develop and implement credible plans to align with state climate targets. For the Department, that means requiring plans by insurers to align insured and financed emissions with state law.

Insurers must develop whole-of-business plans to mitigate climate-related risks. Failing to adequately address climate risk and insurers' contributions to it threatens Connecticut insurers and consumers. The Bulletin does not do enough to address the risks that insurance markets face. It lacks details about what climate-related risk is, the dangers it poses to consumers and insurers, and how insurers should address it. These details are needed to provide context to the Department's important recognition that climate risk oversight starts at the board level and requires designated board members and senior management members to monitor it, even if an insurer determines that climate risk is not material. As the Bulletin acknowledges, climate risk must be integrated into existing enterprise functions, including ORSA and internal control functions, rather than siloed away from the rest of the business. But the Bulletin does not relay best practices on how to actually implement these requirements. Most importantly, that includes incorporating the long-term consequences of an insurer's investment and underwriting decisions. To do this, the Department should direct insurers to incorporate a credible plan to align their investment and underwriting with science-based targets into their governance and strategy.

We commend the Department's rejection of the idea that uncertainty precludes insurers from making informed judgments about climate risk and its encouragement for starting with a qualitative approach. It should implement this recommendation by adjusting the time horizons it sets for climate risk management to be based not on insurers' current business planning timelines, but rather on the necessary timelines to address and manage the risk, in line with the Global Warming Solutions Act.

The Bulletin must articulate how climate-related risk is unique, and that it must be regulated and managed as such. New York's Department of Financial Services guidance on supervision of climate-related risk for insurers details that climate risks are "non-linear, correlated, and irreversible."[5] The White House's climate risk strategy endorses a precautionary approach to manage these characteristics and reflects the reality that every "fraction of warming that can be prevented will mean lives saved and economic costs reduced."[6] To protect insurers and consumers, the Department should adopt such an approach.

The appropriate precautionary approach 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.

A precautionary approach would do the following:

1. Incorporate estimates of increasing frequency and severity of extreme climate events.

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[5] New York Department of Financial Services. Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change, Nov. 15, 2021.

[6] A Roadmap to Build a Climate Resilient Economy, The White House, October 14, 2021, at 9.

2. Lead insurers to reduce or eliminate risks that they cannot adequately model where doing so will not have adverse impacts on the communities they serve.
3. End the financing of new fossil fuel projects that will become stranded before they pay off, and initiate a managed drawdown of existing fossil fuel investments.[7]
4. Build larger margins of error into risk management procedures, rather than trusting policies and procedures based on a stated risk appetite.
5. Assume every part of the business is subject to climate risk, even where it seems implausible. What is plausible has changed quickly as the climate crisis worsens.
6. Recommend scenario analysis to better understand the range of possible outcomes.

Climate risk management must not harm vulnerable communities. The impacts of climate change exacerbate long-standing issues of environmental racism, which occurs when communities of color suffer disproportionate exposure to toxins and other environmental threats.[8] Effects of outdated housing and infrastructure will expose already vulnerable communities disproportionately to increasing severity and frequency of extreme weather and heat.[9] As insurers recognize the negative impacts of the climate crisis on their business, these structural disadvantages are reflected in the practice of "bluelining,"[10] or identifying areas as at higher environmental risk and raising costs or avoiding underwriting in those areas.

The Department's Bulletin falls short compared to other regulatory recommendations, such as those from New York State, which acknowledge the potential for climate risk management to harm vulnerable communities and encourages insurers to contribute just transition and climate adaptation efforts, and not to abandon communities who would be even more vulnerable to climate harms if insurers stop covering them.

Regulators and the public need more transparency about the risks that insurers face. The main tool for assessing climate-related risk that insurance regulators have today is the National Association of Insurance Commissioners (NAIC) Insurer Climate Risk Disclosure Survey. Although the 2022 revisions to the survey are a major improvement over the previous version, they are still inadequate.[11] To better capture these risks, the Department should clarify the materiality of Scope 3 disclosures for insurers and require insurers to disclose their financed and insured emissions.

Strengthening this guidance will help Connecticut claim a leadership role in implementing the emerging global consensus: insurers should disclose the role that they play in enabling carbon emissions, and they should mitigate their contributions and exposure to climate-related financial risk.

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[7] David Arkush, "Unsafe at Any Charge," Roosevelt Institute, May 26, 2021
[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, Dec. 2020.
[9] Johanna Bozuwa and Thomas Hanna, "Building Community Wealth Through Community Resilience" 14 Comm. Dev. Innov. Rev. 1, 87, Oct. 2019.
[10] Abraham Lustgarten, "How the Climate Crisis Will Shape Migration in America," The New York Times. Sept. 15, 2021.
[11] Public Citizen Comment on NAIC Draft Proposed Climate Risk Disclosure Survey, Jan 2022.

Sincerely,

State-level organizations:
Clean Water Action
Climate Reality Project, Southern CT Chapter
Common Cause in Connecticut
CT Citizen Action Group
CT Climate Crisis Mobilization (C3M)
CT League of Conservation Voters
National Association of Social Workers Connecticut Chapter
Sierra Club Connecticut
Sunrise Movement Connecticut

National/International Organizations:
Clean Energy Action
Consumer Federation of America
Mazaska Talks
Mid-Missouri Peaceworks
Public Citizen
Rainforest Action Network
Stand.earth
The Wilderness Society
urgewald