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,

Public Citizen, a national public interest advocacy group with more than 500,000 members and supporters, including almost 9,000 in Connecticut welcomes 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 ("the bulletin"). Thank you for moving forward in addressing the financial risks that climate change poses to the insurance industry.

Although it represents an advance, the bulletin should be strengthened to better meet 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.

Public Citizen has advocated to the Federal Insurance Office (FIO), the National Association of Insurance Commissioners (NAIC), and New York's Department of Financial Services for climate risk regulation based on a precautionary approach that accounts for the disproportionate effect of climate change on vulnerable communities. As Public Citizen wrote to the FIO in November 2021, "Regulators lack an adequate view of the risks that most insurers face from the climate crisis." Unfortunately, as the climate crisis continues to accelerate, there is no time to gradually develop these views before acting. The Department must gather more data even as it takes an active role in directing insurers to follow standards based on existing examples from domestic and international peer regulators.

Based on the reasoning in those comments, further discussed below, we recommend that the Department direct insurers to develop a plan for addressing climate risk that reflects the unique risks posed by climate change. This includes adopting a whole-of-business plans to mitigate climate-related risks, including by using scenario analyses and by reducing financed and insured emissions in line with the Global Warming Solutions Act, ensuring that this climate risk management does not harm vulnerable communities, and providing for increased transparency by clarifying the materiality of disclosures of Scope 3 emissions in the National Association of Insurance Commissioners' (NAIC) Climate Risk Survey. Only by prioritizing climate risk management can the Department fulfill its responsibilities to protect both consumers and insurers.

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

[1] Alex Sammon, "The Oil Merchant in the Gray Flannel Suit," The American Prospect, Sept. 29, 2021.

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 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.

The Bulletin must articulate how climate-related risk is unique, and that it must be regulated and managed as such. Insurance companies operate by assessing, pricing, and managing risks. They run their business by using models, hedging, and reinsurance to match their risk exposure to their risk appetite. But, as New York's climate risk guidance states, climate risks are "non-linear, correlated, and irreversible" as well as hard to predict based on historical records.[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] 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 threatened AIG's solvency. To protect insurers and consumers, the Department should adopt a precautionary approach.

The appropriate precautionary approach means acting to mitigate risk 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.
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]

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[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.
[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.
[7] David Arkush, "Unsafe at Any Charge," Roosevelt Institute, May 26, 2021

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.

Insurers must develop whole-of-business plans to mitigate climate-related risks. The bulletin does not do enough to address the risks that insurance markets face from climate change. Failing to adequately address those risks threatens Connecticut insurers and consumers.

The bulletin lacks details about what climate-related risk is, the dangers it poses, or 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.

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 follow this advice in developing its own guidance, and begin incorporating the long-term consequences of an insurer's investment and underwriting decisions into risk management. 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. One approach for meeting these requirements would be to direct insurers to incorporate a credible plan to align their investment and underwriting with science-based targets into their governance and strategy.

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]

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[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.

As insurers recognize the negative impacts of the climate crisis on their business, these structural disadvantages are increasingly reflected in the practice of *bluelining*[10] 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.

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.

The Department should require insurers to assess and mitigate the impact that their risk management strategies will have on consumer markets and especially on low-income communities and communities of color. Insurers may face reputational risks to the extent they choose to mitigate climate risk by reducing affordability or availability of insurance. The Department should recognize that unless insurers plan ahead, they may conclude that increasing premiums or reducing coverage are the only cost-effective options for managing the costs of climate change. Already, in response to unprecedented wildfires in the western United States over the past few years, property and casualty insurers have been exiting fire-prone regions. Without additional guidance from the Department or legislative intervention, exit by insurers in response to increasing physical risks like flooding and severe storms will threaten the state's economic development and harm vulnerable communities.

If insurers decide to exit vulnerable areas and markets, low-income communities and communities of color will be hit the hardest. The Bulletin should recognize that if insurers do begin to raise prices or withdraw from areas that suffer the most from climate change, that will only deepen the damage to these already underserved communities. Beyond making it harder to recover from acute climate impacts like flooding and severe weather, insurer withdrawals will broadly raise the costs these communities face for housing and essential services. Insurers need additional guidance from the Department on how to protect continued affordability and availability. In particular, the Department should review whether planning to manage climate risk by withdrawing from or increasing prices for communities of color violates Connecticut prohibitions on discrimination because of race or color.

The Department can also encourage insurers to avoid needing to withdraw or raise prices by proactively investing in climate resilience and adaptation strategies for vulnerable

[10] Abraham Lustgarten, "How the Climate Crisis Will Shape Migration in America," THE NEW YORK TIMES. Sept. 15, 2021.

communities. One step it should recommend is reviewing whether any of the insurer's current investment or underwriting choices are exacerbating climate and other environmental harms. Not contributing to climate risks is an essential early step to mitigating them. Overall, the Department should clarify an expectation of insurers supporting low-income communities and communities of color as they deal with the climate crisis, not abandoning them at the worst possible moment.

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.

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

Sincerely,
Public Citizen

[11] Public Citizen Comment on NAIC Draft Proposed Climate Risk Disclosure Survey, Jan 2022.