Dave Jones Insurance Commissioner
Insurance protection for all Californians

NEWS RELEASE

FOR IMMEDIATE RELEASE:
May 8, 2018
(#051)

MEDIA INQUIRIES ONLY:
Media relations: 916-492-3566
After hours media only: 916-599-1320
Email inquiries: cdipress@insurance.ca.gov

First-in-the-nation stress test conducted to determine climate-related risk to insurance industry investments

Commissioner Jones' action is unprecedented step by a financial regulator

SACRAMENTO, Calif. — Despite litigation threats from 12 state attorneys general and one governor, Insurance Commissioner Dave Jones has taken another unprecedented step to address climate risk faced by insurers, as the first U.S. financial regulator to conduct a climate-related financial risk stress test and analysis of insurance companies' investments in fossil-fuels.

"The climate-related financial risk to insurers' investments in thermal coal, other fossil fuels and fossil fuel enterprises should not be ignored," said Commissioner Jones. "As a financial regulator, I want insurers to consider climate-related financial risks, including risks to their investments. In order to make sure they are considering these risks, we have undertaken an analysis of the climate-related risk to insurers' investments."

The department has engaged *2° Investing Initiative*, an established partner of European financial regulators on the topic, to conduct this analysis for insurers in California's insurance market with over $100 million in annual premiums. It is arguably the most comprehensive financial stress test analysis ever conducted for the insurance sector. Insurers analyzed have over $500 billion in fossil fuel-related securities, issued by power and energy companies, $10.5 billion of which consists of investments in thermal coal enterprises.

The department has published key figures from the forward-looking scenario analysis on its website. The results of the scenario analysis by 2° Investing is consistent with Commissioner Jones' Climate Risk Carbon Initiative determination that thermal coal presents long-term financial risks for investors, despite any short-term fluctuations in market price and policy signals. Due to market forces, financial analysts expect more coal-fired capacity retirement in 2018 than under the first three years of the previous U.S. Administration.

"Ceres applauds the leadership and foresight of California Insurance Commissioner Dave Jones, and

(MORE)

encourages all insurers to incorporate 2° scenario analysis into their business strategy," said Cynthia McHale, Director of insurance at the sustainability nonprofit organization Ceres. "2° scenario planning strengthens an insurer's assessment of climate risks and opportunities, and positions the insurer to adapt and prosper in a carbon-constrained future."

Individual insurer reports will be made available to all 672 insurance companies with more than $100 million in annual premiums and sent for response to the top 100 insurance companies (by size of their investment portfolio) operating in California, representing over 80 percent of the assets that were analyzed. These reports will explain how investment plans align with different climate scenarios, where the individual insurer ranks among its peers, and which securities are driving the climate risk exposure of their investment portfolios. These results will help insurance companies apply the recommendations of the Financial Stability Board's task force on climate-related financial risks (FSB TCFD) chaired by Michael Bloomberg.

"California was one of the first jurisdictions in the world that recognized the importance of insurers managing and disclosing their climate risk. To advance climate leadership and action, the California Department of Insurance (CDI) became one of the first insurance supervisors to join UN Environment's Principles for Sustainable Insurance Initiative (PSI), and then became the founding Chair of UN Environment's Sustainable Insurance Forum for Supervisors (SIF)," said Butch Bacani of the United Nations, who leads the PSI, the largest collaborative initiative between the UN and the insurance industry, and who co-led the creation of the SIF. "This pioneering work by CDI on scenario analysis to assess transition risk in insurers' investments is yet another testament to California's commitment to promote climate risk transparency and sustainable insurance markets, in line with the aims of the Financial Stability Board's climate risk disclosure recommendations, the Paris Agreement on Climate Change, and the Global Climate Action Summit in California this year. This is leadership in action."

As regulator of the largest insurance market in the nation, Commissioner Jones launched early in 2016 the Climate Risk Carbon Initiative because of the potential for investments in coal, oil, gas and utilities burning carbon to become stranded assets on the books of insurers with little or no value as governments, private companies and markets may slowly or dramatically reduce the demand for carbon-based fuels and their value drops. Jones is the first financial regulator to ask that a financial sector—in this case insurance companies—divest from thermal coal and to publicly disclose their holdings in oil, gas, coal and utilities, due to potential climate-related risks.

In June 2017, 12 state attorneys general and one governor threatened to sue Commissioner Jones for calling on insurance companies to evaluate and address potential climate-related risks to their investment portfolio, to ensure they are investing in assets that retain value and are subsequently available to pay future claims. Despite these threats, Commissioner Jones is continuing the Climate Risk Carbon Initiative, the most recent component of which is the climate-related financial risk stress testing announced today, to make sure insurers are addressing climate change related risks and to protect California consumers. In April 2018, a group of financial supervisors and central banks including the central banks of England, France, Germany, the Netherlands, Sweden, Singapore, China and Mexico announced their cooperation to conduct similar climate stress testing on insurance companies and other regulated financial institutions.

# # #

Media Notes:

- Climate Risk Carbon Initiative website.
- 2° Investing Initiative and the portfolio assessment framework.
- Comments to the Task Force on Climate-Related Financial Disclosures (TCFD) Public Consultation (February 2017)
- Scenario analysis
- Digitized replay of conference call scheduled to begin today at 12 p.m. and end on May 15, 2018. To listen, dial 800-475-6701 (U.S.), 320-365-3844 (International) Access code: 448800