

## **Climate Risk Carbon Initiative Questions & Answers**

Introduction: California Insurance Commissioner Dave Jones is undertaking an initiative related to potential financial risks presented to California licensed insurance companies based upon their exposure to investments in fossil fuel enterprises. This is a multi- pronged initiative. Currently the initiative includes:

- A. A request that California licensed insurance companies divest from thermal coal enterprises; and
- B. Required financial disclosure of insurance companies' investments in fossil fuel enterprises through a data call seeking additional information about insurance company's exposure to other fossil fuel investment risk.

The following Questions & Answers (Q&A's) are offered to facilitate insurers' involvement in this initiative. The questions are divided into three groups. The first group addresses general questions. The second addresses questions related to the request for voluntary divestiture from thermal coal, and the third gives additional information regarding the Commissioner's data request relating to the potential for financial risk relating to insurance company investment in the fossil fuel sectors of the economy.

### **General Questions**

#### **1. What companies are included in this initiative?**

California admitted insurers.

Insurers include life, health, property and casualty, fraternal benefit societies licensed in California as of 12/31/2015. Insurance companies in liquidation, conservation, receivership, operating under home state supervision orders, or other orders such as cease and desist orders that force insurance companies into a run-off mode are excluded.

If a company is in a voluntary run-off mode without any regulatory action, but believes participation in the Carbon Initiative would compromise the solvency of the company or place it in hazardous financial condition, the company must send the Department an exemption request together with supporting documentation. Send exemption requests to [Coal.Divest@insurance.ca.gov](mailto:Coal.Divest@insurance.ca.gov) on or before June 15, 2016.

More specifically:

The Commissioner's request that insurers voluntarily divest from thermal coal holdings is applicable to all California admitted insurers.

The Commissioner's financial disclosure data call is applicable to those California admitted companies with 2015 written premiums equal to or greater than \$100 million nationwide.

**2. Should companies respond to this initiative at the holding company level?**

No. This initiative will apply at the licensed insurer level only.

**3. What portion of the statutory filing does this initiative cover?**

Investments reported in Schedule D and Schedule BA of the 2015 Annual Statement. This initiative does not include separate accounts or assets held in trust for reinsurance.

**4. Is this initiative intended to cover both direct and indirect investments?**

At this time, the initiative only applies to direct investments, including affiliated investments.

An exception to direct investments includes subsidiaries or affiliates of an insurer where the purpose of the entity is to invest and to hold investments for the insurer. For this portion of the initiative, we are initially seeking narrative responses in the data call rather than specific security details.

**5. Is there a materiality threshold on the amount of investment held?**

No

**6. Will CDI provide details regarding the scope of "carbon-based investments" in advance of March/April data call?**

Yes. Please refer to the Fossil Fuel Investment section below.

**7. Will CDI publicize detailed financial disclosures provided by insurance companies?**

Yes, to the extent that such information is not confidential in nature.

**8. Does CDI have any plans to do any sort of financial analysis, or industry analysis impact with the carbon-based investment data?**

Yes. The purpose of the Data Call is to evaluate the industry exposure as well as potential financial impact on insurers as CDI conducts its financial analysis and examinations of companies.

**9. How will Commissioner treat companies that respectfully decline to voluntarily divest?**

Divestiture is voluntary. Companies that decline to divest will be publicly identified as will those companies that agree to divest. Examinations of companies that decline to divest from thermal coal will include examining the risk that coal assets will become “Stranded Assets”.

**10. Will this initiative include disclosure of clean energy investments?**

This initiative will not require additional disclosure of clean energy investments. “Green” investments including “clean” energy investments are reported to the Department already through the Community Investment Survey Data Call.

**11. Do the Thermal Coal Divestment Request or Fossil Fuel Investment Data Call apply to reinsurance companies that did not write any direct premium in California in period being reported?**

No, the Thermal Coal Divestment Request and the Fossil Fuel Investment Data Call do not apply to reinsurance companies that did not write any direct premium in California in period being reported.

A company with state of domicile other than California, with 2015 direct premium in this state, that chooses to claim exemption from the Climate Risk Carbon Initiative on the ground that it is a “reinsurer” within the meaning of Dodd-Frank Act must substantiate its exemption request with a letter from a U.S. domiciliary regulator making a finding that the company is a “reinsurer” under Section 533 (5)(B) of the Dodd-Frank Act. A company that already filed this exemption request to the CDI without this letter must supplement its filing before July 1, 2016, to be considered for the exemption. Email the letter as an attachment to an explanatory email to [FossilFuelDataCall@insurance.ca.gov](mailto:FossilFuelDataCall@insurance.ca.gov).

## Thermal Coal Divestment Q&A's

### **12. What are thermal coal investments?**

For the purposes of the Commissioner's call for Insurance companies to divest from thermal coal investments, thermal coal investments are defined as direct investments in companies that generate 30% or more of their revenues from thermal coal. The request also applies to utilities that generate 30% or more of the energy they produce using thermal coal.

Thermal coal (also called steam coal) is defined as lignite, bituminous coal with an ash percentage greater than 35%, and anthracite.

### **13. What types of thermal coal investments are subject to the divestiture request?**

All investments in companies that generate 30% or more of their revenue from either the ownership, exploration, mining, or refining of thermal coal, are subject to the divestiture request, as are utilities as identified below.

### **14. Does the Commissioner intend to include utilities that generate electricity using thermal coal resources in his call for divestiture?**

This divestiture request applies to all publicly and privately owned utility companies that generate 30% or more of their electricity from thermal coal.

### **15. Does this request apply to utility companies that are changing their energy mix but currently generate 30% or more of their energy from thermal coal?**

Yes. If a company investment meets the definition and criteria of the Commissioner's request, it is included.

### **16. Does this request apply to non-admitted companies?**

The request is directed at admitted insurers.

### **17. What information will be publicly disclosed?**

Information that is legitimately confidential under California Law will not be made public.

### **18. How does this request apply to debt instruments that may have fixed returns and may ladder by maturity dates?**

The request for divestment applies to all securities, including fixed income investments and debt instruments with fixed returns and laddered maturity dates.

The Commissioner recognizes that companies will have to weigh the potential and magnitude of any losses associated with immediate divestment of fixed return assets with the potential greater risk and losses associated with continued holdings in thermal coal investments. The Department will take into consideration the timing of company commitments to divest from these instruments and any other explanatory information.

**19. How does this request apply to separate vs general accounts for life insurers selling variable annuities?**

This request applies only to the insurance company investments held in general accounts.

**20. Where can I find information about thermal coal investments?**

Thermal coal companies are classified in the energy industry section of the Bloomberg Industry Classification Standard (BICS) and Global Industry Classification Standard (GICS), or the basic material industry section of the Industrial Classification Benchmark (ICB) classifications. Your portfolio manager or investment consultant should be able to identify those companies who meet the definition in which you hold investments. In addition, you may wish to consult with one of the numerous investment advisors who provide in depth information on the carbon profiles of various investments. These companies include, but are not limited to: South Pole Group, Trucost, FTI Consulting, RobecoSam, MSCI, FTSE and Mercer (by providing this list of resources, the Department does not endorse or recommend any particular third-party consultant or its services).

**21. What is an example of a thermal coal investment?**

Consol Energy (NYSE: CNX) is a publicly traded company that generated 60.3% of its 2015 revenue from thermal coal, based on information reported to Bloomberg.

**22. Are “green” subsidiaries of companies that derive more than 30% of their revenue from coal, subject to divestiture?**

The request only applies to companies, regardless of their status as a subsidiary or parent that generate 30% or more of their revenue from thermal coal.

**23. What is the time frame for Divestment?**

The Commissioner asks that you inform the Department by June 1, 2016 whether your company will divest from thermal coal holdings and provide details including the timing, if not immediate, identification and dollar amount of thermal

coal investments, and any explanatory information the company wishes to prove. Companies that have or will divest by June 1, 2016, will be so identified publicly. Companies that have not divested by June 1, 2016, but commit to do so within a specific period of time and provide a reasonable basis for delay will be so identified. Companies which decline to answer, decline to divest, or indicate they will divest but do so beyond a reasonable period of time without a reasonable basis, will be so identified publicly.

**24. How can I comply with the Commissioner's request?**

If, after analysis of your portfolio, you determine that you will comply with some or all of the Commissioner's request, please provide your plans to divest, including the specific details and timing of the divestment from Schedule D and BA thermal coal investments, to [Coal.Divest@insurance.ca.gov](mailto:Coal.Divest@insurance.ca.gov).

**25. Is the Thermal Coal Divestment mandatory?**

No. Divestiture is voluntary. Please see Introduction and Question Number 9.

**26. Is submission of response materials for the Thermal Coal Divestment (Acknowledgment of Receipt Form, Thermal Coal Divestiture Statement and Status workbook, Affidavit) to the Department mandatory?**

Yes, submission of response materials for the Thermal Coal Divestment to the Department is mandatory.

## **Fossil Fuel Investment Data Call Q&A's**

### **27. What is the Fossil Fuel Investments Data Call?**

The Fossil Fuel Investments Data Call is a request for information promulgated to all California admitted insurers with more than \$100 million annual written premium nationwide. The data call will seek information on investments related to fossil fuel (scope includes thermal coal, oil, gas, and utilities). The purpose of the data call is to enable the industry and the Commissioner to assess the potential for financial risk associated with holdings in the fossil fuel sector of the economy. The data received will be used for more in-depth analysis of potential for risk associated with these investments.

### **28. Is the Fossil Fuel Investment Data Call mandatory?**

Yes. Financial disclosure of insurance companies' investment in fossil fuel enterprises through a data call is required. Please see Introduction.

### **29. Is submission of response materials for the Fossil Fuel Investment Data Call (Acknowledgment of Receipt Form, 2016 Fossil Fuel Investment Data Call workbook, Affidavit) to the Department mandatory?**

Yes, submission of response materials for the Fossil Fuel Investment Data Call to the Department is mandatory.

### **30. What is the time frame for the Commissioner's data call on fossil fuel investments?**

The Department will provide those companies targeted for the data call with a template for response during the month of April 2016. Responses will be expected approximately 60 days thereafter. The date was chosen so that the data could include all information filed with Annual Statements for 2015.

### **31. What are Oil and Gas investments for the purpose of the CDI Data Call attached to the Carbon Initiative?**

Oil and gas investments are direct investments, including publicly and privately traded securities that generate 50% or more of their revenues from oil and gas.

### **32. What are thermal coal investments for the purpose of divestment and for the purpose of disclosure in the CDI data call?**

Thermal coal investments are investments in companies that generate 30% or more of their revenues from either the ownership, exploration, mining, or refining of thermal coal, as are utilities as identified below. Thermal coal (also called steam coal) is defined as lignite, bituminous coal with an ash percentage greater than

35%, and anthracite.

**33. Will the Data Call include utility company investments?**

Yes. For purposes of disclosure, investments into utility companies include investments in utilities that generate 30% or more of their electricity from thermal coal or utilities that generate 50% or more of their electricity from fossil fuels, which include thermal coal, oil and natural gas.

**34. Where can I find information about oil and gas investments?**

Oil and gas companies are classified in the energy industry section of the Bloomberg Industry Classification Standard (BICS) and Global Industry Classification Standard (GICS) or the oil and gas section of the Industrial Classification Benchmark (ICB).

**35. Where can I find information about thermal coal investments?**

Thermal coal companies are classified in the energy industry section of BICS and GICS or basic material industry section of ICB.

**36. Where can I find information about utility investments?**

Utility investments are classified in the utilities section of BICS, GICS, and ICB.

**37. Which types of oil and gas investments are to be reported in the Fossil Fuel Investment Data Call?**

All privately and publicly traded securities issued by companies that generate 50% or more of their revenues from oil and gas and that are directly owned by insurers must be reported. Investments in utilities are included – see Question Number 27. These investments are reported to the National Association of Insurance Commissioners (NAIC) on Schedule BA and Schedule D of the annual statement filings.

**38. What is an example of an oil and gas investment?**

Exxon Mobil Corporation (NYSE:XOM) is a publically traded company that generates more than 50% of its revenue from oil and gas, based on information reported to Bloomberg.

**39. What is an example of a thermal coal investment?**

Consol Energy (NYSE: CNX) is a publically traded company that generates 60.3% of its revenue from thermal coal, based on information reported to Bloomberg.



**40. Which types of investments into utilities are to be reported in the Fossil Fuel Investment Data Call?**

All privately and publically traded securities issued by utility companies that generate 30% or more of their electricity from thermal coal and/or direct investments in utility companies that generate 50% or more of their electricity from coal, oil, and gas, must be reported. These investments are reported to the National Association of Insurance Commissioners (NAIC) on Schedule BA and Schedule D of the annual statement filings.

**41. What is an example of a utility investment?**

American Electric Power Company, Inc. (NYSE: AEP) is a publicly traded company that generated 70% of its electricity from coal in 2015, based on information reported in 10-K.

**42. Does the request include pipeline companies (midstream) that move oil and gas?**

Yes, as long as 50% or more of the company's revenue is derived from oil and gas.

**43. Will the Department provide a divestment list or a securities list that meet the data call threshold?**

Currently, there is not a list of securities for thermal coal divestment or a list of securities meeting the threshold for the data call.

**44. For publicly- traded utility companies, should insurers only consider investments in specific operating subsidiaries that issue their own investments, or should insurers include the investments of both the operating subsidiaries and the related holding company?**

Insurers should include the investments of both the operating subsidiaries and the related holding company. Please see Question Number 4.

**45. What does the CDI intend to do with the collected data?**

The purpose of the data call is to evaluate the industry exposure as well as potential financial impact upon insurers as the CDI performs its financial analysis and conducts financial examinations. The data received will also be used for more in-depth analysis and the evaluation of the potential risk associated with these investments.

**46. How will green energy bonds be treated if a coal-heavy utility company issues bonds for green power construction?**

Green energy bonds are not excluded from the reporting requirement. This carbon

initiative does not require additional disclosure of clean energy investments. However, an insurer may specify in its response, with supporting documentation, that a particular debt issue is specifically intended for generation of green energy.