

California Sustainable Insurance Roadmap

June 2022

Progress Report

The California Department of Insurance, in a first-of-its-kind partnership with the United Nations Principles for Sustainable Insurance Initiative (UN PSI), is creating a **California Sustainable Insurance Roadmap**. This Roadmap summary document outlines key objectives and progress on foundational actions that the Department is taking to protect consumers and create more sustainable and reliable insurance markets in an era of increasing and accelerating climate risks.

Our top priority is **protecting consumers** in an era of climate change. This includes pursuing four goals:

- Actions to reduce greenhouse gas emissions
- Closing protection gaps for vulnerable communities
- Keeping insurance available and affordable
- Creating community protection from climate threats

Climate impacts are accelerating and many of the most vulnerable communities in California are projected to face the most destructive consequences. Protection gaps – the difference between those disaster costs that are covered by insurance and those that are not – demonstrate that too few Californians are insured against extreme climate events. Insufficient insurance coverage means that residents must turn to private individual savings or to credit to pay for damage, or rely on community or state-sponsored safety nets that typically provide immediate assistance but not long-term recovery. Increased seasonal flooding or sea level rise may inundate properties with inadequate insurance coverage. Extreme and long-lasting heat waves may cause crop losses or spoilage. The protection gap is typically largest in communities of color with lower incomes and fewer resources. As the destruction from climate-related disasters mounts, the lack of strong insurance coverage will make it increasingly difficult to rebuild, exacerbating social and financial inequities.

Closing the gap between insured and uninsured losses is increasingly essential to achieving more equitable recoveries. Amidst climate impacts, Insurance Commissioners can act to protect consumers by prioritizing policies that move the insurance sector towards more sustainable products and investments, and expanded risk reduction.

Historic partnership: UN PSI and California Department of Insurance

As regulator of the largest U.S. insurance market, and fourth-largest in the world, California's Department of Insurance has a responsibility to promote a sustainable insurance market far into the future. The Roadmap's four strategies support and align with U.N. initiatives. The strategies related to insurer products and investments in this Roadmap will support the goals of the [Net Zero Asset Owners Alliance](#), which aims to

align investment portfolios with Net Zero climate goals, and the [Net Zero Underwriting Alliance](#), which is focused on aligning insurer underwriting portfolios with Net Zero goals. The strategies for empowering communities build on the core work in the U.N.-supported [Sustainable Development Goals](#). Finally, by making nature-based solutions a central part of this Roadmap, these strategies support the priorities and new concepts articulated in the [Nature Positive Series](#).

Four Necessary Steps to a Sustainable Insurance Sector

The Roadmap advances four interconnected strategies the Department will implement to protect consumers in an era of increased climate risk:

1. Strengthen transparency and financial oversight.

Deliverable: In 2022 [U.S. insurance regulators](#) voted to require TCFD-aligned reporting as part of the annual climate risk disclosure.

Next steps: The California Department of Insurance has prioritized the development of tools to increase transparency and financial oversight, including:

- Review of climate-related financial disclosures
- Data collection and analysis
- Stress testing and scenario analysis

2. Accelerate transition to more sustainable investment strategies.

Deliverable: In 2022 the California Department of Insurance released a new [Climate Risk Analysis](#) on insurance company investments – including green bonds for the first time, as well as categories of fossil fuel investments. Climate change is a systemic risk, and investments that reduce short- and long-term climate change impacts will promote a more sustainable insurance market over the long-term.

Next steps: The California Department of Insurance will update the green asset disclosure, and work with the California Green Bond Committee to expand the green bond market. In addition, the Department will be reviewing disclosures of nature-based financial risk and climate strategies in TCFD reports to understand emerging approaches and data collection.

3. Catalyze insurance product innovation to achieve climate goals.

Deliverables: In 2020 the California Department of Insurance released the first ever [Climate Smart Insurance Products database](#) and commissioned the first [Extreme Heat and Insurance Report](#). Expanded insurance product options will contribute to both a reduction in greenhouse gas emissions and an increase in community resilience. Insurance not only supports recovery to climate disasters, but can also provide incentives for home hardening and other climate adaptation

strategies; therefore the Department led a collaborative effort with state agencies to establish the [Safer from Wildfires](#) program to promote home and community hardening.

Next steps: The California Department of Insurance is creating new partnerships to set research priorities, gather data, and work on collaborative pilot projects that accelerate insurance policy development to match the acceleration of climate risk impacts.

4. Create resilient communities.

Deliverable: In 2021 the California Department of Insurance released the first ever [Climate Insurance Report](#) with 40 recommendations to close protection gaps and protect vulnerable communities. Climate-intensified disasters will repeatedly stress the state and can exacerbate existing inequities. Closing the insurance protection gap will be essential to supporting more equitable recoveries when future disasters strike.

Next steps: The California Department of Insurance is working to implement the Climate Insurance Report, prioritizing:

- Ranking and early warning for heat waves
- Clarifying home and community hardening actions to prevent wildfires
- Climate resilience districts that can invest in nature-based solutions

