January 25, 2016

VIA ELECTRONIC MAIL

RE: Coal Divestment & Carbon-Based Investment Data Call

Dear all California licensed insurance companies writing $100 million or more in writing direct premium in the United States:

I am writing to request that your company voluntarily divest from any investments it may have in thermal coal.

Specifically, I am asking that you refrain from making any new investments, refrain from renewing any existing investments, and to sell or withdraw from existing investments, in any company that generates thirty-percent or more of its revenue from the mining or use of thermal coal.

I also would like to take this opportunity to inform you that in April of this year I will initiate a “data call” that requires insurance companies that write $100 million or more in national premium, to disclose their carbon based investments, including those in the extraction or use of oil, gas and coal. These required financial disclosures will be made public and will be used by the Department of Insurance to assess the degree of financial risk posed to insurance companies by their investments in the carbon based economy.

I invite you and/or other representatives of your company to meet with my Department at 10:00 a.m. (PST), on March 2, 2016, by calling 888-428-4476, to provide technical input on how we can best collect this information. Please RSVP to Shannon Heinzer at Shannon.Heinzer@insurance.ca.gov by February 16, 2016 to indicate whether anyone will be attending from you company, and who specifically will attend.

My decision to ask you to divest from thermal coal and to require insurance companies to disclose investments in the carbon economy arises from my statutory responsibility to make sure that insurance companies address potential financial risks in the reserves they hold to pay future claims.

As utilities decrease their use of coal and other carbon fuel sources, as states like California limit the ability of the private sector to use burn coal and other carbon fuels for power generation and require their pension funds to divest from coal, as states like California and the United States impose more stringent air quality requirements which limit the ability to burn coal and other carbon fuels, and as nations across the world begin to implement the commitments they made to reduce their use of carbon at the recent United Nations COP21 Climate Summit in Paris, investments in coal and the carbon economy run the risk of becoming a “stranded asset” of diminishing value.
The movement away from coal and the rest of the carbon economy poses a potential financial risk to insurance companies investing in coal and the carbon economy. The potential risk of continuing such investments is that they lose value over time or that they lose value quickly. In either case, such investments pose a potential financial risk to those who invest in them.

At some point nations and states may dramatically restrict the burning of carbon. At that point, investments in coal mines, in oil and gas wells, in companies that extract coal, oil or natural gas, in companies that transport coal, oil and gas, in utilities that rely on coal, oil or gas, among others, could drop dramatically in value. Before that happens it is important for insurance companies and insurance regulators to understand the scope of these investments by insurance companies and to take steps to mitigate potential financial risks.

Divestment from thermal coal in particular will help protect insurance companies from holding an investment currently dropping in value, and which is likely to suffer substantial additional decline in value during a transition to a reduced carbon economy, and run the risk of becoming a “stranded asset.”

California is decarbonizing its economy and transitioning to clean, pollution free energy resources. Utilities have been required by law to dramatically reduce their reliance on carbon. California’s cap and trade program also results in raising the cost of carbon and reducing its use. Two of the world’s largest pension funds – CalSTRS and CalPERS – have been required by the state legislature to divest their thermal coal investments by July 2017.

A number of insurance companies have already recognized the risks of continued investment in thermal coal. Allianz announced that it would decrease investments in companies using coal and boost funding in those focused on wind power. Similarly, Axa announced last year that it will remove from its portfolio, and refrain from future investment in, companies that derive more than half of their income from coal mining, including electrical utilities that derive more than half of their energy from thermal coal plants.

I appreciate your consideration of my request that you, and all insurance companies licensed to write insurance in California, divest from thermal coal investments. Your response to this request would be appreciated by February 24, 2016. Please respond by email or letter to me, sent to Shannon Heinzer at Shannon.Heinzer@insurance.ca.gov to indicate whether you will be complying with my request. The Department of Insurance will make public the names of those companies who commit to voluntarily divest from thermal coal and those which do not. I recognize that it may be challenging to immediately eliminate all of your existing thermal coal investments, but I strongly encourage you to make a commitment to move in this direction.

If you have any questions about this request, please contact my Deputy Commissioner & Special Counsel, Geoffrey Margolis, at 300 Capitol Mall, 17th Floor, Sacramento, CA 95814, Geoff.Margolis@insurance.ca.gov (916) 492-3574.

Sincerely,

DAVE JONES
Insurance Commissioner