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February 10, 2017

VIA ELECTRONIC SUBMISSION

Task Force on Climate-Related Financial Disclosures

RE: Phase II Consultation Comment Letter

Dear Task Force members:

I am privileged to serve as the Insurance Commissioner of the State of California. I lead the California Department of Insurance ("CDI" or "Department") and regulate the California insurance market. More than 1300 insurance companies are licensed by the Department to sell insurance in the State of California, which has the sixth largest economy in the world.

Insurers collect US$ 289 billion a year in premiums in California, making our insurance market the largest insurance market in the United States and the sixth largest in the world. Insurers licensed by my Department have $7.8 trillion in investments. Under my leadership, the Department protects consumers, helps maintain an economically healthy insurance marketplace, and regulates the financial condition and solvency of insurers.

As a financial regulator, I support efforts to enhance disclosure of climate-related risks to assets that are held by investors, including insurance companies. Climate risk disclosures should be designed to better inform investors, consumers, markets, and regulators through improved transparency, thereby helping to reduce the potential of large, abrupt corrections in asset values which might destabilize financial markets and ultimately harm consumers, investors, and insurance policyholders. I appreciate the opportunity to provide comments to the Financial Stability Board's ("FSB") Task Force on Climate-Related Financial Disclosures ("Task Force" or "TCFD") with regards to the insurance sector and industry as part of the TCFD Report Public Consultation.

In general, I believe that the Task Force recommendations are an important step in the right direction. Financial disclosure across the four core elements of organizations' operations as identified by the Task Force -- governance, strategy, risk management and metrics/targets – and that embody the Task Force fundamental principles for effective disclosure – relevance; completeness and specificity; clarity; consistency over time; comparability; objectivity and verifiability; and timeliness – would be useful to financial system stakeholders, including insurance companies, insurance regulators and policy holders.

Supporting Widespread Adoption: Mandatory and Public

I am concerned that making the disclosures "voluntary" will mean that significant numbers of economic enterprises will decline to disclose climate risks facing their enterprises. Market discipline and voluntary action alone are not likely to deliver satisfactory disclosure. Like Task Force Chairman Michael Bloomberg, I believe that "widespread adoption" of the recommendations will help ensure that climate-related financial issues are routinely considered in business and investment decisions and encourage an effective dialogue between companies and banks, insurers and investors, which will lead to smarter, more efficient allocation of capital, and speed the transition to a low-carbon economy.[1] The question is how best to ensure "widespread adoption."

To facilitate widespread adoption in a timeframe that is adequate to climate change related projections, climate risk disclosures should be made mandatory. I urge the Task Force to call for mandatory disclosures and that the Task Force recommendations be amended to call for mandatory disclosures. See answer to (Q19). In addition, I urge that the Task Force, the FSB and the G-20 take concrete steps toward this end. Outreach efforts should involve reaching out to major mainstream financial filings agencies, such as the U.S. Securities and Exchange Commission ("SEC") and asking them to incorporate by rulemaking or other mechanisms the Task Force recommendations.[2]

My conclusion that mandatory disclosure is necessary is based on our direct experience with voluntary versus mandatory disclosure regimes in the area of insurance regulation. Voluntary disclosure regimes do not result in "widespread adoption" of disclosures. As a result, I have mandated disclosure by insurers of investments in coal, oil and gas facing climate related risks. Had I made such disclosures voluntary, most if not all insurers would have not disclosed these investments.

I also believe that it is important that climate risk disclosures be made public. Making disclosures available to regulators is an important start, but investors, lenders, insurers and the broader public should be apprised of the climate risks facing enterprises and the steps being taken to address them. I have therefore required insurers to publicly disclose their investments in coal, oil and gas which are facing climate risk.

Enhancing Disclosure on Carbon Risk

The supplemental guidance for banks recommends that banks "describe significant concentrations of credit exposure to carbon-related assets." However, similar guidance is not offered for insurance companies, which have roles as asset owners and asset managers. This is a major omission.

As Task Force members know, one significant area of financial risk associated with climate change and climate risk is the potential for investments in enterprises that own,

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[1] December 14, 2016, Letter from Michael R. Bloomberg to Chairman Mark Carney presenting Task Force report setting out recommendations.

[2] The SEC has previously recognized standards by an outside organization in an "interpretive release."

mine, extract, process, refine or burn fossil fuels (oil, gas, coal) to become "stranded assets" on the balance sheets of insurance companies or other holders of those assets. As nations, provinces, local governments, and the private sector move forward with commitments made at COP 21 to reduce reliance on fossil fuels, and as governments and markets reduce or eliminate the ability to burn fossil fuels for energy and substitute other forms of energy, there is significant risk that the value of fossil fuel assets and fossil fuel enterprises will decline. This phenomenon has already been seen with the drop in value of thermal coal and coal companies in the United States.

The public disclosure of investments in fossil fuel enterprises (oil, gas, coal and utilities that burn same) is a mechanism available for immediate adoption that would allow the identification and assessment of investments that have significant exposure to energy dependencies and are therefore vulnerable to transition climate-related risks. The amount of annual revenue an investment target enterprise derives per fossil fuel type and the fossil fuel type used by energy utility companies to generate their electricity are feasible and adequate methods to identify these carbon-related assets facing significant potential climate risk. These disclosures would be in addition to the disclosures called for in the Task Force's recommendations. Following is an example of an existing disclosure regime for insurers that uses this method.

As Insurance Commissioner, I launched in 2016 the California Department of Insurance Climate Risk Carbon Initiative which includes:

(a) A requirement that California-licensed insurance companies report publicly on the amount of their thermal coal enterprise holdings and a request that they voluntarily divest from thermal coal enterprises, applicable to all California-licensed insurers ("CDI Thermal Coal Divestment Request"), and

(b) Required public financial disclosures by insurers of their investments in fossil fuel (thermal coal, oil, gas, and utilities) enterprises through a survey or "data call", which is applicable to California-licensed insurers with 2015 direct written premiums equal to or greater than US$100 million nationwide ("CDI Fossil Fuel Data Call").

For the purposes of CDI Thermal Coal Report and Divestment Request, 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. For the purposes of the CDI Fossil Fuel Data Call, oil and gas investments are defined as direct investments, including publicly and privately traded securities that generate 50% or more of their revenues from oil and gas. The data call also applied to Thermal Coal enterprises as defined above. Results of the CDI Climate Risk Carbon Initiative are made public via an interactive website.[3]

I propose that the Task Force guidance be augmented to include disclosure by insurance companies of their investments in fossil fuel assets (notably oil, gas, and coal producers and energy utilities). See answer to (Q5).

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[3] At https://goo.gl/vixU8G.

Supplemental Guidance for the Financial Sector

Lastly, I have a specific suggestion regarding the Supplemental Guidance for the Financial Sector. As the Task Force rightly states, users of climate-related financial disclosures are specifically interested in how insurance companies are evaluating and managing climate-related risks and opportunities in both their underwriting and *investment* activities.[4] Currently, as the Task Force indicates, the Supplemental Guidance for Insurance Companies applies to the liability underwriting side of insurance activities only and for insurance companies' investment activities, one is to refer to the Supplemental Guidance for Asset Owners. Because investment activities are of considerable importance for the financial wellbeing of insurance companies, I believe that investment disclosure recommendations should be incorporated in the Supplemental Guidance for Insurance Companies. Alternatively, the "For insurance companies' investment activities, refer to the Supplemental Guidance for Asset Owners" sentence on page 25 should be made more prominent with larger text or similar method. It is imperative to avoid the suggestion that insurance companies addressing climate risk should concentrate only on their underwriting activities and forgo investment activity disclosures.

I congratulate the Task Force for its important and meaningful work and look forward to its final report. Thank you for considering my comments. I appreciated the opportunity to testify before the Financial Stability Board at its meeting in the Fall of 2015 in London regarding our efforts to ensure that insurers are addressing climate related risks. I would welcome the opportunity to provide further input and support to the Task Force as it advances its mission.

If the Task Force has any questions about this Comment Letter or the California Department of Insurance Climate Risk Carbon Initiative, including the Thermal Coal Divestment or Fossil Fuel Investment Data Call, please contact me or Mr. Libio Latimer, Director, Office of Climate Risk Initiatives, California Department of Insurance, at 45 Fremont St., San Francisco, CA 94105, USA, or [redacted]. Mr. Latimer can also be reached at [redacted].

Sincerely,

Dave Jones

DAVE JONES
Insurance Commissioner

[4] Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures ("Annex") p. 25.