IREG Update

February 5, 2016

- **Hot Topic: California Commissioner calls for divestiture from carbon-based investments**
- **ICYMI: Noteworthy links from the past two weeks**

California Commissioner calls for divestiture from carbon-based investments

California Insurance Commissioner Dave Jones calls for insurance industry divestment from thermal coal and announces a new requirement for disclosure of carbon-based investments held by insurance companies.

In an unprecedented move, California Insurance Commissioner Dave Jones last week requested that all insurance companies doing business in California voluntarily divest from their investments in thermal coal. This would include making no new investments, not renewing any existing investments, and selling or withdrawing from existing investments. Jones also announced that he will require, beginning in April of this year, insurance companies to disclose annually their carbon-based investments including those in oil, gas, and coal. These similarly unprecedented public financial disclosures 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.

The Commissioner's move follows that of California Governor Jerry Brown Jr., who in October 2015 signed into law a bill that requires two of the world's largest pension funds—CalSTRS and CalPERS—to divest from their thermal coal investments by July 2017.

Commissioner Jones explained in a press release that his decision to ask insurance companies 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." He believes that investments in coal and the carbon economy run the risk of becoming a stranded asset of diminishing value as coal increasingly becomes an unpopular fuel source.

At the 2016 Investor Summit on Climate Risk, an event held on January 27 at the United Nations in New York City for investors and businesses to discuss the far-reaching implications of the Paris Agreement on climate change, he stated that, "given what's happening from a policy perspective," investments in coal do not make sense. "If you look at what's happening in this country and overseas, there's been a tremendous amount of policy movement as it relates to the carbon economy. In California, we have passed legislation that basically limits the ability of utilities to use coal and other sources of carbon. We have new emissions standards, and we have a cap and trade regime. There is the Paris agreement, where nations decided that they are going to do everything they can to reduce their reliance on carbon. I also think that we need to know more, both companies and regulators, about the scope and extent in nature of companies' investments generally in the carbon economy," said Jones.

He believes that movement away from coal and the rest of the carbon economy poses a potential financial risk to insurance companies investing the fossil fuel industry. Consequently, Jones stated that divestment from thermal coal "will help protect insurance companies from holding an investment dropping in value, and which is likely to suffer substantial additional decline in value during a transition to a reduced carbon economy."

Critics of this move, however, suggest that the risk of stranded assets the Commissioner cites is abstract, as the mounting regulatory pressure on the carbon industry does not necessarily entail an increased risk in the short term. Indeed, coal still makes up almost 40 percent of US electricity generation alone. Furthermore, the value of capital investments made by the fossil fuel industry are broadly known and thus already priced into the equity valuations of carbon-based investments. Insurance companies have therefore already taken into account medium- and long-term changes to the market of the stocks they own.

Nevertheless, Commissioner Jones is launching an effort to collect detailed financial data about the level and types of carbon-based investments held by all insurance companies that write $100 million or more in premium nationally. He stated, "knowing how much money insurers have invested in oil, gas, coal, and related companies, should inform us about any financial vulnerability the insurance industry has to a decarbonized economy, and help insurers and regulators determine how best to address this risk, including additional divestment."

It also seems clear that Commissioner Jones intends to use public disclosure of investments in coal and other carbon-based fuels to increase pressure on insurers to withdraw their substantial capital support for these industries. As the California's reporting deadline approaches, insurance companies will have to weigh the costs and risks associated with divesting from coal and other carbon-based energy against the potential public relations fallout that comes with appearing on the Commissioner's "pro-coal" list.

Related links

- **California Insurance Commissioner Dave Jones calls for insurance industry divestment from coal**

ICYMI....

Noteworthy links from the past two weeks

General

- MetLife warned regulators that that company might break up as early as 2014 [***The Wall Street Journal***]

- One third of Americans had their health records breached in 2015 [***IBTimes***]

- Governor Cuomo began filling out the new Superintendent's team at the New York Department of Financial Services [**Insurance Journal**]

Health

- Federal regulators ordered Cigna to stop enrollment into its Medicare Advantage and prescription drug plans due to problems with the company's coverage appeals process [***The Wall Street Journal***]

- Six million people eligible for Medicaid never signed up [***The Wall Street Journal***]

- An Urban Institute/Robert Wood Johnson Foundation study found that the Affordable Care Act exchanges would survive even if United Health Group and the Health Insurance CO-OPs exit [**Bloomberg BNA**]

- Policymakers continued to be concerned about the long-term viability of the Affordable Care Act exchanges [***Financial Times***]

International

- The European Commission introduced anti-tax avoidance proposals targeted at certain reinsurance arrangements [**Captive Insurance Times**]

- MetLife urges the International Association of Insurance Supervisors to change the way they regulate Global Systemically Important Insurers [**A.M. Best**]

- The United States Trade Representative said that an international agreement on service providers is likely to be completed in 2016 [***Law360***]

Property and Casualty

- The California Department of Insurance announced that it had approved a new insurance policy form for drivers that use UBER, Lyft and other ride-hailing apps [**CA Dept. of Insurance**]

- The Terrorism Risk Insurance Act Advisory Committee announced its first meeting on Tuesday, February 16 [**US Dept. of the Treasury**]