

22 August 2017

The Honorable Lorena Gonzalez Fletcher, Chair
California Assembly Committee on Appropriations
State Capitol, Room 2114
Sacramento, CA 95814

The Honorable Steven Bradford
California State Senate
State Capitol, Room 2062
Sacramento, CA 95815

RE: Oppose Unless Amended - SB488 (Bradford)

Dear Chair Gonzalez Fletcher and Senator Bradford,

Leaders of the undersigned organizations write to oppose language added by amendment to SB 488, restricting the Insurance Commissioner's ability to request information from insurance companies. We thank the Chair for holding two similarly amended bills, AB 566 and AB 601 on suspense earlier this session. We realize that SB 488—with its goals in support of diversity and protections for minority, disabled, veteran, and LGBT businesses—is important for many underserved populations in California. But we regret having to take a **strong position in opposition to this bill, unless it is amended to remove Section 7**, which was added in the Assembly Insurance Committee, after the bill had passed the Senate. We are frustrated and alarmed that those who intend to curb action on climate change and risk disclosure would use such a positive bill as a Trojan horse for their efforts.

Our immediate concern is that the limitations in Section 7 undermine the Commissioner's authority to oversee insurers' management of climate risks and to monitor the financial stability of the insurance markets through the use of data calls and surveys. We note that this amendment frustrates the Commissioner's leadership on a broader range of social issues, by limiting the tools designed to protect the rights and interests of California insurance consumers.

Restricting Data Call Authority Would be Detrimental to Maintaining Financial Stability in California's Insurance Markets

As you know, the Insurance Commissioner has enormous responsibility as one of the state's key financial regulators. The Department of Insurance is tasked with ensuring that insurers in the state have adequate assets available to pay ratepayers' claims. According to estimates, the Department regulates insurance companies that collect \$289 billion a year in premiums from insurance companies, which hold approximately \$7 trillion in investments. With the responsibility of monitoring the world's sixth largest insurance market, the Insurance Commissioner is charged with protecting policy holders and guarding that insurance market from material financial risks that could impair the availability or affordability of insurance in the State.

In addition to severe threats to the environment, physical infrastructure, and human lives, climate change presents material financial risks to businesses and investments, especially in the fossil fuel and energy sectors. Future revenues of fossil fuel companies are now vulnerable to the transition risk that accompanies a shift to

a low-carbon economy. This risk could include: decreasing demand for their products, due to new regulations that promote low carbon alternatives, clean technologies that render their products obsolete, and changing consumer attitudes that are shifting to fossil free alternatives. Fossil fuel companies are also vulnerable to legal risk, as investigations and litigation mount in the United States and abroad; and to physical impact risk, as a changing climate threatens critical fossil fuel and energy delivery infrastructure. And as we have seen, persistently low oil prices threaten energy companies' bottom lines and continue to force them to revise capital expenditure plans.

In light of the financial flux in the energy industry, and in furtherance of the Department's responsibility to monitor insurance providers and protect California's consumers, the Commissioner's ability to issue surveys and data calls to collect information necessary to properly regulate companies doing business in California is critical and essential. SB 488, as amended with the addition of Section 7, threatens the ability of the Commissioner to exercise his regulatory authority and protect consumers in California from financial risk.

Language that Limits the Commissioner's Authority Undermines California's Climate and Social Leadership

California is a national and global leader in aggressively combating climate change, investing in sustainability and resilience, and governing responsibly and ethically. Financial disclosures are an essential component of a healthy financial market; climate risk disclosures are essential for investors and regulators to make prudent, informed decisions about where to invest their money and how to regulate complex financial industries.

Commissioner Dave Jones has been a leader in promoting disclosure of climate-related risks by insurers. He has led a coalition of six states in requiring insurers to respond to the National Association of Insurance Commissioners (NAIC) Climate Risk Disclosure Survey. He has instituted the Climate Risk Carbon Initiative, which requires insurance companies providing over \$100 million in coverage within California to disclose their investments in oil, gas, coal, and utilities, and requests that those companies voluntarily divest from thermal coal. The results of the data call resulting from this Initiative are publicly available at www.insurance.ca.gov.

If the Insurance Commissioner's regulatory authority is restricted by SB 488 – a restriction which would apply both to the current Commissioner as well as all future Commissioners – this essential disclosure mandate – and the valuable data it continues to produce – will disappear. While the language added to SB 488 by the Assembly Insurance Committee appears innocuous and does not mention climate change, it would have the specific effect of ending the Department's essential climate initiatives, as well as the broader consequence of unduly limiting the Commissioner's power to regulate the industry the Department is charged with overseeing.

For example, one specific provision of the amendment language in the proposed Section 12962.5 of the Insurance Code seeks to "limit the subject of data calls to activity within California", a restriction on the Commissioner's data call authority that could render this core regulatory tool toothless. While virtually every major national and international insurance carrier has subsidiaries operating in California, very few are domiciled or headquartered in California. If an Insurance Commissioner seeks information about corporate diversity or climate risk management policies, most of which are developed and enforced at the corporate group level, and that corporate group is headquartered outside of California, then the Commissioner would be restricted from seeking that pertinent information if this amendment language is not removed.

We, the undersigned, strongly oppose the amending language added to SB488, and will actively oppose the bill if it is not removed. Moreover, we will oppose the inclusion of such or similar language in any future bill, and request that you ensure it is deleted from all further legislation passing through the Appropriations Committee.

Respectfully,

Steven Feit, Staff Attorney
Center for International Environmental Law

Deborah Silvey, Board Chair
Fossil Free California

Bill Magavern, Policy Director
Coalition for Clean Air

Sarah Rose, CEO
California League of Conservation Voters

Gary Hughes, Senior California Advocacy Campaigner
Friends of the Earth – US

Danielle Fugere, President
As You Sow

Naomi Ages, Senior Climate and Energy Campaigner
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Kathy Dervin, Co-chair
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Jack Eidt, Co-founder
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Alan Weiner, Founder
350 Conejo Valley — San Fernando Valley

Cc: Hon. Kevin de León, President Pro Tempore, California State Senate
Hon. Anthony Rendon, Speaker, California Assembly
Hon. Ricardo Lara, Chair, California State Senate Appropriations Committee
Evan McLaughlin, Chief of Staff to Hon. Lorena Gonzalez Fletcher
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