Investor Brief: NYSE: CB, HIG, TRV

Insurers' Climate and Human Rights Risks in Their Underwriting Portfolios

Shareholder Proposals Address Insurers' Contributions and Exposure to Climate and Human Rights Risks

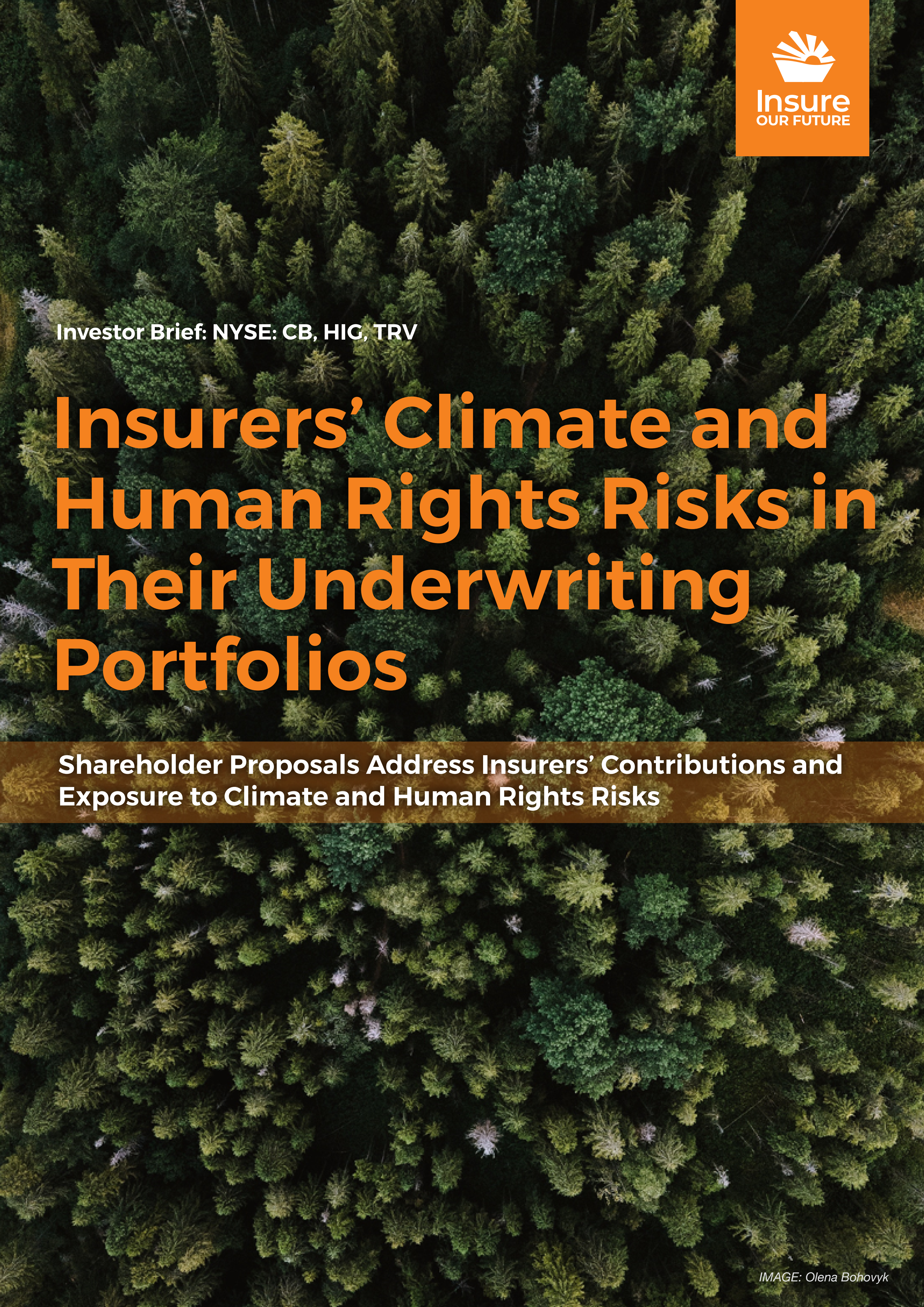

IMAGE: Olena Bohovyk

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OVERVIEW

The Shareholder Proposals

Shareholders are increasingly concerned about the climate and human rights risks facing property and casualty insurance companies that underwrite energy projects and companies. This investor brief covers four shareholder resolutions filed across three major insurance companies – Chubb, The Hartford, and Travelers – and then provides profiles on those companies with respect to the resolutions.

Policy to Phase out Underwriting of Fossil Fuel Expansion

This proposal from Green Century Funds will be on the proxy ballots at The Hartford and Travelers.

RESOLVED: Shareholders request that the Board of Directors adopt and disclose a policy for the timebound phase out of [Company's] underwriting risks associated with new fossil fuel exploration and development projects, aligned with the IPCC's recommendation to limit global temperature rise to 1.5ºC.

This proposal addresses the urgent need for these insurance companies to restrict coverage for new fossil fuel infrastructure projects. The resolution calls for a time-bound phaseout of new fossil fuel underwriting, rather than an immediate cessation.

In 2021, the International Energy Agency published a roadmap to achieving net zero emissions by 2050, giving the world an even chance of keeping global warming to within 1.5°C. The necessary emissions reductions mean that no new oil, gas, or coal projects can be developed beyond those already approved as of 2021. Further, new fossil fuel reserves are not necessary to meet global energy needs, cannot be developed quickly enough to meet the immediate energy needs brought by the Ukraine conflict, and would further encourage reliance on an energy sector vulnerable to geopolitical conflict.

Insurers cannot continue underwriting new fossil fuel exploration and development and claim to be committed either to limiting warming to 1.5˚C or to achieving net zero emissions. Adopting specific policies to align an insurer's underwriting portfolio with science-based pathways is the best way to limit exposure to a range of climate risks that are discussed further in the Appendix.

Last year, Green Century Funds filed a very similar proposal at Chubb, The Hartford, and Travelers.

Portfolio Alignment with 1.5ºC

This proposal from As You Sow will be on the proxy ballot st Berkshire Hathaway, Chubb, and Travelers.

RESOLVED: Shareholders request that [Company] issue a report, at reasonable cost and omitting proprietary information, addressing if and how it intends to measure, disclose, and reduce the GHG emissions associated with its underwriting, insuring, and investment activities in alignment with the Paris Agreement's 1.5ºC goal, requiring net zero emissions.

While Green Century's proposal addresses a clear action the insurer can take in the short term to reduce climate risk, this proposal from As You Sow addresses the need for clear medium and longer-term emissions reduction goals across the companies' underwriting and investments. Insurance sector investments in the fossil fuel industry total in the hundreds of billions of dollars and are another significant point of exposure to climate risks.

As You Sow filed the same proposal in 2021; it received majority support at Chubb and Travelers with 72% and 55% of shares voting in favor, respectively.

Evaluating Human Rights Risks & Impacts

This proposal from Domini Impact Investment will be on the proxy ballot at Chubb.

RESOLVED: Shareholders request that the Board of Directors publish a report, describing how human rights risks and impacts are evaluated and incorporated in the underwriting process. The report should be prepared at reasonable cost and omit proprietary information.

This proposal addresses how Chubb evaluates human rights risks and impacts in underwriting decisions. It specifically calls attention to the extent to which Free, Prior and Informed Consent (FPIC), as articulated in the United Nations Declaration on the Rights of Indigenous Peoples, is considered in the underwriting process. Identifying and evaluating exposure to potential human rights or biodiversity, including due diligence around FPIC, is necessary for Chubb and all insurers in order to accurately assess risks and set pricing, coverage, and exclusions, as well as avoid negative human rights outcomes.

While Chubb provides some information on its evaluation of environmental risks in underwriting, the insurer has not disclosed a framework for evaluating human rights risks, in particular around the rights of Indigenous Peoples, in its underwriting portfolio. This may expose Chubb to mispricing of coverage or failing to identify potential social and human rights risks associated with its business activities. Proponents argue that issuing a report on the human rights considerations in Chubb's underwriting process is a key step to understanding and mitigating these risks.

Racial Equity Audit

This proposal filed by Trillium will be on the proxy ballot at Travelers.

RESOLVED: Shareholders urge the board of directors to oversee a third-party audit (within a reasonable time and cost, and consistent with the law) which assesses and produces recommendations for improving the racial impacts of its policies, practices, products, and services. Input from stakeholders, including civil rights organizations, employees, and customers, should be considered in determining the specific matters to be assessed. A report on the audit, prepared at reasonable cost and omitting confidential/proprietary information, should be published on the company's website.

This proposal addresses the role and responsibility of Travelers in tackling racial injustice through its internal and external policies and practices, as well as products and services. It cites Travelers' fossil fuel underwriting policies as an example of where the company is not currently addressing racial and environmental justice issues adequately. Specifically, it calls attention to Travelers' failure to rule out insuring oil and gas development in the Arctic National Wildlife Refuge, which is opposed by the Gwich'in Steering Committee, due to the major human rights, ecosystem, and climate risks it poses.

Proponents argue that Travelers' efforts to address racial injustice must begin with identifying the adverse impacts of the insurer's policies, practices, and actions, including its energy underwriting, as that informs a roadmap for mitigating and/or remedying harms. Trillium filed a similar proposal with Travelers in 2022, which received 47% of shares voted.

These Proposals Are Necessary Now

Insurers and Climate Change

Property and casualty insurers have a dual relationship to climate change and its material risks. On the one hand, they underwrite policies for and invest in the fossil fuel industry, the sector responsible for the vast majority of global carbon emissions. Without their cover, the fossil fuel industry could not continue to expand – most new coal mines, oil pipelines, or liquid natural gas (LNG) export infrastructure, for example, could not be built – and many existing operations would have to be phased out.

On the other hand, they also write policies that are meant to protect customers from the impacts of natural catastrophes. As global warming is causing these catastrophes to become more frequent and more severe, the worsening climate crisis itself has hurt insurers in the form of record-breaking and less predictable losses. The last few years of wildfires in the West and hurricanes in the Southeast – most notoriously, Hurricane Ian in Florida in the fall of 2022 – have presented recent and clear examples of the impact that extreme weather events are having on the insurance industry.

The Intergovernmental Panel on Climate Change (IPCC) released its latest report in February of 2022 and the tone of the report was the most severe and urgent to date. The authors note that climate-related "risks are becoming increasingly complex and more difficult to manage", and state, with a very high level of confidence, that "near-term actions that limit global warming to close to 1.5°C would substantially reduce projected losses and damages related to climate change in human systems and ecosystems."

Following the aforementioned IEA report, United Nations Secretary General António Guterres singled out insurance companies in his closing remarks at the 2021 Insurance Development Forum.

> "I encourage the insurance industry to align its portfolios and investments with net zero by 2050. Your investments should not be contributing to climate pollution but should be directed towards climate solutions...We need net zero commitments to cover your underwriting portfolios, and this should include the underwriting of coal -- and all fossil fuels."

- **António Guterres,**
UN Secretary General

These proposals are a timely response from shareholders who recognize that these three insurance companies are insufficiently managing the growing risks that climate change presents. The proposals seek to address the current inadequacies of these companies' approach to managing their contributions to climate change and the climate risks that threaten their financial health.

Insurers and Human Rights

Insurers are also exposed to environmental, social, and reputational risks related to human rights through their underwriting and financing activities. Under the UN Guiding Principles on Business and Human Rights, companies are expected to conduct human rights due diligence, but major U.S. property and casualty insurers have disclosed very little concerning human rights in their underwriting processes and none have public-facing screens to ensure corporate respect for Indigenous Peoples' right to Free, Prior, and Informed Consent (FPIC).

FPIC, as enumerated in the United Nations Declaration on the Rights of Indigenous Peoples, ensures Indigenous Peoples' right to give or withhold consent to a project that may affect them or their territories and enables them to participate in decision-making regarding the conditions under which the project will be designed, implemented, monitored and evaluated.

In recent years, insurers have come under increasing scrutiny for their role in underwriting and investing in projects that may negatively impact the rights, culture, or territories of Indigenous Peoples.

For example, the Gwich'in Steering Committee has written to global insurers requesting that they rule out insurance coverage for oil and gas drilling in the Arctic National Wildlife Refuge, to protect its communities, culture, and way of life. The Gwich'in live in northeast Alaska and northwest Canada.

They have a spiritual and cultural connection with the Porcupine Caribou Herd, which relies on the Coastal Plain as its birthing and calving grounds. The Gwich'in refer to the area as "Iizhik Gwats'an Gwandaii Goodlit" or "the Sacred Place Where Life Begins." Drilling threatens to irreversibly damage this sacred place, the homeland of the herd, which would destroy the herd's health and threaten Gwich'in lifeways.

In addition to reputational damage from supporting these projects, failing to ensure that clients are respecting Indigenous and tribal peoples' rights exposes insurers and their investors to legal, political, and financial risks.

The proposal on Evaluating Human Rights Risks & Impacts at Chubb and the Racial Equity Audit at Travelers represent interventions from shareholders who recognize that these two insurance companies are insufficiently managing the growing risks related to human rights. The proposal seeks to address the current inadequacies of these companies' approaches, in order to minimize negative human rights consequences as well as the financial risks that the companies may face.

Overview of Risks

These companies face climate-related risks that are a direct result of climate change's physical impacts and of society's ongoing efforts to transition to a decarbonized economy in response to climate change. They also face human rights risks. These include:

- Physical risks from extreme weather events including:
  - Increased losses from more extreme and less predictable events
  - Shrinking availability of business as some areas become uninsurable
- Transition risks that arise from the transition to a low carbon economy including:
  - Regulation from states that seek to mitigate climate change or address the economic impacts from reduced insurance availability after extreme weather events
  - Litigation risks as fossil fuel companies become subject to more lawsuits over their role in the global climate crisis
  - Investor risks as analysts find value creation in companies that exit the fossil fuel sector
  - Reputation risks as growing public scrutiny over continued underwriting of fossil fuels presents a threat to the public image of companies without serious commitments
- Human rights risks including:
  - Reputational risks from negative publicity linking insurers to human rights abuses and pollution
  - Financial risks stemming from community protests and blockades that may lead to delays or cancellations of projects, thereby impacting insurance policies
  - Legal risks as clients' human rights and land-rights violations may be addressed in local or international courts

For more detail and examples of these risks, see the Appendix.

Company Profiles With Respect to the Proposals

Chubb, The Hartford, and Travelers are all subject to at least one of the shareholder proposals named above, reflecting the shortcomings of the insurers' efforts to address considerable climate and human rights risks. In addition to growing concern and action from investors, key stakeholders including Indigenous communities, civil society groups, the United Nations Secretary General, and insurance industry professionals have all been calling on these companies to take these necessary steps.

Summaries of each company's profile with respect to the proposals are included on the next three pages.

CHUBB®

Company Profile: CHUBB (CB)

Resolutions on the proxy ballot:

- ☑ As You Sow I Portfolio Alignment with 1.5°C
- ☑ Domini Impact Investment I Evaluating Human Rights Risks & Impacts

Estimated Fossil Fuel Premiums (annual)[1]	**500-800 million USD**
Fossil Fuel Investments[2]	**$3.11 billion USD**

Policy to limit underwriting coal, oil, and gas expansion projects?	**PARTIAL**	**Has pledged to achieve net-zero emissions across its business lines?**	**NO**	**Has published interim emissions reduction targets?**	**NO**

Disclosure of Human Rights Screens in Underwriting?	**NO**	**Policy on Free, Prior, and Informed Consent (FPIC)?**	**NO**

Fossil Fuel Underwriting

Chubb adopted a policy to restrict coal underwriting in 2019 but hasn't updated it since to close loopholes and match best practice across the industry. In 2022, Chubb disclosed new criteria limiting coverage for tar sands oil extraction. In March 2023, Chubb announced new standards to restrict underwriting oil and gas extraction based on conservation and methane emissions criteria. Chubb will not insure oil and gas extraction projects that are located in specific protected areas or do not have evidence-based plans to reduce methane emissions.

While Chubb's recent announcement represents a major step forward, its policies are still incompatible with a 1.5˚C pathway and remain far from global best practice in the insurance industry. Chubb can continue underwriting many new oil and gas projects, as well as companies exploring for and developing new fossil reserves:

- Chubb can insure new oil and gas fields outside of conservation areas as long as they are properly managing methane emissions, which is the industry standard for new projects.
- Our research has linked Chubb to Arctic drilling in the National Petroleum Reserve in Alaska and expansion of offshore oil drilling in Brazil, and it does not appear that this policy will significantly impact Chubb's business in those two regions as they do not fall into the strict conservation criteria.
- Beyond oil and gas drilling, Chubb hasn't ruled out insuring new oil and gas midstream or downstream infrastructure, such as the oil pipelines (e.g. the East African Crude Oil pipeline) or liquefied natural gas (LNG) export terminals (e.g. Sempra's Port Arthur LNG).

Stakeholder Pressure

In 2022, investors mounted an unprecedented challenge to Chubb's climate record and issued an unequivocal mandate for stronger climate action. As You Sow's resolution on emissions reporting and Green Century Funds' on fossil fuel expansion received approximately 72% and 19% of shares voted. Investor advocacy firm Majority Action filed an exempt solicitation recommending votes against Mr. Greenberg and Olivier Steimer, Chair of the Risk and Finance Committee, for failing in their oversight responsibilities to address climate change. Greenberg and Steimer were among the least supported directors, receiving 91.9% and 95.4% respectively.

Chubb has faced increasing public pressure over its underwriting of fossil fuels, with dozens of organizations calling on Chubb to step up climate action, as well as direct actions targeting Mr. Greenberg at Chubb-sponsored events and his residence.

[1] *Data from 2021 compiled by Insuramore, commissioned by Insure Our Future*
[2] *Data from California Department of Insurance, as of 2019*

THE HARTFORD

Company Profile: The Hartford (HIG)

Resolutions on the proxy ballot:

- ☑ Green Century Funds I Policy to Phase out Underwriting of Fossil Fuel Expansion

Estimated Fossil Fuel Premiums (annual)	**N/A - no data available**
Fossil Fuel Investments[3]	**$2.88 billion USD**

Policy to limit underwriting coal, oil, and gas expansion projects?	**PARTIAL**	**Has pledged to achieve net-zero emissions across its business lines?**	**YES**	**Has published interim emissions reduction targets?**	**NO**

Disclosure of Human Rights Screens in Underwriting?	**NO**	**Policy on Free, Prior, and Informed Consent (FPIC)?**	**NO**

Fossil Fuel Underwriting

The Hartford adopted a policy to restrict some coal and tar sands underwriting in 2019 and in April of 2022 committed to a net zero emissions goal across operations and business portfolios by 2050, but the company hasn't updated its policies to close important loopholes since. It has also has not yet ruled out insuring construction or development related to such highly controversial projects as Arctic oil/gas drilling, the East African Crude Oil pipeline, or the Trans Mountain tar sands pipeline expansion, unlike dozens of its industry peers.

The Hartford's existing policies allows for underwriting new oil and gas projects, as well as companies exploring for and developing new fossil reserves that are incompatible with a 1.5˚C pathway.

Stakeholder Pressure

- Indigenous groups from Alaska and environmental groups in Connecticut organized events in Hartford, CT calling on The Hartford to commit to not providing coverage for drilling in the Arctic National Wildlife Refuge.
- Hartford activists 'caroled' outside of the home of The Hartford's sustainability director in December 2022 to encourage the company to phase out fossil fuel underwriting.
- In 2022, Green Century Funds filed a similar proposal that garnered 9% of shareholder support.

[3] *Data from California Department of Insurance, as of 2019*

Company Profile: Travelers (TRV)

Resolutions on the proxy ballot:

- ☑ Green Century Funds I Policy to Phase out Underwriting of Fossil Fuel Expansion
- ☑ As You Sow I Portfolio Alignment with 1.5°C
- ☑ Trillium I Racial Equity Audit

Estimated Fossil Fuel Premiums (annual)[4]	**325-475 million USD**
Fossil Fuel Investments[5]	**$4.71 billion USD**

Policy to limit underwriting coal, oil, and gas expansion projects?	**PARTIAL**	**Has pledged to achieve net-zero emissions across its business lines?**	**NO**	**Has published interim emissions reduction targets?**	**NO**

Disclosure of Human Rights Screens in Underwriting?	**NO**	**Policy on Free, Prior, and Informed Consent (FPIC)?**	**NO**

Fossil Fuel Underwriting

In early 2022 in response to the proposal filed by Green Century Funds, Travelers announced a policy to reduce underwriting of the coal and tar sands sectors. This was the very first effort by the company to address its underwriting portfolio's contribution to climate change. However, the policy has significant loopholes and does not demonstrate a reduction in fossil fuel underwriting in line with 1.5°C global warming. It also falls well below the standard set by leading industry peers. For example, Travelers only rules out support for some companies, but not all, that are developing new coal and tar sands projects that the climate cannot afford.

Furthermore, it leaves the door open for the insurer to renew existing coal and tar sands insurance contracts until 2030. Travelers' existing policies allows for underwriting new oil and gas projects, as well as companies exploring for and developing new fossil reserves that are incompatible with a 1.5˚C pathway. Travelers also has not yet ruled out insuring construction or development related to such highly controversial projects as Arctic oil/gas drilling, the East African Crude Oil pipeline, or the Trans Mountain tar sands pipeline expansion, unlike dozens of its peers.

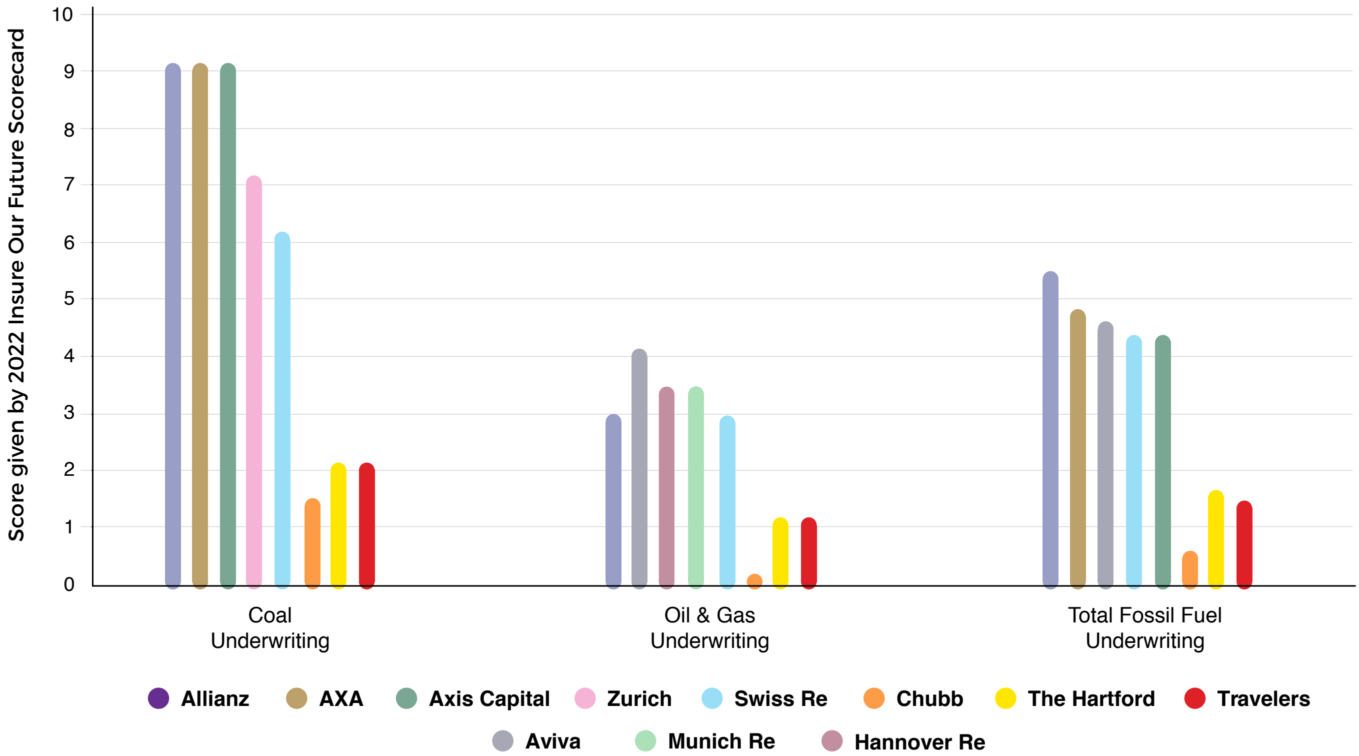
Stakeholder Pressure

- Indigenous groups from Alaska and environmental groups in Connecticut organized events in Hartford, CT calling on Travelers to commit to not providing coverage for drilling in the Arctic National Wildlife Refuge.
- For three consecutive years, activists have organized protests outside of the Travelers Championship (golf) to spotlight the company's role in contributing to climate change via its underwriting.
- In 2022, two climate-related shareholder proposals were on the ballot at the company's AGM. The proposal from As You Sow calling for a report on how the company planned to align its portfolio with 1.5°C global warming, passed with 55% support. The proposal from Green Century Funds calling for the company to end underwriting for new fossil fuel supplies received 13% support.

[4] *Data from 2021 compiled by Insuramore, commissioned by Insure Our Future*
[5] *Data from California Department of Insurance, as of 2019*

Beyond Precedent: Growing Momentum to Phase out Fossil Fuel Expansion & Respect Human Rights

Figure 1: Fossil Fuel Underwriting Policy Scores



This graph compares Chubb, The Hartford, and Travelers with their five top-scoring peers in the global property and casualty market, according to the scores received in the 2022 Scorecard on Insurance, Fossil Fuels, and Climate Change.

There is growing momentum for corporate policies that restrict insurance coverage for fossil fuel expansion projects, in line with the recommendations that Green Century makes in its proposals. European re/insurers, in particular, are increasingly adopting policies to phase out underwriting for new coal, oil, and gas projects and companies. To date, more than 40 companies have adopted restrictions on insuring new coal projects, and 14 companies, including some of the biggest insurers and reinsurers in the world, have adopted underwriting restrictions for the oil and gas sector.

In 2022:

- **Munich Re**, the world's largest reinsurer, announced it will no longer invest in or insure contracts/projects exclusively covering the planning, financing, construction or operation of new oil and gas fields, new midstream oil infrastructure, and new oil fired power plants.

- **Allianz** adopted a new oil and gas policy covering conventional and unconventional oil & gas. The company will no longer provide insurance coverage for new oil and gas fields, nor for new midstream (pipelines) and downstream (oil power plants) oil projects.

- In its updated climate commitment, **Swiss Re** committed to no longer individually re/insure new oil and gas field projects with a Final Investment Decision approved after 2022.

- **Hannover Re** updated its corporate policy to no longer reinsure projects associated with the exploration and/or development of new oil and gas reserves or for project policies that exclusively support the transportation and storage of new oil and gas reserves.

- **Fidelis**, a mid-size Bermudian carrier, announced that it will rule out direct insurance for a range of oil and gas sub sectors, including fracking and Arctic oil and gas exploration. For oil and gas companies, Fidelis will require clear commitments and a timeline for achieving net zero emissions, in line with the Paris Agreement goals as of 2024.

AVIVA, AXA, Chubb, Generali, KBC, Suncorp, and Zurich have also adopted policies limiting underwriting for some oil and gas expansion projects.

In addition to these policies, global insurers have also restricted coverage for fossil fuel development in geographical regions or for individual coal, oil, and gas projects, often citing specific ecosystem or human rights risks. For example, at the time of writing in March 2023:

- **17 re/insurers** have ruled out underwriting oil and gas in the Arctic National Wildlife Refuge, following engagement and advocacy led by the Gwich'in Steering Committee. The three insurers profiled in this briefing have not done so.

- **22 re/insurers** have committed to staying away from the highly controversial fossil fuel expansion project The East African Crude Oil Pipeline (EACOP). The three insurers profiled in this briefing have not done so.

- **22 re/insurers** have adopted policies restricting support for the tar sands oil industry, which is largely concentrated in Canada and poses a grave threat to Indigenous Peoples' rights at sites of extraction and along tar sands oil pipeline routes. This includes all three insurers profiled in this briefing, though their policies only address extraction and do not extend to transport infrastructure.

There is some development on human rights policies that extend across underwriting activities and address consultation and consent (i.e. FPIC) with impacted Indigenous Peoples. In 2022, AXIS Capital became the first insurer in North America to adopt a policy stipulating that it will not underwrite new projects without FPIC. This policy set a best practice globally for the insurance industry. The policy states:

> “We expect insureds to respect and observe the right to Free, Prior and Informed Consent (“FPIC”) in accordance with the United Nations Declaration on the Rights of Indigenous Peoples, and it is our policy to not provide insurance coverage on projects undertaken on indigenous territories without FPIC.”

In the U.S., no major insurers have public policies that pertain to Indigenous Peoples' rights, and just two in Europe – **Swiss Re and Allianz** – reference FPIC in their human rights frameworks. Swiss Re's policy states that it does not support business activities that negatively affect the rights of specific groups of people, citing FPIC, while Allianz requires that human rights-sensitive transactions are screened for FPIC.

Summary: Reasons to Support the Proposals

- **Ending Support for Fossil Fuel Expansion is Necessary Now –** Underwriting is the linchpin to fossil fuel expansion, and we know that enabling the exploration and development of new fossil fuel supply projects is not compatible with keeping the planet on a path to limit global warming to 1.5°C.

- **Climate Risk is Significant and Needs to be Managed –** The material risks from climate change to insurers – including physical vulnerabilities to climate-related impacts, increased regulation, litigation, and reputational damage – are many, unpredictable, and significant. Reducing exposure to the fossil fuel sector via underwriting is a prudent step to protect company assets.

- **Companies' Current Climate Actions are Insufficient –** The insurers' current climate policies and commitments in place do not adequately mitigate greenhouse gas emissions related to their underwriting, do not sufficiently reduce exposure to the risks mentioned above in the short term, and do not demonstrate a long term approach to effectively managing these risks.

- **Insurers Need to Understand and Mitigate Human Rights Risks –** The insurers are failing to adequately manage human rights risks and ensure that clients are respecting Indigenous and tribal peoples' rights, which exposes them and their investors to financial, legal, political, reputational, and operational risks.

> "The insurance industry has a hugely important role to play in holding companies to account and making change happen – but nothing changes unless we are prepared to walk away from activities that are harmful to the environment, people, society and animals. We don't see enough of this yet but we hope that insurers – and brokers – will increasingly engage with their clients to ensure that the insurance industry is not supporting damaging business practices."

- **Richard Brindle,**
CEO Fidelis Insurance, 2022

APPENDIX

A. Climate risks for insurers and their shareholders

The climate risks for insurers and their shareholders can be separated into two categories: physical risk and transition risk.

Physical risk

The physical risks from climate change are well-established within the insurance industry. They include not just short-term, 'acute' events such as wildfires and hurricanes; they also stem from shifts in weather patterns, including rising sea levels causing more flooding and coastal erosion, droughts disrupting agriculture production, and intensifying heat waves. Climate change has increased the extremes related to heat and precipitation around the world, as well as the likelihood of multiple perils occurring at once.

These risks directly affect property/casualty insurers' liabilities and the long-term viability of certain business lines. Insurers acknowledge that climate change is making it more difficult to model and price catastrophe risk. Insurance broker Aon's 2021 climate assessment found that weather and climate-related events caused $329 billion in economic losses worldwide, making it the third costliest year on record. As for 2022, the company noted that global insured losses exceeded $100 billion for the third consecutive year.

In some regions that are increasingly exposed to climate risk, historically stable premium and profit pools are beginning to shrink. In the U.S. alone:

- **Florida:** Hurricane Ian was the third costliest hurricane in U.S. history at nearly $113 billion, up to $65 billion of which were insured. In the aftermath of the storm, Florida's insurance market was upended, with multiple insurers becoming insolvent.
- **California:** Chubb and AIG announced that they were reducing exposure to the high end homeowner insurance market in California due to wildfire risk after multiple years of insured losses reached over $10 billion due to fires across the state.
- **Louisiana:** As of December 2022, ten insurers in Louisiana became insolvent and another dozen opted to leave the state, in the aftermath of multiple hurricanes since 2020.

Fossil fuel underwriting presents specific vulnerabilities to climate-related losses. In the U.S., for example, the oil and gas industry is uniquely exposed to hurricanes, given the vast infrastructure located in the Gulf Coast region. For example, in 2017 Hurricane Harvey forced 18 refineries to close, paralyzing about 20% of U.S. refining capacity. For insurers, this means paying out claims for physical damage, business interruption, and other liabilities that arise from catastrophes like this, the frequency and severity of which are increasingly difficult to project.

Transition risk

As society responds to the growing threat of climate change by transitioning away from a fossil fuel economy, insurers underwriting the fossil fuel industry are also exposed to risks as a result of the transition. These include the financial impacts of fossil fuel assets losing their value in the needed, rapid transition to a low-carbon economy. This lost value may be due to market forces, regulation, litigation, and/or reputational damage. Insurers can proactively manage these risks by minimizing their underwriting exposure to fossil fuels.

Stranded Assets and Poor Credit Ratings – As the transition to a clean energy economy moves forward, fossil fuel infrastructure investments may experience unexpected or premature write-downs or devaluation, resulting in stranded assets on both the underwriting and investments side of insurers' balance sheets. This is particularly true for the coal sector.

In 2020, Moody's Investors Service found that reducing coal underwriting could have a positive impact on the insurance sector, suggesting that insurers' shareholders would benefit from strong coal exit policies. The research assessment viewed " [insurers'] retreat from coal as credit positive as it protects them against potential climate change liability risk, and reduces the risk of their investment assets becoming 'stranded' – economically non-viable due to faster than expected transition to carbon-neutral alternatives."

In 2021, Société Générale released report findings that priced the quality of insurers' coal and ESG policies into their financial valuations, resulting in a target price premium between +9% for those insurers with the strongest policies and a discount of -3% for those with the weakest. This premium was highest for the insurers taking active steps to exit coal.

A follow up report indicated that "reducing exposure to oil & gas should be the next environmental objective for insurers" and could "unlock an additional 'green premium' for the sector." Ending cover for new oil and gas projects, in other words, would not just be positive for the climate, it would also create value for insurers' shareholders.

Regulation – Federal and state regulators are increasingly recognizing the connection between continued financing of emissions, threats to the environment and society, and the safety and soundness of insurance companies. Continued reliance on underwriting and investment in new fossil fuel projects may draw the disapproval of regulators and require insurers to bear higher compliance costs, hold greater levels of capital, or divest from risky assets at disadvantageous prices.

At the federal level, the SEC's recent proposal on climate disclosure will mandate public companies to report on physical and transition risks that pose material impact and to lay out their transition plans for managing those risks. They will also need to report on their greenhouse gas emissions, possibly including Scope 3 emissions, which are indirect emissions from upstream and downstream activities in the value chain and so could include insured emissions.

At the state level, regulation of insurers regarding fossil fuel underwriting has included legislation in Connecticut (p. 509, sec. 346) that requires the insurance commissioner to report on progress made to incorporate the state's emissions reductions targets into regulation and supervision of insurers operating in the state, notably including energy underwriting. A bill in the current Connecticut legislative session proposes to establish a surcharge on insurance premiums for fossil fuels, with revenue directed at climate resiliency funds to benefit communities in the state.

Additionally, New York's Department of Financial Services issued first-in-the-nation guidance describing how insurers should handle climate risks. This guidance explicitly recognizes that insurers can mitigate climate-related risks by reducing their underwriting and investment of high-emissions projects.

At the local level, this has included municipal procurement policies from cities including Los Angeles and San Francisco, and municipalities like Boulder County, Colorado, to align with local climate commitments, mandating that cities and counties screen prospective procurement contracts to opt for insurers with fossil fuel exclusion policies.

Litigation – Fossil fuel companies face increasing litigation over their role as drivers of the climate crisis. In May 2021, in a landmark case, a Dutch court ruled against defendant Shell and ordered the oil company to reduce emissions from the company as well as emissions from products burned by its customers. Shell now faces litigation from shareholders over alleged mismanagement of climate risk. In Hawai'i, a Sunoco subsidiary, Aloha Petroleum, sued its former carrier, AIG, saying that the company was shirking its responsibility to protect its clients from legal risk stemming from climate litigation cases brought by local governments. Several other cases against energy corporations have been brought by local governments. As these cases become more common, they will have implications for insurance companies underwriting fossil fuel companies and their executives via directors and officers insurance.

Controversy and Reputational Risk – As societal attitudes turn against fossil fuels because of their role as the drivers of climate change, fossil fuel projects and companies face growing controversy and resistance, increasing the risk of material loss for the insured and for insurers. For example, the high profile Dakota Access Pipeline and proposed drilling in the Arctic National Wildlife Refuge have both drawn significant and prolonged demonstrations and legal battles, as the Indigenous nations and tribes directly affected by the projects have highlighted the lack of Free, Prior, and Informed Consent for construction and operation. The subsequent delays to the Dakota Access pipeline resulted in material loss to ETP, the pipeline company, according to a 2018 study conducted by First Peoples Worldwide.

As the Arctic National Wildlife Refuge case demonstrates, affiliation with these projects can affect insurers' reputation as well. The Gwich'in Steering Committee, an organization representing the interests of the Gwich'in Nation, has released a scorecard comparing and ranking top energy underwriters based on their stated policies to not insure oil and gas development in the region.

Since talent acquisition is directly tied to profitability, current and future employees are key constituencies for insurers to consider regarding their reputational risk. The insurance industry is facing a recruitment challenge as its workforce ages into retirement. Compounding this, the industry struggles to appeal to Millennials and Gen Z, who care about climate change in higher numbers than older generations and will be most affected by it.

In December 2021, Insure Our Future and Insurance Nerds released the results of a survey of nearly 350 insurance professionals and risk management students. An overwhelming majority (81%) of survey respondents said that the insurance industry should actively contribute to accelerating the transition to a clean energy economy to address climate change. Over half of respondents were in favor of insurers immediately phasing out fossil fuel underwriting.

Insurers who do not have clear, robust plans to address their contribution to climate change risk limiting their appeal to crucial talent.

Insure Our Future US is composed of US-based organizations that are part of a global coalition holding insurance companies accountable for their role in the climate crisis by advocating for a transition away from the fossil fuel economy in alignment with a 1.5˚C global warming trajectory.

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