

Senate Bill 1047: Insurance and Climate Change  
Written Testimony – Peter Kochenburger

I submit this testimony in support of Senate Bill 1047 on insurance and climate change. My name is Peter Kochenburger and I am an Associate Clinical Professor of Law at UConn Law School, where I teach insurance law and regulation, and help direct our insurance Law Center. I am also a consumer representative at the National Association of Insurance Commissioners. I am writing, however, in my personal capacity based on my work in this area, and not on behalf of these or other organizations.

I support this bill for three primary reasons, based on the vital role insurance and insurers play in addressing climate change.

First, insurers as investors. Insurers collect billions in premiums each year and are required to set aside or reserve a significant amount of this premium in order to pay claims that may occur months, years or decades later. Therefore, like other financial institutions, insurers are major investors in our nation's and state's economies. Insurance reserves are generally conservatively invested and closely reviewed and evaluated by regulators to ensure future claims can be paid. The reporting requirements in this bill will provide essential information on how insurers are managing these investments and underwriting risks, and are well in line with current regulatory practices and requirements.

Second, insurers and reinsurers are the world's risk managers. Here, insurers perform an additional role as they are the experts in evaluating, pricing and underwriting risk, and are doing so with increasingly greater precision. How insurers price risk provides powerful incentives for how individuals and organizations act. For example, property in areas subject to frequent storms, flooding, or wildfires would cost more, sometimes significantly more, to insure, which encourages policyholders to build in less risky zones, and to build structures designed to prevent or reduce the damage occurring as these events become more frequent. This makes insurance underwriting a powerful tool to address climate change, as well as an essential component for post-disaster recovery for individuals and businesses. However, to underwrite a risk is to transfer all or some of it to the insurer, and the entities insurers underwrite bring various degrees of financial risk to the insurer, some of which may not be apparent or understood at the time - asbestos and environmental claims are two historical examples. This means that regulators and independent rating agencies such as AM Best and S&P Global (Standard and Poor) also evaluate insurer underwriting practices generally, and now specifically consider climate risk.<sup>1</sup> The fossil fuel industry is under significant financial and political stress and regardless of one's position on whether insurers should or should not divest from fossil fuel companies, understanding these investments is important. SB 1047 would provide needed information in this area.

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<sup>1</sup> AM Best joined the Principles for Sustainable Insurance in January ([AM Best Becomes Signatory to the ESG-Related Principles for Sustainable Insurance \(PSI\); First CRA to Make This Commitment](#)). S&P Global: [How Environmental and Climate Risks Impact Ratings - An Update | S&P Global](#).

Third, the importance of insurance and insurers in addressing climate change is increasingly recognized (if not by now assumed), and here, unfortunately, the U.S. is late to the game. This legislation will help us catch up and advance Connecticut's role as one of the leading states in this area.<sup>2</sup> Below is just a partial list of organizations working in the fields of climate change and insurance, and the numbers grow each year.

#### *International*

- The UN's Environmental Programme Finance Initiative was founded in the 1990s and now sets out separate principles for insurers, banks, and investors<sup>3</sup>
- Financial Stability Board<sup>4</sup>
- International Association of Insurance Supervisors<sup>5</sup> - the NAIC is a founding member and Commissioner Mais serves on the IAIS Executive Committee
- The European Insurance and Occupational Pensions Authority<sup>6</sup>
- The Bank of England<sup>7</sup>
- Canada - Office of the Superintendent of Financial Institutions<sup>8</sup>
- Ceres - a non-profit organization that focuses on capital markets and investors in addressing sustainability and climate change, and perhaps the first to comprehensively address the importance of insurance, insurance regulation, and insurance regulators in the U.S.<sup>9</sup>
- The Geneva Association, a leading insurer-financed think-tank, has made climate change a major focus for well over a decade<sup>10</sup>
- Internationally active insurers and reinsurers, such as
  - Swiss Re<sup>11</sup>
  - Munich Re<sup>12</sup>
  - Zurich<sup>13</sup>

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<sup>2</sup> The NAIC's Climate Risk Disclosure Survey was initially adopted in 2009 as a mandatory report, but political pressure led to the NAIC changing course and making it optional in 2010. California in 2010, followed by New York and Washington State in 2011, Connecticut and Minnesota in 2012, and New Mexico in 2013, made the report mandatory for insurers operating in their states. These six states remain the only ones requiring the Survey. See, generally, Joseph MacDougald, Peter Kochenburger, *Insurance and Climate Change*, 47 J. Marshall L. Rev. 719, 741-742 (2013); NAIC's Center for Insurance Policy Research, *Assessment of and Insights from NAIC Climate Risk Disclosure Data*, p. 8 (November 2020), available at [cipr\\_insights\\_climate\\_risk\\_data\\_disclosure.pdf \(naic.org\)](https://www.cipr.org/insights/climate-risk-data-disclosure.pdf).

<sup>3</sup> [United Nations Environment – Finance Initiative – Partnership between United Nations Environment and the global financial sector to promote sustainable finance \(unepfi.org\)](https://www.unepfi.org/)

<sup>4</sup> [Climate-related risks - Financial Stability Board \(fsb.org\)](https://www.fsb.org/).

<sup>5</sup> [www.iaisweb.org](https://www.iaisweb.org/)

<sup>6</sup> [Sustainable finance | Eiopa \(europa.eu\)](https://www.eiopa.europa.eu/)

<sup>7</sup> [Climate change | Bank of England](https://www.bankofengland.co.uk/climate/)

<sup>8</sup> [OSFI launches consultation on climate-related risks in the financial sector \(osfi-bsif.gc.ca\)](https://www.osfi-bsif.gc.ca/en/consultation/consultation-on-climate-related-risks-in-the-financial-sector)

<sup>9</sup> [Insurance | Ceres](https://www.ceres.org/)

<sup>10</sup> [Climate Change and Emerging Environmental Topics | Geneva Association](https://www.genevaassociation.com/).

<sup>11</sup> [Sustainability | Swiss Re](https://www.swissre.com/)

<sup>12</sup> [Climate change risks: A challenge for humanity | Munich Re](https://www.munichre.com/)

<sup>13</sup> [Zurich publishes its Sustainability Report 2020 | Zurich Insurance](https://www.zurich.com/en/sustainability-report-2020)

*Domestic*

- NAIC<sup>14</sup>
- Federal Reserve Board<sup>15</sup>
- Treasury<sup>16</sup>
- SEC<sup>17</sup>
- Commodities Future Trading Commission<sup>18</sup>
- Major Connecticut-based insurers, such as
  - Travelers<sup>19</sup>
  - The Hartford<sup>20</sup>

I do have two suggestions for this bill. First, to reduce reporting burdens on insurers, align as much as possible the reporting dates with the NAIC's Climate Risk Disclosure Survey, which Connecticut requires. Second, the Insurance Department's new responsibilities in this legislation are important, but to fulfill this potential and do the work envisioned, the Department will need additional funding, such as the ability to hire outside consultants.

We know climate change is not a political fad nor just the intellectual fashion of the day, but perhaps the most significant threat facing the world. As the nation's insurance capital, no state knows better the essential role insurance and insurers play in a market economy and the financial protections it provides individuals, families, and private and public organizations. This legislation will provide additional information and tools for regulators to understand how insurers are responding to the multiple risks climate change brings.

Thank you and please let me know if I can provide additional information.

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<sup>14</sup> [Climate and Resiliency \(Ex\) Task Force \(naic.org\)](https://www.naic.org)

<sup>15</sup> [Speech by Governor Brainard on the role of financial institutions in tackling the challenges of climate change - Federal Reserve Board](#)

<sup>16</sup> [Treasury - Climate 21](#)

<sup>17</sup> [SEC.gov | Enhancing Focus on the SEC's Enhanced Climate Change Efforts](#)

<sup>18</sup> [CFTC Acting Chairman Behnam Establishes New Climate Risk Unit | CFTC](#)

<sup>19</sup> [Climate-Strategy - Travelers Sustainability Report](#)

<sup>20</sup> [Environmental Stewardship | The Hartford](#)