United States Senate
COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510–6100
TELEPHONE: (202) 224–0642

June 9, 2023

Mr. Michael L. Tipsord
Chairman, President & Chief Executive Officer
State Farm Insurance
One State Farm Plaza
Bloomington, IL 61710

Dear Mr. Tipsord:

The United States Senate Committee on the Budget has recently held a series of hearings examining the economic risks associated with climate change.[1] In these hearings, central bankers, economists, insurance industry executives, financial experts, and others have testified that climate change poses multiple "systemic risks" to the economy. As you know, systemic risks cascade out of immediately affected sectors of the economy to do harm not only nationwide but also globally.

Witnesses have warned that sea level rise and wetter, more intense storms could eventually make more than $1 trillion in coastal real estate uninsurable, and therefore unmortgageable, leading to a coastal property values crash; that more frequent and intense wildfires could result in a similar death spiral for Western property in the wildland-urban interface; that climate-related losses are making it harder for the insurance industry to price risk, already resulting in insolvencies among regional insurers; and that, as demand for oil and gas declines, hundreds of billions of dollars in fossil fuel assets may be stranded (the "carbon bubble"). Each of these disruptions could become "systemic," and more than one could occur simultaneously.

We write to inquire how the U.S. insurance industry, specifically State Farm Insurance (State Farm), evaluates these climate-related risks, decides to invest in or underwrite fossil fuel expansion projects that drive such risks, and prices policies insuring such projects. Underwriting and investing in dangerous fossil fuel projects makes it harder to achieve global climate goals, and there is little transparency about how the myriad risks factor into industry decisions.[2]

As you know, 195 world leaders signed the Paris Agreement in 2015, committing their countries to pursue efforts to limit temperature increases to 1.5°C above pre-industrial levels. Since that time, respected international bodies like the International Energy Agency and United Nations (UN) have stated that new coal, oil, or gas development is incompatible with that

[1] Hearings." U.S. Senate Committee On The Budget. Accessed June 6, 2023. https://www.budget.senate.gov/hearings.

[2] "Home." Oil Gas Policy Tracker, May 2, 2023. https://oilgaspolicytracker.org/.

global goal and, indeed, that production of these fossil fuels must decrease each year. The UN recommended that production of coal, oil, and gas decline by 11%, 4%, and 3%, respectively, every year through 2030.[3]

Despite these prudent recommendations based on well-established climate science, U.S. insurance companies continue to underwrite coal, oil, and gas projects and invest in the oil and gas industry. U.S. insurers currently have approximately $582 billion invested in fossil fuels—with nearly $90 billion in coal alone.[4] Globally, some insurance companies like Allianz, Munich Re, and AXA have begun restricting their underwriting of certain coal, oil, and gas projects.[5] But in the United States, the insurance industry continues to support existing and expanded fossil fuel projects with few restrictions in place limiting—or excluding—either. In short, U.S. insurers continue to underwrite polluting projects while making investments in an industry whose continued expansion poses multiple serious dangers to overall economic stability and to insurance services in particular.

While the U.S. insurance industry invests in and underwrites fossil fuel projects that are driving the climate crisis, it simultaneously faces rising costs due to climate disasters. For example, insurers are greatly raising rates and even pulling out of the home insurance market in Florida and Louisiana, in part due to climate-driven hurricanes.[6] In California, wildfires have caused significant turbulence in the state's insurance market, with non-renewals of residential insurance policies jumping 31% in 2019 and annual premiums increasing by thousands of dollars.[7] Some insurers, including State Farm, even recently announced that they would completely cease accepting new applications on business and personal property lines anywhere in the state, citing rapidly growing catastrophe exposure as one of the reasons.[8] Additionally, the Treasury Department has proposed collecting data to examine how climate risk and insurers'

[3] "2021 About." Production Gap, October 20, 2021. https://productiongap.org/2021about/.

[4] "U.S. Insurance Companies Have $582 Billion Invested in Fossil Fuels." Public Citizen, December 22, 2021. https://www.citizen.org/news/u-s-insurance-companies-have-582-billion-invested-in-fossil-fuels/.

[5] Adriano, Lyle. "Revealed – How Us Insurers Compare When It Comes to Exiting Fossil Fuel Support." Insurance Business America, October 18, 2022. https://www.insurancebusinessmag.com/us/news/environmental/revealed--how-us-insurers-compare-when-it-comes-to-exiting-fossil-fuel-support-424267.aspx.

[6] Frank, Thomas. "Fla. Insurance Crisis Deepens as Rates Soar, Companies Fall." E&E News, September 21, 2022. https://www.eenews.net/articles/fla-insurance-crisis-deepens-as-rates-soar-companies-fall/; Finch II, Michael. "Louisiana's Homeowners Insurance Market Straining under Weight of 600,000 Claims." NOLA.com, April 2, 2022. https://www.nola.com/news/article_1aa57ff2-b205-11ec-8b04-5391d3bc8214.html.

[7] Nadeau, Sarah, Julia Cusick & Madeline Shepherd. "Regulators Should Identify and Mitigate Climate Risks in the Insurance Industry." Center for American Progress, June 5, 2023. https://www.americanprogress.org/article/regulators-should-identify-and-mitigate-climate-risks-in-the-insurance-industry/; Brooks, Khristopher J. "California Insurers Are Dropping Homeowners Threatened by Wildfires." CBS News, October 21, 2020. https://www.cbsnews.com/news/california-wildfires-home-insurers-dropping-homeowners/.

[8] Frank, Thomas. "Are Home Insurers Abandoning Communities Vulnerable to Climate Change?" Scientific American, January 4, 2023. https://www.scientificamerican.com/article/are-home-insurers-abandoning-communities-vulnerable-to-climate-change/; Hussain, Noor Zainab. "State Farm Stops New Home Insurance Sales in California as Wildfire Risks Grow." Reuters, May 30, 2023. https://www.reuters.com/world/us/state-farm-stops-new-home-insurance-sales-california-wildfire-risks-grow-2023-05-30/.

responses to it are affecting the cost and availability of insurance, including whether property insurance companies are withdrawing from the communities most vulnerable to climate change and, in doing so, further deepening systemic inequities.[9]

Furthermore, as states and municipalities seek damages from industrial polluters and other entities for cascading climate harms, many in the insurance industry are withdrawing from directors and officers liability coverage for defendants' alleged negligent or reckless acts in shareholder liability and tort lawsuits related to climate damage and fraud.[10] Some insurers are also responding to increased climate-related claims by including clauses requiring policyholders to disclose climate risk, or by denying coverage for climate liability, costs, and losses where the insured party has failed to meet greenhouse gas emissions reduction targets.[11] Given the threat that climate change poses to both the insurance industry and its policyholders, it is difficult to understand how the industry can carefully price and manage climate risk in some areas of its business while simultaneously having no apparent plan to phase out its underwriting of and investment in the projects and companies generating the emissions that are causing these very harms. Many fossil fuel projects would not be able to move forward without insurance, and all industries and sectors in civil society have a role to play in meeting the United States' international climate goals.

In a related environmental justice issue, it remains unclear whether insurance providers, including your company, have adopted clear policies to ensure respect for Native sovereignty and other human rights when deciding whether to invest in or underwrite infrastructure projects.[12] Where polluting projects disproportionately impact Indigenous and other marginalized communities, the UN Declaration on the Rights of Indigenous Peoples recommends that extractors "obtain their free and informed consent prior to the approval of any project affecting their lands or territories and other resources, particularly in connection with the development, utilization or exploitation of mineral, water or other resources."[13] Consistent with that recommendation, the global insurer AXIS, for example, updated its human rights policy last

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[9] Frank, Thomas. "Are Home Insurers Abandoning Communities Vulnerable to Climate Change?" Scientific American, January 4, 2023. https://www.scientificamerican.com/article/are-home-insurers-abandoning-communities-vulnerable-to-climate-change/.

[10] "US Fossil Fuel Firm Sues Insurer for Refusing to Cover Climate Lawsuit." The Guardian, August 30, 2022. https://www.theguardian.com/environment/2022/aug/30/us-fossil-fuel-firm-aloha-petroleum-sues-insurer-aig-for-refusing-to-cover-climate-lawsuit.

[11] "The Impact of Climate Change on the Insurance Sector." Mishcon de Reya LLP. February 7, 2023. https://www.mishcon.com/news/the-impact-of-climate-change-on-the-insurance-sector.

[12] "Climate Change for Indigenous Peoples." United Nations. Accessed June 6, 2023. https://www.un.org/development/desa/indigenouspeoples/climate-change.html.

[13] United Nations Declaration on the Rights of Indigenous Peoples. September 13, 2007. https://www.un.org/development/desa/indigenouspeoples/wp-content/uploads/sites/19/2018/11/UNDRIP_E_web.pdf.

year to "not provide insurance coverage on projects undertaken on indigenous territories without Free, Prior, and Informed Consent."[14]

Just last week, State Farm announced that it would stop selling new coverage to homeowners in California, because of "rapidly growing catastrophe exposure" from devastating wildfires in the state.[15] As State Farm is the largest homeowner insurance company operating in California, this announcement promises to have a significant effect on insurance rates and availability. It seems nonsensical at best—and complicit at worst—for State Farm to carefully factor climate risk from wildfires into its homeowner's insurance policies, refusing in some cases to provide such policies at all, while apparently ignoring the heightened climate risk that its investment portfolio is helping to create. A recent study by the Union of Concerned Scientists found that 19.7 million acres of burned forest land—37% of the total area affected by forest fires in the western U.S. and Canada since 1986—can be attributed to the world's 88 largest fossil fuel producers and cement manufacturers.[16]

Despite all this, State Farm continues to hold significant investments in fossil fuel industries. According to California's Department of Insurance, State Farm held at least $30.9 billion in fossil-fuel-related investments as of 2019—the most of *any* insurance provider in the United States.[17]

Given these concerns, we respectfully request that State Firm provide responses to the following requests for information by no later than June 16, 2023:

1. On what basis does State Firm still support underwriting new fossil fuel expansion projects and investing in the fossil fuel industry? Does State Firm have plans in place to follow the example of global counterparts and either scale back or phase out its underwriting of new and expanded coal, oil, and gas projects? If so, by when does State Firm plan to cease insuring such coal, oil and gas projects?

2. What methodology does State Firm use to evaluate its future impact on the environment and the climate as a result of its investment and underwriting decisions? What methodology does State Firm use to evaluate the impact of climate change on potential new and existing insured projects?

[14] Hussain, Noor Zainab & Simon Jessop. "Axis to Stop Insuring Energy, Other Projects without Community Support." Reuters, October 14, 2022. https://www.reuters.com/article/axis-capital-policy-esg-idCAL1N31E1ST.

[15] Flavelle, Christopher, Jill Cowan & Ivan Penn. "Climate Shocks Are Making Parts of America Uninsurable. It Just Got Worse." The New York Times, May 31, 2023. https://www.nytimes.com/2023/05/31/climate/climate-change-insurance-wildfires-california.html.

[16] "The Fossil Fuels behind Forest Fires." Union of Concerned Scientists, May 16, 2023. https://www.ucsusa.org/resources/fossil-fuels-behind-forest-fires.

[17] State of California. Department of Insurance. Accessed June 6, 2023. https://interactive.web.insurance.ca.gov/apex_extprd/f?p=260:40:32696013527093::NO:10,20,30,40::.

3. Does State Firm have a plan to ensure that its provision of insurance to oil, gas, and coal companies is in line with a credible 1.5°C pathway? If so, please explain that plan. If not, please explain why State Firm has chosen not to adopt such a plan.

4. Does State Firm plan to divest assets, including assets managed for third parties, from coal, oil and gas companies whose activities are not aligned with a 1.5°C pathway? If so, on what timeline or by what date?

5. Please provide a list of the trade associations, advocacy organizations, and lobbying entities with which State Firm has a professional relationship or membership as well as the amount of money that State Firm has spent on climate-related lobbying activities over each of the last five (5) years.

6. What is State Firm doing to evaluate its membership in those trade associations, funding of such advocacy organizations, and participation in lobbying activities, and to bring such advocacy in line with a 1.5°C pathway?

7. Does State Firm have a plan to adopt binding targets for reducing its insured emissions that are transparent, comprehensive and aligned with a credible 1.5°C pathway? If so, please explain.

8. How does State Firm evaluate its responsibilities with respect to the Free, Prior, and Informed Consent of Indigenous Peoples? Does State Firm have a plan for developing due diligence and verification mechanisms to ensure that both State Firm and its clients obtain and document the Free, Prior, and Informed Consent of impacted Indigenous Peoples as articulated in the UN Declaration on the Rights of Indigenous Peoples? If so, please explain.

We also respectfully request that State Firm produce the following documents by no later than June 23, 2023:

1. Policies, memoranda, or other similar documents governing State Firm's methodology for conducting assessments of a project's impact on climate change or the environment when evaluating requests for investment in or underwriting of fossil fuel-related projects.

2. Policies, memoranda, or other similar documents concerning State Firm's methodology for evaluating the impact of climate change on its insured projects or projects considered for underwriting.

3. Policies, memoranda, or other similar documents reflecting State Firm's analysis or projections of the trajectory of insurance rates and scope of coverage in light of rising climate harms.

4. Policies, memoranda, or other similar documents concerning State Firm's plan, or lack thereof, to scale down or phase out insuring new and expanded coal, oil and gas projects.

5. Policies, memoranda, or other similar documents concerning State Firm's plan, or lack thereof, for divesting assets, including assets managed for third parties, from coal, oil and gas companies whose activities are not aligned with a 1.5°C pathway?

6. Policies, memoranda, or other similar documents concerning State Firm's methodology, or lack thereof, for evaluating existing or possible membership in trade associations, funding of advocacy organizations, and participation in lobbying activities, especially as such activities relate to the environment or climate change.

7. Policies, memoranda, or other similar documents concerning State Firm's adherence to—especially in connection with its underwriting or investing decisions—the UN Declaration on the Rights of Indigenous Peoples and/or the Free, Prior, and Informed Consent of Indigenous Peoples.

The latest Intergovernmental Panel on Climate Change (IPCC) Report states that, to limit warming to 1.5 °C above pre-industrial levels, global emissions must halve by 2030. The planet has already warmed over 1.2°C above pre-industrial levels, and our ability to reach the 1.5°C goal is moving fast out of reach, with the IPCC pegging the current probability at just 38%. Maintaining the status quo would lead to a likely catastrophic 2.8°C temperature rise by the end of the century. The insurance and financial sectors have an important role to play.

Thank you for your attention to this important issue. We look forward to your responses and welcome further engagement with you on this topic.

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The Senate Committee on the Budget has jurisdiction over Budget Act and budget process legislation, including concurrent resolutions on the budget and legislation changing the content or consideration of budget resolutions. In fulfilling its responsibilities, the Committee has broad authority to investigate the budgetary effects of existing and proposed legislation, as well as matters that affect the content or determination of amounts included in or excluded from the congressional budget or the calculation of such amounts, among other things. An attachment to this letter provides additional instructions for responding to the Committee's request. If you have any questions regarding this request, please contact Majority Staff at (202) 224-0642.

Sincerely,

Sheldon Whitehouse
Chairman
Senate Committee on the Budget

Ron Wyden
United States Senator

Bernard Sanders
United States Senator