



November 14, 2025

Commissioner Ricardo Lara
California Department Of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 98514

Re: Response to [REG-2025-00025 Documenting Long-term Solvency Planning and Capital Needs Analyses.](#)

Dear Commissioner Lara,

Public Citizen and Americans for Financial Reform Education Fund support the efforts by the California Department of Insurance (CDI) to require insurers to engage in long-term solvency planning in response to emerging risks and urge strengthening of the proposed framework. The long time horizon along which these risks are expected to materialize and grow may be insufficiently captured by an insurer's existing risk management practices. Emerging risks, in particular physical and transition risks from climate change, require additional attention from both insurers and examiners.

Insurance companies are both exposed to and contribute to significant climate-related financial risks. The physical effects of climate change, including severe floods, wildfires, hurricanes, and other disasters, drive up insurance costs and threaten the long-term financial viability of insurers and the economic health of their customers. Insurers are currently offloading the growing cost of these disasters onto homeowners and renters through rate hikes and cancelations, exacerbating existing housing affordability challenges. As climate costs rise, insurers have sometimes responded by leaving communities entirely, eroding their own markets and leaving households without coverage, rather than working with policyholders and communities to build climate resilience. Transition risks from insurers underwriting and investing in fossil fuel projects and companies threaten to leave insurers with stranded assets and financial exposure to declining industries. Insurance companies continue to underwrite and invest in projects and companies that make climate change worse, even as these activities drive up insurance costs and threaten their own bottom lines and the financial health of the communities they serve.

The failure of insurers to adequately manage and mitigate climate-related risks in equitable and just ways will have destabilizing impacts beyond the insurance sector. Partially in response to increasingly frequent, severe, and costly climate disasters, property insurers are

raising rates at a rapid pace. Between 2021 and 2024, property insurance costs increased by 24 percent, outpacing inflation by 11 percent.¹ The cost of property insurance and the retreat of insurers in some areas is creating financial strain for many homeowners. Research by the Federal Reserve Bank of Dallas found that rising property insurance costs are driving up household indebtedness as well as mortgage and credit card delinquencies.² Homeowners and multifamily housing operators forgoing full insurance coverage due to rising costs are exposed to significant losses in the event of a disaster, as are banks, nonbank mortgage lenders, and Government Sponsored Enterprises.³ The continued erosion of insurance affordability and availability will also make mortgages unavailable for many consumers in certain geographies, as lenders require insurance on a property to issue a mortgage, and it will stymie the development of affordable housing. As such, the loss of available and affordable insurance in an area can bring about the loss of other financial services and threaten the financial viability of a community.

By requiring insurers to conduct climate scenario analysis and to develop and disclose climate-related transition plans that include climate mitigation as well as adaptation and resilience measures, the CDI can promote safety and soundness of insurers, protect consumers from bearing unaffordable climate costs, and chart a course towards a more sustainable, equitable, and just insurance market. We recommend the following changes to the draft framework.

Comparability and standardization

The CDI should require all covered insurers to disclose detailed reporting of their climate-related physical risks and their climate transition risks by establishing specific, mandatory requirements. This will generate standardized and comparable reporting which is critical for effective analysis and management of firm-level and system-level risk. Overreliance on item-by-item materiality assessments can result in incomparable and incomplete reporting, and it creates an incentive for firms to underreport their risks, as has occurred with voluntary adherence to the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD)⁴ and the 2010 climate financial risk guidance from the Securities and Exchange

¹ Sharon Cornelissen et al., Overburdened: The Dramatic Increase in Homeowners Insurance Premiums and its Impacts on American Homeowners, The Consumer Federation of America (April 2025), <https://consumerfed.org/wp-content/uploads/2025/03/OverburdenedReport.pdf>.

² Shan Ge, Stephanie Johnson, and Nitzan Tzur-Ilan, Climate Risk, Insurance Premiums, and the Effects on Mortgage and Credit Outcomes, The Federal Reserve Bank of Dallas (Jan. 2025), <https://www.dallasfed.org/-/media/documents/research/papers/2025/wp2505.pdf>.

³ Parinitha Sastry et al., The Limits of Insurance Demand and the Growing Protection Gap, Harvard Business School (May 31, 2024), https://www.hbs.edu/ris/Publication%20Files/25-054_8068f2c0-0bac-4200-aa22-a18a2aef9c49.pdf.

⁴ Task Force on Climate-related Financial Disclosures (TCFD). 2020. *Task Force on Climate-Related Financial Disclosures: 2020 Status Report*. TCFD. https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf.

Commission.⁵ Because the 2010 SEC guidance allows firms to report only those climate risks they self-identify as material, many firms provide only vague, boilerplate disclosures or do not address climate risk at all.⁶

There is no doubt that financial risk from climate-exacerbated wildfires, for example, is a material risk for every property and casualty insurer in California covered by this regulation, so establishing mandatory requirements is justified and will yield more comparable reporting and practices. Similarly, all insurers have exposure to transition risks due to new low-carbon technologies, changes in population behaviors, and potential future government actions. Globally, one study found that \$1.4 trillion in assets may become worthless as a result of the transition.⁷ All insurers should document the “Analysis of material risks” (c)(2) for both climate-related physical risks (c)(1)(B) and transition risks (c)(1)(C) at a minimum, as both physical and transition risk can have material effects on insurers’ immediate financial condition and long-term business outlook. As discussed below, insurers should analyze these risks across a range of potential climate and greenhouse gas emissions scenarios.

Stress testing of forward-looking climate risk scenarios

We support the requirement that insurers conduct and disclose the results of stress testing of forward-looking climate risk scenarios. Stress testing forward-looking scenarios is an important risk management tool for insurers. The impacts of climate change will mean that the future risk landscape will look significantly different from the past, making backward-looking risk identification and management tools insufficient. Stress testing can help insurers understand their exposures to an array of climate risks, develop strategies to mitigate those risks, and identify gaps in their current risk management practices. To avoid ambiguity about the requirements under section (c)(2)(B), the CDI should remove the clause, “any of the following in the insurer's possession.” The CDI should also amend the time horizon of the scenarios to 5, 10, 20, and 30 years looking forward, rather than codify specific years that can become outdated, and require the exercise be completed by insurers on a biannual basis.

Correctly calibrated stress testing of forward-looking scenarios has considerable utility even though it cannot provide precise loss estimates and neither insurers nor examiners should rely on them for this purpose. The Federal Reserve’s Pilot Climate Scenario Analysis Exercise revealed that even the largest and most sophisticated banks “faced significant data and modeling

⁵ Securities and Exchange Commission (SEC). 2010. “Commission Guidance Regarding Disclosure Related to Climate Change.” SEC. <https://www.sec.gov/rules/interp/2010/33-9106.pdf>.

⁶ Lee Reiners and Charlie Wowk. 2020. *Climate Risk Disclosures & Practices: Highlighting the Need for a Standardized Regulatory Disclosure Framework to Weather the Impacts of Climate Change on Financial Markets*. Durham, NC: Climate Risk Disclosure Lab, Global Financial Markets Center, Duke University School of Law. <https://econ.duke.edu/sites/econ.duke.edu/files/documents/Climate-Risk-Disclosures-and-Practices.pdf>.

⁷ Gregor Semieniuk et al., Stranded Fossil-Fuel Assets Translate to Major Losses for Investors in Advanced Economies, *Nature Climate Change* (2022), <https://www.nature.com/articles/s41558-022-01356-y>.

challenges in estimating climate-related financial risks.”⁸ Climate scenarios themselves are based on assumptions about unknowable future events and rest on incomplete data. As such, the predictive accuracy and usefulness of stress testing should not be overstated and results should be used with appropriate acknowledgment of uncertainty and limitations. To avoid false precision, loss estimates produced through climate stress testing should be considered with large margins of error and insurers should disclose model assumptions to examiners.

For climate stress testing to be meaningful, climate risk scenarios must be aligned to climate science—incorporating the radical uncertainty of climate change and the significant, unpredictable, and non-linear ways climate risk can manifest. Climate scenarios, including those developed by the Network for Greening the Financial System (NGFS) and other leading providers, underestimate risk, insufficiently incorporate tipping points and non-linear impacts, and assume dependence on currently unproven technologies, among other deficiencies.⁹ Reliance on scenarios that underestimate risk will lull insurers and examiners into a false sense of comfort about the climate risk exposures of individual insurers, the insurance industry, and the consumers who rely on private insurance to recover from climate disasters. To accurately reflect climate risk, scenarios must be calibrated to align with climate science, incorporate tipping points and nonlinear impacts, limit reliance on unproven technologies, and incorporate second-order impacts and correlated risks.¹⁰ If insurers cannot quantitatively model these complexities, qualitative estimates should be used to approximate risks.

Long-term investment strategy targets

We support the requirement that insurers create and disclose long-term strategy targets related to climate risk. However, as written, this requirement is both too vague and too limited in scope to produce meaningful target setting and risk management aligned to these targets. The following should be added to the proposal to strengthen the targets that insurers set to be more comprehensive, trackable, and facilitate more meaningful climate risk reduction both for insurers and the customers and communities they serve.

1. Long-term strategy targets should extend to all insurer activities: underwriting, investing, and operations. The proposal currently limits the scope of this requirement solely to investment activities.

⁸ Pilot Climate Scenario Analysis Exercise Summary of Participants’ Risk-Management Practices and Estimates, Board of Governors of the Federal Reserve System (May 2024), <https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf>.

⁹ Sandy Trust et al., The Emperor’s New Climate Scenarios: Limitations and Assumptions of Commonly Used Climate-Change Scenarios in Financial Services, Institute and Faculty of Actuaries and University of Exeter (July 2023), https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios_ifoa_23.pdf; Irene Monasterolo, María J. Nieto, and Edo Schets, The Good, the Bad and the Hot House World: Conceptual Underpinnings of the NGFS Scenarios and Suggestions for Improvement (Dec. 2022), Banco de España, Banco Espana, <http://dx.doi.org/10.2139/ssrn.4211384>.

¹⁰ Towards Decision-Useful Climate Scenario Analysis, Public Citizen (July 2024), <https://www.citizen.org/wp-content/uploads/BCBS-scenario-analysis-comment.pdf>.

2. Insurers should be required to create and disclose long-term strategy targets related to the management of transition risk (risks referenced in section (c)(1)(C)) as well as physical risk (risks referenced in section (c)(1)(B)). As written, the proposal only requires insurers to set long-term strategy targets related to physical climate risks.
3. Physical climate risk mitigation targets should be grounded in promoting climate resilience for insurers and their customers, leveraging underwriting and investment strategies to build property-, community-, and landscape-scale adaptation, and avoiding community-wide withdrawals (known as retreat).
4. In addition to the long-term strategy targets set at the insurers' discretion, this proposal should mandate that insurers establish science-aligned emissions reduction targets, inclusive of the insurer's underwriting, investing, and operations.
5. The proposal's requirement to disclose progress towards targets should include disclosure of progress towards emissions reduction targets, consistent with leading target setting and transition planning frameworks.

Limiting long-term target setting to an insurer's investment portfolio leaves significant climate risks unaccounted for. Physical risk is most visible in insurers' underwriting portfolios, where chronic climate change impacts are steadily driving up claims and climate disasters are becoming more severe. The United States had 27 natural disasters costing \$1 billion or more in 2024, totalling \$182 billion in losses.¹¹ In some high risk areas, growing climate disasters are driving insurers out of communities. In Florida, the gap left by traditional insurers is being filled by low quality private alternatives. These insurers—now serving the most climate-vulnerable communities—have riskier liabilities, operate with higher leverage, and have more vulnerable and concentrated reinsurance relationships.¹² In other states, customers are turning to insurers of last resort. These plans, backstopped by the public, provide bare bones coverage for climate-vulnerable communities, and private insurers increasingly use them to offload high risk properties, acting as an implicit subsidy to private insurers.

To manage physical risk in an equitable and just manner, insurers should be required to set targets and develop strategies to build climate resilience both for themselves and the customers and communities they serve, which can lower disaster losses and help mitigate the ongoing insurance crisis. In the absence of these efforts, steeper insurance costs and insurer retreat from communities will compound housing unaffordability and make it harder for families to make ends meet with the steadily rising cost of living. California and its insurers should continue to develop and expand programs¹³ to provide mandatory, standardized insurance

¹¹ U.S. Billion-Dollar Weather and Climate Disasters, NOAA National Centers for Environmental Information (2025), <https://www.ncei.noaa.gov/access/billions/>.

¹² Parinitha Sastry et al., When Insurers Exit: Climate Losses, Fragile Insurers, and Mortgage Markets (2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4674279.

¹³ See e.g., California's [Safer From Wildfire](#) program and the required discounts for property-level wildfire risk mitigation under [10 CA ADC § 2644.9](#).

premium discounts for property-, community-, and landscape-scale adaptation and provide grants and invest capital¹⁴ to pay for climate resilience enhancements.

Given the insurance industry's contributions to climate change, and its unique role protecting the public financially from climate disasters, insurance commissioners must not allow insurers to manage their physical risk simply by exiting communities, thereby privatizing decades of profits from fossil fuel underwriting and investment and now socializing the rising climate costs onto their customers and the public. In this proposal, the CDI should require insurers to disclose their 5, 10, and 20 year plans to continue offering coverage and paying claims in the geographies and for the customers they currently serve.

Insurers should also be required to establish targets to manage their transition risk, not just physical risk. Failure to align investment portfolios with net-zero milestones can generate losses for insurance companies and create financial market instability, as the CDI has previously acknowledged.¹⁵ Disorderly unwinding of fossil fuel investments can create concentrated losses for the insurance sector. Assumptions that transition risk in insurer investment portfolios won't materialize for years or even decades are misguided. Fossil fuel companies don't need to be insolvent to threaten insurance company portfolios and the ability of insurance firms to generate sufficient returns to meet liabilities.

This proposal should mandate insurers set science-aligned emissions reduction targets, inclusive of the insurer's underwriting, investing, and operations. While some long-term strategy targets will differ across insurers, emissions reduction targets must be aligned to the scientific reality of climate change, not dictated solely by individual insurer's assessment of risk. The Intergovernmental Panel on Climate Change (IPCC) warns that maintaining a 1.5°C warming pathway requires not only achieving net zero by 2050, but also a rapid and significant phase down of fossil fuels this decade.¹⁶ Target setting must include short- and medium-term emissions reduction milestones aligned with IPCC's assessment of a 1.5°C warming pathway. Insurer emissions reduction targets must also address emissions throughout the value chain. Scope 3 emissions, including those from underwriting and investing in climate intensive industries, comprise approximately 95 percent of insurer emissions.¹⁷ Targets inclusive of only scope 1 and 2 emissions are not suitable for insurers.

¹⁴ See e.g., Covered insurers should be required to contribute to the [California Organized Investment Network \(COIN\)](#) and CID should identify funding vehicles that promote climate resilience and affordable housing that can be aligned with home insurance discount criteria.

¹⁵ Ted Lamm, Grayson Peters, and Ethan N. Elkind, Looking Forward: A Guide to Climate Risk Scenario Analysis Design for California's Insurance Regulator, Berkeley Law Center for Law, Energy & the Environment (April 2023), <https://www.law.berkeley.edu/wp-content/uploads/2023/04/Looking-Forward-April-2023.pdf>.

¹⁶ Hoesung Lee et al., Climate Change 2023 Synthesis Report: Summary for Policymakers, Intergovernmental Panel on Climate Change (Mar. 2023), https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf.

¹⁷ Jacques Cornic and Roger Jackson, ESG in insurance: Insured emissions, KPMG (2023), <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/08/esg-in-insured-emissions-web.pdf>.

We support the proposal's requirement that insurers disclose their plan for achieving the targets they set and their progress towards these targets over time. However, without standardized requirements for this disclosure and validation of insurer claims by the Department, the disclosure of transition plans can become a tool for greenwashing rather than accountability. To facilitate comprehensive and comparable target setting and transition planning, the CDI should rely on existing frameworks, such as the Science Based Targets initiative's Financial Institutions Net-Zero Standard and the frameworks published by the United Nations Forum for Insurance Transition to Net Zero.¹⁸ The CDI should also mandate that transition plans reflect insurers moving their businesses away from emissions intensive industries and investments, rather than pursuing strategies to offset emissions contributions by purchasing carbon credits or investing in unproven carbon capture technology.

Public disclosure

As written, this proposal is ambiguous about what insurers must disclose related to their assessment and mitigation of long-term risks. The proposal should make explicit that assessments and risk mitigation taken in response to this proposal must be reported to the Department annually. Additionally, the disclosure made in response to this proposal should be made public so that it can be used by insurance commissioners across states and by the public. For insurance commissioners looking to adopt similar proposals, public disclosure can encourage standardization across states and reduce the compliance burden placed on insurers. Public disclosure will also support insurer accountability and progress towards the targets set in response to this proposal.

Thank you for your attention to this important issue. Please reach out to Elyse Schupak (eschupak@citizen.org) at Public Citizen and Alex Martin (alex@ourfinancialsecurity.org) at Americans for Financial Reform Education Fund with any questions.

Sincerely,

Public Citizen
Americans for Financial Reform Education Fund

¹⁸ Financial Institutions Net-Zero Standard, Science Based Targets initiative (July 2025), <https://files.sciencebasedtargets.org/production/files/Financial-Institutions-Net-Zero-Standard.pdf>; Underwriting the Transition, United Nations Environment Programme's Forum for Insurance Transition to Net Zero (July 2025), https://www.unepfi.org/wordpress/wp-content/uploads/2025/07/2nd-FIT-Transition-Plan_Final.pdf.