Institute for Energy Economics and Financial Analysis
ieefa.org

P. O. Box 472
Valley City, OH 44280-0472
USA

+1 216-353-7344 staff@ieefa.org

May 20, 2025
Committee on Health Coverage, Insurance and Financial Services
Maine State Legislature
RE: LD 1674 – An Act to Require Insurers to Address Climate Risk in Their Business Activities

Dear Chair Bailey and members of the committee,

I am an energy finance analyst at the Institute for Energy Economics and Financial Analysis, a global nonprofit researching the transition to a diverse, sustainable, and profitable energy economy.[1] I write to provide some additional input and context on the "Insuring our Communities Act," and to encourage the Committee to give it serious consideration.

The bill responds to a fundamental problem: Climate change poses material and indeed *existential* threats to the insurance industry's stability and profitability. As catastrophic weather events become more frequent and more destructive, global warming is already scrambling insurance markets across the country.[2] Maine is no exception. Last year, Maine's Climate Council identified "increased storm severity and associated damages" as a key driver of recent home insurance rate hikes.[3] Over the previous two decades, climate change has been responsible for roughly $600 billion in losses at five of the largest insurers, according to one recent analysis.[4] Looking forward, leading industry voices warn that unchecked global warming could prove catastrophic to insurance's long-run business model.[5]

The first part of solving a problem, of course, is diagnosing it. Financial standard-setters have long recognized that disclosure has an important role to play in ensuring that "progress against climate targets is traceable and accessible."[6] By shedding light on the nature of insurers' exposure to climate-destabilizing projects — and the state of their transition-readiness planning — the bill makes important contributions on this front. These climate risk-related disclosure provisions would present no extraordinary burden and are in line with other jurisdictions such as California.[7] By ensuring transparency,

[1] My biography and qualifications can be found at https://ieefa.org/people/connor-chung.
[2] Brookings. How is climate change impacting home insurance markets?. January 2025.
[3] Maine Climate Council, Scientific and Technical Subcommittee. Scientific Assessment of Climate Change and Its Effects in Maine. 2024, p. 10.
[4] SEO Amsterdam Economics. Insured losses attributable to climate change: Determining the direct costs of climate change for insurers. November 2024. See discussion in: Insure our Future. Within our Power. December 2024.
[5] The Guardian. Climate crisis on track to destroy capitalism, warns top insurer. April 2025.
[6] Science Based Targets Initiative. Financial Institutions Net-Zero Standard, v 0.1. July 2024, p. 8.
[7] See e.g. California's database of insurer fossil fuel exposure: California Department of Insurance. Fossil Fuel Disclosures. Accessed May 2025.

the bill could lay a foundation for better policymaking, regulation, and industry self-governance alike.

The bill is also right to provide specific, tangible guidance on science-based climate risk mitigation targets. We especially commend its calls for insurers "not [to] rely on carbon offsets or unproven technology" for substantive transition planning, and its focus on "absolute greenhouse gas emissions reduction" as the central target. These stipulations align with best practice guidance from financial standard-setters,[8] and if implemented would help companies develop long-term plans that matter.

Fossil fuels are a minor and risk-laden sector for insurers, and abstaining from that market would not be burdensome and may improve their overall profitability. Insurers do not generate especially high premiums from fossil fuel underwriting (2% of industry business on average).[9] Nor have fossil fuel investments been especially strong stores of value: Over the past decade, traditional energy has been the single worst-performing and single highest-volatility component of the S&P 500.[10] The sector, meanwhile, has yet to present a cohesive plan for managing the growing competitive risks to its core business model.[11] Insurers are on the frontlines of fossil-fuel-induced economic instability.[12] From both a planetary and a financial standpoint, a careful shift away from such activities makes practical sense.[13]

The insurance sector is in the business of managing risk. Carrying out this function in the modern world requires greater attention to the impacts of a warming world and necessitates forward-thinking regulatory supervision.[14] The Insuring our Communities Act raises important questions about insurers' readiness and provides a roadmap for building financial resilience. We encourage the committee to give it serious consideration, and our experts are available to answer questions that may arise.

Sincerely,

Connor Chung
Energy Finance Analyst
Institute for Energy Economics and Financial Analysis
www.ieefa.org

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[8] IEEFA. SBTi steps up its game on net zero for finance. August 2023.
[9] Insure our Future. Within our Power. December 2024, p. 6.
[10] IEEFA. Another bad year — and decade — for fossil fuel stocks. January 2025.
[11] See e.g., IEEFA. BP's retreat is a reality check for investors. October 2024.
[12] Ceres. Addressing Climate as Systemic Risk: A call to action for U.S. financial regulators. June 2020, p. viii.
[13] IEEFA. To Avoid Heavy Losses, Insurance Companies Must Wake Up to Risks of Fossil Fuel Projects. July 2017.
[14] Bank of International Settlements. Turning Up the Heat: Climate Risk Assessments in the Insurance Sector. November 2019 ("It is incumbent on supervisors to put in place the necessary measures for insurers to address any significant risks that could adversely affect policyholders and financial stability. In previous financial crises, events once deemed implausible have materialised. Climate change poses the same threat.")

About IEEFA:

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends, and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. Our experts operate in around 30 countries on five continents, and IEEFA's studies have been used by financial institutions, regulators, policymakers, and more to help navigate the financial implications of climate change and the energy transition.