TESTIMONY OF SANDRA DARBY

PROPERTY AND CASUALTY ACTUARY

BUREAU OF INSURANCE

DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION

In opposition to L.D. 1674

An Act to Require Insurers to Address Climate Risk in Their Business Activities

Presented by Representative Warren

Before the Joint Standing Committee on Health Coverage, Insurance & Financial Services

May 20, 2025 at 1:00pm

Senator Bailey, Representative Mathieson, and members of the Committee, I am Sandra Darby, Property and Casualty Actuary at the Bureau of Insurance. I am here today to testify in opposition to LD 1674.

Under the state-based system of insurance regulation each state is responsible for monitoring and ensuring the financial solvency of insurers domiciled in their state. Each jurisdiction relies on other state insurance departments to monitor companies domiciled in their state. Because the various requirements of this bill apply to all insurers doing business in Maine, the bill would require the Bureau to monitor thousands of companies, most of which are domiciled outside of Maine. Requiring the Bureau to analyze the asset investment portfolio of every insurer that does business in Maine would be impossible, and at a minimum would require a significant increase in Bureau staff.

The bill could have serious unintended consequences. Requiring insurers to cease providing coverage to fossil fuel revenue businesses will take away important protections insurance coverage provides to third parties who might be harmed by fossil-fuel-related activities.

The bill's requirements could drive insurers out of the state, including reinsurers. The largest insurers in the world underwrite the projects described by the bill, and they can easily choose to not do business here in favor of jurisdictions with less restrictive asset investment and underwriting requirements. As an example, Allianz, a large German insurer with worldwide operations, could be underwriting a pipeline in Texas but providing reinsurance for a Maine domestic insurer. We would not want our domestic insurer to lose access to that reinsurance. Forcing divestiture in a down market or prior to the maturity of securities could result in significant losses for insurers whose solvency we and other state insurance departments regulate. We want to avoid unnecessary capital losses and encourage a diverse portfolio with good asset-liability matching.

Under the NAIC accreditation program, state statutes must require domestic insurers to maintain a diversified investment portfolio. Domestic insurers' investments must also meet requirements for liquidity. It would jeopardize Maine's accreditation to impose investment and underwriting requirements that are incompatible with NAIC requirements.

This bill contains numerous vague provisions that would make it nearly impossible to implement. By way of example, the bill mentions "science-based climate risk mitigation targets" multiple times but does not specify whether the Bureau or the insurer sets those targets or give any guidance as to what those targets are. In the definition of "precautionary principle" the bill states that "when activities under consideration may lead to unacceptably serious or irreversible harm that is scientifically plausible but uncertain, actions must be taken to avoid or diminish that harm," but gives no indication who decides what those thresholds are.

While the bill may be well-intentioned, it is vague, would be difficult and expensive to implement, and may have severe unintended consequences for our insurance market.

Maine currently participates in the Climate Risk Disclosure Survey, administered by the NAIC together with the California Insurance Department. In this survey, state regulators request an annual disclosure from their domestic insurers of their assessment and management of their climate-related risks. The purposes of this survey are to:

- Enhance transparency about how insurers manage climate-related risks and opportunities.
- Identify good practices and vulnerabilities.
- Provide a baseline supervisory tool to assess how climate-related risks may affect the insurance industry.
- Promote insurer strategic management and encourage shared learning for continual improvement.

- Enable better-informed collaboration and engagement on climate-related issues among regulators and interested parties.
- Align with international climate risk disclosure frameworks to reduce redundancy in reporting requirements.

The Bureau also recently participated in a pilot project for climate-conditioned Probable Maximum Loss for risk-based capital solvency calculation. This pilot project resulted in an addition to the risk-based capital calculation that includes a calculation of climate risk.

Thank you, I would be glad to answer any questions now or at the work session.