March 24, 2021

David H. Long
President & CEO, Liberty Mutual
175 Berkeley Street
Boston, MA 02116

Dear Mr. Long:

We write you regarding your underwriting and investment policies pertaining to coal and other carbon-intensive projects such as oil and gas production from tar sands and in the Arctic and Amazon.

As the leader of a major insurance company, you know the significant financial and economic risks climate change poses to both underwriting and investment. Economists, central bankers, financial regulators, asset managers, investors, insurance analysts, credit rating analysts, investment bankers, real estate professionals, and scientists have produced an enormous trove of research suggesting that climate change and the failure to plan for an orderly transition to a low-carbon economy are capable of producing staggering economic losses. These losses relate to the physical risk of damages caused by climate change or the transition risk of stranded fossil fuel assets as the economy transitions to low-carbon sources of energy.

It goes without saying that the physical risks of climate change pose a serious threat to insurers, both on your assets side and on your claims side. There is ample data that rising sea levels and increased storm intensity and activity will do substantial damage to coastal property values. These warnings have come from a variety of experts, including Freddie Mac,[1] the industry publication *Risk & Insurance*,[2] and the Union of Concerned Scientists.[3]

In addition to sea level rise and coastal storms, more frequent and intense wildfires, riverine floods, droughts, and heatwaves will also result in very large losses, much of them insured. Indeed, the management consultancy McKinsey warns of massive physical risks that will increase "nonlinearly" as the earth continues to warm.[4]

Transition risk is also significant for insurers that hold large stakes in fossil fuel assets. One economic paper reports "economic literature combined with industry practices suggest the presence of persistent market inefficiencies for fossil fuel reserves, so these assets are likely to be

[1] Freddie Mac, "Life's a Beach," (April 2016), http://www.freddiemac.com/research/insight/20160426_lifes_a_beach.html
[2] "Coastal Mortgage Value Collapse," *Risk & Insurance* (April 7, 2017), http://riskandinsurance.com/coastal-mortgage-value-collapse/
[3] Union of Concerned Scientists, "Underwater," (June 2018), https://www.ucsusa.org/sites/default/files/attach/2018/06/underwater-analysis-full-report.pdf
[4] McKinsey Global Institute, "Climate risk and response: Physical hazards and socioeconomic impacts," (Jan. 2020), https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts

stranded and mispriced, i.e. a carbon bubble exists ....”[5] Another finds “the magnitude of ... stranded assets of fossil fuel companies (in a 2 degrees C economy) has been estimated to be around 82% of global coal reserves, 49% of global gas reserves, and 33% of global oil reserves.”[6] The market value of fossil fuel reserves that cannot be burned is “around $20 trillion,” according to the World Bank.[7] A study done by the European think tank CEPS predicts that “fossil fuel companies altogether would see their market value fall by half.”[8]

Central banks are also increasingly concerned about transition risk. The Bank of England has warned, “investments in fossil fuels and related technologies . . . may take a huge hit.”[9] The Bank for International Settlements also warned of stranded fossil fuel assets in its recent report on climate-related economic risks.[10] And a report from 34 central bank presidents warned that “estimates of losses […] are large and range from $1 trillion to $4 trillion when considering the energy sector alone, or up to $20 trillion when looking at the economy more broadly.”[11]

Concern over the risk that stranded fossil fuel assets pose to insurers is not merely academic. A stress test of European financial institutions revealed that some were over-exposed to fossil fuel assets and could be at risk should these assets plunge in value.[12] Indeed, the Bank of England has become so concerned about systemic risk associated with stranded fossil fuel assets that it ordered the life insurers it regulates to perform stress tests including a stranded fossil fuel asset scenario.[13]

American regulators are also beginning to signal they take climate-related financial risks seriously. Federal Reserve Bank Governor Lael Brainard warned of climate-related shifts in asset values and “abrupt tipping points and significant swings in sentiment” in the Fed’s most recent biannual financial stability report.[14]

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[5] Thomas Lee, “Fossil Fuel Stranded Assets: Efficient Market or Carbon Bubble.” Penn Wharton Public Policy Initiative (April 12, 2017), https://publicpolicy.wharton.upenn.edu/live/news/1807-fossil-fuel-stranded-assets-efficient-market-or

[6] Battiston, *et al*., “A climate stress-test of the financial system,” *Nature Climate Change* (March 27, 2017), https://www.nature.com/articles/nclimate3255

[7] Vladimir Stenek, “Carbon Bubbles & Stranded Assets,” The World Bank (June 3, 2014), http://blogs.worldbank.org/climatechange/carbon-bubbles-stranded-assets

[8] Jorge Núñez Ferrer and Pavel Kiparisov, Can the Carbon Bubble become a serious Financial Bubble,” CEPS Energy Climate House, http://ceps-ech.eu/sites/default/files/Carbon%20Bubble%20background%20briefing%20paper.pdf

[9] Paul Fisher, “Confronting the challenges of tomorrow’s world,” Bank of England (March 3, 2015), https://www.bankofengland.co.uk/-/media/boe/files/speech/2015/confronting-the-challenges-of-tomorrows-world.pdf?la=en&hash=DA7050DCC625A7127875DA88665B67094914CB2B

[10] Bolton, *et al*., “ The green swan: Central banking and financial stability in the age of climate change,” Bank for International Settlements (Jan. 2020), https://www.bis.org/publ/othp31.pdf

[11] “A call for action: Climate change as a source of financial risk,” Network for Greening the Financial System (April 2019), https://www.banque-france.fr/sites/default/files/media/2019/04/17/ngfs_first_comprehensive_report_-_17042019_0.pdf

[12] Battiston, et al., “A climate stress-test of the financial system,” *Nature Climate Change* (March 27, 2017), https://www.nature.com/articles/nclimate3255

[13] “Life Insurance Stress Test 2019,” Bank of England Prudential Regulation Authority, (June 18, 2019), https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2019/life-insurance-stress-test-2019-scenario-specification-guidelines-and-instructions.pdf

[14] In first for Fed, U.S. central bank says climate poses stability risks, *Reuters* (Nov. 9, 2020), https://uk.reuters.com/article/usa-fed-stability-climate/in-first-for-fed-us-central-bank-says-climate-poses-stability-risks-idUKL1N2HV2KX

In response to these risks, an increasing number of your competitors have stopped underwriting coal and other fossil fuel projects and/or restricted their investments in coal and certain dirty and environmentally damaging oil and gas projects such as tar sands.[15]

In order to better understand your fossil fuel underwriting and investment policies, we are requesting that you answer the following questions by April 16, 2021.

1. Have you studied how your company's annual claims and premiums will evolve as climate-related losses burgeon over the coming decades? Which climate scenarios have you studied?
2. Have you conducted a stress test of your company's exposure to fossil fuel assets? Which scenarios have you used? What did any stress tests reveal about your company's exposure to fossil fuel assets?
3. How are your company's fossil fuel underwriting and investment policies consistent with your broader commitments to sustainability?

We greatly appreciate your attention to this matter. Should you have any questions, please do not hesitate to contact Dan Dudis at Dan_Dudis@whitehouse.senate.gov.

Sincerely,

Sheldon Whitehouse
United States Senator

Jeffrey A. Merkley
United States Senator

Elizabeth Warren
United States Senator

Chris Van Hollen
United States Senator

[15] Insuring Our Future, "2020 Scorecard on Insurance, Fossil Fuels and Climate Change," (December 2020), https://static1.squarespace.com/static/5b7c9307f79392b49031d551/t/5fc6e94defc65c5b7a3437fa/1606871389086/2020+Insurance+Scorecard.pdf