August 12, 2021

The Honorable Ron Klain
Chief of Staff
The White House
1600 Pennsylvania Ave, N.W.
Washington, D.C., 20500

Dear Chief of Staff Klain:

We, the undersigned organizations, write to urge you to replace the Financial Stability Oversight Council's (FSOC) independent member having insurance expertise. Insufficient federal oversight of insurance companies poses a serious threat to President Biden's priorities on climate risk and financial stability. The independent member is the only voting member of the FSOC who has expertise on insurance issues. It is critical to fill the position with someone who grasps the nature of climate threats and is committed to FSOC's mandate to address them.

Unfortunately, the current independent member, Trump appointee Thomas Workman, fails this standard. In 2019, Workman expressed uncertainty about whether climate change posed a significant threat to the financial system, and even whether it is a serious issue at all. In an interview, Workman said "[O]f course there's climate change, and catastrophic events. I know there are many folks who are convinced that it's the end of the world and we've got only 12 years left, but then there are others who say it's not an issue, but it certainly is a debate." This attitude is antithetical to the policy direction set by President Biden's May 20 Executive Order on Climate-Related Financial Risk, which acknowledges that "the failure of financial institutions to appropriately and adequately account for and measure these physical and transition risks threatens the competitiveness of U.S. companies and markets, the life savings and pensions of U.S. workers and families, and the ability of U.S. financial institutions to serve communities."

Workman's doubts are especially concerning because of the critical and unique risks that insurers face from the climate crisis. As society's risk managers and major holders of investments, insurers are exposed to climate financial risk on both sides of their balance sheet. The risk is especially high because U.S. insurers and state insurance regulators lag their international counterparts in addressing these risks. Many major U.S. insurers continue to underwrite coal and oil and gas without any restrictions, and every major U.S. insurer supports lobbying organizations that oppose climate action. This behavior exposes U.S. insurance companies to ever-increasing physical, transition, and reputational risks. Without firm regulatory intervention, these insurance companies are unlikely to reverse course and adopt prudent climate policies on the schedule that climate threats require. U.S. state insurance regulators are also well behind in adapting to climate risk, with only Connecticut and New York beginning to take meaningful steps to monitor and address this risk. Inadequate state supervision of insurer risk taking was a major driver of the 2008 financial crisis. FSOC exists to identify such gaps in oversight and prevent them from triggering a new crisis. An independent member appointee who fails to appreciate this risk cannot fulfill the responsibilities of the office.

Workman's inadequate attention to the risks from the climate crisis mirrors his broader neglect of the risks that the financial system faces. In 2019, he voted to approve FSOC guidance that made it more difficult to designate risky nonbank firms, including insurers, for heightened oversight. Three of the four firms ever designated were insurers, including AIG, a primary culprit in the 2008 financial crisis. Critics of this new guidance described it as giving "unregulated shadow banks a free pass" and recreating "the same feeble approach to nonbank systemic risk that proved woefully inadequate in 2008." If President Biden's FSOC is going to restore its role as a meaningful watchdog of financial stability, it will need to withdraw the 2019 guidance and reverse the Trump administration's 2017 decision to withdraw designations from risky insurers.

Workman's vote and his perspective on designation of insurers was unsurprising, given Workman's previous role as CEO of a life insurance industry lobbying organization, the Life Insurance Council of New York (LICONY). Another trade group, the American Council of Life Insurers, hailed Workman's confirmation, stating its position that "no life insurer should be designated as systemically important." Workman's voting record and policy positions are inconsistent with one of FSOC's central mandates.

Crucially, there is no reason the administration needs to keep Workman in this role. The Dodd-Frank Act states that the independent member of the Council "shall serve for a term of 6 years." Without explicit removal protection or a long history of de facto removal protection as there is for the SEC, political appointees may be removed at will. The member, in other words, serves at the pleasure of the President. There is no reason to hesitate in firing Workman and replacing him with a nominee better suited to dealing with the challenges posed by the climate crisis.

Removing Workman is urgent because of the upcoming November deadline in the May 20 Executive Order for a report on climate risk by Treasury Secretary Yellen. The report requires engaging the FSOC on how financial regulators should measure, mandate disclosure of, and actively regulate and mitigate climate-related financial risks. Given the limited insurance expertise among federal financial regulators, it is especially critical for the Secretary's insurance advisors to appreciate the magnitude and timing of the threat that the climate crisis poses to financial stability.

A replacement appointee to the role of independent member should be someone whose insurance expertise goes beyond knowing what industry wants. Workman's background is not as a regulator, academic, or community organizer on insurance issues, but as the President and CEO of an industry lobbying organization, the Life Insurance Council of New York (LICONY). Prior to this, Workman litigated on behalf of the life insurance industry. Particularly when there are so few other insurance experts on FSOC who can counter Workman's arguments or recognize his biases, it is not effective to appoint a lifelong advocate for the industry — rather than a representative of consumers, workers, or any other actors in society — to sit in this position.

There is simply no time to tolerate an FSOC member who does not prioritize the climate crisis and has no appreciable independence from the industry he seeks to oversee. We urge you to immediately remove Workman, replace him with a truly independent member who understands the risks that climate change and insufficient regulation pose to the economy, and who will act rapidly to prevent the financial system's risk taking from harming consumers, workers, and the economy.

Sincerely,

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Americans for Financial Reform Education Fund
Center for Popular Democracy
Climate Hawks Vote
Connecticut Citizen Action Group
Earth Action, Inc.
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The Freedom BLOC
Friends of the Earth U.S.
Greenpeace USA
Institute for Agriculture and Trade Policy
Oil Change International
Progressive Change Institute
Public Citizen
Rainforest Action Network
Revolving Door Project

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