



Date: 9/8/21

**SOLVENCY WORKSTREAM OF THE CLIMATE AND RESILIENCY (EX) TASK FORCE**

Monday, September 20, 2021

11:00 a.m. – 12:30 p.m. ET / 10:00 a.m. – 11:30 p.m. CT / 9:00 – 10:30 a.m. MT / 8:00 a.m. – 9:30 a.m. PT

**ROLL CALL**

Kathleen A. Birrane, Vice Chair	Maryland	David Combs	Tennessee
George Bradner	Connecticut	Scott A. White	Virginia
David Altmaier	Florida	Mike Kreidler	Washington
Gary D. Anderson	Massachusetts	Amy Malm	Wisconsin
Nina Chen	New York		

NAIC Support Staff: Dan Daveline

**AGENDA**

1. Introduction ----- *Commissioner Kathleen A. Birrane (MD)*
2. Key Points from Past Presenters – *Dan Daveline (NAIC)*
3. Summary of New York’s Framework & Foundation Regulation – *Nina Chen (NY)*
4. Summary of Federal Activities — *Brook Stringer (NAIC)*
5. Input from Interested Parties — (30 minutes set aside for those wishing to comment)
6. Adjournment

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# NAIC Staff Summary of Key Points from Past Presenters

Dan Daveline  
September 20, 2021



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# Agenda

- NAIC Summary of key points made by past presenters
- Correlation with past company solvency issues
- Existing regulatory guidance

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## Key Points made by Past Presenters

### **International Activities**

- Various organizations
  - United Nations
  - Principles of Sustainable Insurance
  - The Sustainable Insurance Forum
- Lessons learned

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## Key Points made by Past Presenters

### **Significant Risk**

- Letter from U.S. Senators to insurers
- Less of a cost/more upside investment opportunity
  - Commitments to help influence climate change
- Industry continues to meet society needs
- Further increasing risk either 1) physical; 2) transition; or 3) liability related

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## Key Points made by Past Presenters

### **Scenario analysis**

- Real value comes from the exercise itself
- Difficult to develop, but one organization has developed for PC underwriting
- Regulators must use such a tool carefully; not as a “Prediction”
- Constant progressive change requires resources and flexibility
- Larger insurers have resources

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## Correlation with Past Solvency Issues

**Causes of Insolvencies Include (but are not limited to) the following:**

- Poor underwriting
- Reinsurance
- CAT Events



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## Existing Regulatory Guidance

### **Existing Tools include:**

- CAT RBC charge for hurricane and earthquake
- Granular data on assets
- Examiners Handbook focused on company processes
- Own Risk and Solvency Assessment
- Corporate Governance Annual Disclosure

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# Questions

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**Department of  
Financial Services**

# **DFS's Approach to Solvency Risk**

**NAIC Climate & Resiliency (EX) Task Force  
Solvency Workstream**

**Yue (Nina) Chen, Director of Sustainability and Climate Initiatives  
September 20, 2021**

# Overview

- Circular Letter No. 15 (2020)
- Financial Condition Exams
- Guidance
- Education and engagement

# Circular Letter on Climate Change and Financial Risks

- Sensitize the industry on physical and transition risks on both sides of the balance sheet
- Establish a set of high-level expectations
  - Governance
  - Business strategies
  - Risk management
  - Disclosure

# Financial Condition Exams

- For Life and P&C insurers
- New York Climate EPQ
- C-level interviews
- Climate review feedback

# Guidance for NY Domestic Insurers on Managing the Financial Risks from Climate Change

## Basis for the Proposed Guidance

- Discussions with NY insurers
- Review of insurers' ERM and ORSA
- Review of insurers' existing disclosure materials
- NY Insurance Law, NAIC manuals
- International regulators' publications and guidance

# Guiding Philosophy

- Climate change requires a **strategic** approach.
- A **proportionate** approach.
- Assess and manage both **physical** and **transition** risks on both **assets** and **liabilities**.
- Insurers' approach should **mature over time**:
  - Qualitative → quantitative
  - A few risk factors → more risk factors
  - Short term → medium to long term in scenarios and strategies
- **DFS's supervisory approach will evolve with insurers.**

## 3.3 Risk Culture and Governance

### 3.3.1 Board Governance

- The board should **understand** and **assess** relevant climate risks, responsible for oversight of managing climate risks

### 3.3.2 Risk Appetite

- A written risk policy with risk tolerance levels and limits

### 3.3.3 Organizational Structure

- Include relevant control functions with regular reviews and develop expertise



## 3.4 Business Models and Strategies

- Insurers are already exposed to climate risks and opportunities
- Be aware of changes in business environment and address them strategically
- Business strategy is implemented at the entity, business unit, and product line level.
- Use scenario analysis and stress tests to help set business models and strategy
- Document the analysis

## 3.5 Risk Management

### 3.5.1 Risk management framework

- Address climate risks through **existing ERM functions**
- Identify, assess, monitor, manage, and report on their exposure to these risks
- Document in their written ERM and board risk reports the climate risks considered
- Manage and monitor risks over a long-term horizon
- Review the analysis on a regular basis

## 3.5.2 Climate's Impact on Existing Risk Factors

- **Legal risk** – Climate-related regulatory requirements, risk of litigation for failing to adapt to climate change or to avoid or minimize adverse impacts on the environment
- **Market risk**
  - Consider how physical and transition risks affect current and future investments
  - Monitor on an ongoing basis
  - Consider timeframe of climate risks relative to maturity of fixed income assets, and sudden credit rating changes

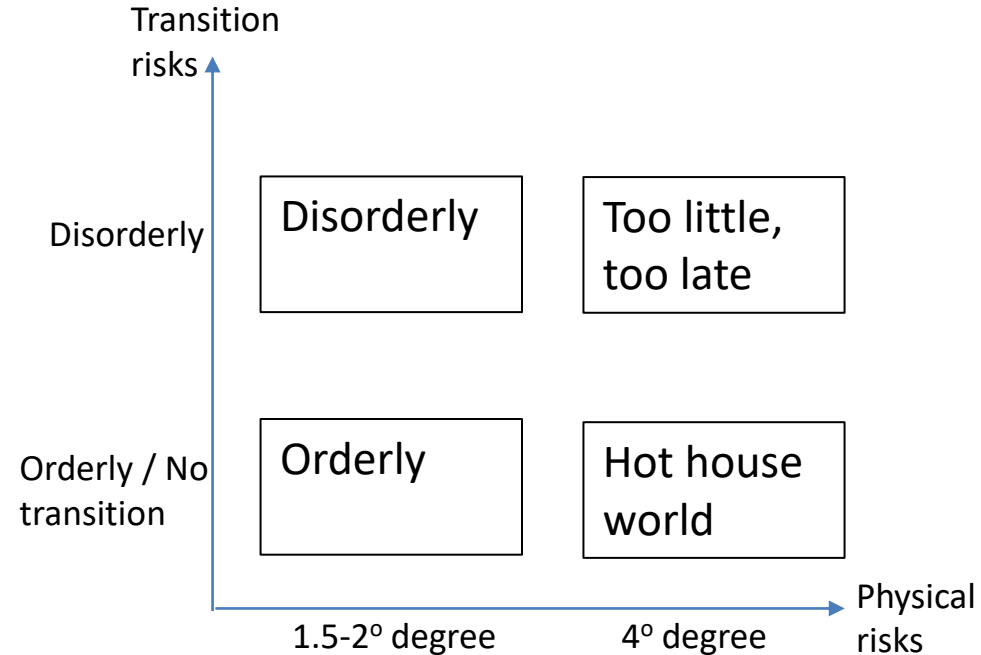
## 3.5.3 ORSA

- Describe how climate risks are identified, categorized, managed, and monitored, including assessment tools and methods used
- If climate risks are **not material, document the justification.**
- If climate risks are **material, document assessment process.**
- **Proportionate** approach
- Asses **short-** and **long-term** risks
- **Implement** climate-related policies and procedures **at the entity level**, using group's expertise and resources where appropriate

## 3.6 Scenario Analysis

Why use scenario analysis for managing climate risks?

- Past  $\neq$  Future
- Inherent uncertainty of climate risks
- Need longer term thinking and planning



## 3.6 Scenario Analysis

- Use scenarios to understand the impact of climate risks on solvency, liquidity, and ability to pay claims. Consider:
  - Whether reactive actions are realistic or not
  - Merits of precautionary actions
  - Climate risks not fully reflected in asset pricing and abrupt shifts in market
- There are publicly available resources on scenario analysis.
- Can be qualitative to start.

## 3.7 Public Disclosure

- Go beyond operational issues and cover physical and transition risks' impacts on underwriting, investments, and strategies
- Encourage disclosure by the wider economy
- Disclosure approach to mature over time
- Engage with Taskforce for Climate-related Financial Disclosure and other initiatives

# Comments for Proposed Guidance

- Proportionality and materiality – overarching
- Board’s function – oversight
- Risk management done at the entity vs. group level
- Time horizon
- Uncertainty in data, models, and the future
- Disclosure of quantitative analysis, key metrics and targets, and liability risks



# Education and Engagement

- Seminar series
- Report on [insurers' exposure to transition risk and opportunities on investments](#)
- Report on [insurers' management of climate risks and examples of good practices](#)

Questions?  
Feedback?

Contact: [nina.chen@dfs.ny.gov](mailto:nina.chen@dfs.ny.gov)





# **Federal Perspective on Climate-Related Financial Risk**

**Brooke Stringer, NAIC, Senior Financial  
Policy & Legislative Advisor**

September 20, 2021

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## Executive Order on Climate-Related Financial Risk

- Of note for insurance:
  - Directs Treasury Secretary to work with FSOC to assess risks that climate change poses to the financial system and issue a report by Nov. 2021.
  - Directs FIO to assess climate-related issues or gaps in the supervision and regulation of insurers and the potential for major disruptions of private insurance coverage in areas vulnerable to climate change impact.

## Federal Reserve

- Nov. 2020 Financial Stability Report highlighted climate change as a potential risk to the stability of the financial system.
- January 2021 created a Supervision Climate Committee to identify and assess financial risks from climate change.
- March 2021 created a Financial Stability Climate Committee to assess and address climate-related risks to financial stability.





## U.S. Department of the Treasury

- April 2021 created new “Climate Hub” to coordinate three areas:
  - Climate transition finance
  - Climate-related economic and tax policy
  - Climate-related financial risks

## Securities and Exchange Commission

- July 2021 SEC Chair Gensler said he requested staff to develop a mandatory climate risk disclosure rule proposal for the commission's consideration by the end of 2021.
- March 2021 created a Climate and ESG Task Force in the Division of Enforcement.



# Questions

