American Property Casualty Insurance Association

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INITIAL COMMENTS OF THE AMERICAN PROPERTY CASUALTY INSURANCE ASSOCIATION ON NAIC CHARGES AND WORK PLAN ON CLIMATE RISK

The American Property Casualty Insurance Association (APCIA) represents a broad and diverse membership of 1200 insurers and reinsurers with a wide range of sizes, business models and markets, and includes some of the world's leaders on the subject of climate risk. As we have in the past, we look forward to engaging constructively with regulators on climate risk in its full context and on the consideration of the most appropriate, effective and efficient actions for insurers and insurance regulators so as to make a real cost-effective contribution to reducing the losses from climate related catastrophes while supporting innovation and competition.

As the NAIC maps the work of its new task force, we recommend inclusion of the following key elements:

1. The NAIC should first review the science on the subject to separate the facts from advocacy on all sides, support science-based research and emphasize the salience of risk adaptation and mitigation.
2. The NAIC should clearly and consistently recognize the fact that while (re)insurers and regulators have a role to play, the reality is that other private sectors and government have the primary role in regulating, adapting and mitigating so as to reduce climate related losses.
3. In its charges and future activities, the NAIC should review the voluntary actions of (re)insurers as well as existing regulation and should focus on what additional information regulators objectively need on issues such as disclosures, stress testing and scenario analyses and how confidentiality will be assured. In this connection, APCIA does not support additional mandatory reporting but does appreciate the option for companies to use TCFD reporting in place of the current NAIC survey questions. APCIA also believes that companies should determine the content of any stress testing that should be relevant, proportional and material to them. Finally, redundant or repetitive disclosures and micromanaging internal company operations should be avoided.

4. All regulation should recognize and act consistent with the principles of proportionality, materiality and confidentiality. A one-size-fits all approach is not only unjustified by reality but it may also have many negative consequences including the reduction of competition and the creation of availability and affordability issues where they do not now exist.
5. Included in the charges and future activities should be an explicit recognition of the important role that risk-based pricing and risk modeling can play in addressing climate risk and supporting solvency and competition and what regulators can do to reduce any barriers to both.
6. The charges and future actions should also recognize the importance of allowing for innovation and capital markets developing "green" investments that meet high quality regulatory standards, provide an appropriate risk-adjusted return and that are acceptable as investments by (re)insurers.

We have attached in track changes some suggestions for your consideration. Again, we fully recognize the importance of climate risk and want to work constructively with you to reduce climate related losses.

Respectfully submitted,

David F. Snyder,
Vice President

Attachment

Draft: 10/5/20
Adopted by the Executive (EX) Committee and Plenary, Nov. __, 2020
Adopted by the Executive (EX) Committee, ___ __, 2020
Adopted by the Climate and Resiliency (EX) Task Force, Oct. __, 2020

ATTACHMENT

2021 Proposed Charges

CLLIMATE AND RESILIENCY (EX) TASK FORCE

The mission of the Climate and Resiliency (EX) Task Force is to serve as the coordinating NAIC body for discussion and engagement on climate-related risk and resiliency issues, including dialogue among state insurance regulators, industry, and other stakeholders.

Ongoing Support of NAIC Programs, Products or Services

1. The **Climate and Resiliency (EX) Task Force** will:
   A. Review the science of climate risk and the role of various private sectors and government and investigate ways to support the development and publication of science-based research.
   B. Consider the role of risk-based pricing and how regulators can support it as an important device to send financial signals on comparative climate risk, protect solvency and enhance competition and consumer choice.
   C. Review the initiatives and activities of (re)insurers in addressing climate risk and how to best assist and support smaller insurance companies to effectively address it.
   ~~A.~~D. Consider appropriate climate risk disclosures to regulators within the insurance sector based on the principle of materiality and assuring applicable confidentiality protections, including:
      1. Evaluation of the existing public disclosures and voluntary disclosures, and the Climate Risk Disclosure Survey.
      2. Evaluation of whether any further disclosures are necessary for regulators, how confidentiality will be protected, whether the alignment with other sectors and international standards is necessary for regulators with the costs and benefits of such alignment and how best to avoid repetitive and/or redundant reporting and disclosures and regulation of internal management. ~~.~~
   E. Evaluate how proportionality in insurance regulation will be assured so as to prevent negative effects on competition.
   ~~B.~~F. Consider how to enhance the role of risk-based pricing and risk modeling and whether additional financial regulatory approaches to climate risk and resiliency are necessary for regulators, ~~,~~ including:
      1. Evaluation of how to remove barriers to risk-based pricing.
      ~~1.~~2. Evaluation of ~~Investigation of~~ the positive use of modeling by carriers and their reinsurers concerning climate risk and how to reduce barriers to its use.~~.~~
      ~~2.~~3. Evaluation of ~~Investigation of~~ how rating agencies incorporate climate risk into their analysis and governance.~~.~~
      ~~3.~~4. Evaluation of ~~Investigation and development of~~ climate risk-related stress-testing and scenario modeling consistent with the principles of materiality, proportionality and confidentiality.
   ~~C.~~G. Consider innovative insurer solutions to climate risk and resiliency, including:
      1. Investigation of how to apply technology and innovation to the mitigation of storm, wildfire, earthquake, and other climate risks.
      2. Evaluation of insurance product innovation directed at reducing, managing and mitigating climate risk and closing protection gaps.
      3. Evaluation of how regulators can support insurers' innovation and modeling.
      ~~2.~~4. Evaluation of how regulators can advocate for the development of more financially sound "green" investments.
   ~~D.~~H. Identify sustainability, resilience and mitigation issues and solutions related to the insurance industry.
   ~~E.~~I. Consider pre-disaster mitigation and resiliency and the role of state insurance regulators in resiliency.

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NAIC Support Staff: Jennifer Gardner

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