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Jennifer Gardner  
Manager III - Property & Casualty, Regulatory Services  
Commissioner Andrew Stolfi (OR), Vice Chair, NAIC Climate Risk Disclosure Workstream  
NAIC Climate and Resiliency (EX) Task Force members  
National Association of Insurance Commissioners  
1100 Walnut Street, Suite 1500  
Kansas City, MO 64106-2197

Dear Jennifer, Commissioner Stolfi and Climate and Resiliency (EX) Task Force members,

Thank you very much for providing the public with the opportunity to submit suggestions regarding the proposed redesigned NAIC Insurer Climate Risk Disclosure Survey ("Survey").

As you are aware, Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world's greatest sustainability challenges. The [Ceres Accelerator for Sustainable Capital Markets](#) works to transform the practices and policies that govern capital markets in order to reduce the worst financial impacts of the climate crisis. It spurs action on climate change as a systemic financial risk -- driving the large-scale behavior and systems change needed to achieve a net-zero emissions economy.

Ceres also includes the Investor Network on Climate Risk and Sustainability, which consists of 217 institutional investors managing a combined \$49 trillion in assets, who advance leading investment practices, corporate engagement strategies, and policy and regulatory solutions to address sustainability risks and opportunities. These investors have indicated that mandatory corporate climate disclosure is a top priority for them.

For many years, Ceres has worked with state insurance commissioners, the NAIC, insurers, investors and other regulators on how climate change affects insurers and policyholders and how insurers can proactively take actions to reduce climate change risks. Our research reports on these issues include [Addressing Climate as a Systemic Risk](#) (which provides 10 recommendations for state and federal insurance regulators), [Scaling U.S. Insurers' Clean Energy Infrastructure Investments](#), [Insurer Climate Risk Disclosure Survey Report & Scorecard](#), and [Assets or Liabilities? Fossil Fuel Investments of Leading U.S. Insurers](#). Most recently, in July 2021, we produced a webinar in conjunction with the insurance commissioners from California and Washington State that was aimed at helping insurers use the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, [How Insurers are Rising to the Challenge of Climate Risk Disclosure](#), and released an accompanying [blog](#).

We have several comments on the Survey.

## 1. The NAIC’s revisions to the Survey include helpful improvements that increase its alignment with the TCFD’s recommendations.

We appreciate the revisions the task force has proposed making to the Survey to align it with the TCFD’s disclosure recommendations and produce more useful information from insurers. The TCFD’s recommendations have had significant impacts around the globe to improve climate disclosure, influencing voluntary disclosure standards, governments, regulators, investors and companies. 2,800 companies, investors and other organizations in 89 jurisdictions [publicly support](#) the TCFD’s recommendations. Investors overwhelmingly support mandatory climate risk disclosure aligned with the TCFD recommendations. 733 institutional investors with more than \$52 trillion in assets under management (more than half of all AUM globally) have [called on governments](#) to commit to implementing “mandatory climate risk disclosure requirements aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, ensuring comprehensive disclosures that are consistent, comparable, and decision-useful.”<sup>1</sup> On January 1, 2022, UK rules came into effect requiring life insurers and other asset manager and asset owners to disclose “how they take climate-related risks and opportunities into account in managing investments”, as well as the climate-related attributes of their products.<sup>2</sup>

The NAIC’s revisions to its Survey cover the four major categories of the TCFD—governance, strategy, risk management, and metrics and targets—and include fifteen questions taken directly from the TCFD’s recommendations. These fifteen questions cover a range of important issues, adding new questions or improving on questions from the 2021 NAIC Survey. Of particular importance are questions that address “the actual and potential impacts” of climate risks on the company; the resilience of a company’s strategy considering different climate scenarios; processes for identifying, assessing and managing climate risks; the metrics and targets to manage risks and opportunities, where material; and disclosure of Scopes 1-3 greenhouse gas emissions, which should capture Scope 3 financed emissions, a growing area of importance to investors, companies and regulators.<sup>3</sup>

The revisions also provide more detailed insurance-specific questions like those included in the TCFD. For example, the TCFD recommends that insurers assess and disclose portfolio risks related to climate change, and the NAIC’s Survey asks companies to describe how the company considers the impact of climate risks on its underwriting and investment portfolios.

The task force has greatly improved the questions on climate-related scenarios and other important topics. For example, the NAIC reporting year 2020 climate change survey and guidance discuss scenarios in relation to catastrophe models and climate trends beyond the one-to-five-year timescale. The proposed NAIC Survey discusses the use of different climate-related scenarios by insurers, including a 2 degree Celsius or lower scenario, scenario planning as it applies to both investments and underwriting, whether disclosure metrics the company uses are aligned with climate scenarios, and additional topics.

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<sup>1</sup> The Investor Agenda, [2021 Global Investor Statement to Governments on the Climate Crisis](#) at 2.

<sup>2</sup> UK Financial Conduct Authority (FCA), [FCA’s new rules on climate-related disclosures to help investors, clients and consumers](#) (December 17, 2021).

<sup>3</sup> NAIC, [Proposed Redesigned NAIC Climate Risk Disclosure Survey](#) (2021) at 2-5.

**2. Ceres recommends that all state insurance commissioners require the Survey, as well as lowering the threshold for inclusion**

Currently, 15 state insurance commissioners require insurers with \$100 million or more in premiums to respond to the Survey.<sup>4</sup> The increase of nine additional states and the District of Columbia this year, compared to the six states that have administered the survey for years, is an important and welcome development. This will lead to about 80% of U.S. insurers to respond to the survey, up from about 70% previously.<sup>5</sup>

The six states that have participated for several years and shown great leadership are California, Connecticut, Minnesota, New Mexico, New York, and Washington. In 2021, nine additional insurance commissioners adopted the survey: Delaware, District of Columbia, Maine, Massachusetts, Maryland, Oregon, Pennsylvania, Rhode Island, and Vermont.<sup>6</sup>

We appreciate the work of those state insurance commissioners to join the survey. Because climate change impacts all 50 states, and the severity of extreme weather events and other effects from climate change have been increasing and will continue to do so, we recommend that all U.S. state insurance commissioners join these commissioners in requiring the Survey. In addition, we recommend increasing the coverage of the Survey to companies writing \$50 million in premiums or more instead of the current \$100 million.

**3. Ceres' recommendations for incorporating current expectations for climate risk disclosure, including regarding the effects of climate change on vulnerable communities.**

**a. Statement about the systemic risks of climate change**

The NY State DFS' *Guidance* provides a clear statement about the systemic risks posed by climate change: "As one of the most critical risk-management issues of our generation, climate change poses wide-ranging and material risks to the financial system." All U.S. federal financial regulators have affirmed climate as a systemic risk through their endorsement of the FSOC October 2021 report on Climate-Related Financial Risk.<sup>7</sup> Similarly, we recommend that the NAIC publicly state that climate change is a systemic risk to the insurance industry.

**b. Climate change impacts on vulnerable communities**

Expectations are growing for financial regulators to consider the effects of their climate regulations on vulnerable communities. The Administration and the Treasury Department have laid out new expectations over the past year. President Biden's January 20, 2021 *Executive Order On Advancing Racial Equity and Support for Underserved Communities* notes that the climate crisis is converging with economic and health crises to expose and exacerbate inequities, and outlines steps that the Treasury

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<sup>4</sup> State of Connecticut Insurance Department,

<sup>5</sup> See California Department of Insurance, [Commissioners Kreidler, Lara urge insurers to report climate risks through international financial stability framework](#) (June 8, 2021); Faegre Drinker, [NAIC Climate Risk Disclosure Survey Responses of Insurers Coming Into Sharper Focus](#) (September 8, 2021).

<sup>6</sup> NAIC Climate and Resiliency (EX) Task Force, [2021 Fall National Meeting materials](#) (December 14, 2021) at 3.

<sup>7</sup> See FSOC Report at I, 10-22; [Minutes of the Financial Stability Oversight Council](#), October 21, 2021.

Department and other agencies will take, including engaging with members of underserved communities and gathering better data on inequities. The May 20, 2021 [executive order on climate-related financial risk](#) advances financial agencies' climate risk assessments and discusses improving climate risk disclosure, "while accounting for and addressing disparate impacts on disadvantaged communities and communities of color." In October, the Treasury Department [began an effort](#) to assess the financial risks and impacts of climate change on households and communities, especially low-income and historically disadvantaged communities. The NAIC has an opportunity to build on and align with these developments through improvements to the Survey focused on vulnerable communities.

U.S. federal financial regulators, in the Financial Stability Oversight Council's (FSOC) October 2021 climate change report, discussed the risks of climate change to vulnerable populations and proposed steps to address them.<sup>8</sup> The report states that FSOC "recognizes that climate change disproportionately affects financially vulnerable populations potentially including lower-income communities, communities of color, Native American communities, and other disadvantaged or underserved communities."<sup>9</sup> The report's recommendations include (1) financial regulators should coordinate efforts to analyze climate risks with those to understand community and household impacts, and publicly disclose the analyses; (2) regulators should evaluate climate impacts and the impacts of policy proposals on financially vulnerable populations; and (3) the Treasury Department should engage Financial Literacy and Education Commission members to analyze climate impacts on the financial well-being of financially vulnerable populations.<sup>10</sup>

The NY DFS Guidance for insurers discusses how climate change has more significant impacts on low-income communities and communities of color:

Although no one is spared from the impact of climate change, it disproportionately affects disadvantaged communities, including low-income communities and communities of color, and feeds into the vicious circle of social inequality. DFS is committed to supporting fair, safe, and stable insurance markets for the benefit and protection of all New Yorkers. While this guidance is focused on the financial stability of insurers in the face of climate change, it is also crucial for insurers to do their part to contribute to the low-carbon transition and climate adaptation efforts; support communities' resilience to climate change, especially in disadvantaged communities that would be even more vulnerable to climate change if insurers stop insuring or investing in these communities; and work with the public sector to find ways to close the protection gap and ensure that insurance is available and affordable throughout the State.<sup>11</sup>

Ceres' April 2021 report, [Turning up the Heat: The need for urgent action by US financial regulators in addressing climate risk](#), recommends that financial regulators should also develop strategies to address systemic risks of climate change and structural racism in an integrated way.<sup>12</sup> It discusses how climate

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<sup>8</sup> See Financial Stability Oversight Council (FSOC), [Report on Climate-Related Financial Risk 2021](#) ("FSOC Report") at 21-22, 30, 63, 107 and 120.

<sup>9</sup> FSOC Report at 21.

<sup>10</sup> FSOC Report at 120.

<sup>11</sup> NY DFS, [Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change](#) (November 15, 2021) at 3.

<sup>12</sup> Ceres, [Turning up the Heat: The need for urgent action by US financial regulators in addressing climate risk](#) (April 2021) at 8.

change has had greater impacts on communities of color, and related disparities like poor air quality, extreme heat in urban areas, and a lower likelihood of receiving financial assistance after natural disasters or investments for climate resiliency or climate solutions.<sup>13</sup>

We endorse the Center for Economic Justice’s (CEJ) March 2021 recommendations to the NAIC, which are focused on improving the Survey to assess the risk of insurers changing the markets they serve, affecting disadvantaged communities. We recommend adding the following six CEJ questions to the Survey:

- What models or type of modeling do you utilize for assessing the impact of climate change on the products you are willing to offer and business strategy?
- What are the key assumptions regarding the magnitude of climate change you utilize in your climate modeling?
- Over the past five years, what changes affecting the availability and affordability of your products and coverage in the markets you serve – in terms of geography, types of insurance, perils insured and rate change – have you made as a result of climate change impacts?
- Based on your current assessment of climate risk, what impacts do you currently anticipate on the availability and affordability of products and coverage in the markets you serve – in terms of geography, types of insurance, perils insured and rate change – as a result of climate change?
- If (provide metric for climate impact, e.g. 2 degree temperature rise), what impacts do you anticipate on the availability and affordability of products and coverage in the market you serve – in terms of geography, types of insurance, perils insured and rate change?
- Based on your current assessment of climate risk, what actions are you taking to be able continue serving the markets you currently serve for the next 10 years?<sup>14</sup>

### c. Current good practice expectations for climate risk disclosure by insurers

The TCFD’s revised recommendations,<sup>15</sup> the CDP climate change [questionnaire](#), the IFRS International Sustainability Standards Board (ISSB) [climate disclosure prototype](#) and the New York State Department of Financial Services’ (NY DFS) [Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change](#) (“NY DFS Guidance”) are leading sources of good practice expectations for climate risk assessment and disclosure by insurers. The NY DFS Guidance is focused solely on insurers, and the TCFD, CDP and the ISSB prototype all have insurance-specific questions.

#### i. NY DFS Guidance

The NY DFS Guidance could serve as a model for the Survey, in terms of its clarity about the risks posed by climate change and the detailed guidance it provides to insurers on assessing risks and opportunities. The Guidance accurately discusses the challenges that climate change poses to the financial system, and the risks and opportunities for insurers:

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<sup>13</sup> *Turning up the Heat* at 14.

<sup>14</sup> Center for Economic Justice, [letter to the NAIC Climate Risk and Resilience Task Force](#) (March 3, 2021) at 2.

<sup>15</sup> The revised recommendations include two reports: the TCFD [Guidance on Metrics, Targets, and Transition Plans](#) (October 2021) and the TCFD Annex: [Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures \(“TCFD Annex”\)](#) (October 2021), which updates and supersedes the 2017 version of the report.

As one of the most critical risk-management issues of our generation, climate change poses wide-ranging and material risks to the financial system. This is especially true for the insurance industry, where the physical and transition risks resulting from climate change affect both sides of insurers' balance sheets—assets and liabilities—as well as their business models. Climate change also presents tremendous opportunities for insurers, which play a critical role in the management of climate risks as risk managers, risk carriers, and investors, and are uniquely qualified to understand the pricing of risks. These opportunities include helping communities be more resilient through inclusive and affordable insurance, contributing to climate change adaptation and mitigation, and enhancing the insurability of climate-related risks.<sup>16</sup>

The Guidance also includes useful information for insurers on the types of climate risks, the time horizon for consideration of climate risks in business decisions, how to deal with uncertainty and data gaps, how climate and risk management intersect, scenario analysis, and other important topics.

The NAIC Survey, on the other hand, does not provide much explanation for insurers of the importance of climate change, specific climate-related issues, and how to assess and disclose them. It is very helpful that the Survey provides a link to the TCFD's 2017 disclosure recommendations, which provides much more detailed guidance for companies. However, if the Survey included a more complete discussion of climate risks in the insurance industry and clear expectations of insurers like the NY DFS Guidance, that would send a message about the importance of this issue and help improve insurers' risk assessment, disclosure, and actions to address climate change. Therefore, we recommend that the Survey include a more complete discussion of climate risks and regulators' expectations, similar to pages 4-22 of the NY State DFS' Guidance.<sup>17</sup>

## ii. TCFD's revised recommendations

Like the NY DFS Guidance, the TCFD's revised 2021 recommendations represent current best practice guidance for climate risk assessment and disclosure. The TCFD's revised expectations for insurers include elements that are not included in the NAIC Survey:

- The TCFD discusses how the potential impacts of climate change may influence client or broker selection.<sup>18</sup>
- The TCFD discusses “whether specific climate-related products or competencies are under development, such as insurance of green infrastructure, specialty climate-related risk advisory services, and climate-related client engagement.”<sup>19</sup> and

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<sup>16</sup> New York State Department of Financial Services (“NY DFS”), [Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change](#) (November 15, 2021) at 1-2.

<sup>17</sup> See NY DFS, [Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change](#) (November 15, 2021) at 4-22.

<sup>18</sup> TCFD Annex at 31. The Annex's complete recommendations for insurers can be found on pages 31-36, and the recommendations for asset owners, pages 37-43, are applicable to many insurers and re-insurers.

<sup>19</sup> TCFD Annex at 33.

- The TCFD discusses the importance of disclosure of aggregated risks: “Insurance companies should provide aggregated risk exposure to weather-related catastrophes of their property business (i.e., annual aggregated expected losses from weather-related catastrophes) by relevant jurisdiction.”<sup>20</sup>

We recommend that the Survey include these additional questions from the TCFD’s recommendations.

### iii. CDP’s climate change questionnaire

CDP’s climate change questionnaire has been refined over two decades to collect decision-useful information for investors and policymakers. Since 2017, the questionnaire has integrated the TCFD’s recommendations, in many cases creating closed ended questions derived from the TCFD that improves data analysis. The questionnaire provides detailed questions and helpful models for efficient data collection that the task force could evaluate to improve the NAIC Survey. We recommend that the Survey include more closed ended questions like those in the CDP questionnaire, which would be helpful for comparability and ease of analysis.

Regarding insurers’ engagements with policymakers, CDP asks the following questions: “(C12.3) Do you engage in activities that could either directly or indirectly influence public policy on climate-related issues through any of the following?

- Direct engagement with policy makers
- Trade associations
- Funding research organizations
- Other”

If a company does engage on climate-related public policy, then CDP collects more specific information about the engagements. It asks about the company’s position, if any, and the details of its engagements, for each of the following types of legislation:

- Mandatory carbon reporting
- Cap and trade
- Carbon tax
- Energy efficiency
- Clean energy generation
- Adaptation or resilience
- Climate finance, and
- Regulation of methane emissions.

In addition, Ceres has provided recommendations for responsible policy engagement by companies.<sup>21</sup> We note that companies that establish robust governance systems to address climate change as a systemic risk and align their direct and indirect lobbying efforts to support science-based climate policies will drive the creation of a regulatory environment that best positions them for resilient growth. Ceres specifically recommends that companies conduct an internal audit of direct and indirect lobbying

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<sup>20</sup> TCFD Annex at 35.

<sup>21</sup> Ceres Accelerator for Sustainable Capital Markets, [Blueprint for Responsible Policy Engagement on Climate Change](#) (“Ceres Blueprint”) (July 2020).

positions on climate change and considers these questions:

- Does the company regularly conduct internal audits of how its direct and indirect lobbying efforts align with climate science?
- Does the company disclose the results of these audits, including any planned actions where there is misalignment?<sup>22</sup>

We recommend that the task force consider including these questions from CDP and Ceres in the Survey.

#### **iv. IFRS climate disclosure standard prototype**

On November 3, 2021, the IFRS [announced](#) the formation of an [International Sustainability Standards Board](#) (“ISSB”), which will “sit alongside and work in close cooperation with the IASB, ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB’s standards—IFRS Sustainability Disclosure Standards.” As part of the ISSB’s formation, the ISSB’s Technical Readiness Working Group (“TRWG”) released a [Climate-related Disclosures Prototype](#) (“Prototype”) aimed at general purpose financial reporting. The Prototype provides recommendations to the ISSB for its consideration and is likely to lead to an ISSB climate-related disclosure standard next year. The Prototype’s required disclosures are closely aligned with the TCFD’s recommendations.

The ISSB’s formation and the climate disclosure prototype are relevant to insurance regulators’ work on climate disclosure because of the influence of IFRS accounting standards on securities regulations in over 140 countries. We anticipate that the work of the ISSB will have a similar influence on securities regulations around the world.

The ISSB climate disclosure prototype includes insurance-specific disclosures that the task force should consider including in the Survey. Regarding policies designed to incentivize responsible behavior, two metrics are required: “Net premiums written related to energy efficiency and low carbon technology” and “Discussion of products and/or product features that incentivize health, safety, and/or environmentally responsible actions and/or behaviors”.<sup>23</sup> In the category of environmental risk exposure, there are additional metrics relevant to the NAIC: “Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes” and “Total amount of monetary losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance)”.<sup>24</sup> We recommend that these four insurance-specific metrics from the Prototype be added to the Survey.

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<sup>22</sup> Ceres Blueprint at 13-14.

<sup>23</sup> IFRS Technical Readiness Working Group, [Climate-related Disclosures Prototype](#) (November 2021) at 26.

<sup>24</sup> *Id.*

#### 4. Process recommendations for the NAIC Survey

##### a. NAIC review of Survey responses

We sincerely appreciate the NAIC's efforts to analyze responses to the survey and update the public on state insurance regulators and the NAIC's work on climate change.<sup>25</sup> We especially appreciate the recommendations of the 2020 NAIC report, *Assessment of and Insights from NAIC Climate Risk Disclosure Data*: incorporating key information from the narrative responses in a quantitative format, retaining existing questions to allow for year-to-year comparison, and adding questions to align with the TCFD's recommendations.<sup>26</sup> The report also recommends adding multiple choice questions like CDP, tailoring questions to different lines of business, and providing a platform to share information on best practices.<sup>27</sup> We appreciate that you have incorporated the first three recommendations into the revised Survey.

Going forward, we recommend that the NAIC conduct annual evaluations of completed climate risk surveys. Highlighting good and best practices and providing raw data from closed ended questions would add to the public discussions on these issues and improve insurers' actions to address climate risk. We hope the NAIC considers doing this work or engaging with one of your partners.

##### b. The NAIC public comment process

Some state insurance commissioners have been extremely proactive in engaging their constituencies locally, nationally and internationally; educating the public about the risks of climate change; engaging with insurers; providing data to the public and taking other steps to reduce physical risks to citizens and financial risks to insurers and to their states. This includes, for example, extensive initiatives in the states of Washington,<sup>28</sup> California<sup>29</sup> and New York.<sup>30</sup>

However, at times the task force's important work on climate change disclosure does not appear to be reaching a wide audience. For example, the February 17, 2021 NAIC request for comments on the objectives of NAIC climate disclosures resulted in the receipt of seven comment letters, from the AICPA, Center for American Progress, CEJ, Ceres, Insure our Future, the NY DFS, and SASB.

We would like to see the NAIC do more to engage the public about the Survey. We recommend that the NAIC:

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<sup>25</sup> NAIC, Center for Insurance Policy and Research, [Assessment of and Insights from NAIC Climate Risk Disclosure Data](#) ("CIPR Assessment") (November 2020). NAIC, [Adaptable to Emerging Risks: The State-Based Insurance Regulatory System is Focused on Climate-Related Risk and Resiliency](#) (November 17, 2021).

<sup>26</sup> CIPR Assessment at 34.

<sup>27</sup> CIPR Assessment at 35.

<sup>28</sup> Office of the Insurance Commissioner of Washington State, [The insurance commissioner's work on climate risk and insurance](#) (accessed January 4, 2022).

<sup>29</sup> California Department of Insurance, [California Climate Insurance: Protecting our natural environment from climate change and reducing the risk to communities](#) (accessed January 4, 2022).

<sup>30</sup> New York State Department of Financial Services, [Climate Change](#) (accessed January 4, 2022).

- i) Increase stakeholder outreach regarding the effects of climate change on policyholders, including to members of vulnerable communities; and
- ii) For future revisions to the survey, pose specific questions for the public for which input would be helpful to insurance regulators.

Again, we appreciate all your work to assess the risks and opportunities of climate change to regulators, insurers and the public, engage with stakeholders, keep the public informed of your work, improve the survey, and improve insurers' understanding of and actions to address climate change. We look forward to continuing to engage with NAIC staff, state insurance commissioners and their staff, insurers and important stakeholders.

Thank you very much for your consideration of our recommendations. We will follow up to request a call to discuss our recommendations. If you have any thoughts or questions, please contact either of us at [srothstein@ceres.org](mailto:srothstein@ceres.org) or [coburn@ceres.org](mailto:coburn@ceres.org).

Sincerely,

***Jim Coburn***

Jim Coburn

Senior Manager, Disclosure

Ceres Accelerator for Sustainable Capital Markets

***Steven M. Rothstein***

Steven M. Rothstein

Managing Director