Welcome to the

Climate & Resilience (EX) Task Force: *Climate Disclosure Workstream*3

OUR MEETING WILL BEGIN SHORTLY

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NAIC National Association of Insurance Commissioners

Date: 3/9/21

Virtual Meeting

CLIMATE AND RESILIENCY (EX) TASK FORCE
CLIMATE RISK DISCLOSURE WORKSTREAM
Wednesday, March 10, 2021
2:00 – 3:15 p.m. ET / 1:00 – 2:15 p.m. CT / 12:00 – 1:15 p.m. MT / 11:00 a.m. – 12:15 p.m. PT

ROLL CALL

Andrew R. Stolfi, Vice Chair	Oregon	Yue (Nina) Chen	New York
Mike Peterson	California	Elizabeth Kelleher Dwyer	Rhode Island
George Bradner	Connecticut	David Combs	Tennessee
Peter Brickwedde	Minnesota	Mike Kreidler	Washington

NAIC Support Staff: Anne Obersteadt/Jennifer Gardner

AGENDA

1. Discuss Climate Disclosure Recommendations to the Climate and Resilience Task Force —*Commissioner Andrew R. Stolfi (OR)* — Attachment A

2. Discuss Comments Received on the *Questions to Determine Objectives of NAIC Climate Disclosures—Commissioner Andrew R. Stolfi (OR)* — Attachments B-H

3. Discuss Any Other Matters—*Commissioner Andrew R. Stolfi (OR)*

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Discuss Climate Disclosure Recommendations to the Climate and Resilience Task Force

— *Commissioner Andrew R. Stolfi (OR)*

NAIC National Association of Insurance Commissioners

DRAFT MEMORANDUM

TO: Members of the Climate and Resiliency (EX) Task Force

FROM: Climate Disclosure Workstream of the Climate and Resiliency (EX) Task Force

DATE: March 3, 2021

RE: Climate Disclosure Workstream Update on Activities and Reporting Recommendations for 2021

The NAIC Climate and Resiliency (EX) Task Force charged the climate disclosure workstream to consider modifications to the *NAIC Climate Risk Disclosure Survey* (NAIC disclosure survey – Appendix A) to align with Task Force on Climate-related Financial Disclosures (TCFD – Appendix B) and promote uniformity in reporting requirements. Appendix C shows the correlation between the NAIC disclosure survey and the TCFD.

This report serves as the workstream's initial recommendation to the Task Force. The initial recommendation does not complete the workstream's work. It provides an interim step to promote participation and provide direction for submitting the *NAIC Climate Risk Disclosure Survey* or the TCFD in 2021. It also provides direction for people involved in the reporting and aggregation process.

The workstream began holding weekly calls in January 2021 to gain information and perspectives around the *NAIC Climate Risk Disclosure Survey* and other climate disclosures. Most of the calls have been open to industry and interested parties in order to ensure broad access to the information.

On Jan. 27, 2021, the workstream heard from California about the history, administration, and collection process of the NAIC disclosure survey. It also heard from the Center for Insurance and Policy Research (CIPR) and the American Academy of Actuaries (AAA) on their analyses of the *NAIC Climate Risk Disclosure Survey* results.

On Feb. 3, the Principles for Responsible Investment (PRI) and CDP each shared information on their climate reporting framework, including how they collect, manage, and store information.

On Feb. 10, Ceres discussed its climate disclosure recommendations with the workstream. Zurich Insurance Group and American International Group (AIG) also shared what climate disclosure frameworks they report to and their process of reporting to them.

On. Feb. 17, the workstream heard from investment company RBC Global Asset Management and ESG ratings firm Sustainalytics on how they use climate disclosures, including the *NAIC Climate Risk Disclosure Survey*. It also shared and asked for feedback on a list of questions developed by the workstream to help guide it in defining the objectives of the climate disclosures. At a high level, these questions include establishing the audience for the disclosures, who should use the report, what framework should be used, how to design the questions, timing, effective date of reporting, and where and how the results should be reported.

The workstream met in a regulator-only session Feb. 24 to hear from regulators that have analyzed the results of the information in the current survey and what they hope to improve in future versions.

It met in a regulator-only session again on March 3 to draft recommendations to the Task Force. The workstream held an open call March 10 to discuss its recommendation and hear feedback from industry.

The workstream is also tracking what federal agencies and international organizations are doing relative to climate risk disclosure. The U.S. Securities and Exchange Commission announced on Feb. 24, that it will begin reviewing the extent to which public companies are following the agency's 2010 guidance on disclosure requirements related to climate change matters. The SEC will use insights from this work to begin updating the 2010 guidance to take into account developments in the last decade.

The United Kingdom will make the TCFD fully mandatory across the economy by 2025 with a significant portion of the mandatory requirements to be in place by 2023. New Zealand has announced its plans to mandate the TCFD by 2023. In January 2021, Switzerland officially became a supporter of the TCFD, calling on Swiss companies from all sectors of the economy to implement the disclosures on a voluntary basis. It also noted a bill should be drafted in the coming year to make the recommendations binding.

In response to growing interest and new disclosures from several large institutional investors, the Financial Stability Board (FSB), which created the TCFD, formed a working group to consider the benefits and challenges of disclosure of implied temperature rise. It will also consider other forward-looking climate-related metrics and developing a set of questions for public consultation. The Task Force will take consultation responses into consideration to determine whether further TCFD financial sector guidance on forward-looking metrics is needed. The Task Force is expected to publish a status report in September 2021. Additionally, it is expected to do further analysis on the extent that companies describe the financial effect of climate-related risks and opportunities on their businesses and strategies.

Based on where most of the domestic and international groups are in their process of disclosure, we believe it is prudent to take a measured approach and allow additional time to determine a final recommendation. To support this process, the workstream developed a list of questions for regulators and interested parties. The workstream has invited comments from regulators and interested parties on the following questions:

1) Who is the audience and what do they wish to glean from the results?
    a) What qualitative and quantitative metrics do they need?
    b) How should the information in the survey be formatted to be useful?
2) Who should report?
    a) What is the threshold?
    b) Should it be compulsory?
    c) What states are participating?
3) What report framework should be used?
    a) TCFD?
    b) NAIC climate disclosure survey?
    c) Another framework (such as CDP)?
    d) Some combination?
4) How should the questions be designed?
    a) Multiple choice?
    b) Open-ended?
    c) Close-ended (rating scale, dropdown, ranking, etc.)?

5) When should the information be reported and what is the effective date of the changes?
6) Where should climate disclosures be reported?
    a) Continue to make it available through California's website?
    b) Build an NAIC repository?
    c) Directed to the domestic state?
7) How should the results be made available?
    a) Only to regulators?
    b) Publicly available (as it is today)?

The workstream will consider the comments it received on these questions and revise them as appropriate before issuing them to regulators and interested parties for completion.

The workstream's goal is to develop recommendations that address who should report, what will be reported, and how data will be collected and used in the future. Furthermore, the workstream plans to discuss how the survey results could be used within regulatory due process, for example, to encourage a discussion during company examinations.

After thoughtful deliberation, the workstream recommends maintaining the present disclosure reporting timing and structure for the 2021 reporting year, including which companies choose to submit either the *NAIC Climate Risk Disclosure Survey* or the TCFD.

Revisions to the current disclosure reporting process is a multi-faceted and complex project requiring sufficient depth of research and feedback from all parties affected or involved. The NAIC disclosure survey is administered in July. Given the proximity of this reporting date, there is insufficient time to make substantive changes to the questions or the California database that collects and houses the survey responses. The compressed timeframe would also make it difficult for insurers to implement any more information gathering processes and procedures.

We also recommend that more states participate in the survey beginning in 2021. Inviting more companies to report will help capture a larger percentage of the market. Currently, six participating states require all of their licensed companies writing more than $100 million in premium to report. As a result, approximately 70 percent of the U.S. market currently participates in the survey, meaning many of the domestic writers in nonparticipating states are already reporting or completing the *NAIC Climate Risk Disclosure Survey* or TCFD. If more states agree to participate in 2021, it will increase the scope of the survey without making any changes to the survey questions or reporting framework. We believe that more participation will be meaningful, even if the survey changes in 2022, as participating companies would benefit from the analysis the survey (or TCFD) requires and be better prepared for any future reporting. Appendix 4 shows the list of companies currently reporting the *NAIC Climate Risk Disclosure Survey*, as well as those reporting the TCFD. More information about the TCFD will be added to the guidance provided to reporting companies (included in Appendix 1) to encourage more insurers to report using the TCFD.

The workstream will continue meeting with stakeholders, including international and federal organizations, investors, consumer advocates, and industry. This will provide the workstream time to make thoughtful recommendations and provide justification for any future changes to the *NAIC Climate Risk Disclosure Survey* and reporting framework to align with the TCFD as mandated. For example, the workstream will explore the use of multiple choice and open-ended questions among other potential changes.

Q&A

Discuss Comments Received on the *Questions to Determine Objectives of NAIC Climate Disclosures*

—Commissioner Andrew R. Stolfi (OR)

Summary of Suggestions on Questions to Determine Objectives of NAIC Climate Disclosures

NAMIC:

- It is imperative that when regulators assess the NAIC's goals for revising climate disclosures established initiatives and requirements be considered as part of the framework. We suggest adding the following question to the questionnaire:

  1. Does the purpose of the Climate Disclosure differ from those of other existing mandatory disclosures such as, but not limited to?
     a. Financial examinations
     b. ORSA
     c. CGAD
     d. Enterprise Risk Reports
     e. RBC Reports
     f. Operational Risk
     g. Other regulatory disclosures required for publicly traded companies

- NAMIC members urge regulators to articulate a clearly defined objective consistent with an express, authorized, and valid regulatory function (i.e. solvency and/or consumer protection). For that purpose, we suggest adding the following question to the questionnaire:

  2. What regulatory purpose does the Climate Disclosure serve?
     a. Solvency Regulation
     b. Risk Evaluation
     c. Both
     d. Other

- General Comments:
  - Some are concerned by a lack of definitions and uncertainty of what is or may be later deemed to be an acceptable standard.
  - As it pertains to insurers' solvency information, NAMIC members want to ensure any responses remain confidential. (questions 6 and7)
  - NAMIC urges robust discussion of the implementation process and roll-out, which should consider the content, quantity and scope of changes and whether the jurisdiction is new to the process. (questions 2 and 5)

AAA:

- Given the decade of experience with the NAIC Disclosure Survey, the overarching question might be framed:

  - Given the experience with the Insurer Climate Risk Disclosure Survey, what would be the best content and format for climate disclosures going forward, and how shall a transition from the current survey to that successor be managed?

- Among the key insights from our research: 1) Survey participation varies greatly by size and line; 2) A small share provide robust responses to the narrative questions; 3) It is very difficult to

extract information from the 8 TCFD narratives; and 4) Most respond in a minimal non-specific way to the narrative questions.

- These insights suggest to us that the following topics/questions might useful:

  - What might be done to encourage small and mid-size companies in all P/C and life lines of business, and health insurance companies of all sizes, to participate and to participate robustly in whatever disclosure regime is established?
  - For those companies already providing robust responses to the NAIC survey, what information not already being provided would be useful?
  - What can be done to make responses from the disclosures more useful for analysis by regulators and others, and more likely to provide information on best practices to other companies?
  - What can be done to encourage companies providing minimal responses to the current survey to provide more robust responses?
  - Who within a company is responsible for filling out the disclosure (or specific questions), and how does that affect the nature of the information supplied?
  - What transitional arrangements would maximize responsiveness and minimize disruption for participating companies?
  - What motivates a company to take actions to mitigate climate risk and how can this be better understood via the survey questions or disclosure prompts?

- General Comments:
  - Assessments of options for responding to each of these seven questions will be available by the Summer National Meeting.

RAA:

- Question 1, "Who is the audience and what do they wish to glean from the results?"
  - Add:
    - What do U.S. insurance regulators want and need for solvency regulation? What other objectives are state regulators seeking to advance?
    - Are there multiple audiences?
    - If non-insurance regulatory audiences are intended, what information do regulators want to provide to them?
    - Do the audiences (regulator v. others) need the same or different information?
    - Are there existing regulatory tools that can provide the necessary information for some or all of the intended purposes and audiences?

- Question 3, "What report framework should be used?"
  - Add:
    - Should reporting frameworks required by international group supervisors be accepted?
    - Should the recommendations provide for flexibility as reporting formats change?
    - To what extent can existing regulatory tools, including ORSA, address and collect some or all of the disclosure sought?

- Question 4 "How should the questions be designed?
  - "b. Open-ended?" If not a narrative response, should be a separate question.
  - Add:

        - Assuming that a choice is made to have readily comparable survey questions, will there be a narrative component?
    - If there is a narrative component, should insurers be able to respond by referencing an attached or linked disclosure? (like TCFD is accepted now.)

- Question 6, "Where should climate disclosures be reported?"
    - Add:
        - With the regulator of the ultimate insurance entity in the holding company? Groupwide supervisor?
        - Can and should existing regulatory tools and filings be utilized?

- Question 7, "How should the results be made available?"
    - Add:
        - Should some information be confidential or capable of being declared confidential?
        - If so, what are the options for separating the disclosure information?
        - Are there existing regulatory tools that be used in conjunction with or in lieu of certain climate disclosure questions?

- General Comments:
    - Regulators should provide appropriate lead time and coordinate with existing disclosure timeframes.
    - Regulators should accept TCFD, CDP, ClimateWise or other.
    - Regulators should make it clear that group disclosures are acceptable.

CEJ:

- Our comments focus on a major gap in disclosures related to an insurance company's offerings in the face of a changing climate. This information allows consumers to better assess which insurer they want to do business with. It also allows policymakers to craft public policy as insurers prepare to leave certain markets or dramatically modify product offerings and price.
    - Add:
        - 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 you provide a metric for climate impact (e.g., 2-degree temperature rise), what impacts do you anticipate on the availability and affordability or 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?

- It is important to include quantitative measures of climate impact against which the insurers can describe their narrative response.
  - Add:
    - When and where does the insurer anticipate rate changes of 15%, 30%, 50% and 100% due to climate risk?

- We also suggest that identification of specific geographic areas at a state and county level with the associated insured perils and insurer response is needed, and we consider those to be quantitative responses.

APCIA:

- APCIA adopted principles uphold the importance of risk mitigation and voluntary disclosures and urge any regulation be proportional, material to the company and respect confidentiality.
  - Add:
    - Is there a demonstrated regulatory need to make any changes to the current survey and option to report using the TCFD framework?
    - In view of existing voluntary and mandatory reporting is there a regulatory need for more or different reporting?
    - If there is a regulatory need, what is it and what is the most effective and least burdensome way to obtain information that reflects different sizes and business models?
    - Are the disclosures and the processes supporting them helpful to the companies in making decisions that are relevant and material to their businesses?
    - What are reasonable timeframes for reporting and how long should companies have from the point where a question is decided to be included and the deadline for reporting on it?
    - How will confidentiality of any additional mandatory disclosures be maintained?
    - How will the principle of proportionality be implemented with regard to new disclosures?
    - How can the NAIC best assist companies who are beginning their journey with regard to considering and reporting on longer term climate risk issues, such as transition risks?

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March 2, 2021

Commissioner Andrew R. Stolfi
Co-Vice Chair, Climate and Resiliency (EX) Task Force; Chair, Climate Risk Disclosure Workstream
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

VIA Email Transmission: aobersteadt@naic.org; jgardner@naic.org

RE: NAMIC Comments on "Questions to Determine Objectives of NAIC Climate Disclosures" Exposure Document (February 17, 2021)

Dear Commissioner Stolfi:

On behalf of the member companies of the National Association of Mutual Insurance Companies[1] these comments respond to the climate disclosure questionnaire exposed for comment on February 17, 2021 by the NAIC Climate Risk Disclosure Workstream.

NAMIC members appreciate the opportunity to provide comments on the important issue of climate risk and resiliency. The questionnaire under discussion has been designed to clarify the NAIC's goals regarding new climate disclosures. It appears the goal in seeking feedback is to guide discussions on whether and how to revise the current climate disclosure framework administered by the California Department of Insurance and participated in by five other states. For interested parties to better understand the process, additional context might be helpful. For example, some open questions include:

- Is this a questionnaire that will be distributed to all insurance departments, or will this be available only to members of the Disclosure Workstream and/or the Task Force?
- Will interested parties have an opportunity to provide input on the substantive questions contained within the questionnaire?

[1] NAMIC membership includes more than 1,400-member companies. The association supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies write more than $278 billion in annual premiums. Our members account for 58 percent of homeowners, 44 percent of automobile, and 30 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

Valuable risk review and disclosure tools are missing.

Reviewing the existing regulatory framework is a necessary step in assessing a new NAIC climate disclosure framework. As the questionnaire is currently structured, it appears to focus exclusively on the current NAIC Climate Disclosure Survey and other related climate-specific disclosure frameworks.

Unfortunately, it omits several other established and respected risk disclosure processes and reporting requirements. These other requirements and initiatives were designed for insurers to engage in formal and systematic efforts to evaluate and disclose their climate risks, specifically related to operations, investments, transition, underwriting, and reputation.

Specifically, the questionnaire should allow for a more robust understanding of the regulatory tools and insurer processes and practices by incorporating questions related to existing reporting obligations and solvency tools such as:

- Financial examinations,
- Own Risk and Solvency Assessment Report,
- Corporate Governance Annual Disclosures,
- Enterprise Risk Reports,
- RBC reports which include testing and reporting for peril-specific risk (like wildfire or hurricane),
- Operational risk exposure, and
- Other regulatory disclosures such as are required by the SEC for publicly traded companies.

While this list is not all encompassing, it would better reflect an effort to dovetail with and leverage this existing framework that insurers rely on to evaluate and disclose their climate risks and that regulators have designed for the purpose of understanding an insurer's exposure. Therefore, it is imperative that when regulators assess the NAIC's goals for revising climate disclosures these established initiatives and requirements be considered as part of the framework. In that spirit, we suggest adding the following question to the questionnaire:

1. Does the purpose of the Climate Disclosure differ from those of other existing mandatory disclosures such as, but not limited to?
    a. Financial examinations
    b. ORSA
    c. CGAD
    d. Enterprise Risk Reports

e. RBC Reports
f. Operational Risk
g. Other regulatory disclosures required for publicly traded companies

Leveraging what exists avoids *duplication of efforts*. Wherever possible, using existing information may aide implementation of the new items' regulators require. Beyond the survey and assessment stage, this may have practical operational implications for compliance as well as workload and costs. NAMIC members suggest valuing existing reporting obligations and tools. Respectfully, the questionnaire should consider potential overlap of work being conducted outside of this climate risk disclosure area.

Setting clear definitions on regulatory purpose and standards would guide common understanding and direction. In addition to considering existing climate-related disclosure requirements in the needs analysis for this new workstream initiative, NAMIC members urge regulators to articulate a clearly defined objective consistent with an express, authorized, and valid regulatory function (i.e. solvency and/or consumer protection). For that purpose, we suggest adding the following question to the questionnaire:

2. What regulatory purpose does the Climate Disclosure serve?
    a. Solvency Regulation
    b. Risk Evaluation
    c. Both
    d. Other

Like the existing reporting obligations and solvency tools discussed above, as with all initiatives, a clearly articulated regulatory standard which is reasonably necessary to achieve the defined purpose helps to frame the discussion.

Matters of insurance-related climate risk regulation appear to be rapidly evolving (as evidenced by the five Climate Risk and Resiliency (EX) Task Force workstreams created to work in parallel this year and by the number of detailed presentations to the Climate Risk Disclosure Workstream in 2021). As this process moves forward, please be aware that some are concerned by a lack of definitions and uncertainty of what is or may be later deemed to be an acceptable standard.

Going forward workability could be relevant to the questionnaire.

As it pertains to insurers' *solvency information*, NAMIC members want to ensure any responses remain *confidential*. NAMIC members are committed to continuing to provide regulators with reasonable information about the steps they are taking to understand material climate risks, consistent with their solvency obligations. This is relevant to the questionnaire because question (7) asks how the results should be made available (to regulators only or to the public). Considering this question more deeply, the answer may (and NAMIC believes rightfully) depend on the nature and purpose of that data. This same concept applies for question (6) on where reported.

Similarly, question (5) asks when the information should be reported and the effective date for such changes. This too would seem to depend on a variety of factors, potentially including: what the specific changes are (content), the number of changes (quantity), whether the jurisdiction is new to the process, as well as the scope of those to whom the request would apply (including the size, scale, and complexity of the insurer). Depending on the nature/scope of the changes contemplated, NAMIC urges robust discussion of the implementation process and roll-out. These issues are relevant for both questions (2) and (5).

NAMIC urges an opportunity to provide input into the substantive questions. Insurers responding to the survey bring an important perspective on the necessary balance and approach to things. For example, consider question (4). Insurers may be able to share thoughts on weighing the ease of static fields (a quantitative approach (though with potential for confusion if there are not adequate definitions and opportunities for clarifications)) and the narrative fields (qualitative approach) which allows an insurer to opt to provide further explanation as well as a chance to discuss innovation and/or relevant items not otherwise requested.

* * * * *

NAMIC appreciates the opportunity to take part in the process. Thank you for your consideration of these comments on this matter of importance to NAMIC, its member companies and their policyholders. If there are any questions, please feel free to contact me at 317-875-5250.

Sincerely,

Jonathan Rodgers
Director of Financial and Tax Policy
National Association of Mutual Insurance Companies

AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

March 2, 2021

Commissioner Andrew Stolfi
Vice Chair
Climate and Resiliency (EX) Task Force
Climate Risk Disclosure Workstream
National Association of Insurance Commissioners (NAIC)

Dear Commissioner Stolfi,

On behalf of the American Academy of Actuaries[1] Climate-Related Financial Disclosures (CRFD) Work Group, I would like to provide the following comments on the set of questions that was exposed during the February 17 meeting of the Task Force's Climate Risk Disclosure Workstream. Before proceeding to the comments, I begin with our thanks for the transparent process you have arranged for the workstream, for inviting the work group to present our results to the workstream, and for the other very interesting presentations you have arranged.

Turning to the workstream questions, the work group notes that they are all interesting and relevant. However, we believe there are three topics which might be added, all of which follow from the fact that the NAIC is not approaching climate disclosures in a vacuum. Given the foresight with which the NAIC acted, regulators have almost a decade of experience with the Insurer Climate Risk Disclosure Survey. Given that experience, the overarching question might be framed: Given the experience with the Insurer Climate Risk Disclosure Survey, what would be the best content and format for climate disclosures going forward, and how shall a transition from the current survey to that successor be managed?

While each of the commissioners and regulators on the workstream have their own experiences with the current NAIC survey, we and the Center for Insurance Policy and Research (CIPR) team (led by Lisa Groshong) have spent the last year mining the responses to those surveys and have identified some key insights and some key questions. Some of these questions are implied by the questions posed in the workstream but not included explicitly in your current inventory.

Among the key insights from our research:

- There is significant variation in survey participation based both on size of company and line of business[2];
- A relatively small share of responding companies are providing robust responses to the narrative questions;

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
[2] Line of business in this context refers to P/C, life, and health.

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- For those companies providing robust responses, eight of which have submitted Task Force on Climate-related Financial Disclosures (TCFD) responses for 2019, it is very difficult to extract information from their narratives which can provide information to others on best practices, or which can be used to set baselines for those best practices.
- The vast majority of companies across all lines of business are responding in a minimal way to the questions posed for the narrative responses. Most companies are not responding to the specific prompts for the narratives.

These insights suggest to us that the following topics/questions might usefully be considered by the workstream in formulating recommendations for the task force:

1. What might be done to encourage small and mid-size companies in all P/C and life lines of business, and health insurance companies of all sizes, to participate and to participate robustly in whatever disclosure regime is established?
2. For those companies already providing robust responses to the NAIC survey, what information not already being provided would be useful?
3. What can be done to make responses from the disclosures more useful for analysis by regulators and others, and more likely to provide information on best practices to other companies?
4. What can be done to encourage companies providing minimal responses to the current survey to provide more robust responses?
5. Who within a company is responsible for filling out the disclosure (or specific questions), and how does that affect the nature of the information supplied?
6. What transitional arrangements would maximize responsiveness and minimize disruption for participating companies?
7. What motivates a company to take actions to mitigate climate risk and how can this be better understood via the survey questions or disclosure prompts?

As we have previously informed the task force, we are aiming to provide assessments of some of the options for responding to each of these seven questions in phase two of our research. We are working to provide results to the task force by the time of the NAIC Summer National Meeting and hope that this timing will still be useful to you.

If you would like to have a further discussion on our comments or if you have additional questions, please contact the Academy's risk management and financial reporting analyst Shera Niemirowski, at niemirowski@actuary.org.

Thank you for considering our input.

Sincerely,

Michelle Young, MAAA, FSA
Chairperson, Climate-Related Financial Disclosures Work Group
ERM/ORSA Committee
Risk Management and Financial Reporting Council
American Academy of Actuaries

Obersteadt, Anne M.

From: Dennis Burke <Burke@reinsurance.org>
Sent: Monday, March 1, 2021 4:10 PM
To: Obersteadt, Anne M.
Cc: Gardner, Jennifer; Dennis Burke
Subject: Climate and Resiliency (EX) Task Force - Climate Disclosure Workstream

Anne,

As requested by the Climate and Resiliency (EX) Task Force - Climate Disclosure Workstream concerning its "Questions to Determine Objectives of NAIC Climate Disclosures," the RAA provides the following comments below.
Please share with Commissioner Stolfi and the workstream members.

* * *

Dear Comm. Stolfi,

On behalf of the Reinsurance Association of America, we wish to thank the Climate Risk Disclosure Workstream of the Climate and Resiliency (EX) Task Force for giving interested parties to opportunity to comment on the series of questions that are intended to guide the workstream's work and ultimate recommendations regarding potential modifications to the *NAIC Climate Risk Disclosure Survey.*

We compliment the Workstream on this process, and provide our comments in the underscored text below.

Thank you for your consideration.

Sincerely,

Dennis Burke
RAA
.

Questions to Determine Objectives of NAIC Climate Disclosures

The following questions are designed to gain a solid foundation of the goals of climate disclosures. The responses will guide discussions on how the current climate disclosure framework should be revised to be more effective.

1. Who is the audience and what do they wish to glean from the results?
    a. <u>What do U.S. insurance regulators want and need for solvency regulation? What other objectives are state regulators seeking to advance?</u>
    b. <u>Are there multiple audiences?</u>

c. If non-insurance regulatory audiences are intended, what information do regulators want to provide to them?
d. Do the audiences (regulator v. others) need the same or different information?
e. Are there existing regulatory tools that can provide the necessary information for some or all of the intended purposes and audiences?
f. What qualitative and quantitative metrics do they need?

b) How should the information in the survey be formatted to be useful?

2) Who should report?

a) What is the threshold?
b) Should it be compulsory?
c. What states are participating?

Since most insurers manage their risk management and climate risk management from a group perspective, regulators should make it clear that group disclosures are acceptable.

3) What report framework should be used?

a) TCFD?
b) NAIC Climate Disclosure Survey?
c) Another framework (such as CDP)?
d) Some combination?
d. Should reporting frameworks required by international group supervisors be accepted?
e. Should the recommendations provide for flexibility as reporting formats change?
f. To what extent can existing regulatory tools, including ORSA, address and collect some or all of the disclosure sought?

Regulators should seek to facilitate insurer reporting, by accepting comprehensive responses in TCFD, CDP, ClimateWise or any generally accepted climate disclosures, with limited additional sectional cross-references to facilitate qualitative and quantitative analytical needs.

4) How should the questions be designed?

a) Multiple choice?
b) Open-ended? (Presumption is that this refers to narrative responses. If not, that should be a separate question.)
c) Close-ended (rating scale, dropdown, ranking, etc.)?
d. Assuming that a choice is made to have readily comparable survey questions, will there be a narrative component?
e. If there is a narrative component, can insurers respond by referencing an attached or linked disclosure? (example, like TCFD is accepted now.)

As discussed in comments to the question(s) 3, regulators should accept insurers' existing climate responses to avoid duplication and redundancy, with appropriate cross references.

5) When should the information be reported and what is the effective date of the changes?

Regulators should seek to provide appropriate lead time and should seek to coordinate with existing disclosure timeframes.

6) Where should climate disclosures be reported?

a) Continue to make it available through California's website?
b) Build an NAIC repository?
c) Directed to the domestic state?

d. With the regulator of the ultimate insurance entity in the holding company? Groupwide supervisor?
e. Can and should existing regulatory tools and filings be utilized?

7) How should the results be made available?
a) Only to regulators?
b) Publicly available (as it is today)?
c. Should some information be confidential or capable of being declared confidential?
d. If so, what are the options for separating the disclosure information?
e. Are there existing regulatory tools that be used in conjunction with or in lieu of certain climate disclosure questions?

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CENTER for ECONOMIC JUSTICE | FAIR ACCESS FAIR TREATMENT

Comments of the Center for Economic Justice

To the NAIC Climate Risk and Resilience Task Force

Recommended Improvements to Climate Risk Disclosure

March 3, 2021

The Center for Economic Justice (CEJ) offers the following comments in response to the Task Force's request regarding questions to determine objective of the NAIC Climate Disclosure.

1. Who is the Audience and what do they wish to glean from the results?
    a. What qualitative and quantitative metrics do they need?
    b. How should information be formatted to be useful?

The NAIC Climate Risk Disclosure and other climate risk disclosures, such as the TCFD, focus on the financial implications of climate on the reporting companies and are targeted for use by investors, investment analysts and financial regulators. There is opportunity for improvement and convergence towards a single framework for climate-related financial disclosures. Our colleagues' comment letter identifies some of the principles and opportunities for such improvement.

Our comments focus on a major gap in the current NAIC CRD (and other climate risk disclosure frameworks) that is unique to the insurance industry – namely, the lack of disclosures related to insurance company's offerings in the face of a changing climate. This is information to be used by consumers to better assess which insurer they want to do business with because of confidence the insurer will remain the market for the consumer. These types of disclosures are also important and necessary for policymakers to craft public policy as insurers prepare to leave certain markets or dramatically modify product offerings and price.

To illustrate the gap in the NAIC CRD for audiences other than financial regulators and investors, we offer the following additional questions:

- 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 or 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?

While some questions and answers must be qualitative, it is important to include quantitative measures of climate impact against which the insurers can describe their response. We also suggest that identification of specific geographic areas at a state and county level with the associated insured perils and insurer response is needed and we consider those to be quantitative responses. Another area for quantitative question and response is for anticipated price / rate change. For example, when and where does the insurer anticipate rate changes of 15%, 30%, 50% and 100% due to climate risk?

In terms of format, we suggest a tabular presentation with column for location, climate impact metric (e.g. 1, 1.5 and 2 degree temperature rise), time frame (5, 10, 15, 20 years), relevant peril, relevant product(s) and anticipated action.

2. Who should report?
    a. What is the threshold?
    b. Compulsory?
    c. What states?

All insurers should report the insurance-specific climate disclosures we suggest in response to question 1 for three reasons. First, active consideration of insurer business response to climate risk is simply good corporate governance. Second, consideration and disclosure of anticipated responses to climate risk enables policymakers to better work with insurers to craft partnerships for resilience and mitigation to promote availability and affordability. Third, any insurance consumer should be able to assess their insurer's approach to and planned responses to climate risk. All insurers should report because the impacts of climate change impact every type of peril insured throughout the country.

3. What report framework should be used?

As noted above, we believe there is convergence in climate financial disclosure frameworks and we support our colleague's comments on how to improve those financial disclosures. Our comments are focused on insurer-specific disclosures, which should start as part of – or be – the NAIC Climate Risk Disclosure and the NAIC should work with the IAIS to make these insurer-specific climate disclosures an international standard.

4. How should the questions be designed?

As noted above, the <u>answers</u> to the questions should be provided in a tabular format. While more structured questions (multiple choice or close-ended) answers might be developed over time, we suggest initially framing the insurance-specific questions as set out above.

5. When should information be reported with what effective date?

We suggest an initial report for the insurance-specific disclosures about six months following the adoption of the new questions. We also suggest that, instead of annual reporting, insurers update their disclosures quarterly. In many instances, such quarterly updates will simply be "no change." But, if and when an insurer determines a change in offerings or major change in price related to a new assessment of climate risk, such update should be provided more timely than an annual submission. This is particularly relevant given insurers' history of "discovering" risk following catastrophic events, despite the use of catastrophe models, with insurers making major changes in product offerings and price.

6. Where should climate disclosures be reported?

For efficiency, there should be a single national site for reporting and for public access, though the two need not be the same. The site for public access must accountable to the public, which puts the NAIC at a disadvantage.

7. Who should see the disclosures?

Speaking for the insurance-specific disclosures we suggest, it is foundational that such disclosures be public information.

American Property Casualty Insurance Association
INSURING AMERICA apci.org

APCIA Response to Questions Posed by the Climate Disclosure Workstream

The American Property Casualty Insurance Association (APCIA) represents nearly 1200 insurers and reinsurers that include a wide range of company sizes and business models. We appreciate the careful and transparent way by which the NAIC and the States are considering climate risk disclosures.

Among our members are companies that report using the TCFD framework and many that use the eight survey questions. Those alternatives are appreciated, generally serve the intended regulatory purposes and at the same time recognize the large differences in resources among the companies.

As background, we have attached a release with the principles adopted by the APCIA Board to guide our engagement on climate and environmental issues. In general, the principles uphold the importance of risk mitigation and voluntary disclosures and urge that any regulation be proportional, material to the company and respect confidentiality.

Here are several questions that could be added:

- Is there a demonstrated regulatory need to make any changes to the current survey and option to report using the TCFD framework?
- In view of existing voluntary and mandatory reporting is there a regulatory need for more or different reporting?
- If there is a regulatory need, what is it and what is the most effective and least burdensome way to obtain the information that reflects different sizes and business models?
- Are the disclosures and the processes supporting them helpful to the companies in making decisions that are relevant and material to their businesses?
- What are reasonable timeframes for reporting (relevant time horizons) and how long should companies have from the point where a question is decided to be included and the deadline for reporting on it?
- How will the appropriate confidentiality of any additional mandatory disclosures be maintained?
- How will the principle of proportionality be implemented with regard to any new disclosures?
- How can the NAIC best assist companies who are beginning their journey with regard to considering and reporting on longer term climate risk issues, such as transition risks?

We hope this is helpful. We look forward to continuing to work with our regulators on this and all other climate risk related issues and workstreams.

Respectfully submitted,

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American Property Casualty Insurance Association℠
INSURING AMERICA apci.org

FOR RELEASE ON RECEIPT

December 8, 2020

APCIA Announces Strong Environmental Guiding Principles

WASHINGTON – The American Property Casualty Insurance Association (APCIA) today announced its Environmental Core Principles that will help shape the important policy debate on sustainability and climate policy. The principles address climate risk and support competition and free market solutions.

“Property casualty insurers have been long-time leaders in addressing the impacts of climate change by advocating for stronger mitigation, resilience efforts, and building codes,” said David A. Sampson, APCIA president and CEO. “The APCIA Board of Directors today endorsed principles that will continue our work toward reducing the losses from climate-related catastrophes, while supporting innovation and competition for the benefit of individuals, families, communities, and businesses.”

APCIA’s Board of Directors adopted and endorsed the following Environmental Core Principles:

- Risk mitigation must continue to be a shared priority.
- Insurers have a unique role in facilitating a more environmentally resilient economy by making capital and protection available to industries as they transition to a lower carbon future.
- Insurers should be proactively engaged in efforts to address long-term weather-related losses.

- Insurers should consider what existing information can be disclosed as voluntary alternatives to regulation.

- Environmental policies and actions should be science-based, provide benefits that outweigh costs, and contribute to job creation and economic growth.

- While voluntary actions are preferred, any regulation with regard to environmental issues should be proportional and flexible (not one size-fits-all), be based on materiality and respect confidentiality.

- Environmental risk-based pricing should be protected.

- Regulators should fully support environmental innovation and modeling for insurance.

Based on these principles, APCIA will engage at all levels of government in the effort to find constructive approaches to reducing and managing climate risk.

The American Property Casualty Insurance Association (APCIA) is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

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Questions to Determine Objectives of NAIC Climate Disclosures

The following questions are designed to gain a solid foundation of the goals of climate disclosures. The responses will guide discussions on how the current climate disclosure framework should be revised to be more effective.

1) Who is the audience and what do they wish to glean from the results?
   a) What qualitative and quantitative metrics do they need?
   b) How should the information in the survey be formatted to be useful?
2) Who should report?
   a) What is the threshold?
   b) Should it be compulsory?
   c) What states are participating?
3) What report framework should be used?
   a) TCFD?
   b) NAIC Climate Disclosure Survey?
   c) Another framework (such as CDP)?
   d) Some combination?
4) How should the questions be designed?
   a) Multiple choice?
   b) Open-ended?
   c) Close-ended (rating scale, dropdown, ranking, etc.)?
5) When should the information be reported and what is the effective date of the changes?
6) Where should climate disclosures be reported?
   a) Continue to make it available through California's website?
   b) Build an NAIC repository?
   c) Directed to the domestic state?
7) How should the results be made available?
   a) Only to regulators?
   b) Publicly available (as it is today)?