Draft Pending Adoption

Draft: 12/21/21

Climate and Resiliency (EX) Task Force
San Diego, CA
December 14, 2021

The Climate and Resiliency (EX) Task Force Dec. 14, 2021. The following Task Force members participated: Ricardo Lara, Co-Chair, Mike Peterson, Bryant Henley, and Camillo Pizzaro (CA); Raymond G. Farmer, Co-Chair, Michael Wise and Michelle Proctor (SC); Colin M. Hayashida, Co-Vice Chair (HI); James J. Donelon, Co-Vice Chair, represented by Nick Lorusso (LA); Kathleen A. Birrane, Co-Vice Chair, and Alexander Borkowski (MD); Mark Afable, Co-Vice Chair, and Sarah Smith (WI); Andrew R. Stolfi, Co-Vice Chair, and David Dahl (OR); Lori K. Wing-Heier (AK); Jim L. Ridling (AL); Michael Conway and Peg Brown (CO); Andrew N. Mais represented by George Bradner and Wanchin Chou (CT); Karima M. Woods and Sharon Shipp (DC); Trinidad Navarro represented by Frank Pyle (DE); David Altmaier and Susanne Murphy (FL); Amy L. Beard and Victoria Hastings (IN); Gary D. Anderson (MA); Eric A. Cioppa (ME); Grace Arnold (MN); Jon Godfread represented by Matt Fischer and John Arnold (ND); Eric Dunning (NE); Russel Toal represented by Jennifer Catechis (NM); Barbara D. Richardson (NV); Adrienne A. Harris represented by My Chi To and Yue Chen (NY); Judith L. French and Tynesia Dorsey (OH); Jessica K. Altman (PA); Elizabeth Kelleher Dwyer and Jack Broccoli (RI); Scott A. White and Doug Stolte (VA); Michael S. Pieciak represented by Kevin Gaffney and Rosemary Raszka (VT); Mike Kreidler, Jay Bruns and Eric Slavich (WA); and Jeff Rude (WY). Also participating were: Elizabeth Perri (AS); Travis Grassel (IA); Susan Berry and C.J. Metcalf (IL); Troy Downing (MT), Edwin Pugsley (NH), Natalia Maldonado (PR) and Tracy Klausmeier (UT).

1. <u>Adopted its 2021 Summer National Meeting Minutes</u>

Commissioner Altmaier made a motion, seconded by Commissioner Altman, to adopt the Task Force's Aug. 15 minutes (*see NAIC Proceedings – Summer 2021, Climate and Resiliency (EX) Task Force*). The motion passed unanimously.

2. <u>Heard a Recommendation from the Technology Workstream</u>

Mr. Lorusso said the Technology Workstream was charged with applying technology, such as predictive modeling, to understand and evaluate climate and natural catastrophe risk exposures. He said other groups at the NAIC are also considering catastrophe models within their work. The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk Based Capital (E) Working Group is evaluating wildfire models to consider adding wildfire for informational purposes only into the risk-based capital (RBC) framework. The Catastrophe Insurance (C) Working Group is planning to consider revisions to the *Catastrophe Computer Modeling Handbook*.

Mr. Lorusso said the Technology Workstream met Sept. 20 in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff regarding technical guidance) of the NAIC Policy Statement on Open Meetings, to consider the need for support services related to the use of catastrophe models in insurance, including discussion of what other NAIC committees had planned and the relevant research of the Center for Insurance Policy and Research (CIPR). Acknowledging the benefit of a shared resource for state insurance regulators regarding catastrophe models, on Sept. 21 the Technology Workstream exposed a proposal (Attachment One-A) for the CIPR to create a Catastrophe Model Center of Excellence (COE). The Workstream collected comments until its open meeting on Nov. 4, where it heard comments on the proposal and addressed the questions received. Following the Nov. 4 meeting, the Workstream issued a frequently asked questions (FAQ) document (Attachment One-B) to address the comments and clarify the intent of the COE. The Workstream held another open meeting on Nov. 22 to adopt a recommendation (Attachment One) for the NAIC's CIPR to create a COE.

Commissioner Lara said the Task Force plans to meet during an interim meeting before the 2022 Spring National Meeting to consider the recommendation for adoption.

3. <u>Heard a Presentation Regarding the Proposed Redesigned NAIC Climate Risk Disclosure Survey</u>

Commissioner Stolfi (OR) said the Climate Risk Disclosure Workstream met on Nov. 19 to expose its proposed redesigned NAIC Climate Risk Disclosure Survey. He said the Workstream was charged to consider appropriate climate risk disclosures within the insurance sector, including an evaluation of the NAIC Climate Risk Disclosure Survey and evaluation of alignment with other sectors and international standards. Commissioner Stolfi said the NAIC adopted the Climate Risk Disclosure Survey in 2010, which includes eight questions regarding how insurers consider climate-related risks in their risk and investment management practices, including how insurers identify and assess climate-related risks and their potential impact to the company's business strategies. It also considers how insurers engage with stakeholders on the topic of risk management. The survey is voluntary for states to use. For the past several years, six states participated in the survey, which represented approximately 70% of the market measured by direct written premium. In 2021, 15 states participated, representing nearly 80% of the market. All insurers writing at least $100 million in direct written premium with business in any participating state are required to complete the survey annually. For the past two years, insurers were allowed to submit using the Financial Stability Board's (FSB's) Task Force on Climate-Related Financial Disclosure (TCFD) in lieu of the eight survey questions. In 2020, eight TCFD reports were filed with the California Department of Insurance (DOI) as part of the annual reporting requirement. In 2021, 28 TCFD reports were received.

The TCFD includes four themes: 1) governance; 2) strategy; 3) risk management; and 4) metrics and targets. The FSB created the TCFD in 2015 and formally adopted its reporting framework in 2017. Internationally, multiple jurisdictions have proposed or finalized laws and regulations to require disclosure aligned with TCFD recommendations, some coming into effect as early as 2022. The Financial Stability Oversight Council (FSOC) published a *Report on Climate-Related Financial Risk* in October, which, among other things, said that regulators across the financial system should review their existing public disclosure requirements and consider updating and standardizing them to promote the consistency, comparability, and decision-usefulness of information on climate-related risks and opportunities. Furthermore, it was recommended that disclosures build on the four core elements of the TCFD.

Commissioner Stolfi said the Climate Risk Disclosure Workstream decided to align its redesigned survey to the TCFD recommendations and include insurance-specific questions. He then described the proposed survey questions and their origin (Attachment Two). All questions provide for a narrative response. Several questions are repeated as closed-ended, yes or no, or multiple-choice. This information is requested to quickly discern steps companies are taking to manage their climate-related risks and provide trending over time.

Commissioner Stolfi said comments are due on the proposed survey by Jan. 10. The Workstream plans to meet again in early 2022 to review the comments received and consider the revised survey for adoption. The Workstream will report its final recommendation to the Task Force before the 2022 Spring National Meeting.

Director French asked if there would there be room for explanation for insurers that do not have a clear answer for the closed-ended questions. Commissioner Stolfi said that the closed-ended questions always include a narrative question as well. The insurer filling out the survey can use the narrative question to explain their answers within the closed-ended question. Director French asked if the survey would continue to remain voluntary for states or if the objective is for the majority of states to participate. Commissioner Stolfi welcomed other states to opt in, but he said the recommendation of the Workstream is for the survey to continue to be voluntary for states.

4. Received a Status Report from the Solvency Workstream

Commissioner Birrane said the Solvency Workstream is focused on climate-related financial risk and the prudential oversight by U.S. insurance regulators to ensure that the risk is identified, analyzed, and appropriately addressed. The Workstream met on Sept. 30 to hear a presentation from the New York Department of Insurance regarding its Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change. The Workstream also heard a summary of prior panel discussions and heard feedback from industry regarding the financial solvency tools to consider for updates related to climate risk. The Workstream then held three regulator-to-regulator discussions pursuant to paragraph 6 (consultations with NAIC staff regarding technical guidance) to discuss financial solvency tools.

The Workstream met in an open meeting on Nov. 8 to expose a list of questions to gather thoughts from regulators and interested parties regarding potential updates on financial solvency tools related to climate risk. Comments on the questions were due on Dec. 8. NAIC staff have begun compiling the comments for the Workstream to review during a future meeting. The Solvency Workstream will review the comments received and consider the need for enhancements to financial solvency tools. After a transparent, collaborative, iterative process, the Solvency Workstream hopes to make its final recommendations to the Task Force in the first quarter of 2022.

5. Received a Status Report from the Innovation Workstream

Commissioner Hayashida said the Innovation Workstream has met twice since the Summer National Meeting. On Sept. 9, the Workstream met to hear from Sola Insurance about a parametric product offered as an endorsement to a homeowners policy. The product uses data from the National Weather Service to detect tornado activity.

The Workstream also met Oct. 6 to hear a presentation from Guy Carpenter about community-based insurance for disaster resilience. He said Guy Carpenter is part of a project team, led by the Wharton Risk Management and Decision Processes Center, to increase the financial resilience of lower to middle income households in New York City to escalating flood risk through inclusive insurance programs. The Center for NYC Neighborhoods will buy a parametric risk transfer policy to fund an emergency disaster relief grant program. The New York City Mayor's Office of Resilience (MOR) sought out the public-private partnership to prepare for flooding.

6. Received a Status Report from the Pre-Disaster Mitigation Workstream

Ms. Smith said the Pre-Disaster Mitigation Workstream has been focused on its charge to collect and share resources with consumers and other stakeholders, seeking out best practices to encourage consumer risk awareness. In August, the Workstream distributed a list of mitigation actions to reduce the risk of future loss. Comments were collected on the list of mitigation actions, and the Workstream met Oct. 5 to hear comments received. The National Association of Mutual Insurance Companies (NAMIC) commented that the actions of individual home and property owners may be less effective than actions taken at a community or municipal level. On Oct. 5, the Workstream also heard a presentation from Leslie Chapman-Henderson (Federal Alliance for Safe Homes [FLASH]) regarding its recently released *Buyer's Guide to Resilient Homes*.

Ms. Smith said the Workstream also met Nov. 18 to hear a presentation from Dave Snyder (American Property and Casualty Insurance Association—APCIA) and Karen Collins (APCIA) regarding industry-led mitigation efforts. During that meeting, the Workstream also heard about grass roots campaigns in Wisconsin and South Carolina to increase consumer awareness, encourage stronger building codes, and incentivize building retrofits through grant programs to increase the resilience of vulnerable communities. The Wisconsin Office of the Insurance Commissioner developed a campaign, "Stronger Wisconsin," to share information with consumers about measures to protect themselves from increasingly common weather events from severe winter storms to flooding. The campaign is bridging the gap between state agencies, municipalities, and consumers. The Workstream is considering a workshop in spring 2022 to build on its earlier work with building codes, mitigation, and resiliency funding, this time with a focus on wildfire.

Amy Bach (United Policyholders—UP) said UP has been working closely with the California DOI regarding risk reduction resources for property owners and mitigation measures with the Insurance Institute for Business & Home Safety (IBHS). She also mentioned the Federal Advisory Committee on Insurance (FACI) is working on parallel efforts to consider the availability of insurance products and addressing the protection gap through public-private partnerships and other mechanisms.

7. Heard an Update on Federal Activities

Brooke Stringer (NAIC) said President Joe Biden's May 2021 executive order on climate-related financial risk mandated a range of federal studies to analyze the risks climate change poses to the U.S. financial system and lays the groundwork for eventual policy changes. She said the Order directs the Federal Insurance Office (FIO) to assess climate-related issues or gaps in insurance supervision and the potential for major disruptions of insurance coverage in regions of the country particularly vulnerable to climate-related impacts. The NAIC submitted a comment letter in response to the FIO's request for information underscoring the long-running history and focus of state insurance regulators to assist consumers and protect policyholders while maintaining well-functioning markets.

Ms. Stringer said that in October, the Financial Stability Oversight Council (FSOC) released its *Report on Climate- Related Financial Risk*, which included several policy recommendations to build capacity and expand efforts to address climate-related financial risks, fill data gaps, enhance public climate-related disclosures, and assess climate-related risks to financial stability. The FSOC intends to form two new committees to help financial regulators better understand climate-related risks to the financial system.

The U.S. Securities and Exchange Commission (SEC) remains focused on climate risk disclosure. SEC Chair Gary Gensler directed SEC staff to develop a mandatory climate risk disclosure proposal for the Committee's consideration by the beginning of 2022. Ms. Stringer also said the Build Back Better reconciliation bill is making its way through the U.S. Congress. It includes President Biden's policy priorities, including $555 billion for initiatives to combat climate change and promote clean energy production and resilience investments. Build Back Better has been passed in the U.S. House of Representatives but not the U.S. Senate.

Finally, Ms. Stringer said the NAIC is supportive of the Disaster Mitigation and Tax Parity Act, introduced by Sen. Dianne Feinstein (D-CA) and Rep. Mike Thompson (D-CA). If enacted, the Act would ensure that state-based disaster mitigation grants receive the same federal tax exemptions as federal mitigation grants.

8. Heard an Update on International Activities

Ryan Workman (NAIC) said the International Association of Insurance Supervisors (IAIS) held its annual conference in November, which included a panel focused on emerging good practices in climate risk scenario analysis for insurers and steps supervisors can take to advance scenario analysis as an effective risk assessment tool for insurers. He said the IAIS created a Climate Risk Steering Group. Commissioner Stolfi is the NAIC representative for that group, and Ms. Yue (Nina) Chen (New York Department of Financial Services [DFS]) serves as vice chair. The Steering Group has three workstreams. The first will develop a gap analysis of the IAIS global standards for insurance supervision to consider whether changes are needed to account for climate-related risk. The second will share examples of effective practices for developing climate scenario analysis in the insurance sector. The third will consider how to integrate climate related financial risks in the annual data collected as part of the Global Monitoring Exercise (GME).

Mr. Workman said the Sustainable Insurance Forum (SIF) met in October to discuss: 1) impacts of climate-related risks on the insurability of assets; 2) broader sustainability issues, including its scoping study *Nature-Related Risks in the Global Insurance Sector*; and 3) climate risks in the actuarial process. Director Farmer is the NAIC representative. Maryland recently became an SIF member, joining California, New York, Vermont, and Washington.

Mr. Workman said in October, the EU-U.S. Insurance Dialogue Project held a public virtual meeting. Commissioner Birrane and Commissioner Doug Ommen (IA) represented the NAIC. In October, they developed two working groups focused on climate-related topics to include: 1) climate risk financial oversight, including climate risk disclosures, supervisory reporting, and other financial surveillance; and 2) climate risk and resilience, including innovative technology, pre-disaster mitigation and adaptation efforts, and modelling.

Finally, Mr. Workman said in early November, the NAIC participated in the COP26 Sustainable Insurance Series hosted by the UN Environment Programme's (UNEP) Principles for Sustainable Insurance Initiative (PSI). The event was held in conjunction with the United Nation's (UN's) COP26 Summit. Commissioner Altmaier, Commissioner Birrane, Director Farmer, Commissioner Kreidler, Commissioner Lara, and Commissioner Mais participated in panels focused on the actions of insurance supervisors regarding climate-related risk and resiliency, including coordination through the NAIC.

Having no further business, the Climate and Resiliency (EX) Task Force adjourned.

ClimateResiliencyTFmin