



Conference Call Via WebEx

Climate Risk and Resilience (C) Working Group

Wednesday, October 14, 2020

Date: 10/7/20

WebEx Virtual Meeting

CLIMATE RISK AND RESILIENCE (C) WORKING GROUP

October 14, 2020

12:00 – 1:00 p.m. ET / 11:00 a.m.– 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Mike Kreidler, Chair	Washington	Troy Smith	Montana
Ricardo Lara, Vice Chair	California	Tom Green	Nebraska
Austin Childs/Alex Romero	Alaska	Barbara D. Richardson	Nevada
Peg Brown	Colorado	Anna Krylova	New Mexico
Andrew N. Mais/George Bradner	Connecticut	Marshal Bozzo/Nina Chen	New York
Colin M. Hayashida	Hawaii	Tracy Snow/Tom Botsko	Ohio
Judy Mottar	Illinois	Andrew R. Stolfi	Oregon
Travis Grassel	Iowa	David Buono	Pennsylvania
Robert Baron	Maryland	Rafael Cestero-Lopategui	Puerto Rico
Peter Brickwedde	Minnesota	Michael S. Pieciak	Vermont

NAIC Support Staff: Anne Obersteadt

AGENDA

1. Call to Order/Roll Call—*Commissioner Mike Kreidler (WA)*
2. Consider Adoption of its Sept. 30 Conference Call Minutes—*Commissioner Mike Kreidler (WA)* Attachment A
3. Hear a Presentation on *Climate Change in the American Mind*—*Anthony Leiserowitz (Yale Program on Climate Change Communication)* Attachment B
4. Discuss Any Other Matters Brought Before the Working Group—*Commissioner Mike Kreidler (WA)*
5. Adjournment

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Attachment A

Consider Adoption of September 30 Meeting Minutes

—Commissioner Mike Kreidler (WA)

Draft: 10/6/20

Climate Risk and Resilience (C) Working Group
Conference Call
September 30, 2020

The Climate Risk and Resilience Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met via conference call Sept. 30, 2020. The following Working Group members participated: Mike Kreidler, Chair, and Jay Bruns; Ricardo Lara, Vice Chair, represented by Michael Peterson (CA); Katie Hegland (AK); Peg Brown (CO); William Arfanis (CT); Colin M. Hayashida (HI); Judy Mottar (IL); Travis Grassel (IA); Robert Baron (MD); Peter Brickwedde (MN); Troy Smith (MT); Tom Green (NE); Gennady Stolyarov (NV); Anna Krylova (NM); Nina Chen (NY); Rafael Cestero Lopategui (PR); and Pat Murray (VT).

1. Adopted its Summer National Meeting Minutes

Mr. Baron made a motion, seconded by Ms. Mottar, to adopt the Working Group's July 31 minutes (*see NAIC Proceedings – Summer 2020, Property and Casualty Insurance (C) Committee, Attachment Three-A*). The motion passed unanimously.

2. Heard a Presentation on Ceres' Regulating Climate as a Financial Risk Report

Steven Rothstein (Ceres) stated Ceres' *Addressing Climate as a Systemic Risk: A Call to Action for U.S. Financial Regulators* report outlines why and how key U.S. financial regulators can and should take action to protect the financial system from climate-related shocks. Climate impacts are already manifesting themselves in California and Florida, the largest state economies. An unplanned, though inevitable, transition to a low-carbon economy will likely cripple key industries. Insurance companies and banks are on the frontlines of risk, including extreme event losses and investment risks. The cumulative and unpredictable nature of these impacts poses the real risk to financial market stability. The report makes a series of recommendations that build on the existing mandates of the relevant regulatory agencies. It also identifies similar actions being taken by global regulators that could serve as important models for U.S. agencies to consider. The report is built on detailed legal analysis and a comprehensive literature review; three dozen interviews with current and former regulators, academics, investors and non-governmental organizations (NGOs); and an assessment of evolving practice globally. Evidence strongly indicates that climate change is a systemic risk as evidenced by mounting losses from increasingly frequent extreme weather events. Social and environmental factors are exacerbating economic impacts, including health and productivity, community impacts and population upheaval, and biodiversity losses.

The report's key recommendations for insurance regulators focus on risk management, investments, disclosure and products. They include:

- Prioritization
 - Acknowledge climate change risks to the insurance sector and pledge coordinated action to address them.
 - Assess the adequacy of current insurer actions for addressing climate risks.
 - Join the Sustainable Insurance Forum (SIF).
- Risk management
 - Require insurers to conduct climate risk stress tests and scenario analyses.
 - Require insurers to integrate climate change into their enterprise risk management (ERM) and Own Risk and Solvency Assessment (ORSA) processes.
- Investments
 - Require insurance companies to assess and manage their climate risk exposure through their investments.
 - Examine how climate trends affect insurance company investment holdings and long-term solvency.
- Products
 - Encourage insurers to develop products for the new technologies, practices and business models that will emerge in response to climate risk that are responsive to climate risks and opportunities.
- Disclosure
 - Mandate insurer climate risk disclosure using the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

- Assess the insurance sector’s vulnerabilities to climate change, and report findings to the Financial Stability Oversight Council (FSOC).

The work being done around climate risk disclosure is important. The Climate Smart Insurance Products Database built by California is also helpful in supporting insurance products in this space. The leadership that California, New York, Washington and now the NAIC are providing as members of the SIF are also important. It is hoped more states will join the SIF. Insurers need to account for climate change risk in their risk management and investments and perform scenario and stress tests. To support this, Ceres plans to submit a comment letter to the NAIC to incorporate these points in the *ORSA Guidance Manual*.

There have been several recent climate change reports from the U.S. Congress. In 2019, the House of Representatives established the House Select Committee on the Climate Crisis to make climate policy recommendations to Congress that “achieve substantial and permanent reductions in pollution and other activities that contribute to the climate crisis.” The committee undertook a process of learning from community leaders, environmental justice advocates and policy experts, and it sought public input to inform its recommendations. On June 30, it delivered its final report, *Solving the Climate Crises: The Congressional Action Plan for a Clean Energy Economy and a Healthy and Just America*, to Congress. The report serves as a road map for policymakers to tackle the climate crisis. It proposes a number of policies to advance clean energy; protect 30% of U.S. lands and oceans by 2030; address pollution from transportation, buildings and industry; and increase federal investment and outreach in agriculture resilience.

On Aug. 25, the Senate Special Committee on the Climate Crisis released *The Case for Climate Action* report. The report states three overarching goals: 1) reduce U.S. emissions to 100% global net-zero emissions by 2050; 2) stimulate the economy by increasing federal spending on climate action to at least 2% of gross domestic product (GDP) annually, ensuring that at least 40% of the benefits help disadvantaged communities; and 3) create 10 million new jobs. The report lists policy options by emissions sector.

The Climate-Related Market Risk Subcommittee (Climate Subcommittee) under the Commodity Futures Trading Commission (CFTC) released a report on *Managing Climate Risk in the U.S. Financial System*. The report of the Climate Subcommittee calls on financial regulators to move “urgently and decisively” to measure, understand and address climate risks. It notes that climate change poses serious risk to financial stability and that financial regulators have existing authority to incorporate climate-risk management into their regulatory and supervisory frameworks.

3. Discussed Climate Risk-Related State Activities

Commissioner Kreidler stated that Washington’s Climate Summit will be on Oct. 7. The Summit is free and virtual. He said there is a great line-up of speakers discussing: the latest climate science; how leading companies such as Amazon, Microsoft and Zurich are addressing climate change; and updates on the regulatory environment. Mr. Rothstein underscored the importance that Ceres and others attach to the TCFD. The multi-state initiative has for the past two years encouraged the companies that are required to take the annual *NAIC Climate Risk Disclosure Survey* to submit a TCFD report in lieu of the survey. Last year, only one company did so. This year, 12 companies submitted TCFD reports. The rapid growth over just one year suggests that leading insurers are turning to the TCFD as the reporting mechanism of choice for climate change.

Ms. Chen stated that the New York State Department of Financial Services (DFS) issued a circular letter on Sept. 22 outlining the DFS’ expectations for the industry in managing the financial risks from climate change. The DFS will publish detailed guidance consistent with international best practices on climate-related financial supervision with input from industry in that process. As a first step to support the industry, the DFS will organize a series of global knowledge exchange webinars to allow industry participants to share their goals, experiences and lessons learned to date. The DFS expects New York insurers to start integrating financial risks from climate change into their governance frameworks, risk management processes and business strategies. For example, insurers should designate a board member or a committee of the board, as well as a senior management function, as accountable for the company’s assessment and management of the financial risks from climate change. An ERM function and the ORSA process should address climate change as a reasonably foreseeable and relevant material risk and should consider how it affects risk factors such as investment risk, liquidity risk, operational risk, reputational risk, strategy risk and underwriting risk. In addition, insurers should start developing their approach to climate-related financial disclosure and consider engaging with the TCFD framework and other established initiatives when doing so. Questions pertaining to an insurer’s approach and activities related to the financial risks from climate change will be integrated into the DFS’ examination process starting in 2021. In this process, each insurer should take a proportionate approach that reflects its exposure to the financial risks from climate change and the nature, scale and complexity of its business. This is in recognition that climate

change affects each insurer in different ways and to different degrees depending on the insurer's size, complexity, geographic distribution, business lines, investment strategies and other factors. Insurers have different levels of resources to manage these risks and are at different points in the process of incorporating these risks into their governance, strategy and risk management. The DFS also became a supporting institution of the United Nations' (UN's) Principles for Sustainable Insurance (PSI). Additionally, it signed a memorandum of understanding with New York State Energy Research and Development Authority to accelerate low-carbon transition and boost climate cooperation and solutions among the state's financial institutions.

Birny Birnbaum (Center for Economic Justice—CEJ) asked how Ceres' recommendations address environmental justice and systemic racism, as well as the impacts of climate change. Mr. Rothstein stated the report recommendations address those issues through the federal Community Reinvestment Act (CRA) and the Federal Housing Finance Agency (FHFA). A proposal to modernize the CRA is currently underway. Ceres' fundamental belief is that to deal with community justice and systemic racism in society, environmental justice needs to be integrated into disadvantaged communities that are more affected. As such, Ceres has discussed several ideas with members of banking regulatory agencies on the CRA and the FHFA, due to its role with mortgages through Freddie Mac and Fannie Mae. He welcomed Mr. Birnbaum to contact him to further discuss additional suggestions.

John Huff (Association of Bermuda Insurers and Reinsurers—ABIR) asked if the Ceres recommendations tie the risk-transfer potential of the re/insurance sector to the identified climate risks of other financial services industries. Mr. Rothstein said that Ceres' recommendations address it at a high level, but not specifically. He stated he would welcome the opportunity to speak further on this and other issues to take a deeper dive.

Dave Snyder (American Property Casualty Insurance Association—APCIA) asked why Ceres' recommendations did not mention the importance of regulators supporting risk-based pricing to signal climate risk. Mr. Rothstein stated Ceres does support the concept. Ceres wanted the report to focus on affirming that climate change is a systemic risk and build on the disclosure work currently being done.

Commissioner Kreidler stated the smoke from the California wildfires is being blown back in from the Pacific and lowering the air quality in Washington. It serves as an immediate reminder we should all do our parts in addressing climate change.

Having no further business, the Climate Risk and Resilience (C) Working Group adjourned.

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Attachment B

**Hear a Presentation on Climate Change
in the American Mind**
**—*Anthony Leiserowitz (Yale Program on
Climate Change Communication)***

Climate Change in the American Mind

Anthony Leiserowitz, PhD
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@ecotone2

Yale SCHOOL OF FORESTRY & ENVIRONMENTAL STUDIES



YALE PROGRAM ON
Climate Change
Communication

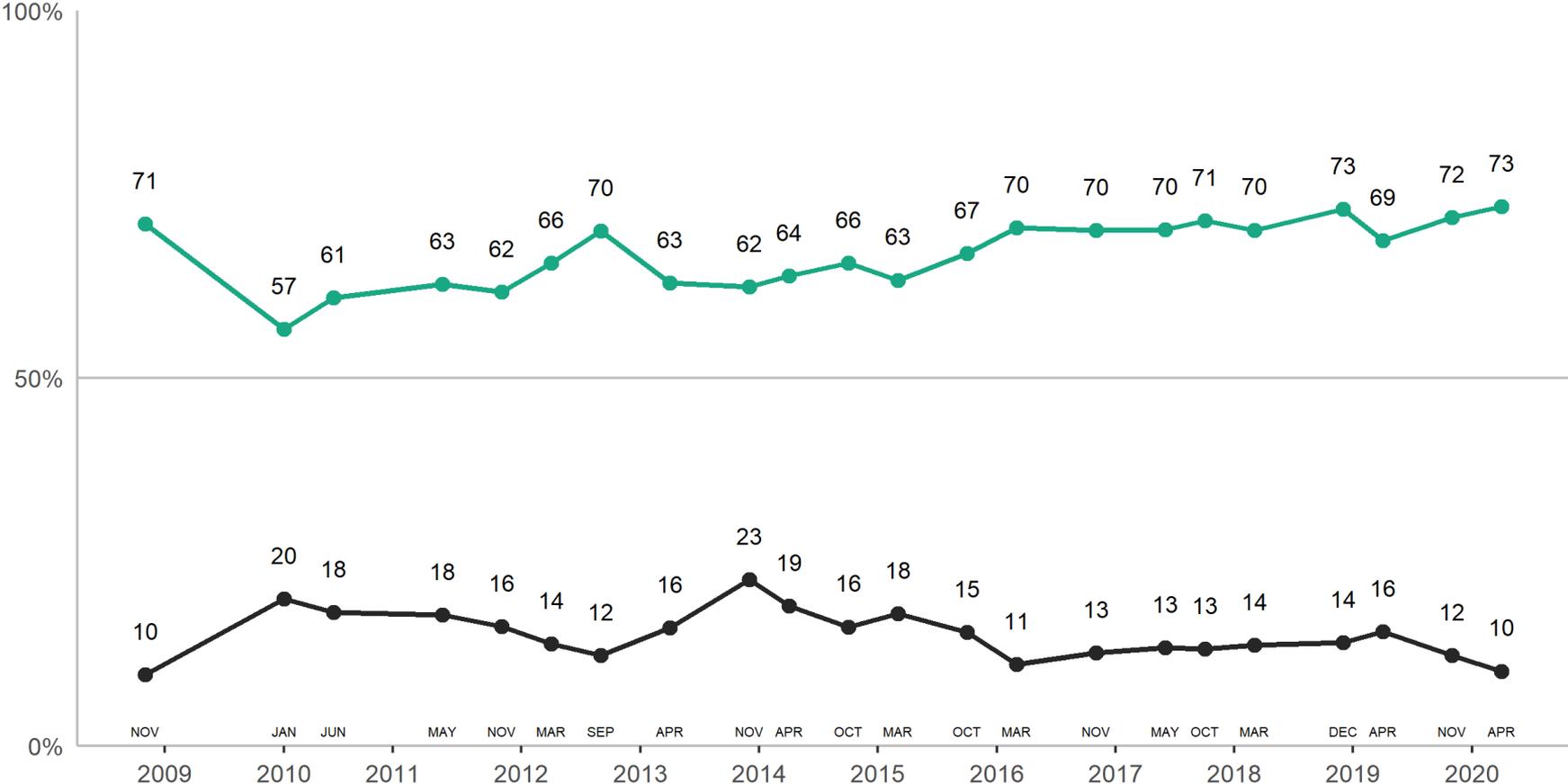


The Five Key Ideas

1. Scientists agree...
2. It's real.
3. It's us.
4. It's bad...
5. ...but there's hope!

Most Americans Think Global Warming Is Happening

- Think global warming is happening (%)
- Think global warming is NOT happening (%)

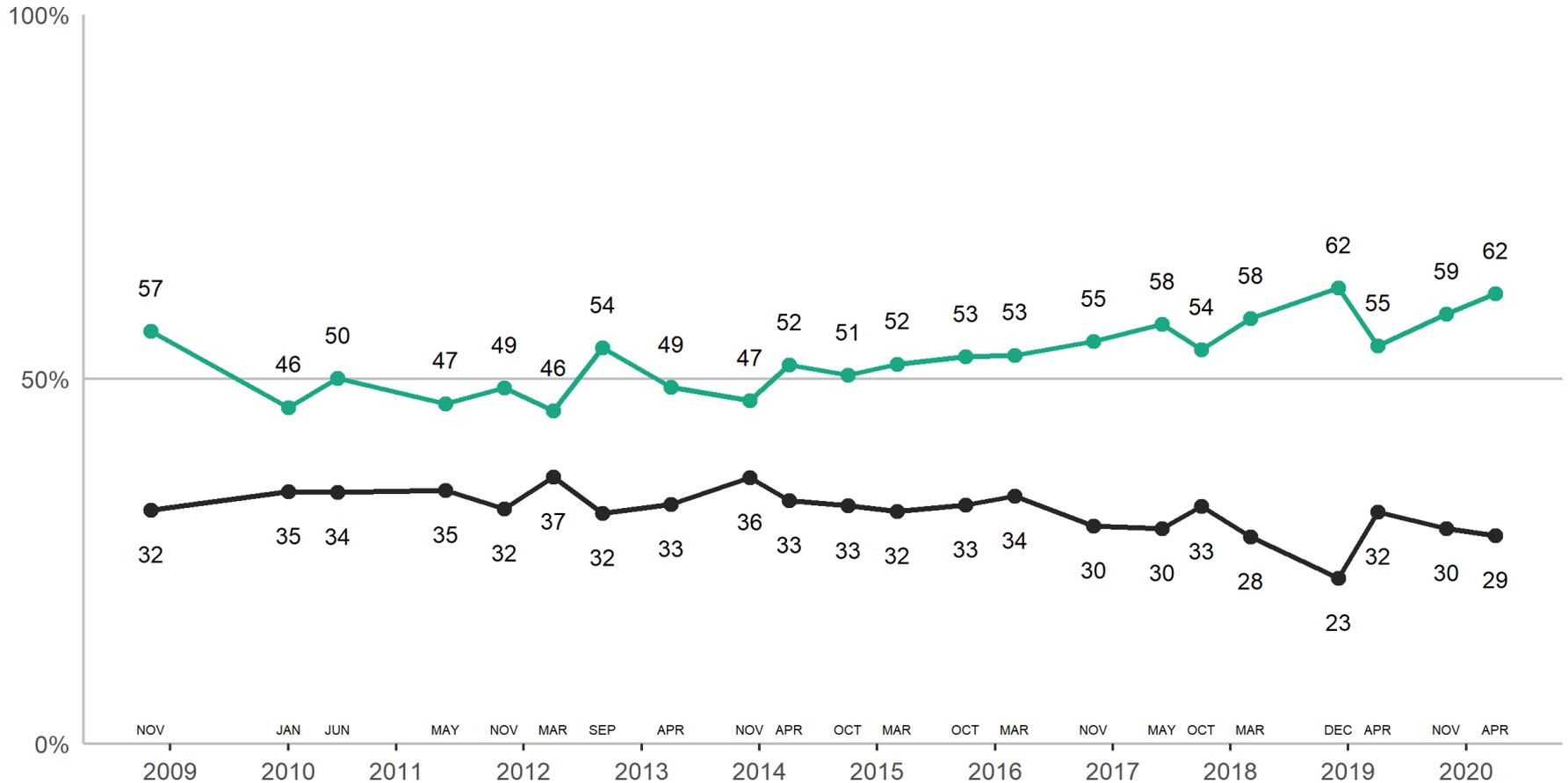


Do you think global warming is happening?
 April 2020



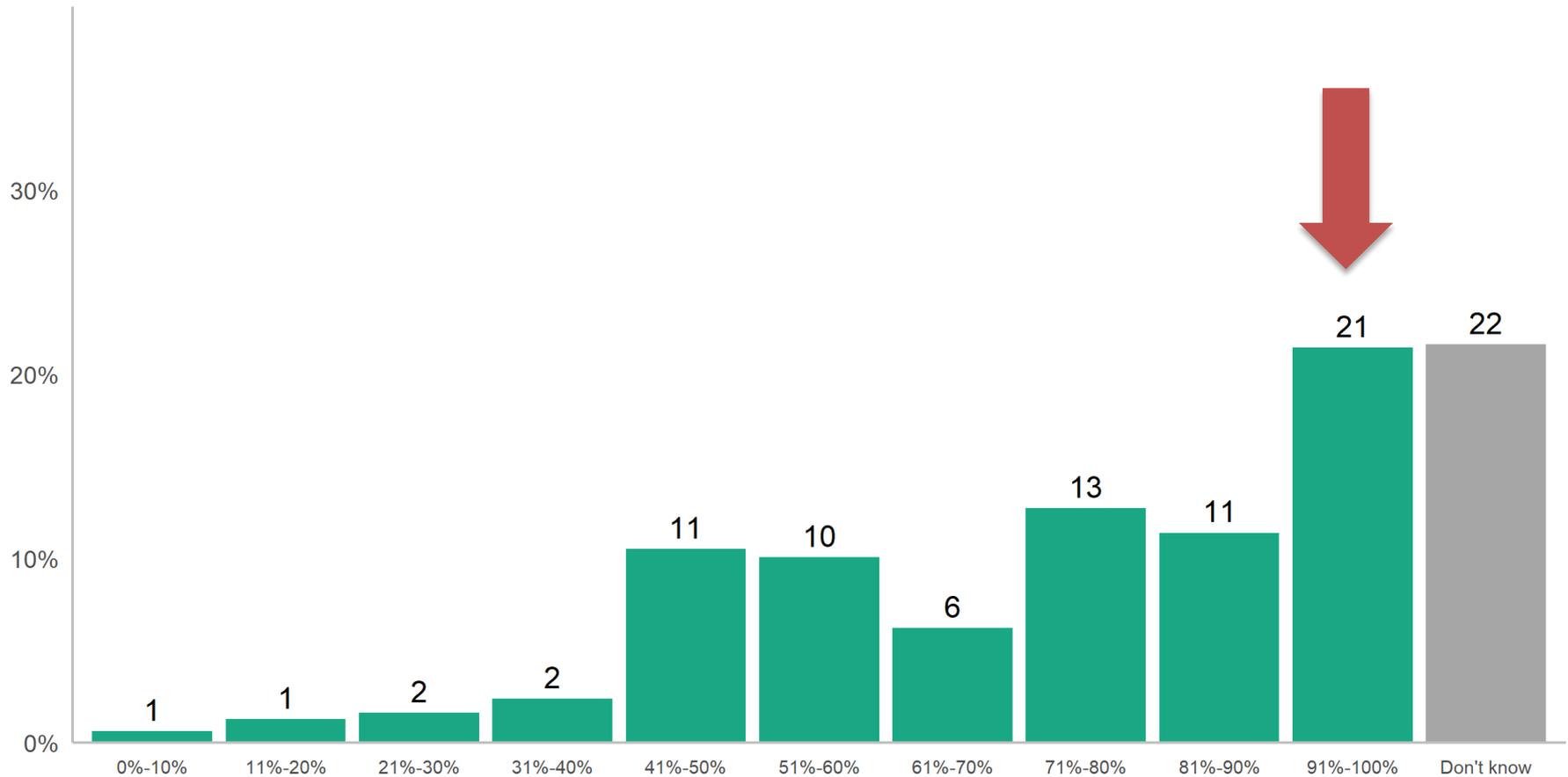
A Majority of Americans Think Global Warming Is Mostly Human-Caused

- Think global warming is caused mostly by human activities (%)
- Think global warming is caused mostly by natural changes in the environment (%)



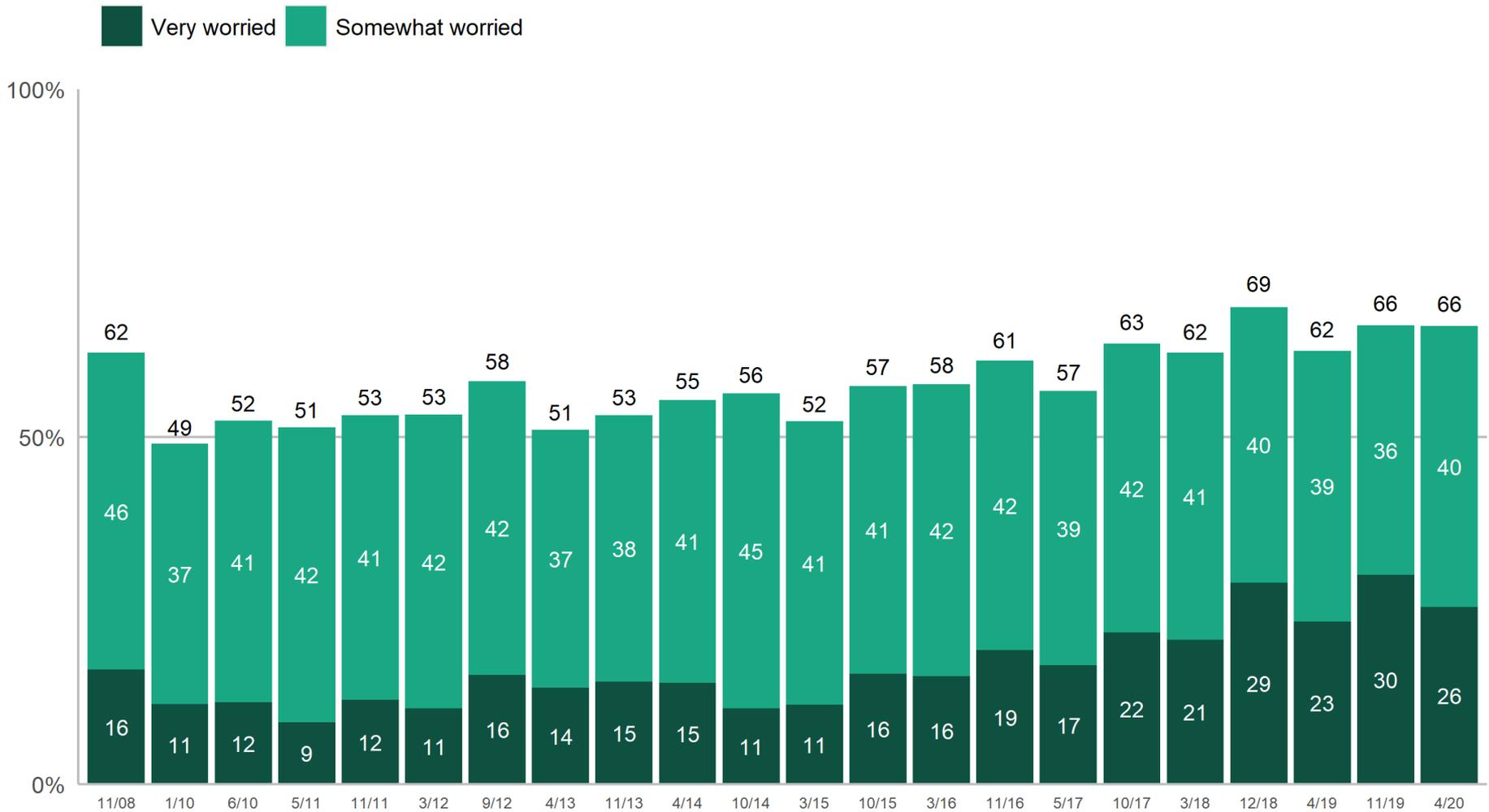
Assuming global warming is happening, do you think it is...
April 2020

Few Americans Understand the Scientific Consensus That Human-Caused Global Warming Is Happening



To the best of your knowledge, what percentage of climate scientists think that human-caused global warming is happening? Please click on the slider bar below to indicate your answer. You can slide the indicator to the position that best describes your opinion.

Only 26% of Americans Are “Very Worried”



How worried are you about global warming?

April 2020



YALE PROGRAM ON
**Climate Change
Communication**

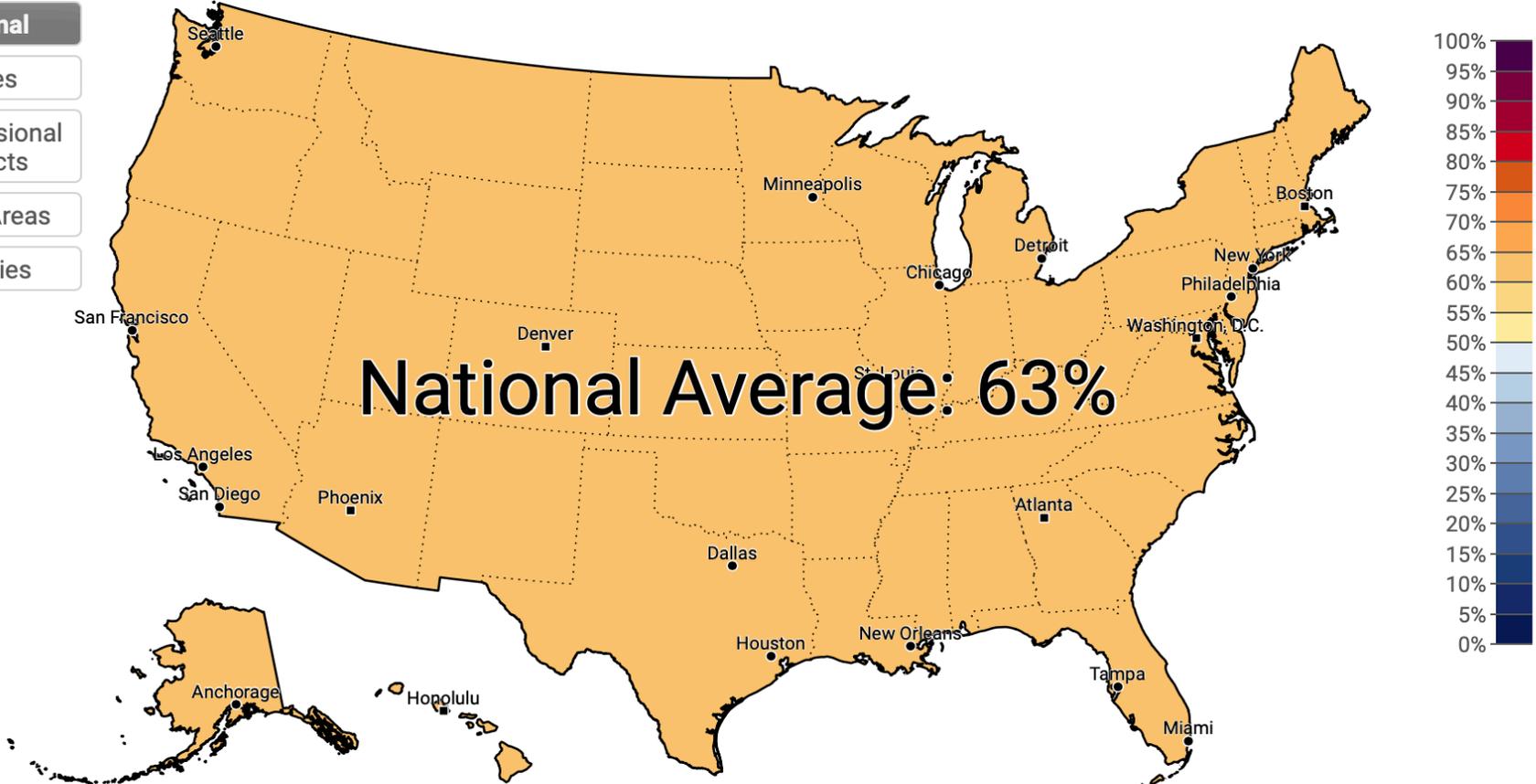
The Yale Climate Opinion Maps

Estimated % of adults who are worried about global warming (63%), 2020

Select Question: Absolute Value

Click on map to select geography, or:

- National**
- States
- Congressional Districts
- Metro Areas
- Counties

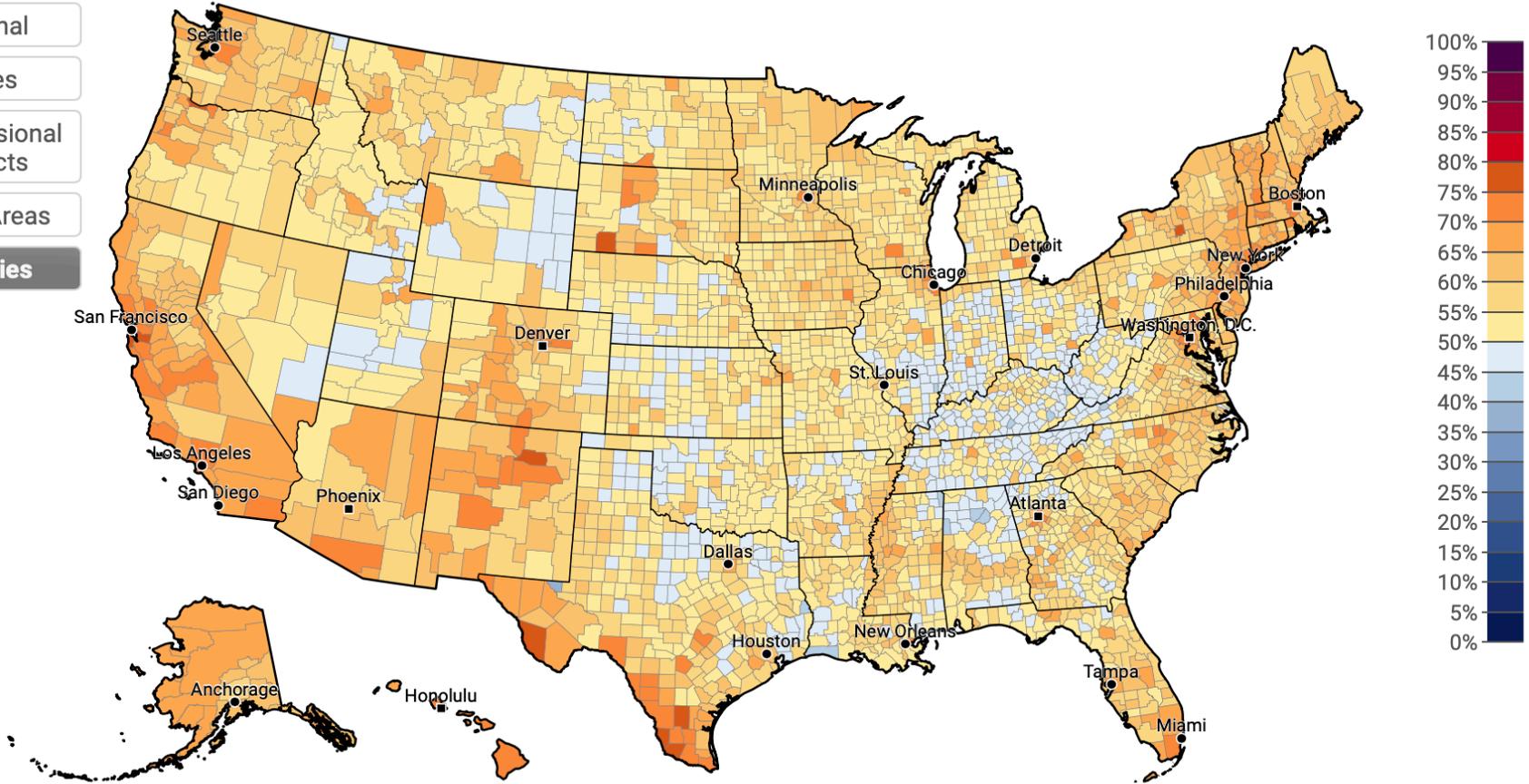


Estimated % of adults who are worried about global warming (63%), 2020

Select Question: Absolute Value

Click on map to select geography, or:

- National
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- Metro Areas
- Counties**

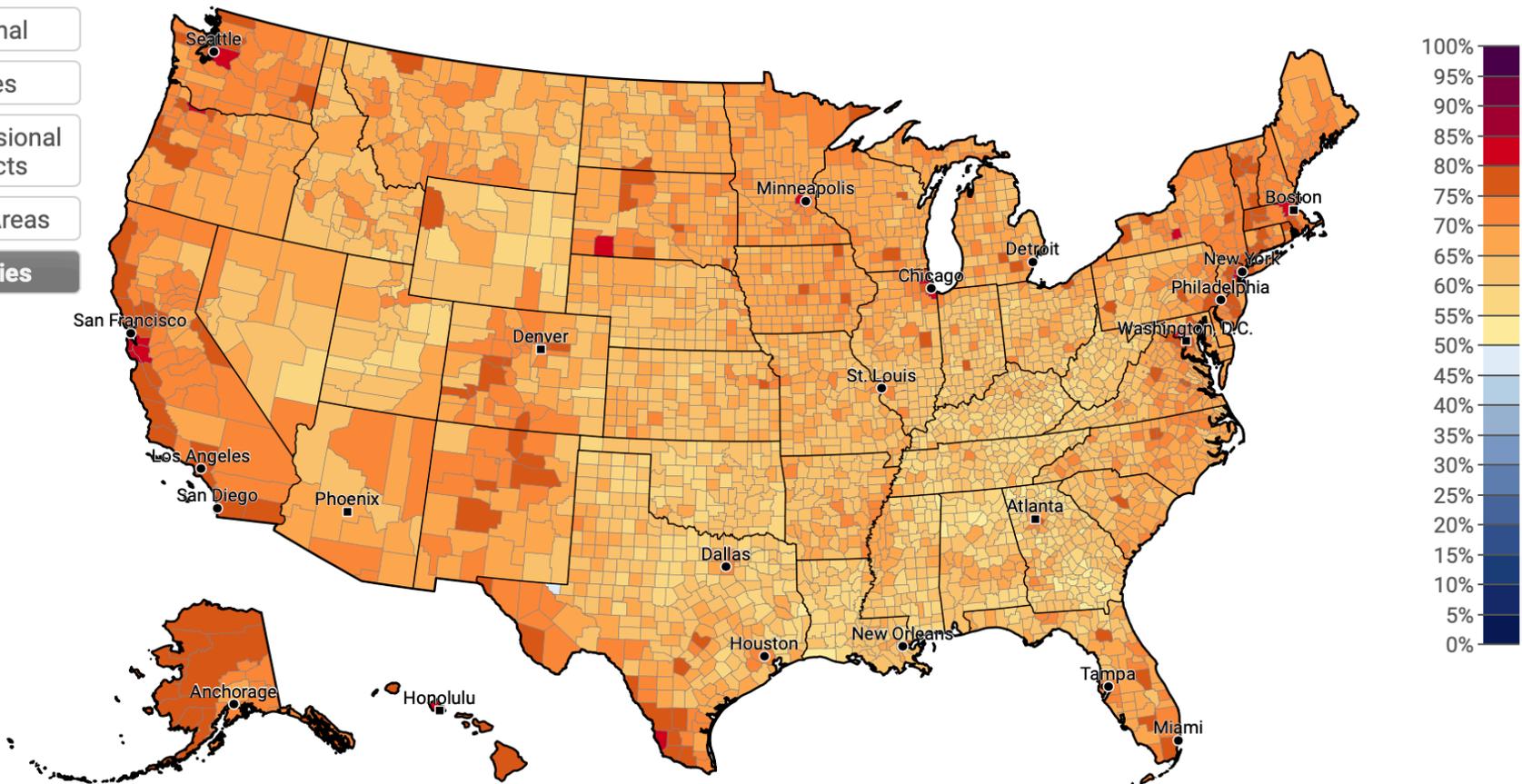


Estimated % of adults who think global warming will harm plants and animals (71%), 2020

Select Question: Absolute Value

Click on map to select geography, or:

- National
- States
- Congressional Districts
- Metro Areas
- Counties**

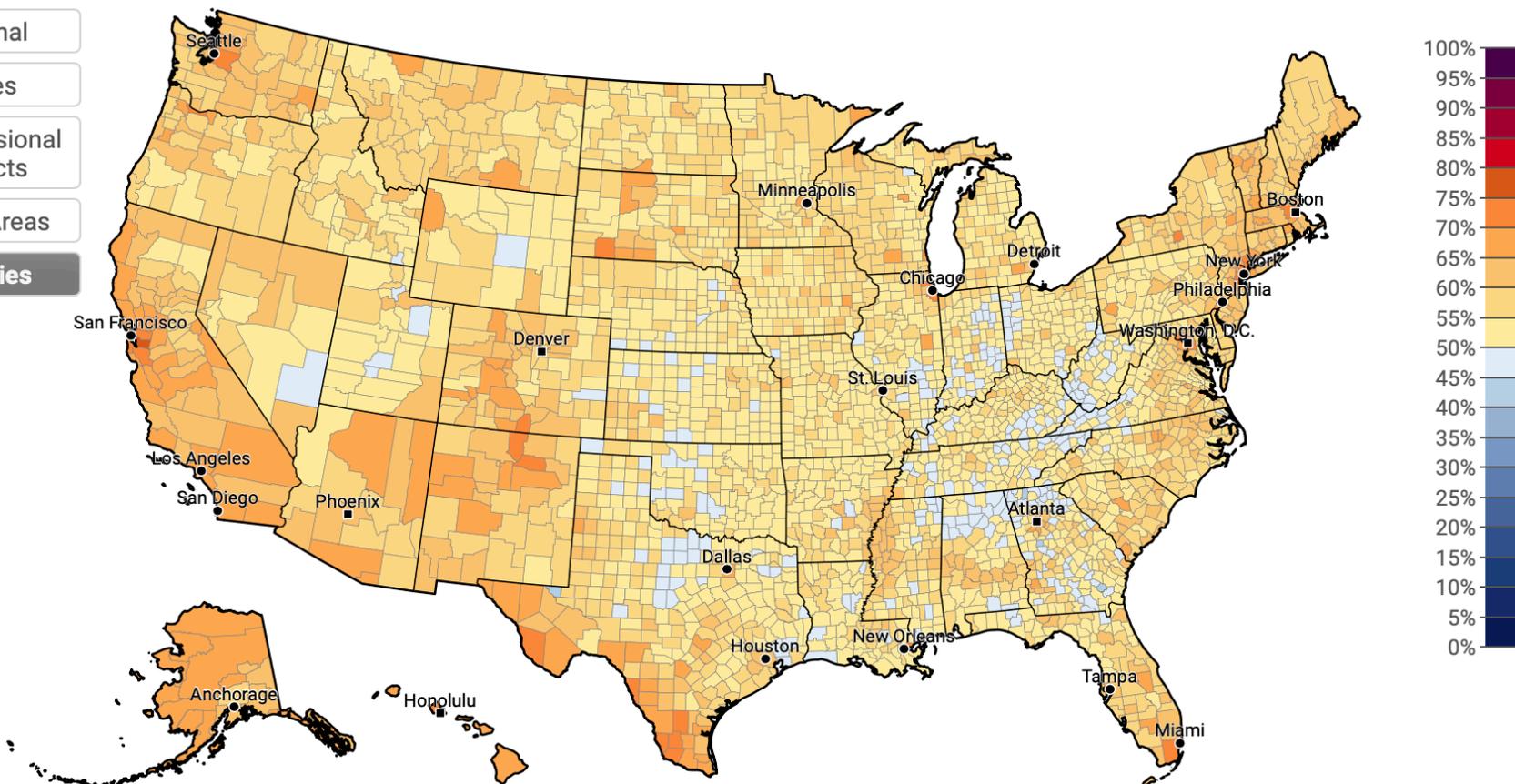


Estimated % of adults who think global warming will harm people in the US (61%), 2020

Select Question: Absolute Value

Click on map to select geography, or:

- National
- States
- Congressional Districts
- Metro Areas
- Counties**

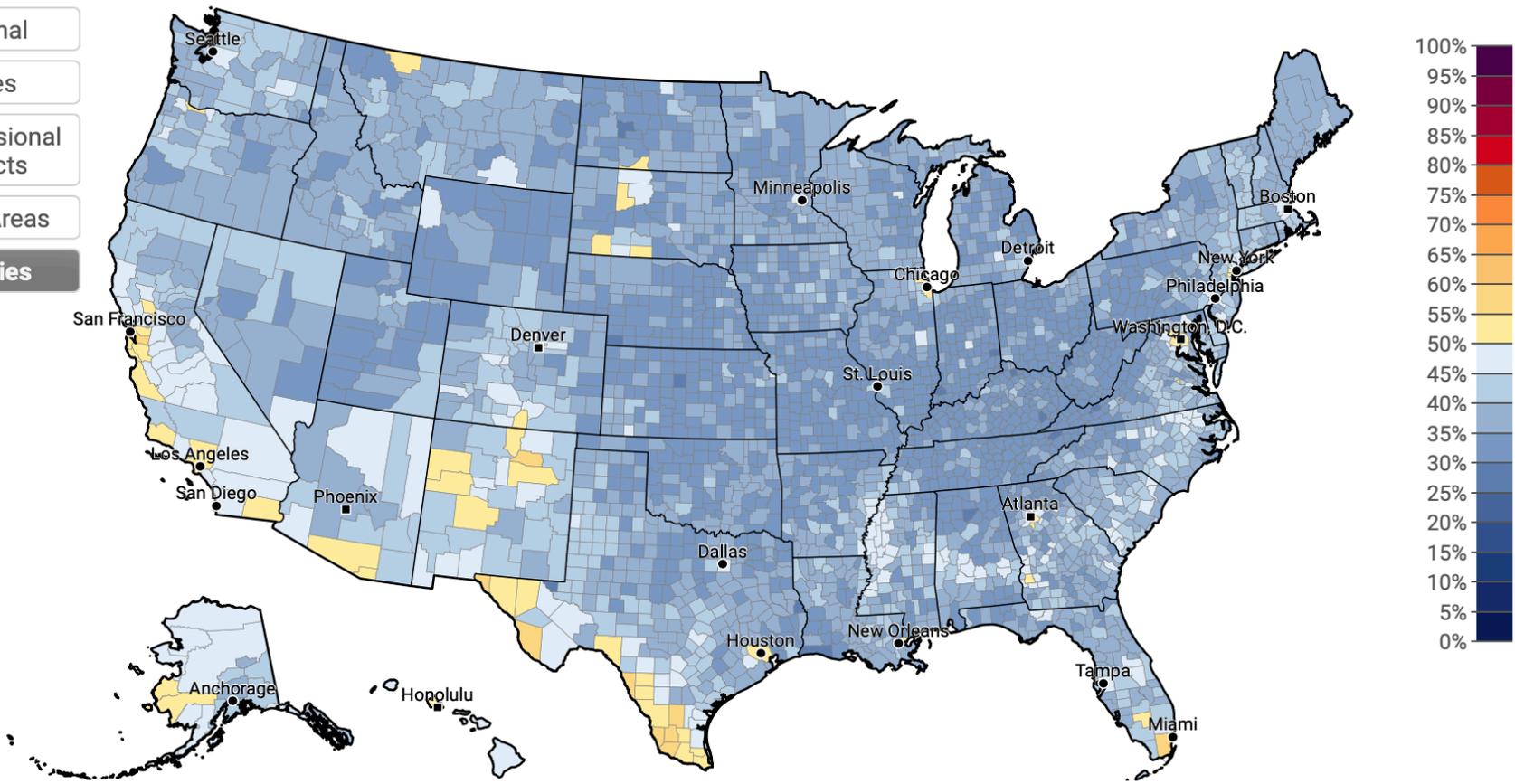


Estimated % of adults who think global warming will harm them personally (43%), 2020

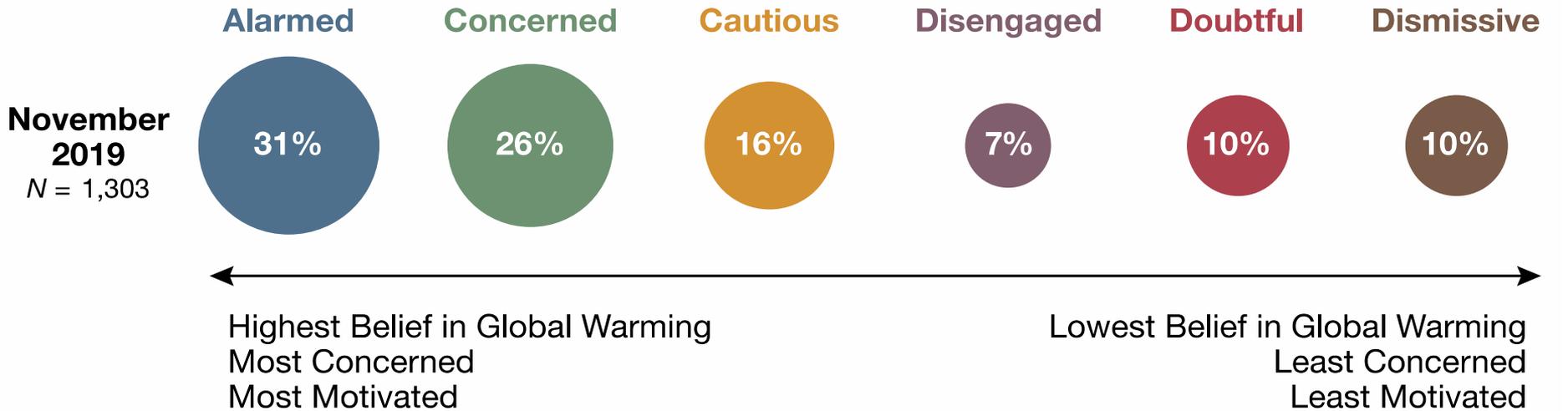
Select Question: Absolute Value

Click on map to select geography, or:

- National
- States
- Congressional Districts
- Metro Areas
- Counties**



Global Warming's "Six Americas"

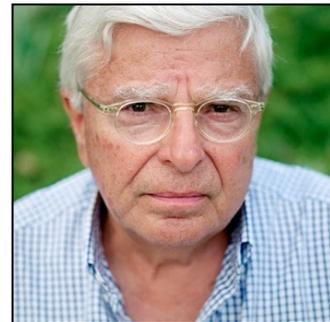


“If you could ask an expert on global warming one question, which question would you ask?”

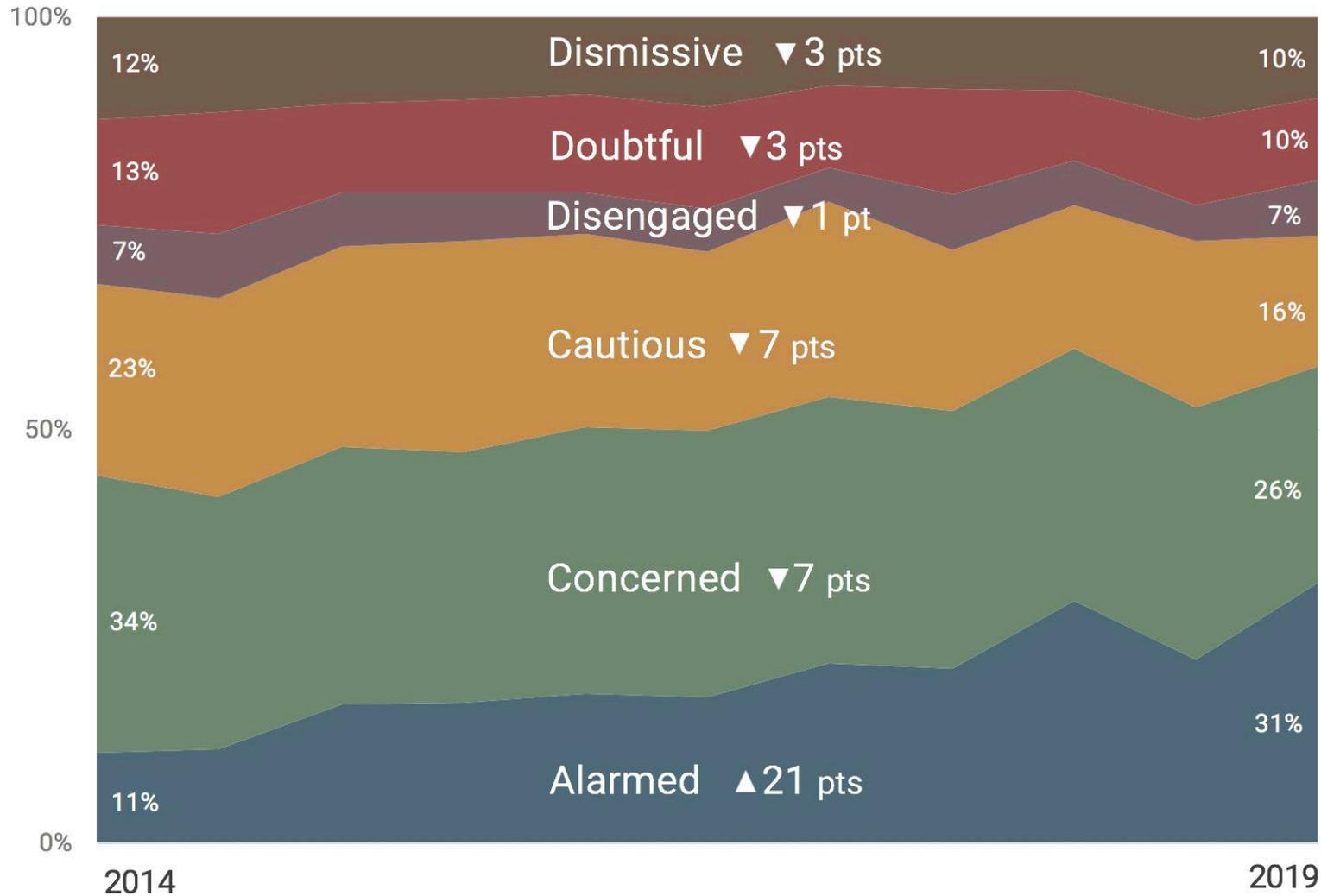
What can the world (and I) do to reduce global warming?

How do you know that global warming is happening or human-caused?

What harm will it cause? Why should I care?



Global Warming's Six Americas 5 Year Change (2014-2019)





Recommendations

1. Break the spiral of silence – talk about it
2. Know your audience - tailor your communications
3. Global Warming's Six Americas
4. Simple clear messages, repeated often, by a variety of trusted messengers – including you!
5. Scientists agree: it's real, it's us, it's bad, but there's hope!

Any Other Matters

— *Commissioner Mike Kreidler (WA)*