

January 10, 2021

Andrew Stolfi, Chair  
Climate and Resiliency (EX) Task Force Disclosure Workstream  
National Association of Insurance Commissioners  
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## Re: Draft Proposed NAIC Climate Risk Disclosure Survey Redesign

Dear Director Stolfi and Disclosure Workstream Members:

The National Association of Mutual Insurance Companies (NAMIC)<sup>1</sup> recognizes the importance of issues the Climate Resiliency (EX) Task Force and its workstreams are tackling and appreciates the need for having numerous concurrent discussions to advance understanding and action relating to climate-related risks and resiliency. On behalf of NAMIC members, thank you for the opportunity to provide comments addressing the Disclosure Workstream’s proposed redesign of the NAIC Climate Risk Disclosure Survey (Climate Survey) that was exposed for comment until January 10.

From your NAIC public presentations, it appears that Disclosure Workstream is endeavoring to balance several objectives in this proposed redesigned survey which the group is considering addressing through requiring both: (1) narrative open-ended responses to questions via a TCFD-type approach; and (2) closed-ended responses via new insurance industry specific binary yes-no responses. This is an ambitious project.

### Preliminary Suggestion – Formalize Separation of Different Parts of the Survey

Your proposal mentions that this can be “presented as [ ] two separate parts of the same survey.” **Our suggestion is to formalize the bifurcation of this process.** As you consider the specific suggestions below, please note that one particular suggestion may help to facilitate thinking about the many moving parts to this complex proposal. **The fact that there are different question types may provide an opportunity for the NAIC to divide the Climate Disclosure Survey and to develop it in two distinct paths –**

#### **(1) General Climate Disclosure Survey with Narrative Questions (with a TCFD compliance deemer); and**

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<sup>1</sup> The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of more than 1,500 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner’s insurance market and 53 percent of the auto market. Through our advocacy programs NAMIC promotes 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.



## (2) Climate Disclosure Survey Insurance-Regulatory Supplemental Closed-Ended Questions

- to move on parallel tracks, potentially enabling differing considerations, processes, and implementation protocols. Regulators and insurers may both benefit by separating these parts explicitly because it may keep the door open to the potential for submissions to differ in implementation and treatment. Reasons supporting this approach – which include transition, flexibility, confidentiality, and integration with other oversight – are outlined below.

Below we discuss specific considerations of both the general narrative aspects and the closed ended questions (though we will take them in reverse order, starting with the idea of insurance regulatory supplemental questions).

### Climate Disclosure Survey Insurance-Regulatory Supplemental Closed-Ended Questions

Based on the concerns described below, it does not appear that the proposal is fully ready to move forward at this time on a permanent basis. This seems particularly true for the closed-ended questions.

#### *Financial Regulatory Oversight Tools*

Based on the work of the Solvency Workstream, it appears that there may be some upcoming referrals to consider possible modifications to regulators' financial oversight tools. The closed-ended questions may be duplicative with some of the work that may be triggered through other efforts at the NAIC. With this in mind, it may be worthwhile to pause in order to understand those efforts. As you know, financial examiners and analysts already review insurers enterprise risk management framework to try to gain an understanding of the potential impact of reasonably foreseeable and relevant material risks. For example, the review of the Own Risk and Solvency Assessment Summary Report considers the stress scenarios and stress testing presented by the insurer. Ultimately the objective of these reviews is to reach a final assessment regarding the maturity of the insurers' ERM framework. Further, regulators have access to various risk repositories in the Financial Condition Examiners Handbook that provide detailed testing procedures to test such things as the adequacy of an insurer's catastrophe reinsurance coverage. Financial examiners have the capacity to back test the insurers use of one of the industry's catastrophe modeling software in determining an insurers probable maximum loss. These tools and capabilities available today seem directly relevant to (and potentially duplicative with) the proposed open-ended questions. Returning to the Solvency Workstream and to the NAIC's work in 2022, at present it is unclear whether the Risk-Focused Surveillance (E) Working Group will be involved in additional risk evaluation efforts related to climate change which may feed communications between regulators and insurers regarding key material risks. In light of potentially concurrent (and perhaps subsequent) efforts – within other NAIC groups, in the states, with federal regulators, and elsewhere – if this Workstream is proceeding with expanding disclosures, then perhaps it should be done in a way that builds-in the notion that much is still changing in this area. This may include things like revising/reassessing the survey (or pieces of the survey) based on timing or particular work in the solvency area, piloting the survey on a confidential

basis, or some other approach that recognizes that much is happening that may present challenges to effectiveness and efficiency (such as may occur with inconsistencies or duplication).

### *Question Clarity*

While acknowledging that these questions would be helpful to provide a snapshot and trend analysis year-to-year, the questions are formatted in such a way that make it difficult for insurers to provide additional clarity or context. Additionally, these questions, if publicly disclosed run the risk of being misconstrued or used in a way that could potentially be damaging to market participants.

Let's consider a few examples of questions/responses that may have multiple different interpretations.

*Does the company have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N)*

A company may answer no for any number of reasons, such as there is no need to “plan to assess...” because it has already been done and integrated into procedures on a go forward basis. If a researcher, regulator, or third party were to look at the “no” answer, he/she may presume that the company is not a thoughtful actor. However, this would be an inappropriate conclusion. To mitigate such possibilities, closed-ended responses could be provided to regulators only and explanations could be provided and/or it could prompt a more in-depth conversation on the subject.

Further, by expanding the answer menu to allow for an option of yes or no with clarification,<sup>2</sup> researchers/regulators could still count responses for purposes of tallies but would also get more a proximate and clear understanding of why an insurer is responding a particular way (even if via a cross-reference to a specific portion of the narrative response). Further, it could be a tool for future refinement (for creating further dropdowns or categories) that will aid in understanding possible patterns and trends.

*Does the company provide products or services, or make investments, to support the low carbon transition or to help customers adapt to climate risk? (This can include underwriting and/or investments.) (Y/N) (Emphasis added.)*

Similarly, depending on the purpose for asking the question, a compound question may present challenges in understanding survey results. Looking at this proposed strategy-related closed-ended question, what would a “yes” response mean? If the answer is “yes” for multiple consecutive years, does that mean that the company is continuing to do the same thing or might something have changed

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<sup>2</sup> While not necessarily a perfect analogy, the GENERAL INTERROGATORIES for the Annual Statement appears to allow for some simple explanation for particular yes-no responses. [https://content.naic.org/sites/default/files/inline-files/Title\\_QT2020\\_General\\_Interrogatories\\_pg07.1.pdf](https://content.naic.org/sites/default/files/inline-files/Title_QT2020_General_Interrogatories_pg07.1.pdf)

over the years? Does the regulator care to understand the different components and/or the various changes over time? If so, this (and potentially other questions) may not be ready for broad use.

Another example of where it could prove beneficial for additional clarity to be permitted is on the Risk Management regarding the frequency of identifying climate-related risks.

1. *Does the company have a process for identifying climate related risks? (Y/N)*

B. *If yes, how frequently does the company go through the process to identify climate-related risks? (Multiple choice, e.g., annually, etc.)*

As presently outlined, it is unclear that multiple choice options, with things like “annually,” will be a worthwhile way to capture responses for question (1)(B). This is because the answers may be more nuanced. For example, as work in this area evolves, risk identification – including climate-related risks - - may be on continuously ongoing process. However, to facilitate more effective discussion between insurer and regulator, if questions venture into more robust details of how insurers manage, organize, assess, and measure material risks related to climate change, this further supports these responses being confidential to allow for more targeted responses and additional detail.

### *Implementation Challenges & Open-Ended Approach Possibilities*

Between matters of other work happening at the NAIC, clarity/drafting issues, and administrative challenges of so much new at once (especially for those companies who have not previously completed a TCFD (although with the magnitude of changes, it appears to be a meaningful reporting endeavor even for those more experienced in this area), the open-ended approach may pose significant challenges. As mentioned above, these are completely new and untested questions. To the extent that the Workstream members are contemplating that the questions may remain relatively consistent year-after-year for purposes of understanding trends and developments, it is important that any closed-ended questions be thoroughly thought through.

There is a continuum of ways that the group could go about dealing with real difficulties (and doubtless there are more possibilities):

- Removing this part of the survey altogether.
- Delaying this part of the survey to allow for additional discussion and to avoid duplication with the referrals from the Solvency Workstream for potential modifications to financial reporting and regulatory tools.
- Piloting this part of the survey – possibly shared only with a domestic regulator - with a diverse group of volunteers to identify lessons learned and contemplate questions for a more formal launch after gaining that experience.

- Including a sunset date or a reassessment trigger for the group to review the disclosure template and then to reapprove. (This idea could be paired with a pilot and/or with confidentiality.)
- Expanding the responses beyond yes-no to also include “yes with clarification” and “no with clarification” so that the responses may still be cataloged for research purposes while also giving a direct and proximate way to convey specific information that helps to provide valuable context.
- Allowing companies to cross-reference to documents (such as ORSA or other regulatory submission).
- Providing full confidentiality and visibility to regulators only and after finalized perhaps de-identified and aggregated results could be provided publicly.

Finally, there may be ways to ease the administrative burden by providing some flexibility in timing. Specifically, given that many insurers already file TCFD reports or potentially other similar climate risk disclosures, to the extent possible, allowing for flexibility so companies can align the dates they file these reports would be helpful. This would reduce administrative costs and allow companies to manage similar processes on similar timelines.

### General Climate Disclosure Survey with Narrative Questions (with a TCFD compliance deemer)

Turning to the more general questions, NAMIC asks the Workstream to consider flexibility as well as some revisions.

#### *Current Flexibility & TCFD Compliance Deemer*

Over the past few years, companies could comply with the NAIC Climate Disclosure Survey either by responding to the eight questions asked by the U.S. insurance regulators that chose to request that it be completed or by providing a copy of their TCFD report. At this juncture, several changes are being made at once. Internationally, the TCFD is changing, and some U.S. companies are gearing-up to be able to complete that amended survey. The NAIC meanwhile has been working through this Disclosure Workstream to modify its narrative approach and is proposing about thirty-six narrative questions, some of which follow the TCFD. [In addition, there appear to be about thirty closed-ended questions that would also be new.]

In the midst of all this change, NAMIC was pleased to learn that all participating states that require the Climate Survey would continue allowing companies/groups to submit reports that are consistent with the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for the 2021 reporting year. This should allow more consistency across jurisdictions and may help lower the administrative burden associated with multiple divergent reporting requirements. **Longer term, NAMIC asks that the Disclosures Workstream recommend to the participating states to continue allowing for reporting efficiency by accepting TCFD as an acceptable alternative means for satisfying the narrative response portion of the survey.** As mentioned below under Implementation issues, this is a real concern for some

companies. Given the increased supervisory attention to insurer disclosures and the resulting myriad of regulatory proposals in the climate-related risk area, it is important to allow for flexibility in reporting and to recognize and leverage existing frameworks such as the TCFD.

NAMIC supports the purpose of enhancing transparency through disclosure and the notion of providing regulators with the right tools to assess how climate-related risks impact the insurance industry. Furthermore, we generally support the goal to align with international climate-related frameworks, for reasons that this provides the best opportunity for consistency in reporting.

### *Scenario Analysis & Non-TCFD Questions*

NAMIC requests removing the following two narrative questions from the Metrics and Targets section:

- *Discuss the climate scenarios utilized by the company to analyze its underwriting risks, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.*
- *Discuss the climate scenarios utilized by the company to analyze risks on its investments, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.*

These Metrics and Targets narrative questions include questions not included in the TCFD recommended guidance, and we believe these answers would be proprietary in nature and based on speculative future projections. These questions, which include corresponding closed-ended questions request a discussion on risk scenarios including what timeframes and assumptions are considered. If regulators feel these questions are important enough to be considered, NAMIC urges that these responses either remain confidential or insurers be allowed to refer regulators to their ORSA statement (or another regulatory submission) or most recent financial examination file which may include recent results of various stress testing and scenario analysis.

NAMIC members have concerns about creating longer-term time horizon scenario analyses, making decisions based on information that may or may not occur decades into the future and publicly disclosing such experimental speculation. The further out you go in time, the greater uncertainty there is in the results. While climate change risk has transformed over the last several decades and is expected to shift in some ways over the next several decades, there is too much uncertainty – for example in what government and markets may do – to be able to broadly and consistently be compelled to develop and rely on this approach (now or in the near future). Because this type of scenario analysis is not a one-time exercise, but to be a regular practice, the process can evolve over time and may better capture the ways the landscape is changing. Pushing for experimentation now presumes that the insurers with the most developed climate-related risk profiles have the information needed to foretell accurately out many decades into the future.

### *Implementation*

As described above, not all U.S. insurers are familiar with the TCFD. The new requirements for the narrative portion of the NAIC Climate Risk Survey would go even further. With this in mind, NAMIC suggests that thought be given to how to incrementally move toward these reporting standards in a way that respects proportionality (the nature, scale, and complexity of the insurers' business) as well as the potentially evolving nature of this work. This may contemplate steps such as some delayed implementation or confidentiality for the first few years of reporting.

As mentioned above with respect to the supplemental closed-ended question responses, there may be ways to ease the administrative burden by providing some flexibility in timing and form. Specifically, during this transition, given that some companies may file their TCFD in the Spring (and not have all of the additional NAIC details ready because the NAIC will not yet have finalized its changes or may have just recently done so), it would be helpful for the NAIC/states to provide assurances that there will be a safe harbor (or a delayed implementation), so that such companies need not prepare two detailed TCFD-type reports (one in the Spring when other public filings and another in the Summer to meet this NAIC multi-state request). This would reduce administrative costs and allow companies to manage processes.

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In conclusion, as mentioned in these comments, this is an extremely ambitious and important project. While it is evident that much work has been done, respectfully, we urge you to consider this a work-in-progress. While NAMIC has focused on a few examples of potential challenges with open-ended questions, issues might be identified with many of them. This underscores the need to work deliberately. Whether through delay, pilot, revision, or otherwise, NAMIC urges this Workstream to continue to work through these issues to develop templates that will serve as stable and long-term vehicles for capturing meaningful information for regulators.

Thank you for your consideration of these comments on this matter of importance to insurers and policyholders. NAMIC looks forward to continuing the dialogue on these issues and being helpful to moving these discussions toward a workable solution.

Sincerely,



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