



REINSURANCE ASSOCIATION OF AMERICA

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January 10, 2022

Via E-Mail to Jennifer Gardner (jgardner@naic.org)

Commissioner Andrew Stolfi

Chair of the Disclosure Workstream

Climate and Resilience (EX) Task Force

RE: RAA Comments on Proposed Redesigned NAIC Climate Risk Disclosure Survey

Dear Commissioner Stolfi:

Thank you for the opportunity to provide input as part of the Disclosure Workstream's efforts to redesign and update the NAIC Climate Risk Disclosure Survey. Climate risk awareness is important for insurers and regulators alike. We welcome the opportunity to work with you and other state regulators on this critical issue.

The RAA is a national trade association representing reinsurance companies doing business in the United States. RAA membership includes reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance affiliates and insurance-linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies.

INTRODUCTION

The RAA's longstanding policy recognizes climate change and the impacts of climate change, and the RAA is committed to working with policymakers, regulators, and the scientific, academic, and business communities to assist in promoting awareness and understanding, as well as addressing the risks associated with climate change.¹ At the state, federal and local levels, it is especially critical that the private sector address significant climate change and natural disaster risks associated with floods, wildfire, earthquakes, or other devastating natural disaster events. Urgently addressing these risks is particularly important as the frequency, severity, and costs of many natural disasters continue to increase due to climate change.

While property casualty insurers and reinsurers are the most exposed to natural disasters, especially those impacted by climate and weather, these risks are well managed and understood by insurers through annual underwriting to incorporate increasing physical and transition risks, so the emergence of sudden climate-related losses impacting financial market or insurance market stability is remote.

¹ https://www.reinsurance.org/Advocacy/RAA_Policy_Statements/

That said, addressing risks arising out of a changing climate on a macro level is an important societal mandate.

Our industry is science based. Blending the actuarial sciences with the natural sciences is critical to providing the public with the financial resources needed to recover from natural catastrophic events. As the scientific community's knowledge of climate change continues to develop, it is important for (re)insurers to incorporate that information into the exposure and risk assessment process and that it be conveyed to stakeholders, policyholders, the public and public officials that can or should address adaptation and mitigation alternatives. Developing an understanding about climate and its impact on various risks – for example, wildfires, droughts, heat waves, the frequency and intensity of tropical hurricanes, thunderstorms, and convective events, rising sea levels and storm surge, more extreme precipitation events and flooding – is critical to our role in translating the interdependencies of weather, climate risk assessment and pricing.

The RAA believes a variety of solutions should be used to improve community resilience to the benefit of all those in the value chain of climate and natural disaster risk exposure. The RAA also believes that it is important to address geographic, natural disaster peril, and socioeconomic diversity. Some traditional solutions, like property insurance protections for homeowners certainly can and should be utilized, but new analytical capabilities that increasingly and intelligently can help reduce risk and direct resources to achieving that goal also should be pursued. We encourage regulators and the NAIC to be open to and supportive of the development of new tools and products that are designed to resolve the protection gaps that are growing due to climate influenced risks and events.

Despite RAA's longstanding support for enhanced climate risk disclosures, our members are concerned about the proliferation of the many and varied climate risk disclosure requirements being promulgated around the world. In response to ongoing development of climate risk disclosure requirements by U.S. and international insurance supervisors, in March the RAA issued the attached Guiding Principles to Address Climate Change. In this document, the RAA recommends that regulatory bodies utilize, assimilate, and recognize existing disclosure requirements rather than developing additional disclosure tools. The biggest climate disclosure challenge for insurers is the plethora of different climate risk disclosure requirements that have been promulgated by regulators, investors, rating agencies and others across many jurisdictions. Reporting entities should be able to provide a single set of disclosures to all regulators or limit disclosures to a single regulator. To the extent that an entity is part of a corporate group, disclosures at the group level should be permitted as a mode of compliance. Having multiple different disclosure frameworks is unlikely to increase the benefits to regulators, consumers or other stakeholders and could add significant additional compliance burden.

In addition, climate change disclosures should be material and relevant from the perspective of the management of the reporting entity and should reflect the reporting entity's business model and risk profile. Disclosures should address both physical risks and transition risks that are measurable given the current limits of climate and financial modelling. Disclosures should not overemphasize consistency and comparability, nor should they require quantitative reporting of information and estimates that are highly subjective and uncertain. Confidentiality should be maintained for certain non-public information, particularly hypothetical future projections that do not reflect actual data.

The RAA would support enhanced disclosure requirements that borrow from existing requirements and that allow flexibility in reporting by accepting formats already in use under other frameworks such as the SEC, TCFD, SASB, GRI, CDP, the NAIC or the New York Department of Financial Services, among others. In particular, the TCFD framework has gained significant traction globally, including within the insurance industry and even can be submitted in satisfaction of the NAIC's Climate Risk Survey. New comprehensive financial disclosures will be problematic if they are too prescriptive or require specified quantitative stress tests or scenario analyses that are not supported by current climate and financial forecasting models.

PRELIMINARY RESPONSES TO REQUEST FOR COMMENTS

The RAA appreciates the willingness of the workstream to permit insurer groups to submit TCFD (Task Force on Climate-related Financial Disclosure) reports in lieu of the narrative questions contained in the proposed redesigned NAIC Climate Risk Disclosure Survey. We applaud workstream's recognition that substantial time and effort are expended by insurers in preparing their TCFD reports and that a proliferation of multiple mandated response formats would burden insurers with additional administrative obligations, without adding to insurer, regulator or societal understanding of climate related risks.

The RAA's comments are necessarily preliminary at this time, as the proposed redesigned disclosure survey is not finalized. Specific examples of not yet final provisions are identified in the following comments.

Differences between the Workstream Exposure Draft and the December National Meeting Document

When originally exposed and as currently posted on the NAIC Climate and Resiliency (EX) Task Force webpages, the [draft](#) contained the following sentence, "Other, voluntary questions follow that could be included at discretion of each participating state." That sentence did not appear in the draft attached to the December National Meeting [materials](#) for the Task Force, as Attachment 3.

Based on discussions at the National meeting, the RAA understands that the deletion of the sentence quoted above is intentional. We support and encourage the deletion of that sentence and concept. While we understand that states are independent governmental units and the NAIC cannot mandate state action, we believe the NAIC, in its role as a standard setting body, should continue to seek consensus and only adopt documents that are final in form at the time adopted, without open-ended statements inviting changes by states.

Narrative Questions:

In light of the workstream's willingness to permit insurers and insurer groups to submit their TCFD reports in lieu of completing a separate NAIC narrative disclosure survey, the RAA will defer making specific comments regarding the narrative questions.

Deviations from TCFD, Closed Ended Questions, and Administrative Burdens - Generally

As previously discussed in our oral statements at the November workstream meeting, the RAA supports authorization for insurers and insurer groups to file a TCFD report in lieu of other disclosure requirements. We urge the workstream to reconsider its current approach that would require responses to additional closed ended questions.

As mentioned in the introduction above, there are a multitude of countries, federal agencies, state regulators, and others that are seeking to understand climate related risks and insurers' understanding of the risks and the impact upon their solvency and business generally. Differing disclosure requirements and formats will burden insurers with administrative obligations that do not materially advance the goal of understanding insurer climate risks and will detract from the fundamentally important societal role that insurers play in pricing and assuming risk, generally, and natural catastrophe risk, specifically. That societal role includes: (a) sending important economic signals about risk through risk appropriate pricing and (b) enhancing individual, business, and societal resiliency to natural catastrophe risk, including climate risks.

While the closed ended questions may not seem burdensome in isolation and may even seem beneficial to regulatory goals, the desire of individual regulators, international supervisors, and others who can mandate disclosure to deviate from the TCFD or another uniform format will be strong and unless resisted will result in a proliferation of additional, regulatory prescriptive mandates.

Further, it is not difficult to foresee additional state mandated questions that can easily be downloaded to a spreadsheet for a quick analysis of responses by regulators or climate advocates who may not have as their primary objective the important beneficial role that insurers play. For example, while the "metrics" section does not currently require insurers to publicly disclose their predictions of the future on their current business operations and plans, that is clearly the goal of many.

Such expanded, closed ended questions may present more risk than the benefit that can be gained. The current survey is designed for regulator and public awareness. While it may be appropriate for certain disclosures to be public, regulators, supervisors and all interested parties must remember that most of climate disclosure, quantification and stress testing is based on hypothetical, future projections that are subject to a variety of assumptions, including that an insurer cannot or will not alter its business practices. Such nuance will be lost in a closed ended question.

Disclosure of otherwise non-public information may have unintended consequences that could inadvertently harm insurers' solvency, subject them to unnecessary litigation, and alter their access to capital markets.

Confidential disclosure of an insurer's future projections may be appropriate in certain circumstances, largely for regulatory dialogue.

Incomplete Closed Ended Questions

A number of the closed ended questions contain a reference to a multiple-choice response, without providing the potential multiple-choice responses. For example, please see Risk Management question 1.G, and Metrics questions 4. B and C and 5. B and C.

Further, some closed ended questions actually require a narrative response. For example, Metrics question 1.B asks, “how does the company use catastrophe modeling to manage climate related risks?” That is not a closed ended question capable of a pithy response. A review of the TCFD or survey response as a whole will provide an understanding of how the insurer or group evaluates climate risks, including its use of models. Repetition in a different format should be avoided, irrespective of whether it is administratively convenient.

Also, Metrics questions 4.A and 5.A ask which types of risk are considered in scenario analysis, specifically mentioning “Physical, Transition, Liability” risks. While closed ended responses are provided, the utility of the response is questionable.

In general, the requirement for closed ended responses are a dangerous precedent, inviting others to deviate from a uniform TCFD type format.

If the states and the NAIC believe additional information is required to understand insurer risks, we encourage them to work within the context of the Sustainable Insurance Forum and others to arrive at a uniform consensus in the TCFD framework or another uniform equivalent to achieve a format that provides essential information without a proliferation of administratively burdensome, different formats.

CONCLUSION

As mentioned above, the RAA and its members operate in a science-based industry. Reinsurers seek to obtain and integrate the best science into their evaluation of risk, and will continue to do so in a changing climate.

The RAA recognizes and acknowledges the role of regulators, their need to understand that insurers are appropriately considering emerging risks in their respective operations, and how such emerging risk may impact consumers.

Nevertheless, we oppose the closed ended question deviation from the internationally recognized TCFD format for regulatory convenience, as that opens the door to a multitude of different regulatory requirements on insurers that require a greater cost than the benefit received by regulators.

Further, before adopting a redesigned survey, we encourage the NAIC to finalize each question contained therein. Clarity will provide administrative benefits to insurers and regulators alike.

Importantly, we encourage regulators to take a broader focus on climate change impacts on consumers. We believe the NAIC, state regulators, insurers and policyholders would be best served if regulators and the NAIC focus on encouraging and promoting the development of tools and

products that are designed to resolve the protection gaps that are growing due to climate influenced risks and events.

We will continue to work collaboratively with regulators and the NAIC in this evolving process.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis C. Burke". The signature is written in a cursive, flowing style.

Dennis C. Burke
Vice President