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**MEMORANDUM**

TO: Kathy Belfi and Mike Yanacheak, Co-Chairs of the ORSA Implementation (E) Subgroup

FROM: Commissioner Birrane, Co-Chair of the Climate Resiliency (EX) Task Force leading the Solvency Workstream

DATE: May 23, 2022

RE: Referral on Proposed Climate Risk Enhancements

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The NAIC's Climate Resiliency (EX) Task Force is charged with evaluating financial regulatory approaches to climate risk and resiliency in coordination with other relevant committees, task forces and working groups, including those under the Financial Condition (E) Committee. As part of its efforts to address this charge, the Task Force designated a Solvency Workstream to explore potential enhancements to existing solvency monitoring processes in this area.

During 2021, the Solvency Workstream held a series of public panels on various climate solvency related topics which included among other things, a high-level summary of existing regulatory tools in the space. Near the end of 2021, the Solvency Workstream released a series of questions intended to solicit input on potential enhancements to the existing regulatory tools. As a result of comments received, and a general support for enhancements to the NAIC's *ORSA Guidance Manual*, the following list of proposed enhancements to the existing guidance is being referred to the Subgroup to consider.

ORSA Guidance Manual

- Provide guidance indicating that the insurer should include a description of how climate change risk is addressed through the risk management framework (e.g., driver for credit, market, underwriting risks)
- Provide guidance indicating that if climate change has the potential to materially impact the insurer's asset portfolio, the exposure of assets to transition/physical risks should be presented, discussed, and assessed in a quantitative and qualitative manner, noting that a qualitative assessment may be appropriate if quantitative methods are not well established
- Provide guidance indicating that if climate change has the potential to materially impact the insurer's insurance liabilities, the exposure of liabilities to transition/physical risks should be presented, discussed, and assessed in a quantitative and qualitative manner, noting that a qualitative assessment may be appropriate if quantitative methods are not well established
  - Clarify that the assessment of the impact to the insurer's near-term asset portfolio and insurance liabilities should be performed over the time horizon covered in the ORSA (i.e., current business plan)
- Provide guidance encouraging qualitative discussion of the material medium and long-term impacts of climate change risk on the company's near-term risk appetite, asset management, underwriting, and business strategy, as well as efforts to limit the impact on near-term solvency (e.g., diversification efforts, use of enhanced modelling in ratemaking and underwriting, increased incentives for policyholder mitigation efforts)

The proposed enhancements are presented as high-level principles for the Subgroup to consider and develop as appropriate for inclusion in the Guidance Manual. In so doing, the Subgroup might consider whether additional guidance or considerations regarding ORSA materiality concepts are necessary. If there are any questions regarding the proposed referral, please feel free to contact me or NAIC staff (Dan Daveline at [ddaveline@naic.org](mailto:ddaveline@naic.org)) for clarification. Thank you for your consideration of this request.