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**MEMORANDUM**

TO: Judy Weaver, Chair of the Financial Analysis Solvency Tools (E) Working Group

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

DATE: May 5, 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 general support for enhancements to the NAIC's Financial Analysis Handbook, the workstream suggests the Working Group consider modifications to incorporate particular concepts as it pertains to climate risk. Specifically, the Workstream suggests the Working Group consider modifications to incorporate procedures for utilizing the Property Casualty RBC Cat reporting data, any investment stress scenario results available from the NAIC Capital Markets Bureau, and Climate Risk Exposure Survey results (if available) in conducting ongoing financial analysis.

The proposed enhancements are presented as high-level principles for the Technical Group to consider and develop as appropriate for inclusion in the Handbook. 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.

**MEMORANDUM**

TO: Kathy Belfi and Mike Yanacheak, Co-Chairs of the ORSA Implementation (E) Subgroup  
FROM: Commissioner Birrane, Co-Chair of the Solvency Workstream of the Climate and Resiliency (EX) Task Force  
DATE: ~~May~~<sup>March</sup> 15, 2022  
RE: Referral on Proposed Climate Risk Enhancements

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 ~~and explanation of what climate change risk means for the insurer, how its materiality is assessed, and of~~ how ~~this climate change~~ risk is addressed through the risk management framework (e.g., driver for credit, market, underwriting risks)
  - ~~If climate change risks are not deemed material to the insurer, an explanation should be provided as to how this conclusion was reached~~
- 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 ~~prospective near-term risk appetite~~, asset management, underwriting, and business strategy, as well as efforts to limit the impact on ~~prospective 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.

**MEMORANDUM**

TO: Susan Bernard, Chair of the Financial Examiners Handbook (E) Technical Group  
FROM: Commissioner Birrane, Co-Chair of the Solvency of the Workstream Climate and Resiliency (EX) Task Force  
DATE: ~~May~~ ~~March~~ 15, 2022  
RE: Referral on Proposed Climate Risk Enhancements

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 *Financial Condition Examiners Handbook*, the following list of proposed enhancements to the NAIC’s *Financial Condition Examiners Handbook* is being referred to the Technical Group to consider.

Financial Condition Examiners Handbook

Planning Phase of the Examination:

- Exhibit B – Exam Planning Questionnaire: Consider updating the information requested at the onset of an exam to gain an understanding of the insurer’s exposure to and management of climate change risks
- Exhibit Y – Examination Interviews: Consider additional sample interview questions related to climate change risks for the various “C-Level” executive and board member positions
- Implement a means to ensure that climate-related risks are considered as part of every financial condition examination, which may be achieved through the addition of “Climate Change” as a new critical risk category in Exhibit DD

Fieldwork Phase of the Examination:

- Investments Repository: Consider enhancements to repository risks to encourage consideration of both energy transition and physical risks on an insurer’s investment portfolio and strategy (generally related to all lines of insurance)
- Underwriting Repository: Consider enhancements to existing repository risks to encourage consideration of both energy transition and physical risks in underwriting processes, as well as a new risk focused on the medium and longer-term impacts of climate change on the insurer’s prospective underwriting and business strategy (generally related to Property and Casualty lines of insurance)
- Reinsurance Assuming Repository ([Only Applicable to Assuming Reinsurers](#)): Consider enhancements to repository risks to address the extent to which reinsurers are measuring and monitoring their exposure to climate change risks and using that information to set risk exposure limits and make retrocession decisions
- Reinsurance Ceding Repository: Consider enhancements to repository risks to address how the insurer has integrated climate change assumptions into its catastrophic modelling processes and how the results of modelling are used in making reinsurance coverage decisions

The proposed enhancements are presented as high-level principles for the Technical Group to consider and develop as appropriate for inclusion in the Handbook. In addition to these high-level principles, attached are comments received from the New York Department of Financial Services, [American Property Casualty Insurance Association](#), [American Council of Life Insurers](#) and Public Citizen. 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.

# C1. Examination Interview Questions

## –NY Climate Supplement

### Instructions:

- Ask these questions after asking what the interviewees think about the biggest risks are for the company.
- To help prioritize the questions given time constraints during exams, the questions below are ordered by descending order of importance.

### Sample Interview Questions for Board or Committee Members

#### Duties and Responsibilities

- Do you have a board member or committee that is responsible for the financial risks from climate change?

### Sample Interview Questions for the Chief Executive Officer

#### Risk Areas

- Does your organization expect that climate change will affect your business with the key issues such as physical, economic, social, political, technological, or reputational risks? (Y/N) If yes, what are the key issues related to climate change that are relevant for your business? If no, please explain.
- Do you have a senior management member or function who is responsible for the financial risks from climate change? If yes, what are the lines of responsibilities below the senior person?

#### Risk Mitigation Strategies (Internal Controls)

- If your organization expects climate change will affect your business, what are the mitigation methods?

#### Corporate Strategy

- Has your organization implemented or planned any substantive changes to its business strategy in response to current and potential future climate change impacts? (Y/N) If yes, what are the key climate change drivers that you would consider relevant to your strategy? If no, please explain.
- Does your organization consider climate change as an opportunity? (Y/N) If yes, in what ways might climate change create opportunities for your business? If no, please explain.

#### Other Topics

- Does your organization disclose its financial risks from climate change? If yes, how? If not, please explain.
- What are the key challenges that your organization has faced in its efforts to enhance disclosure of information relating to climate-related factors?
- Has your organization undertaken activities to build capacity of underwriting and investment professionals with respect to climate change factors? (Y/N) If yes, please explain.
- What guidance from supervisors could be helpful to inform industry practices with respect to the identification, assessment, and management of climate-related risks?

## **Sample Interview Questions for the Chief Financial Officer/Controller**

### Risk Areas

- Does your organization expect that climate change will affect your business? (Y/N) If yes, what are the key issues (e.g. physical, economic, social, political, technological, or reputational) related to climate change that are relevant for your business? If no, please explain.
- Are you familiar with how climate change impacts the financial system? Are you familiar with the primary climate risk factors: physical risks, transition risks, and litigations risks (sometimes combined with the previous two risks) and the transmission channels of the drivers of these risk factors to the financial system?

## **Sample Interview Questions for Investment Management**

### Risk Areas:

- Does the company consider the impact of climate change risks when determining its investment strategy and/or monitoring the risks in its investment portfolio? If yes, please explain how physical risks and transition risks are considered, and whether the company has altered its investment strategy in response to these considerations. If no, please explain why and if there is a plan to consider the financial risks from climate change in the future.
- Does the company have a system in place to manage correlated climate risks between its underwriting and investments?

### Other Topics

- Does the organization have dedicated team/staff responsible for climate-risk related matters on the investment side? If not, how are the climate risk on the investment side managed? If yes, please explain.

## **Sample Interview Questions for Chief Risk Officer**

### Risk Areas:

- Does your company consider the impact of climate change risks as part of its overall risk management practices?
  - o If so, what risks have you identified related to the impact of climate change risks?
  - o If so, what is done to analyze and mitigate each of those risks? Is this done independently or as part of weather-related risks in general?
- Does the company have a system in place to manage correlated climate risks between its underwriting and investments?

## **Sample Interview Questions for Underwriting**

### Risk Areas:

- How might physical risk factors affect underwriting business performance across different business lines?
- Does your organization expect that transition risks – including economic, social, technological, regulatory or policy factors stemming from climate change – will affect underwriting business performance, in terms of market demand, claims burden, or other factors? (Y/N) If yes, please explain how, and over what timeframes. If no, please explain why not.
- Does your organization consider that it may be exposed to litigation risks stemming from climate change, either now or into the future? (Y/N) If yes, what steps might your firm take to monitor, reduce, or mitigate these risks? If no, please explain.
- Does the company have a system in place to manage correlated climate risks between its underwriting and investments?

### Other Topics

- Does the organization have dedicated team/staff responsible for climate-risk related matters on the underwriting side? If not, how are the climate risk on the underwriting side managed? If yes, please explain.

## SECTION 3 – EXAMINATION REPOSITORIES –NY Climate Supplement

### Examination Repository – Investments

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The insurer’s investment strategy <i>does not</i> consider the impact of, and market expectations for, the physical and transition risks from climate change on different investments, and the investment policy includes guidelines that require diversification to protect against the impact of climate change.	MK CR	Other	AIPS LC	The insurer’s investment strategy considers the impact of, and market expectations for, the physical and transition risks from climate change on different investments, and the investment policy includes guidelines that require diversification to protect against the impact of climate change.	Review the company’s investment strategy for consideration of the physical and transition risks from climate change in different sections and asset classes.	Consider use of an investment specialist to evaluate the company’s exposure to climate change-related risk such as the physical and transition risks regarding its investment portfolio/strategy.
The board of directors (or committee thereof) and management do	OP ST	Other	AIPS	The board of directors (or committee thereof) reviews and approves the insurer’s investment policy on an annual basis with consideration of	Inspect documentation indicating the board of directors’ (or committee thereof) approval of the	Review written policy for reasonableness.  Obtain the underlying reports used by the board of directors (or committee

not effectively implement/enforce the investment policy/strategy including climate change				changing market conditions and the financial risks from climate change.	insurer's investment policy on an annual basis. Consider the level of expertise in relation to the complexity of the company's investment strategy such as but not limited to climate risks, as appropriate.	thereof) to review the investment strategy results. Discuss with members of the board of directors (or committee thereof) to determine their level of involvement in the monitoring of the investment strategy/risks. Determine if there is sufficient focus on all relevant investment risks including but not limited to the financial risks from climate change.
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Examination Repository – Underwriting

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The insurer has not established and maintained appropriate risk exposure limits (including catastrophe coverage) that are consistent with risk appetite	ST PR/UW	Other	UPSQ	<p>The insurer has established and documented risk exposure limits by geography, other rating classes and line of business (coverages) that have been reviewed and approved by senior management.</p> <p>Risk exposure limits established by the insurer consider the direct and indirect impacts of climate change risk including both the physical risks for natural disasters and transition risks such as on Directors and Officers policies.</p> <p>The insurer utilizes a fully</p>	<p>Review documentation of risk exposure limits and evidence of senior management review/approval. Consider if the risk limits are consistent with the risk appetite and risk tolerance levels articulated in the company's ERM process and consider alignment with the company's reinsurance program.</p> <p>Perform a walkthrough of the underwriting process and observe how the impact of climate change risk is considered when establishing risk exposure limits.</p> <p>Review the credentials, background and responsibilities of</p>	<p>Utilize audit software to review the insurer's risk exposures for compliance with insurer limits. (For P&amp;C companies, summarize policies by ZIP code, industry code, policy size, etc.; for life and health companies, summarize by risk class, age, medical codes, etc.) for compliance with insurer limits. If the insurer has not identified risk exposure limits, test the risk exposures for appropriateness by considering applicable industry standards and comparison to peer groups.</p> <p>Perform detailed review of risk exposure models and management reports to monitor exposure by risk. Areas to consider include accuracy</p>



				<p>staffed, well-qualified underwriting function that has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer.</p> <p>The insurer utilizes risk models to track compliance with exposure limits established by the insurer</p>	<p>the insurer's underwriting function (internal and/or external).</p> <p>Test the operating effectiveness of the insurer's controls to track compliance with the exposure limits by reviewing modeling data.</p>	<p>and completeness of input data, reasonableness of methodology and results as well as management discipline in adhering to risk exposure limits.</p>
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<b>Identified Risk</b>	<b>Branded Risk</b>	<b>Exam Asrt.</b>	<b>Critical Risk</b>	<b>Possible Controls</b>	<b>Possible Test of Controls</b>	<b>Possible Detail Tests</b>
<p>The insurer has not established sufficient pricing practices, resulting in inadequate or excessive premium rates in relation to its assumed risks and expense structure.</p> <p>Consider utilizing an actuarial specialist to assist with test</p>	ST PR/UW	Other	UPSQ	<p>The insurer has developed comprehensive pricing practices that have been approved by senior management.</p> <p>Pricing practices include consideration of future changes in loss development including the impact of climate change risk.</p> <p>The insurer utilizes a fully staffed, well-qualified pricing actuarial function that has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer.</p> <p>The pricing actuarial function has an established process to calculate base premium rates based on</p>	<p>Review documentation of pricing practices and evidence of senior Management review/approval.</p> <p>Perform a walkthrough of the pricing process and observe how the impact of claim trends including climate change risk and weather variability is considered when establishing rates/prices.</p> <p>Review the credentials, background and responsibilities of the insurer's pricing actuarial department for appropriateness.</p>	<p>Review the underwriting and pricing guidelines established by the insurer for appropriateness.</p> <p>Perform analytical procedures to review the insurer's profitability and history of indicated rates vs. selected/filed rates to evaluate the sufficiency of premium rates.</p> <p>If rates have been subject to insurance department approval, consider whether reliance can be placed on this work.</p> <p>If deemed necessary, utilize the insurance department actuary or an independent actuary to perform a review or independent calculation of base premium rates.</p>

<p>procedures related to this risk.</p>			<p>historical loss results, trends, principal advisory organizations (ISO, LIMRA, etc.) and/or other appropriate factors (e.g., costs of reinsurance, expense structure, commission rates) and the calculation is subject to a peer-review process.</p>	<p>Perform a walkthrough to gain an understanding of the rate calculation process and obtain evidence of a peer review of base premium rate calculations and possibly get input from line personnel.</p>	<p>Compare base premium rates utilized by the insurer to industry averages and advisory organization recommendations for reasonableness.</p>
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# New York EPQ Supplement – Climate

Disclaimer: This version of the climate supplement is accurate as of July 2021 and subject to change at any time. DFS may request additional information from insurers as it sees fit.

Please review this EPQ Supplement – Climate in conjunction with the EPQ. The (numbered & lettered) items follow the sequence of the requests in the EPQ.

## I. OWNERSHIP AND MANAGEMENT INFLUENCES

### B. Corporate Planning

Please provide the following documentation below:

How is the strategic plan affected by the company's risk management practices?

- i. How are risks accumulated and addressed?
- ii. Does the company have an impact of climate change risk strategy? Have any risks been identified related to the impact of climate change risk and, if so, what are they and how are these risks incorporated into the company's overall business strategy, underwriting, and investments?

## II. Organization and Personnel Practices

### A. Organization

Please provide the following documentation below:

3. Does the company have a written corporate governance framework? Is climate risk considered in the governance framework? For example, are there governance structures in place in your organization through which board members and senior management may have oversight over climate -related risks? If so, describe how the corporate governance framework meets factors a–h as described in the EPQ in this section.

## IV. Monitoring Procedures

### D. Investments

Please provide the following documentation below:

1. Provide a copy of the company's investment policy and answer the following questions:
  - d. Does the company consider the impact of climate change risks when determining its investment strategy and/or monitoring the risks in its investment portfolio? If yes, please explain. If not, please explain why not.

## VII. Underwriting (for P&C companies)

### 1. Physical risks:

- a. What are the key physical risk factors that you consider as most impactful on underwriting markets in the geographies where you operate? How are the companies identifying and mitigating these risks?
- b. Please provide overview of insurance exposure at risk in high risk areas of flood, hurricanes, fire.

### 2. Transition risk:

- a. What are the key transition risk factors that you foresee as having the greatest impact on underwriting markets in the geographies where you operate? For example, Directors and Officers policies for fossil or carbon intensive companies.

## VIII. Disclosure

Please provide the following documentation below:

A description of the Company's current practice and future plans regarding disclosing the climate-related risks and Company's disclosure materials.



215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • [www.citizen.org](http://www.citizen.org)

Commissioner Birrane,

On behalf of Public Citizen and its more than 500,000 members and supporters, we appreciate the opportunity to provide recommendations on how to enhance the NAIC's solvency tools and improve insurer's resilience to climate risk.

Climate risk is a present and growing threat to insurer solvency. The year 2020 set U.S. records for costly disasters, with 22 weather and climate disasters that cost at least \$1 billion. This year is close behind, with 18 such disasters as of October 8th.<sup>1</sup> The increased frequency and severity of these disasters leads to higher insured losses, often in ways insurers are unprepared for. In total, the first six months of 2021 had the second highest level of natural disaster insured losses on record, with \$33 billion.<sup>2</sup>

Along with their role as risk managers, major insurers are among the largest investors in the world. Investment in fossil fuel-related assets exposes insurers to risks from stranded assets, falling asset prices, and reputational harm. Indeed, a recent Société Générale report found that exiting coal can increase an insurer's valuation by as much as 9%, and suggested a similar premium was available for insurers that choose to exit oil and gas.<sup>3</sup> Similarly, a 2020 Moody's report found that insurers' retreat from coal is "credit positive, as it protects them against potential climate change liability risk, and reduces the risk of their investment assets becoming 'stranded.'"<sup>4</sup> As the clean energy transition accelerates, insurers in need of strong returns will find their investment portfolios negatively affected by stranded assets and falling asset prices, and will face increasing reputational costs with investors and customers who object to their continued financing of activities that are not aligned with a safe future for the planet.

Insurance companies operate by assessing, pricing, and managing risks. They run their business by using models, hedging, and reinsurance to match their risk exposure to their risk appetite. But, as New York's climate risk guidance states, climate risks are "non-linear, correlated, and irreversible"<sup>5</sup> as well as hard to predict based on historical records.<sup>6</sup> The lesson of the 2008 financial crisis is that even supposedly sophisticated risk managers, like AIG, cannot engineer away unpredictable threats. The size and uncertainty of harms from climate change will fuel similar or even bigger threats to those that threatened AIG's solvency. It is critical that state

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<sup>1</sup> National Oceanic and Atmospheric Administration, "[Billion Dollar Weather Disasters](#)," Updated Oct. 8, 2021.

<sup>2</sup> Heather A. Turner, "[Insured losses for first-half 2021 natural disasters total \\$42B](#)," PropertyCasualty360, Aug. 19, 2021.

<sup>3</sup> Tim Quinson, "[Insurers Can Afford to Choose Oil and Gas, But Many Won't](#)," Bloomberg Green, Aug. 25, 2021.

<sup>4</sup> "[Insurers' retreat from coal is positive, reducing stranded asset risk, limiting liability risk](#)," Moody's, Feb. 24, 2020.

<sup>5</sup> DFS Proposed Guidance at 4.

<sup>6</sup> Id. at 5.

regulators appropriately understand the nature of climate risks and use the tools at their disposal to make sure that insurers are appropriately accounting for those risks.

Regulators must adopt a precautionary approach, regulating in the absence of perfect information and putting additional weight on reducing the probability of the large and irreversible damages from climate and financial crises. Regulators also must direct insurers to reconsider their actuarial models, which are based on historical data, and to take on less risk than these models suggest is acceptable. In particular, a precautionary approach would incorporate estimates of increasing frequency and severity of extreme climate events. It would also lead insurers to reduce or eliminate risks that they cannot adequately model where doing so will not have adverse impacts on insurance consumers. That means an end to financing new fossil fuel projects that will become stranded before they pay off, and a carefully managed drawdown of existing fossil fuel investments.<sup>7</sup> It also means building larger margins of error into risk management procedures, rather than trusting insurer policies and procedures based on stated risk appetites. And it means assuming every part of an insurer's business is subject to climate risk, even where it may seem implausible, because what is plausible is changing rapidly as the climate crisis worsens.

This precautionary approach also counsels aligning insurers' contribution to global emissions with science-based targets to reduce the danger that insurers pose to their own solvency. To avoid drastic and potentially uninsurable physical impacts, global warming must be kept below 2.7°F above pre-industrial levels. Avoiding the separate threats of a disorderly transition means a 45% reduction of emissions by 2030 and net-zero emissions by 2050. Insurers who finance or insure emissions in excess of those targets will contribute to harms to insurance markets, threatening insurer solvency and increasing costs to consumers. Reducing insured and financed emissions is therefore a prudential imperative, not just an environmental one.

*Reply to question 1: **The NAIC should incorporate climate risk into all of its existing tools.***

Given the risks that insurers face from both the climate crisis and potential responses, regulators must use all the tools at their disposal to mitigate these threats. The climate crisis is already negatively affecting insurers, and its effects are only becoming more severe. For this reason, time is of the essence. This workstream should recommend enhancements to solvency tools in line with the work already done by the New York State Department of Financial Services, the United Kingdom's Prudential Regulation Authority, and the European Insurance and Occupational Pensions Authority. That means incorporating climate risk into the Own Risk and Solvency Assessment, the Financial Condition Examiners Handbook, and any other tool that insurers and regulators use to assess risk. It also means assessing how climate risk should be incorporated into the Risk-Based Capital Framework to improve insurer resilience.

*A. Own Risk and Solvency Assessment (ORSA)*

The ORSA is intended to foster an effective level of Enterprise Risk Management (ERM) at insurers, through which they identify and assess material and relevant risks and to provide a group-level perspective on risk and capital. Given the scope of the threat from climate change,

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<sup>7</sup> David Arkush, "[Unsafe at Any Charge](#)," Roosevelt Institute, May 26, 2021

consistent with recommendations from EIOPA<sup>8</sup> and New York,<sup>9</sup> insurers should incorporate it into every part of the ERM framework.

In assessing governance, insurers should expressly establish the Board of Directors' oversight of climate risks and identify the responsible management members. The risk identification and prioritization element should expressly identify and discuss the effects of climate change on an insurer's business. If an insurer does not view climate risk as material to its business, it should explain why, with specific reference to the latest climate science and an acknowledgment of the high potential for uncertainty. Similarly, the risk appetite statement should acknowledge that climate risk is less certain than other forms of risk, and reflect a precautionary approach toward avoiding breaching company-wide risk tolerances and limits. The risk management discussion should explain how climate risk is assessed in all underwriting and investing decisions, across all three lines of defense. Finally, the insurer should identify how it explicitly reports and communicates climate risk.

As part of the ORSA assessment of risk exposures, insurers should conduct climate scenario analysis in line with the recommendations made in New York's guidance, using a precautionary approach. In recognition of the way that climate risks can become locked in today but not manifest for many years, the scenario analysis should go beyond the usual 3-5 year time horizon. The scenarios should cover an expansive range of possible stressors to reflect the rapid shifts created by climate change. For instance, insurers who are seeking to enter the private flood insurance market should assess whether historical models of flood risk accurately reflect the future.<sup>10</sup> Similarly, insurers should consider how lines that may not be immediately vulnerable to climate change may become more vulnerable as climate harms continue to develop, interact, and intensify. For instance, an assessment of workers' compensation and long-term disability payments should include evidence of growing heat stress related injuries.<sup>11</sup> Insurers should also consider the potential for highly correlated climate impacts to adversely affect reinsurers, including those that appear well-capitalized and diversified.

Finally, insurers should include climate risk in their risk capital assessment and consider holding additional capital in recognition of the difficulty of quantifying climate risks. In particular, insurer calculations should reflect the possibility that expected climate losses are likely to come in above what historical models reflect, and that the highly correlated nature of climate risk may render aggregation and diversification less effective as risk management strategies.

### *B. Financial Condition Examiners Handbook*

The Financial Condition Examiners Handbook is the standard set of exam procedures used for risk-focused examinations. It includes a set of identified risks. Given the danger that climate

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<sup>8</sup> European Insurance and Occupational Pensions Authority, [Opinion on the supervision of the use of climate change risk scenarios in ORSA](#), EIOPA-BoS-21-127, 19 Apr. 2021.

<sup>9</sup> New York Department of Financial Services, [Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change](#), Nov. 15, 2021.

<sup>10</sup> See, e.g. First Street Foundation, ["The First National Flood Risk Assessment"](#) (Jun 29, 2020).

<sup>11</sup> R. Jisung Park, Nora Pankratz, and A. Patrick Behrer, ["Temperature, Workplace Safety, and Labor Market Inequality,"](#) IZA Institute of Labor Economics Discussion Paper Series, July 2021.

change poses to insurers, failure to adequately address climate risk should be an identified “other than financial reporting” risk. This identified risk should cover both the underwriting and pricing strategy of the insurer and its investment portfolio and strategy. It should incorporate all of the branded risk classifications discussed in New York’s guidance as potentially affected by climate risk. Appropriate controls should align with the expectations laid out by New York and European regulators, and the workstream should closely monitor New York’s developing examination to assess appropriate tests of controls and detail tests.

### *C. Risk Based Capital*

Capital frameworks can be used to build resilience against both firm-specific and system-wide risks. Firms with significant exposures to the harms of climate change or the economic shifts from the low-carbon transition may need to hold additional capital to build up their own resilience to potential losses. To the extent that insurers continue underwriting or investing in activities, such as fossil fuel projects, that contribute to increasing levels of systemic risk by fueling climate change, regulators may also need to consider increasing system-wide levels of capital to maintain financial system stability.

For now, details on capital frameworks for addressing the causes and consequences of climate change are limited. But the United Kingdom<sup>12</sup> and EIOPA<sup>13</sup> have both begun the process of assessing how and when to incorporate climate change. Given that both the severity of climate impacts and the rate of transition away from high emissions activities may quickly change, it would be irresponsible for the NAIC and state regulators not to commence their own assessment. That is the only way they can be prepared to quickly implement such critical resilience building measures when they become necessary.

### ***Reply to question 4: The NAIC should incorporate climate risk, including financed and insured emissions, into the Annual Statement.***

At present, there are no meaningful public disclosure requirements for an insurer’s climate risk. Thirteen state regulators, with oversight of over 70% of the U.S. insurance market, administer the NAIC Climate Risk Disclosure Survey to insurers licensed in those states. This survey asks only general, high-level, qualitative questions. It was designed in 2009 and has not been brought into alignment with global standards for climate risk disclosure.<sup>14</sup> Analysis by the American Academy of Actuaries shows that the current survey format yields only the bare minimum reply from the majority of insurers.<sup>15</sup> The Securities and Exchange Commission (SEC) plans to write a disclosure rule that may provide further information from large insurers.<sup>16</sup> But the SEC has not

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<sup>12</sup> Prudential Regulation Authority, “[Climate-related financial risk management and the role of capital requirements](#),” *Climate Change Adaptation Report 2021*, Oct. 28, 2021.

<sup>13</sup> EIOPA, “[Methodological paper on the potential inclusion of climate change in the Nat Cat standard formula](#),” EIOPA-BoS-21/253, Jun. 29, 2021.

<sup>14</sup> Insurers are permitted to submit their Task Force on Climate-Related Financial Disclosures (TCFD) report in lieu of a survey. Eight insurers chose to do so in 2019.

<sup>15</sup> “[NAIC Climate Risk Disclosure Survey Responses of Insurers Coming Into Sharper Focus](#),” JDSupra, Sept. 9, 2021.

<sup>16</sup> Gary Gensler “[Prepared Remarks Before the Principles for Responsible Investment ‘Climate and Global Financial Markets’ Webinar](#),” Jul. 28, 2021.

yet published a proposed rule, much less taken public comment or finalized it. And any eventual rule may take additional time to go into full effect and may only cover a subset of the insurance market.

The emerging global consensus is that insurers, like all other financial institutions, should disclose their climate risks and their approach to managing them. The UK will require all large companies, including insurers, to report their climate disclosures in line with the Task Force on Climate-Related Financial Disclosures (TCFD) in 2022.<sup>17</sup> The Group of 7 finance ministers, including the U.S. Department of the Treasury, have all joined to recommend adoption of a mandatory disclosure framework aligned with the TCFD, a global disclosure framework.<sup>18</sup> The NAIC should join this regulatory consensus and incorporate aligned climate risk disclosures into its Annual Statement.

Accurate assessment of climate risk requires public disclosure of financed and insured emissions. The latest guidance from the Task Force on Climate-Related Financial Disclosures states that “financial sector organizations are specifically encouraged to disclose GHG emissions related to their investing, lending, and underwriting activities.”<sup>19</sup> The Principles for Carbon Accounting Financials, a UN-backed working group that includes numerous major global banks and insurers, has already developed standardized metrics for assessing the emissions of many types of investments.<sup>20</sup> It is currently collaborating with the UN-backed Net Zero Insurance Alliance, a group of major global insurers, to develop specific metrics for measuring insured emissions.<sup>21</sup>

An effective disclosure framework should also specifically require disclosure of underwriting and investment for companies or projects that are opening up new oil and gas fields, new fossil-fired power plants, or new infrastructure for transporting fossil fuels. These specific disclosures should be made in addition to disclosures of aggregate data on insured and financed emissions. There is a scientific consensus that new fossil fuel production is incompatible with a 2.7°F future. Continuing to invest in and underwrite this business, contrary to the scientific consensus, should raise questions about an insurer’s overall climate risk management.

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<sup>17</sup> HM Treasury, “[UK to enshrine mandatory climate disclosures for largest companies in law](#),” Press Release, Oct. 29, 2021.

<sup>18</sup> “[G7 Finance Ministers & Central Bank Governors Communiqué](#),” Press Release, Jun. 5, 2021.

<sup>19</sup> “[Guidance on Metrics, Targets and Transition Plans](#),” Task Force on Climate-related Financial Disclosures, Oct. 2021.

<sup>20</sup> “[The Global GHG Accounting & Reporting Standard for the Financial Industry, First Edition](#)” Partnership for Carbon Accounting Financials, 2020.

<sup>21</sup> “[Partnership for Carbon Accounting Financials collaborates with UN-convened Net-Zero Insurance Alliance to develop standard to measure insured emissions](#),” Partnership for Carbon Accounting Financials, Sep. 6, 2021.



April 20, 2022

Commissioner Kathleen Birrane  
Chair, Solvency Workstream of NAIC Climate and Resiliency (EX) Task Force  
National Association of Insurance Commissioners  
1100 Walnut Street, Suite 1500  
Kansas City, MO 64106-2197

Re: NAIC Climate and Resiliency (EX) Task Force Solvency Workstream Proposed Climate Risk Referrals

Dear Commissioner Birrane:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the Solvency Workstream's proposed referrals to the ORSA Implementation (E) Subgroup and the Financial Examiners Handbook (E) Technical Group concerning regulatory assessment of insurer climate risk.<sup>1</sup> We appreciate at the outset the deliberative and consultative approach the Workstream has taken, and its reliance on use of existing regulatory tools, the Own Risk and Solvency Assessment (ORSA) and the Financial Condition Examiners Handbook, to encourage regulators to engage with insurers in a confidential manner on how companies are dealing with climate risk. We urge the Workstream to continue to focus on how existing solvency regulatory tools can be enhanced if necessary to assess how insurers are managing climate risk, rather than creating new and untried requirements that may or may not be helpful at excessive cost to insurers and the consumers they serve.

#### ORSA Guidance Manual

We caution against creating a presumption that an insurer either is or is not subject to material climate risk. By definition, the ORSA is an internal assessment of a company's "material and relevant risks". There are lines of business that are clearly subject to climate risk, which is in most cases already being taken into account, while there are lines of business that climate risk is unlikely to affect in a material manner (pet insurance and earthquake are two that come to mind). The ORSA should remain the insurer's own assessment of its material and relevant risks, and while regulators certainly retain the ability to question the insurer's view, they should take care not to prejudge it.

We also urge the Workstream to consider other available regulatory tools so as not to create duplicative requirements or ORSA requirements that go beyond its purpose. State regulators have a number of well-established tools for monitoring and assessing insurers' exposure to climate-related risks, and further development of these tools continues. For example, the recently adopted revisions to the NAIC Climate Risk Disclosure Survey generally aligns the Survey with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We encourage the Workstream to recognize the solvency-related information embedded in the questions of the TCFD and updated Survey, which asks companies to publicly disclose non-confidential information about governance, strategy, risk management, and metrics and targets for climate risks. The public information provided in the Survey complements companies' confidential and proprietary assessments of their climate risk provided through the ORSA. Furthermore, unlike the time horizon in ORSA (i.e., the current business plan), the Survey asks companies about climate risks over a much longer period, up to 30 years. We do not believe the ORSA should be changed to require an assessment of climate risk over a similarly long period. The ORSA should continue to use a time horizon that reflects the realities of an insurer's business model.

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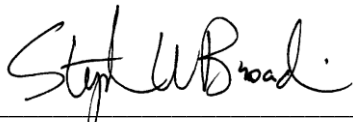
<sup>1</sup> APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

Financial Condition Examiners Handbook

We have comments regarding two identified risks in the additions to examination repositories that the New York Department of Financial Services has suggested. With respect to the risk that “the insurer’s investment strategy does not consider” the impact of climate change, the “possible detail tests” column states, “consider use of an investment specialist to evaluate the company’s exposure to climate-change related risk”. Regarding the risk that the insurer’s board and management do not effectively implement the insurer’s climate change investment strategy, the “possible detail tests” column states, “Utilize audit software to review the insurer’s risk exposures . . . for compliance with insurer (risk exposure) limits”. We believe the suggested language encourages states to use investment specialists and additional audit software analysis as a matter of course, at the insurer’s (and consumers’) expense. We caution against any presumption that these third-party services are necessary. Unless there is a demonstrated need for these costly services, examiners should not use them.

Thank you again for the opportunity to comment, and please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Stephen W. Brodie". The signature is written in a cursive style with a horizontal line underneath it.

Stephen W. Brodie  
Vice President, Financial & Counsel

**Ian Trepanier**  
Policy Analyst  
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**April 20, 2022**

Commissioner Kathleen Birrane  
Co-Chair of the NAIC Climate and Resiliency (EX) Task Force Solvency Workstream  
Via email to [ddaveline@naic.org](mailto:ddaveline@naic.org)

**Re: NAIC Solvency Workstream referrals regarding the ORSA Implementation (E) Subgroup and Financial Examiners Handbook (E) Technical Group**

Dear Commissioner Birrane,

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the NAIC Solvency Workstream's exposed referrals to the ORSA Implementation (E) Subgroup and Financial Examiners Handbook (E) Technical Group.

As noted in the referrals, the NAIC's Climate and Resiliency (EX) Task Force is charged with evaluating financial regulatory approaches to climate risk and resiliency, as part of an effort to explore potential enhancements to existing solvency monitoring processes.

During the Spring 2022 National Meeting in Kansas City, the NAIC adopted the revised Climate Risk Disclosure Survey with significant changes that will allow life insurers more flexibility when completing their annual reports. Among the changes that ACLI supported, the closed-ended questions have been made voluntary for 2022 and the reporting submission deadline has been extended from August 31 to November 30. The NAIC is also allowing insurers who have already completed a TCFD survey for this reporting year to submit this in lieu of the NAIC survey for 2022. We believe these changes will be beneficial and allow the Climate & Resiliency (EX) Task Force to align with the work of the Solvency and Reporting Workstreams and improve the quality of the work products.

With respect to assessing climate change risks, life insurers will benefit from a consistent framework with a phased-in implementation process, as certain data metrics, materiality and definitions become more refined over time. As the NAIC Solvency Workstream continues to examine potential enhancements to the *ORSA Guidance Manual* and *Financial Condition Examiners Handbook*, we recommend the following changes:

**American Council of Life Insurers** | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

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The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

## ORSA

- 2<sup>nd</sup> bullet: Noting that climate change risk is new and difficult to quantify, the demands for quantification for climate change risk should not be greater than for other risks. The ORSA Guidance Manual says, “For some risks, quantitative methods may not be well established and, in these cases, a qualitative assessment may be appropriate.” The following edit would be appropriate.
  - 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.

## Financial Examiners

- Fieldwork Phase, Reinsurance Assuming Repository: We believe this section was intended to be directed solely at reinsurers. However, when read literally, the text could be interpreted as requiring a direct writer to examine the climate-change practices of its reinsurers. If the intent is to direct this question solely towards reinsurers, we recommend clarifying the text to indicate its intent. Otherwise, ACLI would not support an expectation for one company to examine the practices of other companies.

The other three categories in the Financial Examiners Handbook exposure – investments, underwriting and reinsurance ceded – are more in the realm of activities, not aimed at specific companies. Moreover, the issues of exposures, limits and reinsurance (retrocession) decisions would seem to be germane to both direct writers and reinsurers. Exactly how to clarify this may depend on the structure of the handbook and what these “repositories” may look like in the future.

Thank you for allowing us to provide input on this important matter. We look forward to continuing to engage with you. Please let us know if you have any questions.

Very truly yours,



Ian Trepanier  
Policy Analyst  
American Council of Life Insurers