

## **CLIMATE AND RESILIENCY (EX) TASK FORCE**

Climate and Resiliency (EX) Task Force April 6, 2022, Minutes

Climate and Resiliency (EX) Task Force March 21, 2022, Minutes (Attachment One)

Center for Insurance Policy and Research Catastrophe Model Center of Excellence Proposal (Attachment One-A)

Climate Risk Disclosure Survey (Attachment One-B)

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## Draft Pending Adoption

Draft: 4/13/22

Climate and Resiliency (EX) Task Force  
Kansas City, Missouri  
April 6, 2022

The Climate and Resiliency (EX) Task Force met in Kansas City, MO, April 6, 2022. The following Task Force members participated: Ricardo Lara, Co-Chair, Mike Peterson, and Ken Allen (CA); David Altmaier, Co-Chair (FL); Colin M. Hayashida, Co-Vice Chair, represented by Martha Im (HI); James J. Donelon, Co-Vice Chair (LA); Kathleen A. Birrane, Co-Vice Chair (MD); Barbara D. Richardson, Co-Vice Chair (NV); Andrew R. Stolfi, Co-Vice Chair, and TK Keen (OR); Elizabeth Kelleher Dwyer, Co-Vice Chair, and Jack Broccoli (RI); Raymond G. Farmer, Co-Vice Chair (SC); Jim L. Ridling represented by Jimmy Gunn (AL); Peni Itula Sapini Teo and Elizabeth Perri (AS); Michael Conway represented by Peg Brown (CO); Andrew N. Mais represented by Wanchin Chou and George Bradner (CT); Karima M. Woods (DC); Dana Popish Severinghaus represented by C.J. Metcalf (IL); Sharon P. Clark represented by Rob Roberts (KY); Gary D. Anderson and Rachel M. Davison (MA); Timothy N. Schott and Sandra Darby (ME); Anita G. Fox represented by Chad Arnold (MI); Grace Arnold and Peter Brickwedde (MN); Chlora Lindley-Myers represented by John Rehagen and Christie Kincannon (MO); Mike Chaney and Ryan Blakeney (MS); Troy Downing (MT); Mike Causey represented by Tracy Biehn (NC); Jon Godfread (ND); Eric Dunning and Justin Shrader (NE); Adrienne A. Harris represented by Nina Chen and Bob Kasinow (NY); Judith L. French (OH); Glen Mulready (OK); Michael Humphreys (PA); Carter Lawrence represented by Stephanie Cope (TN); Scott A. White and Eric Lowe (VA); Tregenza Roach represented by Cheryl Charleswell (VI); Michael S. Pieciak represented by Kevin Gaffney and Rosemary Raszka (VT); Mike Kreidler represented by Jay Bruns and Bryon Welch (WA); and Jeff Rude (WY). Also participating were: Brenda Johnson (KS), Travis Grassel (IA), Weston Trexler (ID), and Marianne Baker (TX).

### 1. Adopted its March 21 Minutes

Commissioner Altmaier said the Task Force met March 21. During this meeting, the Task Force took the following action: 1) heard reports from its workstreams; 2) adopted a proposal for the NAIC's Center for Insurance Policy and Research (CIPR) to create a catastrophe model center of excellence (COE); and 3) adopted a revised Climate Risk Disclosure Survey for state insurance departments to voluntarily use at their discretion.

Commissioner Richardson made a motion, seconded by Ms. Biehn, to adopt the Task Force's March 21 (Attachment One) minutes. The motion passed unanimously.

### 2. Heard a Presentation from Zurich North America and Resilient Cities Network Regarding Their Partnership to Improve Community Resilience

Ricardo Lara said Zurich North America and Resilient Cities Network formed a partnership last year to mitigate the effect of flooding on urban communities in Houston, TX, and Boston, MA. Earlier this month, they established a resilient community impact fund to facilitate investment for the projects.

Brandon Fick (Zurich North America) said Zurich North America and the Z Zurich Foundation partnered with Resilient Cities Network for a three-year commitment to help customers and communities adapt and become more resilient to the increasing frequency and severity of extreme weather events. Natural disasters are expensive and disruptive for societies, and the impact is exacerbated for vulnerable populations. Based on Zurich North America's commitment to helping communities and improving sustainability, it created the Z Zurich Foundation, which is a Swiss-based charitable foundation. Two of the pillars of the Z Zurich Foundation are climate adaptation and social equity.

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Mr. Fick said insurers have an opportunity to work closely with key stakeholders, including governments and non-governmental organizations to align on key performance indicators and strategic vision, as well as identify the tools and resources available from each stakeholder. He said Zurich North America developed a flood resilience tool many years ago, which is continuously updated and expanded to include additional perils. He said Houston and Boston were selected as initial areas of focus, but they plan to develop future projects in other cities. He said the partnership identified Houston and Boston as the initial areas of focus due to several factors, including local poverty level, state and local leadership's prioritization of the vulnerable population, Zurich North America's customer base in the area, and the prevalence of natural hazards, particularly around flood and extreme temperatures in the region. Zurich North America will leverage its customer base in these areas to help educate and inform local populations and support public policy.

Stewart Sarkozy-Banoczy (Resilient Cities Network) said Resilient Cities Network is interested in building equitable resilience and focusing on the pre-event mindset rather than reactive recovery. He said Zurich North America and Resilient Cities Network started with a common language, common definitions, and a common goal, which helped the participants quickly gain trust in each other and form a collective vision. Resilient Cities Network is a leading global network focused on urban resilience, led by cities and connected to chief resilience officers. The organizations' goals are to empower, mobilize, and implement resilience strategies. The team has conducted site visits, reviewed and trained on the flood resilience tool, launched joint organization committees, hosted training and events, and announced the call for co-funding for the Resilient Community Impact Fund (RCIFund).

Mr. Sarkozy-Banoczy said to involve and empower local communities, the team works with local leaders to create a multi-hazard, multi-shock, and stress testing tool to identify the resilience of the city and the local communities. Zurich North America created the tool for flood risk, and as a partnership with Resilient Cities Network, they are working to expand it to include other perils, including extreme heat. The tool can be used to pinpoint vulnerabilities, as well as support their goal to identify return on resilience value. In addition to the tool, a key driver is identifying communities that are already receiving public assistance. Mr. Sarkozy-Banoczy said they are looking into resilience in terms of affordable housing, community facilities, and nature-based solutions. They are considering the role of community development financial institutions (CDFIs), investors, and other stakeholders in delivering better outcomes and co-benefits resulting in resilience dividends and return on investment.

Mr. Sarkozy-Banoczy said Resilient Cities Network has operations in cities across the country and plans to take the key learnings discovered through its work in Boston and Houston to benefit projects in other regions. Future work has already been slated for Charleston, SC; New Orleans, LA; and Chicago, IL.

Director Farmer expressed gratitude to the Z Zurich Foundation for its Post-Event Review Capability (PERC) following South Carolina's historic flooding in 2015. He asked Mr. Fick and Mr. Sarkozy-Banoczy to elaborate on the collateral benefits of the partnership. Mr. Fick and Mr. Sarkozy-Banoczy said through the partnership, they continually learn and grow to expand the benefits into additional communities.

Commissioner Anderson asked what it would look like for other companies to participate in the program. Mr. Fick said other companies could invest in the fund and bring knowledge and expertise to the table to maximize the benefits for vulnerable communities.

Mr. Bradner expressed interest in connecting Resilient Cities Network with the local network in Connecticut for a future resilience project. Mr. Sarkozy-Banoczy said a good way to start is building out the resilience tool to identify return on resilience value, working with CDFIs and Green Banks, and identifying the greatest needs, including the effect on broader sectors in the area.

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Commissioner Lara asked how Resilient Cities Network is approaching extreme heat. Mr. Sarkozy-Banoczy said two years ago, it began working with chief resilience officers, through their communities of practice, to discuss issues and develop best practices regarding extreme heat.

Commissioner Donelon asked if any other insurers expressed interest in joining the partnership. Mr. Fick said Zurich North America looks forward to partnering with others in the industry to circumvent issues with insurability. Mr. Sarkozy-Banoczy said Resilient Cities Network is having conversations with potential partners to add expertise, knowledge, and funding to the identified projects.

Commissioner Woods expressed interest in engaging with Resilient Cities Network for a future project in the District of Columbia.

### 3. Hear a Presentation from Munich Re Regarding Solutions to Improve Community Flood Mitigation

Raghuvver Vinukollu (Munich Re) said Munich Re has taken a top-down approach to risk mitigation to develop an understanding of the impact on coverage. He said Munich Re views climate risk as systemic, and it includes multiple components; i.e., the hazard, the vulnerability, and the exposure. Over time, and as extreme weather events occur at greater frequency and severity, local communities will need to adapt to their identified risk. Mr. Vinukollu said Munich Re collaborated with The Nature Conservancy and the University of California, Santa Cruz to develop a technical paper, "Financing coastal resilience by combining nature-based risk reduction with insurance" to identify the trade-off between risk reduction and risk transfer. By linking mitigation action to risk reduction, they were able to monetize the risk reduction and calculate the savings to be passed through to the customer in premium reduction. Mr. Vinukollu said insurance is a feedback loop with two variables that influence the premium based on the value at risk, the average annual loss, and the standard deviation. In periods of increasingly frequent and severe storms, the value at risk and the standard deviation increase, creating market disruptions. The market disruption plays out in issues with affordability and rate adequacy.

Mr. Vinukollu said drawing upon its learnings in the technical paper, Munich Re again worked with The Nature Conservancy, this time on a study of inland flooding along the Missouri River in the southern part of Nebraska and the northwest region of Missouri. Through this effort, they identified a community-based solution to increase take-up rates and drive down the cost of coverage.

Mr. Vinukollu said in Missouri and Nebraska combined, there were only 15,967 National Flood Insurance Program (NFIP) policies in 2018, and the average premium was \$942. In the area affected by the failed levee system, there were only 142 NFIP policies, and the average premium was \$1,166. Because damages from inland flooding and extreme precipitation are rarely a total loss, the average claim was only \$15,000, so the cost of coverage was high relative to the loss experience. Multiple flooding events occurred in 2019, including the Missouri River. Total flood losses in 2019 were estimated to be \$20 billion, but only \$200 million was insured.

Munich Re worked with the U.S. Army Corps of Engineers and The Nature Conservancy to develop a pricing model, accounting for the levee setback. The levees needed to be rebuilt; by acquiring land adjacent to the river, they were able to set back the levees, reduce the risk for nearby properties, and provide a nature-based solution. The Nature Conservancy worked to acquire the land, and the U.S. Army Corps of Engineers was able to set back the levees, allowing the river to expand. Munich Re calculated the risk reduction from the levee setback and used the modeling to develop pricing for a community-based solution. The risk reduction from the levee setback provides savings on the flood insurance coverage for residents. Spreading the risk and increasing the penetration through a community-based product drives down the price even further. The original cost of an NFIP policy in the identified area near the levee was \$1,166. The cost of coverage with the levee setback in place decreased to \$581. If purchased on a community, mandated basis with the levee setback in place, the cost of coverage decreased to

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\$313. Reducing the policy limits to match the average claim amount, the cost of coverage can become even more affordable.

### 4. Heard a Federal Update

Brooke Stringer (NAIC) said on March 21, the U.S. Securities and Exchange Commission (SEC) voted 3-1 to issue a proposal for comment, which would require publicly traded companies to disclose their direct and indirect climate change contributions. In its proposed ruling, the SEC cited the work of the Financial Stability Board's (FSB's) Task Force on Climate-Related Financial Disclosures (TCFD) and the Greenhouse Gas (GHG) Protocol.

Ms. Stringer said the Federal Insurance Office (FIO) is expected to complete its report assessing climate-related issues or gaps in insurance supervision and regulation by the end of 2022. The NAIC submitted a comment letter in November 2021, in response to the FIO's request for information.

Ms. Stringer said the NAIC supports the Disaster Mitigation and Tax Parity Act (S.2432/H.R.4675) introduced by U.S. Sen. Dianne Feinstein (D-CA) and U.S. Rep. Glenn Thompson (R-PA). The Act would ensure that state-based disaster mitigation grants receive the same federal tax exemptions as federal mitigation grants. Ms. Stringer said in the week leading up to the meeting, the U.S. Senate (Senate) Committee on Homeland Security and Governmental Affairs approved the Community Disaster Resilience Zones Act of 2022 (S. 3875), advancing it to the full Senate. Chairman Gary Peters (D-MI) and Ranking Member Rob Portman (R-OH) sponsored the bill, and the Reinsurance Association of America (RAA) has been a strong proponent. The bill would amend the Stafford Disaster Relief and Emergency Assistance Act to make permanent the National Risk Index, or a similar tool, and utilize its data to identify and designate community disaster resilience zone communities that are the most at risk to natural hazards. This would allow the Federal Emergency Management Agency (FEMA) to identify communities in need of assistance for mitigation projects.

Having no further business, the Climate and Resiliency (EX) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/2022 Spring National Meeting/Executive (EX) Committee/Climate and Resiliency (EX) Task Force

Draft: 3/30/22

Climate and Resiliency (EX) Task Force  
Virtual Meeting  
March 21, 2022

The Climate and Resiliency (EX) Task Force March 21, 2022. The following Task Force members participated: Ricardo Lara, Co-Chair, Mike Peterson, Deborah Halberstadt, Kara Voss, Rabab Charafeddine, and Camilo Pizzaro (CA); David Altmaier, Co-Chair, Christina Huff, Susanne Murphy, and Alexis Bakofsky (FL); Colin M. Hayashida, Co-Vice Chair (HI); James J. Donelon, Co-Vice Chair, Tom Travis, and Stewart Guerin (LA); Kathleen A. Birrane, Co-Vice Chair, and Alexander Borkowski (MD); Barbara D. Richardson, Co-Vice Chair (NV); Andrew R. Stolfi, Co-Vice Chair, represented by Aeron Teverbaugh, Ying Liu, and David Dahl (OR); Elizabeth Kelleher Dwyer, Co-Vice Chair, Matt Gendron, and Jack Broccoli (RI); Raymond G. Farmer, Co-Vice Chair (SC); Lori K. Wing-Heier and Alex Reno (AK); Alan McClain (AR); Jim L. Ridling and Erick Wright (AL); Michael Conway represented by Peg Brown (CO); Andrew N. Mais represented by William Arfanis, George Bradner, and Wanchin Chou (CT); Karima M. Woods and Sharon Shipp (DC); Trinidad Navarro represented by Frank Pyle and Christina Miller (DE); Doug Ommen, Travis Grassel, and Kim Cross (IA); Dana Popish Severinghaus, C.J. Metcalf, Shannon Whalen, Patrice Dziire, and Susan Berry (IL); Sharon P. Clark (KY); Gary D. Anderson, Rachel M. Davison, and Caleb Huntington (MA); Eric A. Cioppa represented by Sandra Darby (ME); Anita G. Fox represented by Parker Fisher and Renee Campbell (MI); Grace Arnold represented by Peter Brickwedde (MN); Chlora Lindley-Myers, John Rehagen, Jo LeDuc, and Shannon Schmoeger (MO); Mike Chaney (MS); Troy Downing represented by Bob Biskupiak (MT); Mike Causey represented by Michelle Osbourne and Jackie Obusek (NC); Jon Godfread represented by Matt Fischer, Chris Aufenthie, Holly Brockman, and John Arnold (ND); Eric Dunning represented by Connie Van Slyke, Justin Schrader, Martin Swanson and Lindsay Crawford (NE); Marlene Caride and Jesse Kolodin (NJ); Adrienne A. Harris represented by Bob Kasinow, Avani Shaw, and Sahana Zutshi (NY); Judith L. French, Lori Barron, Tynesia Dorsey, and Meredith Craig (OH); Michael Humphreys, Melissa Greiner, David Buono, and Katie Merritt (PA); Alexander S. Adams Vega and Natalia Maldonado (PR); Carter Lawrence represented by Bill Huddleston and Stephanie Cope (TN); Scott A. White represented by Greg Chew (VA); Tregenza A. Roach represented by Suzette Richards, Glendina Matthews, and Cheryl Charleswell (VI); Michael S. Pieciak represented by Mary Block, Marcia Violette, Karla Nuisl, Isabelle Turpin Keiser, Nick Marineau, and Rosemary Raszka (VT); Mike Kreidler, Jay Bruns, and Bryon Welch (WA); Nathan Houdek, Sarah Smith, Rebecca Rebholz, and Darcy Paskey; (WI); and Jeff Rude (WY). Also participating were: Tate Flott and Shannon Lloyd (KS); Kate Kixmiller (IN); Marianne Baker (TX); and Tracy Klausmeier (UT).

1. Adopted its 2021 Summer National Meeting Minutes

Commissioner Caride made a motion, seconded by Superintendent Dwyer, to adopt the Task Force's Dec. 14, 2021, minutes (*see NAIC Proceedings – Fall 2021, Climate and Resiliency (EX) Task Force*). The motion passed unanimously.

2. Heard Reports from its Workstreams

a. Innovation Workstream

Commissioner Hayashida said that in 2022, the Innovation Workstream will continue to explore innovative products that address coverage gaps created by natural catastrophes. He said the Workstream will hear a presentation from the Demex Group on April 13. The Demex Group provides solutions to assess risks from natural hazards and designs coverage options for commercial enterprises.

All meetings of the Innovation Workstream are posted on the Climate and Resiliency Resource catalog innovative product offerings.

b. Pre-Disaster Mitigation Workstream

Commissioner Richardson said that in 2022, the Pre-Disaster Mitigation Workstream will continue participating in multi-agency stakeholder educational efforts on coverage gaps and pre-disaster mitigation related to climate risks. The Workstream will consider the risks associated with all perils, identify mitigation actions at the community and individual property level, and prioritize consumer education and awareness of coverage gaps that exist due to natural catastrophes. The Workstream will continue to explore state and industry-driven mitigation actions, including mitigation grant programs, building code advocacy, and risk assessment tools.

Commissioner Richardson said the Workstream is planning to host a virtual meeting in May to hear presentations on the benefits of and funding options for prescribed burns to reduce the risk of wildfire. She said Workstream members are mindful not just of the risk for property damage, but also the risk of new or worsening health conditions and loss of life. The Workstream plans to explore how mitigation can help reduce human-related risks in addition to the property impacts.

c. Solvency Workstream

Commissioner Birrane said the Solvency Workstream held a series of public meetings in 2021 and then issued a set of questions to solicit input on potential enhancements to existing regulatory financial solvency tools. Many commenters suggested that enhancements would be most appropriate to the *Financial Condition Examiners Handbook* and the *NAIC Own Risk and Solvency Assessment Guidance Manual* (ORSA Guidance Manual). On March 21, the Workstream released for comment draft referral letters to the Financial Examiners Handbook (E) Technical Group and the Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup. Comments will be accepted through April 20. The Solvency Workstream will hold a public meeting following the comment deadline to consider the comments received and finalize the referral letters.

Commissioner Birrane said after finalizing the referrals regarding the *Financial Condition Examiners Handbook* and the *NAIC Own Risk and Solvency Assessment Guidance Manual*, the Workstream will begin considering the need for updates to the *Financial Analysis Handbook*. Later in 2022, the Workstream will host presentations to gather information on scenario analysis and stress testing.

3. Adopted the Proposal for the CIPR to Create a Catastrophe Model Center of Excellence

Commissioner Donelon said the Technology Workstream adopted the proposal for the NAIC's Center for Insurance Policy and Research (CIPR) to create a Catastrophe Model Center of Excellence (COE) on Nov. 22 following multiple discussions and an open comment period. The recommendation was reported to the Climate and Resiliency (EX) Task Force on Dec. 14 during the 2021 Fall National Meeting. The purpose of the COE is three-fold. First, it will provide state insurance departments with access to catastrophe modeling documentation and provide assistance distilling the technical information received. The information shared by catastrophe modelers will be protected through data use agreements and provided to state insurance regulators through a permissioned resource. This resource is already built and has gone through NAIC legal review. Two catastrophe modelers have already signed data use agreements to share information. Second, the COE will provide general technical education and training materials on the mechanics of commercial models, as well as the treatment of perils and risk exposures. It will provide fact-based, unbiased information to state insurance regulators and will work with all vendors who choose to provide information. It is recommended that a governance structure be put in place to ensure transparency and impartiality. Third, the COE will conduct applied research using model platforms to address regulatory

questions concerning resilience priorities. It will report to the Technology Workstream quarterly and to the Catastrophe Insurance (C) Working Group as appropriate.

Commissioner Richardson made a motion, seconded by Commissioner Chaney, to adopt the proposal for the NAIC's CIPR to create a COE (Attachment One-A). The motion passed unanimously.

#### 4. Adopted the Revised Proposed Climate Risk Disclosure Survey

Superintendent Dwyer said that in early 2021, the Climate Risk Disclosure Workstream began holding public meetings to hear from interested stakeholders, including academic organizations, climate risk reporting agencies, investment management firms, insurers, industry representatives, state insurance regulators, and consumer groups. The Workstream solicited feedback from stakeholders in the spring of 2021 to guide its work before drafting a revised Climate Risk Disclosure Survey (survey) to companies. Four states participated in the initial drafting: California, New York, Oregon and Washington. The first draft was exposed for comment on Nov. 15, 2021. Commissioner Stolfi presented on that draft during the Task Force's Dec. 14, 2021, meeting. The Workstream then held an open meeting on Jan. 26, 2022, to hear from the commenters. The draft was updated pursuant to comments received. Notable revisions include content added to the introduction regarding confidentiality, materiality, and guidance consistent with the Financial Stability Board's (FSB's) Taskforce on Climate-Related Financial Disclosures (TCFD). All multiple-choice questions were removed, questions considered to be duplicative were eliminated, and compound "yes or no" questions were separated. The "yes or no" questions were made voluntary, and the bulleted questions under the TCFD statements were made into guidance for how insurers would address the TCFD statements, not separate questions an insurer must answer.

The Workstream met again on Feb. 28, 2022, to expose the latest draft and take additional comments. Based on comments following that meeting, the Workstream decided that any insurer who had already completed their TCFD in 2022 may submit it as is, without modification. The reporting deadline was extended for 2022, from Aug. 31 to Nov. 30. The introduction was updated to include clarification regarding reporting deadlines and expectations for content to include in the insurers' response and provide flexibility for state departments to offer extensions at their discretion. Additionally, states may elect not to even request that companies voluntarily answer the "yes or no" questions. Superintendent Dwyer said according to the latest TCFD update, more than 120 state insurance regulators and government organizations support the TCFD. The Financial Stability Oversight Council (FSOC) report issued in October 2021 encouraged all members to consider enhancing climate-related disclosure requirements and offered TCFD as an example.

Under the proposed Climate Risk Disclosure Workstream recommendation, the survey would remain elective for state use. The reporting threshold for insurers would remain the same at \$100 million in direct premium written and licensed in any one of the 15 participating states. The Workstream is not aware of any new states joining this year, so it is anticipated that all insurers required to report this year will have reported an NAIC Climate Risk Disclosure Survey in the past. If there are any new insurers who recently crossed the reporting threshold, their deadline is Aug. 30, 2023, instead of Nov. 30, 2022. Additionally, states can use their discretion to offer extensions to companies. Participating states send letters to companies to request the information so insurers should make requests for accommodation to the state that sent the letter. The Climate Risk Disclosure Workstream adopted the revised survey during its March 11 meeting.

Director French asked if language could be added to the survey specifying that any new companies be given an extra year for reporting in 2023 and beyond. Superintendent Dwyer said states have discretion to offer leeway for all companies, not limited to new companies. She and Commissioner Altmaier said the survey is voluntary for states to use and, therefore, are provided with a lot of flexibility in terms of implementation. Superintendent

Dwyer said comments received very early on were supportive of moving to the TCFD, which is what the Workstream has proposed.

Dennis Burke (Reinsurance Association of America—RAA) said the U.S. Securities and Exchange Commission (SEC) exposed its proposed climate disclosure within the last few hours and requested that the Task Force pause the vote until the SEC proposal can be fully reviewed to determine how it compares to the revised NAIC survey.

David Snyder (American Property Casualty Insurance Association—APCIA) said APCIA is requesting that insurers who had been previously submitting the eight-question NAIC survey be given until 2023 to submit the revised survey. Mr. Snyder expressed concern regarding the public nature of the disclosure. He also requested alignment between the revised survey and regulator-only content that may be recommended by the Solvency Workstream via referrals to relevant Financial Condition (E) Committee groups.

Patrick Reeder (American Council of Life Insurers—ACLI) said companies have concerns about moving from the eight-question survey to the revised survey in the proposed time frame. Mr. Reeder also expressed concerns regarding the public nature of reporting and confidentiality concerns of insurers. He said there has not been enough time to review the proposed SEC requirements, but the time frame for reporting would be staged over a three- to four-year period depending on the size of the company and the content of reporting.

Jonathan Rodgers (National Association of Mutual Insurance Companies—NAMIC) said NAMIC would like assurance for companies new to reporting. He requested that new companies not be required to report in the initial year. This would apply to companies just crossing the reporting threshold, as well as companies added due to increased state participation.

Commissioner Altmaier said that the Task Force will review the SEC proposal, but given that it is only a proposal at this time and there will be additional time to compare the disclosure frameworks, he would prefer not to delay the Task Force vote to wait for the SEC determination, which will likely not be finalized until December 2022. He said the Workstream has included guidance to insurers regarding confidentiality within the introduction of the survey. Commissioner Altmaier said the Workstream has included in the draft a significant amount of flexibility in the content and timeline for reporting, as well as discretion to the participating states.

Superintendent Dwyer said the request to delay any climate risk disclosure until 2023 is a step back since companies have already been reporting the eight-question NAIC Climate Risk Disclosure Survey in prior years. She said she is unaware of any new companies being asked to report, and industry representatives have been unable to name any upon request. She said companies that have never participated in the NAIC Climate Risk Disclosure Survey, should there be any, have already been exempted from reporting in 2022. Ms. Teverbaugh said the Workstream included bulleted items to assist companies in determining the type of information to include in a TCFD, easing them into the process.

Amy Bach (United Policyholders) encouraged members to continue making progress on this important initiative. Commissioner Lara said the Workstream will review the SEC guidance but intends to keep moving forward, including through additional guidance to companies, striving for consistency, and aligning the survey to the TCFD framework. Ms. Teverbaugh said there is so much flexibility already built into the voluntary survey for states to use, it seems unnecessary to undermine the state discretion by adding language to limit their timeline for implementation. Acting Commissioner Humphreys (PA) said Pennsylvania began participating in 2021, and few companies had concerns with completing the survey in the same calendar year. Commissioner Humphreys said the state had flexibility to work with companies with concerns and offered extensions upon request. Commissioner Anderson said Massachusetts had a similar experience to Pennsylvania, having joined as a participating state in 2021.

Director French made a motion, seconded by Commissioner Donelon, to amend the survey based on NAMIC's suggestion to extend the reporting deadline for new companies in 2023 and future years.

The following voted in favor of the motion: Alabama, Alaska, Arkansas, Iowa, Louisiana, Mississippi, Montana, Nebraska, Ohio, Puerto Rico, South Carolina. The following abstained: Virgin Islands. The following voted against the motion: California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Hawaii, Illinois, Kentucky, Maryland, Massachusetts, Maine, Minnesota, Missouri, Nevada, New Jersey, New York, North Dakota, Oregon, Pennsylvania, Rhode Island, Tennessee, Vermont, Virginia, Washington, Wisconsin, and Wyoming.

The motion to amend the survey did not pass.

Director Lindley-Myers made a motion, seconded by Commissioner Kreidler to adopt the revised survey (Attachment One-B).

The following voted in favor of the motion: Alabama, Alaska, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Hawaii, Illinois, Iowa, Kentucky, Louisiana, Maryland, Massachusetts, Maine, Minnesota, Mississippi, Missouri, Montana, Nevada, New Jersey, New York, North Dakota, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Vermont, Virgin Islands, Virginia, Washington, Wisconsin, Wyoming. The following voted against the motion: Nebraska, Ohio, and Tennessee.

The motion passed.

Having no further business, the Climate and Resiliency (EX) Task Force adjourned.

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CENTER FOR INSURANCE  
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**NAIC**  
NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS

## **A Proposal to Establish a Catastrophe (CAT) Modeling “Center of Excellence” (COE) within the NAIC’s Center for Insurance Policy & Research (CIPR)**

September 20, 2021

### **Introduction**

The leadership and members of the NAIC have determined natural CAT risks and resiliency to be a top priority and organized several workstreams to pursue objectives intended to help ensure homes and businesses are protected from insured perils arising from natural CATs, while keeping markets stable through financially strong insurers and reinsurers. For example, the Catastrophe Risk (E) Subgroup has spent many years working to develop risk-based capital (RBC) factors for hurricane and earthquake exposures and, more recently, grappling with how best to address wildfire, flood, and convection storm perils. Separately, the Catastrophe Insurance (C) Working Group is charged with maintaining the NAIC *State Disaster Response Plan*, the *Disaster Assistance Program*, and the *Catastrophe Computer Modeling Handbook*. The Working Group has also commenced work to determine ways in which the private flood market can be facilitated and monitored by the state insurance regulators. The Climate and Resiliency (EX) Task Force has taken on significant work, which will require a deeper understanding of all aspects of climate and natural CAT risks. Further, many state insurance regulators are taking on new roles in working to create risk resilient communities within their jurisdictions.

Given these increased pressures and new roles, state insurance regulators need to improve their understanding of the CAT modeling technologies used by insurers and reinsurers. This means having access to the same knowledge, insights, and tools used by insurers. In doing so, state insurance regulators can more effectively engage with insurers and state and federal policymakers when discussing how best to maintain critical insurance coverages for their states’ economies and developing new regulatory policy. The NAIC can play an instrumental role fulfilling these needs.

In this regard, the Technology Workstream of the Climate and Resiliency (EX) Task Force was assigned the task of considering the potential application of technology, such as early warning systems and predictive modeling tools, to better understand and thereby evaluate insurers’ climate and natural CAT



risk exposures. In particular, the Technology Workstream was tasked with determining whether technical support services were needed by state insurance departments regarding the industry's use of CAT models.

To help facilitate the members' consideration of such a need, NAIC/CIPR staff conducted two presentations on June 7 and Aug. 6, 2021, wherein staff laid out a range of support services for state insurance departments when encountering the use of commercial CAT models by insurers in rate making processes, solvency functions, and/or other insurance business decisions (e.g., strategic, reinsurance, claims management). NAIC/CIPR staff addressed potential support services in the areas of: 1) facilitating access to CAT modeling documentation; 2) providing technical education and training; and 3) conducting applied research to proactively address regulatory climate risk and resilience priorities. Finally, an additional related benefit highlighted is the ability to provide future support services for other modeled CAT risk beyond climate and natural CATs, including casualty/liability, cyber, terrorism, and infectious diseases such as pandemics. This additional support work could potentially influence other NAIC related committee activities, as appropriate.

## Proposal

As outlined in the introduction above, the time has arrived for the NAIC to establish a permanent support group—i.e., the NAIC CAT Modeling COE—to provide the NAIC and state system of insurance regulation with the necessary technical expertise, tools, and information to effectively regulate the insurers and reinsurers exposed to catastrophic events for a secure and stable insurance marketplace. We believe this COE would be best positioned within the NAIC's CIPR given CIPR's: 1) existing knowledge, expertise, and recent NAIC applied research track record in this field; and 2) its ability to effectively work with modelers and state insurance regulators from a neutral perspective within the NAIC. Below is a complementary and integrated series of technical support services envisioned by the COE:

- 1) Facilitating insurance department access to CAT modeling documentation and assistance in the distilling of this information.
- 2) Providing general technical education/training materials on the mechanics of commercial models and treatment of perils and risk exposures.
- 3) Conducting applied research analysis utilizing various model platforms to proactively answer the regulatory "so what" questions that may need to be addressed for regulatory resilience priorities.

The first element from above provides for the CAT Modeling COE to facilitate insurance department access to CAT modeling documentation and other information, as well as centralizing accumulated knowledge and expertise to aid in the deciphering and distillation of CAT models. The COE would assist



with managing both CAT model vendor relationships and insurance department needs. As such, the COE would be briefed on the modeling technologies and inputs in a similar fashion as insurers and reinsurers are and have access to the same modeling documentation to develop internal expertise. This knowledge and expertise would then be actively shared with state insurance regulators for use in regulatory processes and other considerations. Critically, this information would be collected and stored on an NAIC regulator-only technological platform with proper CAT modeling vendor Data Use Agreements (DUAs) in place to allow for proprietary model information sharing, part of which has been a stumbling block to regulatory access to date.

The second element from above provides for technical education/training materials on the mechanics of commercial models and treatment of perils and risk exposures for state insurance regulators. Importantly, this technical training would be utilized to enhance regulatory operational activities, thereby bringing the science to operations. For example, it would allow for state insurance departments and the NAIC to reimagine the NAIC [Catastrophe Computer Modeling Handbook](#), which could become the foundational authoritative literature on state insurance regulator use of CAT models. As state insurance regulators gain more practice with these models, the NAIC is also well-positioned to develop best practices on industry use, as well as state insurance regulator use. Consequently, the NAIC [Financial Condition Examiners Handbook](#) and the [NAIC Own Risk and Solvency Assessment \(ORSA\) Guidance Manual](#) could be improved to account for the latest developments and best practices in CAT risk assessment. Further from a solvency perspective, both the development of related RBC CAT charges and climate stress testing would benefit greatly from such a technical foundation.

The third element from above provides for conducting applied research analysis to utilize various model platforms to proactively answer the regulatory “so what” questions that may need to be addressed. CAT models are not limited to use by the insurance industry; they are tools for CAT risk assessment. State insurance regulators can apply these tools in much the same way as the industry, albeit for regulatory resilience priorities (e.g., how to increase the uptake and proliferation of home hardening activities related to hurricane and wildfire risk). Such mitigation activities are critical to reduce expected losses and improve the availability and affordability of coverage currently and in a future warming climate. Applied research utilizing CAT models can demonstrate the economic value of such mitigation activities, laying the proper foundation for policy discussions to address increasing property owner mitigation implementation.

Lastly, it is important to note that these identified support services will not be taking the place of individual state department of insurance (DOI) activities involving CAT models, such as model and rate filing reviews, nor will the CAT Modeling COE be approving vendor models. Rather, the support services will allow the COE to engage with state insurance regulators as a trusted partner with a sufficient level



of CAT modeling expertise to enable the conduction of ongoing CAT modeling regulatory activities more effectively.

## Plan of Action

In the past year, many of the above support services have already transpired and/or are currently underway. These include: 1) regulator-only technological platform infrastructure development and DUA executions; 2) NAIC Insurance Summit and CIPR events focused on CAT modeling education concerning wildfire and flood models, CAT model climate change incorporation and climate risk assessment, and casualty CAT modeling; 3) successful completion of a California, Colorado, and Oregon DOI [wildfire mitigation report](#) and wildfire CAT model technical documentation done in conjunction with the Insurance Institute for Business & Home Safety (IBHS) and Risk Management Solutions (RMS), which was further leveraged by the Catastrophe Risk (E) Subgroup for wildfire RBC factor development and the Catastrophe Insurance (C) Working Group *Catastrophe Computer Modeling Handbook* updates. Therefore, this proposal will not be to start such CAT modeling COE support service activities, but rather to build upon and leverage these activities for further enhancement and formalization at the NAIC.

Following the meeting of the Technology Workstream on Aug. 6, 2021, the proposal was released to the member states for further comments and questions. Comments were considered, and a revised proposal was approved for public exposure by the Technology, Solvency, and Pre-Disaster Mitigation Workstreams on Sept. 20, 2021.

Following the Sept. 20 regulator-only meeting, the proposal was released to interested parties for further comment and questions for 30 days. Comments will be considered by the Technology Workstream following this feedback and revisions may be made to the proposal, as agreed upon.

If the proposal advances through the above process steps, it will be prepared for recommendation to the Climate Risk and Resiliency (EX) Task Force at the NAIC 2021 Fall National Meeting in San Diego, CA.

We anticipate there would be no new charges associated with creation of the COE; i.e., the expenses associated with the COE resources would be effectively absorbed by the NAIC budget and have no special assessments, fee for services, etc. These resources may include: 1) recruiting a vendor/insurance department CAT modeling relationship manager and a CAT model research analyst; 2) funding for education/training development and implementation and the licensing and/or running of models for applied research to support and/or enhance regulatory operational activities; and 3) addressing regulatory resilience priorities.



## Conclusion

In the face of extreme weather and the future climate significantly affecting property insurance markets, state insurance regulators need to have access to the same knowledge, insights, and CAT modeling tools used by insurers and reinsurers to assess and address climate risk and resiliency; i.e., knowledge and tools that are available for state insurance regulators to access, understand, and utilize. To accomplish this, we propose that the NAIC establish a permanent support group—i.e., the NAIC CAT Modeling COE—housed within the NAIC’s research unit; i.e., CIPR. We have laid out a proposal and plan of action that would build upon the work that the NAIC/CIPR has already been conducting around climate and CAT risks and allows the NAIC/CIPR to bring science to the operation of the DOIs in a way that is additive to the existing regulatory system, easy to access, and tailored to the needs of the state insurance regulators.

[CATModelCOE Proposal](#)

CENTER FOR INSURANCE  
POLICY AND RESEARCH



**NAIC**  
NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS

## **NAIC/Center for Insurance Policy and Research (CIPR) Catastrophe Model Center of Excellence (COE) Frequently Asked Questions (FAQ) November 16, 2021**

### **Governance & Oversight**

#### **Topic: Vendor and Insurer Continued Engagement with Departments of Insurance (DOIs)**

##### **Is the intent for the COE to become the primary point of contact between state insurance regulators and modelers?**

No. As stated in the proposal, “identified support services will not be taking the place of state DOI activities involving CAT models, such as model and rate filing reviews, nor will the CAT Modeling COE be approving vendor models.” However, we do envision the COE providing access to CAT modeling expertise to support state insurance regulator understanding, training, etc.

##### **Will state insurance regulators continue to be open to discussions with modelers (and insurers) about models?**

Yes. In fact, the COE will seek to improve communication between state insurance regulators and modelers/insurers, supplying state insurance regulators with expertise and information to help facilitate such discussions.

#### **Topic: Transparency and Potential Bias of Modeled Results/Usage**

##### **How will the COE engage with interested stakeholders to remain transparent?**

Most NAIC support resources interact with a committee for reporting and oversight. In this instance, at least for now, we propose that the catastrophe resource center will report to the Technology Workstream under the Climate and Resiliency (EX) Task Force, as well as coordinate with the Property and Casualty Insurance (C) Committee.

##### **How will the COE work to ensure impartiality of vendor models?**

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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The COE will make every effort to engage with all vendors willing to participate for all perils with available technical documentation. Furthermore, the COE will establish a governance structure to ensure that partiality is not provided to any model or vendor.

**Would the COE be engaging to connect learnings from the CAT model to specific insurer rate-making, solvency, and/or business—i.e., strategic, reinsurance, claims management—decisions?**

The COE support services will not take the place of state DOI activities involving CAT models, such as model and rate filing reviews, nor will the CAT Modeling COE be approving vendor models. The COE will work to understand models objectively from a general sense, not for individual rate filings or solvency assessments. We acknowledge that each insurer has their own risk profile that would need to be considered on an individual basis, which is outside the scope of the COE.

**Topic: Objective Science**

**Would the kind of information the COE conveys be facts-based or would it include opinions or analysis?**

The information provided to the state DOIs would be fact-based with relevant objective analysis, as requested. Providing this type of information to states highlights the importance of the placement of the COE within the NAIC's independent research center, the CIPR.

**Topic: Addressing Regulatory "So What" Questions Through Applied Research**

**What are regulatory "so what" questions in support service #3 of the proposal conducting applied research analysis?**

State insurance regulators are responsible for maintaining well-functioning competitive insurance markets. Forward-looking models can be utilized to help analyze market performance, especially regarding the need for improved resilience. As stated in the proposal, CAT models are tools for catastrophe risk assessment. State insurance regulators can apply these tools in much the same way as the industry, albeit for regulatory resilience priorities. For example, models can be used to identify high-risk areas and where proliferation of home hardening activities can improve resilience to natural hazards, including hurricane, flood, severe convective storm, tornado, wildfire, and earthquake. Such mitigation activities are critical to reduce probable losses. Lower losses over time can improve the availability and affordability of coverage in the future. Applied research utilizing CAT models can demonstrate the economic value of mitigation activities. One



description provided via public comments that we considered useful is, “conducting applied research analysis that utilizes or analyzes the potential to utilize CAT models to further public and private risk mitigation and resiliency efforts; benefits and opportunities at the individual consumer or business; or public agency at the community, regional, state, or national level.”

**Regarding conducting applied research analyses utilizing CAT models, we would like to understand the research and support expectations from the COE on modelers.**

We envision working with modelers on applied research activities as applicable. We are requesting funding to allow for modeler engagement.

**Depending on the expected level of granularity for COE work, additional questions may be relevant, such as whether the COE (NAIC/CIPR) would need to be prepared to go to a hearing to testify or respond to discovery?**

It is not anticipated that the COE would maintain granular information about individual insurer use of CAT models. The level of detail would be around the actual CAT model to provide education and training to state DOIs.

**Will the COE be used to conduct research and analysis into the markets for CAT models. Will conflicts of interest or market failures distort the use of CAT models?**

No. It is not envisioned that the COE would set out to conduct this type of research and analysis.

### **Implementation Considerations**

#### **Topic: COE Communication of Various Results, Information, and Observations to DOIs**

**Given the complexity of models and breadth of expertise required to build and maintain them, there is a risk that any third party cannot adequately communicate the nuances and justification of models. Will the COE plan to coordinate model presentations from the modelers, rather than only relaying this information second-hand?**

Yes. The COE would plan to coordinate model presentations from modelers.

**How will information, observations, and/or questions about models be conveyed to state insurance departments? What kind of output will be generated?**

We plan to hire a relationship manager responsible for communicating with the CAT model vendors and state insurance regulators. A regulator-only technology platform will help facilitate information sharing with state insurance regulators.



Research output could take multiple forms depending upon the nature of the analysis undertaken.

**What kinds of data fields will be included? Will others provide input into the design?**

The data fields selected would be contingent on the models being used and the research project under consideration. Data fields would follow from model inputs and outputs.

**Will the COE reviews and/or output be designed to be geography-specific?**

Yes. That is possible.

**Once a model has been reviewed, what renewal process is envisioned?**

Models will not be reviewed, nor would they be posted on the state insurance regulator-only website. However, model technical documentation and information will be updated as new versions of the models are released.

**Topic: Model Vendor Intellectual Property (IP) Protection**

**How will the COE safe-guard intellectual property of the participating CAT model vendors?**

All modeling documentation, access, and usage will be centralized and monitored through the COE via legally binding data use agreements. The NAIC has an extensive track record of experience in collecting and protecting proprietary information. The actual models will not be posted on the state insurance regulator website, only the model documentation will be posted.

**Topic: Interaction with Modelers and Other External Experts**

**Will modelers engage in discussions with the COE about specific models? Do you expect insurers would be involved in model-related discussions?**

Yes. The COE would be engaged with modelers on the modeling technologies and inputs in a similar fashion as insurers and reinsurers and have access to the same modeling documentation to develop internal expertise. It is possible that insurers could be involved in model-related discussions with the COE, but the COE will not review individual insurer's use of models.

**Is the CIPR planning to license and use modeler software or engage in paid consulting studies for their research and development of processes?**



Yes, depending on COE resources and the specific research use case. The CIPR would be willing to either license modeler software and/or engage in paid consulting studies for research and educational/training purposes, as directed by the appropriate NAIC authorities.

**How will results and underlying assumptions from licensed models be communicated to state insurance regulators?**

Any use of a licensed model, including distribution of modeled results, would be subject to the model license agreement and/or model vendor negotiated research consulting contract. Underlying assumptions from the various models utilized would be collected via the model technical documentation as part of the model vendor data use agreement. Note that it is possible that the model technical documentation, including underlying model assumptions, could be collected through a COE data use agreement without an associated model-based research project. If we were to license a model, the actual model would not be posted on the state insurance regulator-only website.

**Will modelers be involved in establishing workflows, best practices, agendas, and expectations of the COE, including timing?**

We anticipate that modelers will be actively engaged with the COE staff, advising on these items as appropriate.

**How many vendors is the COE considering supporting?**

The COE will not be “supporting” vendors, but rather the COE will collect model documentation and engage with model vendors. The COE will engage with any model vendor serving insurance markets where the information is relevant to state insurance regulators.

**Does the COE anticipate looking to external experts for some of the implementation or ongoing work?**

Yes. External collaboration would be welcome, whether that be with industry experts, public agencies, or the academic community.

**Topic: Resources - Staffing and Funding**

**How many states do you expect to be interfacing with the COE?**

The COE will be a resource of the NAIC potentially interfacing with all 56 jurisdictions.



**Beyond recruiting for the identified new roles of CAT modeling relationship manager and CAT model research analyst, how many people at the NAIC/CIPR will be contributing to COE activities? Do you expect that to change over time?**

The CIPR director, the NAIC solvency enterprise risk management (ERM) advisor, and potentially Property and Casualty Insurance (C) Committee staff support will have a role in supporting the work of the COE. We anticipate that additional technical and administrative support resources may be necessary as the workload and demand for services evolve with demonstrated success.

**Will the staffing level proposed by the NAIC be able to provide meaningful analysis in the broad category of catastrophe modeling?**

Prior to the creation of the COE, CIPR and NAIC staff have provided meaningful analysis on wildfire CAT modeling and applied wildfire resilience research. We aim to build off this success and need to start somewhere. Every little bit helps for the states, as stated by one industry commenter, “[t]he staffing issues mentioned above regarding experts at the NAIC are even larger for state insurance departments. Most states are not going to have enough or the right staff to review these models. They will have to rely on others to evaluate catastrophe model validity, and most likely will have to rely heavily on the decisions and evaluations made by others.”

**Have long-term plans been prepared? Are there budget implications?**

No long-term plan has been developed for the COE. The expenses associated with the COE would be subject to the NAIC budget process and have no special assessments or fees for service.

[CIPR COE FAQ](#)

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/2022%20NAIC%20Meetings/Spring%20National%20Meeting/Committee%20Meetings/EXECUTIVE%20\(EX\)%20COMMITTEE/Climate%20and%20Resiliency%20\(EX\)%20TF/Conference%20Calls/03-21/CATModelCOE%20Proposal-combined.pdf](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/2022%20NAIC%20Meetings/Spring%20National%20Meeting/Committee%20Meetings/EXECUTIVE%20(EX)%20COMMITTEE/Climate%20and%20Resiliency%20(EX)%20TF/Conference%20Calls/03-21/CATModelCOE%20Proposal-combined.pdf)

## PROPOSED REDESIGNED NAIC CLIMATE RISK DISCLOSURE SURVEY

### INTENT AND PURPOSE

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The Climate Risk Disclosure Survey is a voluntary risk management tool for state insurance regulators to request from insurers on an annual basis a non-confidential disclosure of the insurers' assessment and management of their climate-related risks.

The purpose of the Climate Risk Disclosure Survey is to:

- Enhance transparency about how insurers manage climate-related risks and opportunities.
- Identify good practices and vulnerabilities.
- Provide a baseline supervisory tool to assess how climate-related risks may affect the insurance industry.
- Promote insurer strategic management and encourage shared learning for continual improvement.
- Enable better-informed collaboration and engagement on climate-related issues among regulators and interested parties.
- Align with international climate risk disclosure frameworks to reduce redundancy in reporting requirements.

### BACKGROUND

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The NAIC adopted the original [Climate Risk Disclosure Survey](#) in 2010 and it has since been administered by the California Department of Insurance. In 2021, fifteen states participated in the climate risk disclosure survey initiative, up from six states in prior years. Because any insurer writing business in a participating state is required to submit their survey response annually, adding nine states in 2021, increased the market coverage from approximately 70% in 2020 to nearly 80% of the market in 2021 based on direct premium written.

In 2021, the Financial Stability Oversight Council (FSOC) produced a [series of recommendations](#) for financial regulators to enhance supervision, data analysis, staff resources, and regulatory cooperation related to climate risk. This included a recommendation to consider enhancing public reporting requirements for climate-related risks in a manner that builds on the four core elements of the [Task Force on Climate-Related Financial Disclosure \(TCFD\)](#), to the extent consistent with the U.S. regulatory framework and the needs of U.S. regulators and market participants.

This revised survey responds to FSOC's recommendations and incorporates international best practices in adopting a TCFD aligned framework for US insurers to report on climate risks when requested by their state regulator.

The TCFD framework is structured around four thematic areas that are core elements

for how insurers operate—governance, strategy, risk management, and metrics and targets. The four thematic areas are supported by key climate-related financial disclosures—referred to as recommended disclosures—that build out the framework with information that will help regulators and others understand how reporting organizations assess and approach climate-related issues.

## **INTRODUCTORY GUIDANCE**

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### ***Timeline and expectation for reporting***

We expect that every company who will be asked to complete the survey in 2022 will have already completed the existing NAIC survey or filed a TCFD report; nearly all companies having participated for several prior years. The table below outlines the timing and other expectations for reporting in 2022 and 2023 as the new survey is phased in. If a company has not previously responded to the NAIC survey, it should be given until 2023 to first respond.

<u>Reporting Year</u>	<u>Expectation Regarding Content</u>	<u>Deadline for Completion</u>
2022	<ul style="list-style-type: none"> <li>• If the insurer has already completed a TCFD for this reporting year, they can submit it as is.</li> <li>• If the insurer has not already completed a TCFD for this reporting year, they should make their best effort to complete the survey below or include such information in their TCFD filing, as is requested below.</li> <li>• Closed-ended questions are voluntary for 2022, and states may opt out of requesting responses to closed-ended questions.</li> </ul>	To allow additional time for insurers to move to the new reporting structure, submission deadlines should be moved from Aug. 31 to Nov. 30. Extensions may be granted by the state that initiated the request to the company or the lead state for the group filing.
2023	Insurers are expected to address the content of the entire TCFD aligned survey below, to the best of their ability.	In accordance with prior years, submissions are due from insurers by Aug. 31 <sup>st</sup> . Extensions may be granted by the state that initiated the request to the company.

### ***Threshold and voluntary state participation***

The reporting threshold remains consistent with the threshold implemented each year since 2013. All insurers with countrywide premium written of at least \$100 million, licensed to write in any of the participating states/territories, are required to complete and submit their survey on an annual basis. As of 2021, the following states/territories participate: California,

Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Minnesota, New Mexico, New York, Oregon, Pennsylvania, Rhode Island, Vermont, Washington.

### ***Confidentiality and best effort basis***

While the existing NAIC survey and TCFD contain sufficient overlap in the analysis required to answer, we recognize that many insurers will be moving to a new reporting framework in the TCFD. Insurers should make their best effort to answer each question honestly and completely, keeping in mind that the information contained in the filing will be made public. During the transition to the TCFD aligned survey, state insurance regulators should work closely with insurers to provide as much flexibility as possible in terms of responding to the survey and deadlines. Confidential information should not be included in this public disclosure unless it is intended to be made public. If additional detail is requested by a state insurance regulator, that request will be handled directly between the regulator and insurer.

### ***Materiality***

There is no requirement to provide information that is immaterial to an assessment of financial soundness (insurers may choose to disclose such information voluntarily, with no implication that such information is in fact material). Insurers should justify their materiality assessment. For the definition of materiality, refer to the [Financial Condition Examiners Handbook](#) and/or the [U.S. Securities and Exchange Commission Accounting Bulletin: No. 99](#), if applicable.

Consistent with TCFD guidance, the Strategy and Metrics and Targets Sections involve an assessment of materiality, except for the question on Scope 1 and Scope 2 greenhouse gas emissions within the Metrics and Targets Section. Disclosures related to Governance and Risk Management Sections do not involve an assessment of materiality.

### ***Assessing financial impact of climate-related risks and opportunities***

The financial impacts of climate-related issues on an insurer are driven by the specific climate-related risks and opportunities to which the insurer is exposed and its strategic and risk management decisions on seizing those opportunities and managing those risks (i.e., accept, avoid, pursue, reduce, or share/transfer). Once an insurer assesses its climate-related issues and determines its response to those issues, it can then consider actual and potential financial impacts on revenues, expenditures, assets and liabilities, and capital and financing.<sup>1</sup>

Consistent with the TCFD Guidelines, determining whether an individual organization is or may be affected financially by climate-related issues usually depends on:

- the organization's **exposure** to, and anticipated effects of, specific climate-related risks and opportunities;
- the organization's planned **responses** to manage (i.e., accept, avoid, pursue, reduce, or share/transfer) its risks or seize opportunities; and

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<sup>1</sup> [https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf), pg.9

- the **implications** of the organization’s planned responses on its income statement, cash flow statement, and balance sheet.<sup>2</sup>

Importantly, an organization should assess its climate-related risks and opportunities within the context of its businesses, operations, and physical locations in order to determine potential financial implications. In making such an assessment, an organization should consider (1) current and anticipated policy constraints and incentives in relevant jurisdictions, technology changes and availability, and market changes and (2) whether an organization’s physical locations or suppliers are particularly vulnerable to physical impacts from climate change.<sup>3</sup>

See pages 10-12 of the TCFD’s [Implementation Recommendation Report](#) for more guidance on assessing exposure, response and implications.

#### **ADDITIONAL SPECIFIC GUIDANCE**

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One of the several benefits of aligning with the TCFD is that it allows insurers to benefit from years of guidance and supporting material developed and being regularly updated by the TCFD and other organizations.

For those insurers new to TCFD reporting, the [Implementation Recommendation Report](#) provides a useful guide. It contains guidance for all sectors on each of the four thematic areas of governance, strategy, risk management and metrics and targets. For example, in relation to the risk management disclosure to describe the insurers’ processes for identifying and assessing climate-related risks, it provides the following guidance:

Organizations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organizations determine the relative significance of climate-related risks in relation to other risks.

Organizations should describe whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered.

Organizations should also consider disclosing the following:

- processes for assessing the potential size and scope of identified climate-related risks and
- definitions of risk terminology used or references to existing risk classification frameworks used.<sup>4</sup>

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<sup>2</sup> [https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf), pg.10

<sup>3</sup> [https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf), pg. 11

<sup>4</sup> [https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf), pgs. 32-33.

The same document also provides supplemental insurance-sector specific guidance. For example, for the same disclosure question, it provides:

Insurance companies should describe the processes for identifying and assessing climate-related risks on re-/insurance portfolios by geography, business division, or product segments, including the following risks:

- physical risks from changing frequencies and intensities of weather-related perils;
- transition risks resulting from a reduction in insurable interest due to a decline in value, changing energy costs, or implementation of carbon regulation; and
- liability risks that could intensify due to a possible increase in litigation.<sup>5</sup>

Notably, this general and supplemental guidance is not required to be included in a TCFD report. Rather, it is designed to support an insurer in developing climate-related financial disclosures consistent with the TCFD framework, including by providing context and suggestions for implementing the recommended disclosures.

The disclosures identified in bullet points in this survey are intended to be supplemental, insurance-sector specific guidance. They have been developed by the NAIC to respond to the TCFD and FSOC recommendations that regulators enhance public reporting requirements for climate-related risks in a manner that builds on the TCFD's four core elements. They are designed to further support insurers' in developing their disclosures by providing context and suggestions for the information a regulator may expect.

Additional guidance published by the TCFD includes:

**[The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities](#)** (2017) provides information on types of climate-related scenarios, the application of scenario analysis, and the key challenges in implementing scenario analysis to support an organization's disclosure of the resilience of its strategy, taking into consideration different climate-related scenarios.

**[Guidance on Risk Management Integration and Disclosure](#)** (2020) describes considerations for organizations interested in integrating climate-related risks into their existing risk management processes and disclosing information on their risk management processes in alignment with the Task Force's recommendations.

**[Guidance on Metrics, Targets, and Transition Plans](#)** (2021) describes recent developments around climate-related metrics and users' increasing focus on information describing organizations' plans for transitioning to a low-carbon economy. The guidance also describes a set of cross-industry, climate related metric categories (described in Appendix 2: Cross-Industry,

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<sup>5</sup> [https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf), pg. 33.

Climate-Related Metric Categories) that the Task Force believes are applicable to all organizations.

The FSB frequently produces content to assist companies in creating TCFD reports, the knowledge hub with related content is accessible at <https://www.tcfhub.org/>.

## **SURVEY QUESTIONS**

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To provide clear direction for achieving a robust, insurance-sector specific TCFD report, narrative and closed ended questions follow, grouped into the TCFD's four topics: governance, strategy, risk management and metrics and targets.

The statements listed next to numbers and letters are directly taken from the TCFD Framework and should be fully addressed in the insurer's response. As discussed in detail above, insurers should consider including the bulleted items in their response to the TCFD statement above it. For additional guidance on sector specific content to consider including, refer to the [Implementation Recommendation Report](#).

### **Governance**

1. *Disclose the insurer's governance around climate-related risks and opportunities.*

*In disclosing the insurer's governance around climate-related risks and opportunities insurers should consider including the following:*

- Identify and include any publicly stated goals on climate-related risks and opportunities.
- Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level.
- A. *Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities.*

*In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:*

- Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.
- B. *Describe management's role in assessing and managing climate-related risks and opportunities.*

### **Strategy**

2. *Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material.*

*In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:*

- Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency.\*<sup>i</sup>

- Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations.\*
  - A. *Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.*

*In describing the climate-related risks and opportunities the insurer has identified over the short, medium, and longer term, insurers should consider including the following:*

- Define short, medium, and long-term, if different than 1-5years as short term, 5-10years as medium term, and 10-30years as long term.

- B. *Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.*

*In describing the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning, insurers should consider including the following:*

- Discuss if and how the insurer provides products or services to support the transition to a low carbon economy or helps customers adapt to climate-related risk.
- Discuss if and how the insurer makes investments to support the transition to a low carbon economy.

- C. *Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.*

### **Risk Management**

- 3. *Disclose how the insurer identifies, assesses, and manages climate-related risks.*

*In disclosing how the insurer identifies, assesses, and manages climate-related risks, insurers should consider including the following:*

- Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability risk.\*
- Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable.\*
- Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered.\*
  - A. *Describe the insurers' processes for identifying and assessing climate-related risks.*

*In describing the insurers' processes for identifying and assessing climate-related risks, insurers should consider including the following:*

- Discuss whether the process includes an assessment of financial implications and how frequently the process is completed.\*

- B. *Describe the insurer's processes for managing climate-related risks.*

- C. *Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.*

*In describing how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management, insurers should consider including the following:*

- Discuss whether climate-related risks are addressed through the insurer's general enterprise-risk management process or a separate process and how frequently the process is completed.
- Discuss the climate scenarios utilized by the insurer 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 insurer to analyze risks on its investments, including which risk factors are utilized, what types of scenarios are used, and what timeframes are considered.

### **Metrics and Targets**

*4. Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material.*

*In disclosing the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material, insurers should consider including the following:*

- Discuss how the insurer uses catastrophe modeling to manage the climate-related risks to your business. Please specify for which climate-related risks the insurer uses catastrophe models to assess, if any.
- A. *Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process.*

*In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:*

- In describing the metrics used by the insurer to assess and monitor climate risks, consider the amount of exposure to business lines, sectors, and geographies vulnerable to climate-related physical risks [answer in absolute amounts and percentages if possible], alignment with climate scenarios, [1 in 100 years probable maximum loss, Climate VaR, carbon intensity], and the amount of financed or underwritten carbon emissions)
- B. *Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.*
- C. *Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.*

**Closed-ended questions directly correspond to the narrative above, allowing for explanation and qualification of the yes/no answers. Closed-ended questions are voluntary for reporting year 2022 and individual states may elect not to request them.**

**Governance**

- Does the insurer have publicly stated goals on climate-related risks and opportunities? (Y/N)
- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? (Y/N)
- Does management have a role in assessing climate-related risks and opportunities? (Y/N)
- Does management have a role in managing climate-related risks and opportunities? (Y/N)

**Strategy**

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? (Y/N) \*
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk? (Y/N)
- Does the insurer make investments to support the transition to a low carbon economy? (Y/N)
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N)\*

**Risk Management**

- Does the insurer have a process for identifying climate-related risks? (Y/N)
  - If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? (Y/N)
- Does the insurer have a process for assessing climate-related risks? (Y/N)
  - If yes, does the process include an assessment of financial implications? (Y/N)
- Does the insurer have a process for managing climate-related risks? (Y/N)
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (Y/N/Not Applicable)\*
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N)\*
- Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N)\*
- Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N)
- Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N)

**Metrics and Targets**

- Does the insurer use catastrophe modeling to manage your climate-related risks? (Y/N)
- Does the insurer use metrics to assess and monitor climate-related risks? (Y/N)
- Does the insurer have targets to manage climate-related risks and opportunities? (Y/N)
- Does the insurer have targets to manage climate-related performance? (Y/N)

Adopted by the Climate Risk Disclosure Workstream March 11, 2022  
Draft for Consideration by the Climate and Resiliency (EX) Task Force

 [2022ProposedClimateRiskSurvey](#)

<sup>i</sup> \* Asterisks represent questions derived from the original Climate Risk Disclosure Survey.

[https://naiconline.sharepoint.com/sites/NAISupportStaffHub/Member%20Meetings/2022%20NAIC%20Meetings/Spring%20National%20Meeting/Committee%20Meetings/EXECUTIVE%20\(EX\)%20COMMITTEE/Climate%20and%20Resiliency%20\(EX\)%20TF/Conference%20Calls/03-21/2022ProposedClimateRiskSurvey.docx](https://naiconline.sharepoint.com/sites/NAISupportStaffHub/Member%20Meetings/2022%20NAIC%20Meetings/Spring%20National%20Meeting/Committee%20Meetings/EXECUTIVE%20(EX)%20COMMITTEE/Climate%20and%20Resiliency%20(EX)%20TF/Conference%20Calls/03-21/2022ProposedClimateRiskSurvey.docx)