The Climate and Resiliency (EX) Task Force met Nov. 3, 2020. The following Task Force members participated: Ricardo Lara, Co-Chair, Michael Peterson, Camilo Pizarro and Natalie Bruton-Yenovkian (CA); Raymond R. Farmer, Co-Chair, Kendall Buchanan and Casey Clyburn (SC); James J. Donelon, Co-Vice Chair (LA); Kathleen A. Birrane, Co-Vice Chair (MD); Andrew R. Stolfi, Co-Vice Chair, David Dahl and TK Keen (OR); Michael Conway represented by Bobbie Bacca (CO); Andrew N. Mais represented by William Arfanis, Wanchin Chou and George Bradner (CT); David Altmaier represented by Jane Nelson (FL); Gary Anderson (MA); Grace Arnold represented by Peter Brickwedde (MN); Barbara D. Richardson and Gennady Stolyarov (NV); Linda A. Lacwell represented by Nina Chen, Puran Bheamsain, Avani Shah, Martha Lees and Marshal Bozzo (NY); Jessica K. Altman (PA); Hodgen Mainda represented by Carter Lawrence, David Combs and Rachel Jade-Rice (TN); Mike Kreidler represented by Jay Bruns, Hailey Hamilton and David Forte (WA); and Jeff Rude and Donna Stewart (WY). Also participating were: William Lacy (AK); Vanessa Darrah (AZ); Heather Droge and Brenda Johnson (KS); Dean L. Cameron (ID); Joshua Archer (ME); Laura Machado (TX); and Diana Dambach and Barbara Belling (WI).

1. Discussed Comments Received on its 2021 Proposed Charges

Ms. Chen said the intent of her comments were to ensure the Task Force coordinate its work with relevant NAIC committees, including the Financial Condition (E) Committee and the Financial Stability (EX) Task Force. Ms. Chen said the Task Force’s recommendations will need to be reflected in the work of other committees to have a meaningful impact. She also suggested adding the following charge, consistent with the work plan: “Investigation of potential solvency impact of insurers’ exposures, including both underwriting and investments, to climate-related risks.” Finally, Ms. Chen suggested adding disclosures to: “Investigation and development of climate risk-related disclosure, stress-testing and scenario modeling.” She clarified intent to build on the NAIC Climate Risk Survey as a foundational resource and align it with international standards.

Mr. Farmer recommended including New York’s revisions to the Task Force’s 2021 proposed charges.

Dave Snyder (American Property Casualty Insurance Association—APCIA) supports private market climate risk activities and ensuring regulation that supports innovation, competition and solvency not supplanting private insurance markets. He said mitigation and adaptation must be top priority. He suggested that the charges related to mitigation and adaptation be moved up in the charges and the work plan. Mr. Snyder said the private market should be freed of constraints that prevent sending financial signals about climate risk through risk-based pricing and modeling reflective of the best, latest science. He said regulation should be consistent with three key principles: 1) materiality; 2) proportionality; and 3) confidentiality. Disclosures should be unique to a company’s risk assessment and reflect material impacts to performance. Mr. Snyder said that while state insurance regulators need extensive information about a company’s risk profile, not all of it should be made public and state insurance regulators have the expertise to put the information into the correct context. He suggested that the Task Force review the prior work in this area and seek to avoid unintended consequences with any new regulation.

Mr. Farmer recommended accepting Mr. Synder’s written comments to change the term “investigation” to “evaluation” in multiple places. He also agreed to add “closing protection gaps” to the following charge: “Evaluation of insurance product innovation directed at reducing, managing and mitigating climate risk, and closing protection gaps.” Mr. Farmer said the mission of the Task Force is to “serve as the coordinating NAIC body for discussion and engagement on climate-related risk and resiliency issues.” Coordination with other committees is important as some of the comments from the APCIA appear to be written broadly and encroach on the work of other NAIC committees. He said he appreciates the reminders and input from industry but believes the remaining changes proposed by the APCIA do not fit within the charges of the Task Force.

Cate Paolino (National Association of Mutual Companies—NAMIC) encouraged the Task Force to engage with other agencies, legislators, and governors, as well as expand consumer education on the topic of enforced building codes. She also encouraged the Task Force to explore opportunities within the Building Resilient Infrastructure and Communities (BRIC) pre-disaster mitigation grant program and the Flood Mitigation Assistance (FMA) grant program.

Mr. Farmer said the issues presented by NAMIC are central to the work of the Task Force and are included within the mission statement, as well as the pre-disaster mitigation workstream within the Task Force’s work plan.
Dennis Burke (Reinsurance Association of America—RAA) said the RAA strongly supports pre-disaster mitigation through risk reduction, as well as increasing insurance coverage such as flood insurance offered through the National Flood Insurance Program (NFIP) and private flood insurance. Mr. Burke stated that before creating additional insurer disclosures, an evaluation of the tools and information currently available should be top priority, and an open dialogue should take place regarding confidentiality. He said stress testing and scenario analysis should be applied on a group basis and only used to determine climate risk identification, not a solvency tool as they are hypothetical in nature. He also said stress testing and scenario analysis should include consideration of risk transfer by insureds. Mr. Burke said the Task Force should enable insurers to use the best available underwriting tools to enhance the ability of the insurance industry to be a consistent, reliable provider of risk transfer solutions.

Mr. Farmer suggested that the vice chairs, assigned to each workstream, keep these issues in mind as they complete their work.

Mr. Burns said U.S. climate scientists do not consider earthquakes to be a climate-related risk. Commissioner Donelon said he recommends including earthquake in the Task Force’s evaluation of mitigation methods for common perils across the country. Mr. Bruns suggested modifying the relative charge to state: “Evaluation of how to apply technology and innovation to the mitigation of storm, wildfire, other climate risks and earthquake.”

2. **Adopted its 2021 Proposed Charges**

Commissioner Birrane made a motion, seconded by Commissioner Donelon, to adopt the Task Force’s 2021 charges (Attachment One-A). The motion passed.

3. **Discussed its Proposed Work Plan and Organization**

Commissioner Lara said the co-chairs identified five workstreams integral to the Task Force’s work. A vice chair has been named to each workstream to lead the topic and report progress back to the Task Force periodically.

For workstream No. 1, which will focus on matters of solvency, including enhancements to regulator solvency tools and exploration of methods to quantify insurer’s risk exposure, the vice chair is Commissioner Birrane.

For Workstream No. 2, which will focus on consideration of enhancements to the climate risk disclosure and alignment with climate-related financial disclosures, the vice chair is Commissioner Stolfi.

For workstream No. 3, which will focus on pre-disaster mitigation including collaboration with various stakeholders, education and consumer outreach, the vice chair is Director Bruce R. Ramge (NE).

For workstream No. 4, which will focus on innovation including products brought to market to respond to climate risk, the vice chair is Commissioner Rafael Cestero Lopategui (PR).

For workstream No. 5, which will focus on technology used to understand and identify climate-related risk, the vice chair is Commissioner Donelon (LA).

Mr. Lara said the workstreams will work with existing NAIC committees and departments to leverage any relevant work related to this topic, as well as expertise.

Having no further business, the Innovation and Technology (EX) Task Force adjourned.
AGENDA

- SIF Overview
- SIF Resources
- SIF Work Programme
- Q&A
- Contacts
The global leadership group of insurance supervisors and regulators working together to strengthen understanding and responses to sustainability issues.
Launched in December 2016.

UN convened.

SIF Secretariat hosted by the UN.

Core partner: global standard setting body - International Association of Insurance Supervisors (IAIS).

Observer of the Network for Greening the Financial System (NGFS).

Member of the Informal Working Group (IWG) of the Task Force on Nature Based Disclosures (TNFD).
Dynamic platform for insurance supervisors:

- for international collaborative action on climate issues.
- to contribute to research on emerging risks, knowledge-sharing on supervisory practices, high-level policy engagement, and joint supervisory statements.
- to address sustainability issues impacting consumers, firms and markets in their jurisdictions.
- to collaborate with their peers to share knowledge and identify best practices.
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SIF PUBLICATIONS
ISSUES PAPER ON CLIMATE CHANGE
RISKS TO THE INSURANCE SECTOR

- Jointly published by the SIF/IAIS in 2018.
- Raises awareness for insurers and supervisors of the challenges presented by climate change.
- Included current and contemplated supervisory approaches for addressing these risks.
Jointly published by the SIF/IAIS in 2020.

Despite progress, low implementation of TCFD-aligned disclosures across the insurance sector as a whole.

Identifies a number of areas where supervisors can encourage strengthened disclosures, including setting regulatory expectations, supporting climate scenario analysis and mandating disclosures.
APPLICATION PAPER ON THE SUPERVISION OF CLIMATE-RELATED RISKS IN THE INSURANCE SECTOR

- Jointly published by the SIF/IAIS for public consultation, comments are due by 12 January 2021.

- Applies climate risks to existing Insurance Core Principles to support supervisors to integrate into supervisory frameworks:
  - Supervisory Review and Reporting (ICP 9)
  - Corporate Governance (ICP 7)
  - Risk Management (ICP 8 and 16)
  - Investments (ICP 15)
  - Disclosures (ICP 20)
Public version.

Intended to help supervisors develop engagement tools to better understand exposures and strategic responses of regulated entities to climate change risks and opportunities.

Provides a framework, and example questions, which supervisors can adapt for use in their own jurisdictions.
In 2020, the SIF members agreed to build on progress. A new work programme 2021-2023 was developed which:

- included the topics which represented members’ insights and potential pathways developed by the SIF Secretariat.
- has been designed to reflect SIF’s unique position by focusing efforts on three thematic areas and producing a smaller number of high-quality outputs.
- SIF will partner with specialist organisations to implement work programme.
A. IMPACTS OF CLIMATE-RELATED RISK ON THE INSURABILITY OF ASSETS – ACCESS AND AFFORDABILITY

- Climate change risks; increasing physical risks.
- Impact on the insurability of assets.
- Constraints on insurers’ underwriting capacity.
- Improvement in quantification of risks.
- Potential increase in premium costs.
- Reduction in the availability of insurance.
- Improvement of insurers to price and manage climate risks.
- Coverage against climate-related perils on a sound, risk-adjusted basis.
- SIF members’ approaches to mitigate risks while offering affordable insurance.

POSSIBLE DELIVERABLES INCLUDE:

- a public comparison paper: potential collaboration with PSI
- a capacity building programme: including FSI to develop tutorial based on Application Paper
- a case study on climate risk to be integrated within the A2ii and Toronto Centre training program on inclusive insurance.
B. BROADER SUSTAINABILITY ISSUES (BEYOND CLIMATE CHANGE) – E.G. BIODIVERSITY LOSS

- Rise in environmental degradation, habitat destruction and biodiversity loss.
- Impacts of zoonotic disease outbreaks, supply chain disruption.
- Increase in insurance risks and financial instability.
- Environmental risks and biodiversity loss can translate into financial risks for the insurance sector?
- De Nederlandsche Bank published a study on biodiversity loss in mid-2020.
- SIF to evaluate the extent of such risks to the insurance sector.

POSSIBLE DELIVERABLES INCLUDE:

- A Scoping Study on biodiversity loss and associated risks, in collaboration with the IAIS.
- Contributing to the establishment of a Task Force on Nature-related Financial Disclosure (TNFD) as a member of Internal Working Group.
C. CLIMATE RISKS IN THE ACTUARIAL PROCESSES

- Climate change impacts on asset valuation and insurance risks
- Actuaries improving quantification of climate impacts on insurance companies.
- Actuaries improving their methods of conducting business.
- Climate risks being considered within the entire actuarial function.
- SIF support the embedding of climate risks into actuarial processes.
- SIF assist in mainstreaming of climate risks into insurance practices.

POSSIBLE DELIVERABLES INCLUDE:

- Joint introductory short paper/webinar with the International Actuarial Association (IAA).
- Joint webinars regarding IAA papers on introduction scenario testing; its application to insurance and pensions; asset risks due to climate change and transition risks inherent in assets.
- IAA Report on results of its consideration of educational material related to the inclusion of climate risks as part of actuarial involvement in insurers’ ORSA own risk and solvency assessment.
Q&A
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sustainableinsuranceforum.org
Climate Risk Disclosure Survey Analysis

Michelle Young, MAAA, FSA
Chairperson, Climate Risk Disclosures Work Group
ERM/ORSA Committee

Steve Jackson, PhD
Assistant Director for Research (Public Policy)
American Academy of Actuaries

NAIC Climate and Resiliency (EX) Task Force
December 4, 2020
Agenda

- Value of Climate-Related Financial Disclosures
- Academy Analysis of National Association of Insurance Commissioners (NAIC) Survey Responses
  - Yes/No Responses
  - Systematic, qualitative analysis of company responses
  - Systematic, qualitative analysis of response to Question #5, on investment strategy
- Implications of Academy Analysis
- Plans for Phase 2 Research: Beyond the Current Survey
1. Climate is becoming more extreme—in temperature, precipitation, wind, and sea level—as seen in the Actuaries Climate Index (ACI).

Source: Calculations by Academy staff of data provided at actuariesclimateindex.org.

2. Economic losses from extreme climate-related events are increasing, as seen in NOAA’s Billion-Dollar Disasters database.

Source: Calculations by Academy staff of data provided at www.ncdc.noaa.gov/billions/.
3. Preliminary estimates of economic losses, 1980–2016, due to changes in climate risk controlling for changes in exposure show a pattern of increase similar to those seen in the ACI and in the NOAA database.

Source: Adapted by Academy staff from Figure 2, Actuaries Climate Risk Index: Preliminary Findings, American Academy of Actuaries, January 2020.
Value of Climate-Related Financial Disclosures

Given changes in climate risk, observed and projected:

- Policymakers and stakeholders may need to know how companies are responding to and planning for the changes in climate risk.
- Regulators may need to know how particular companies are managing climate risk, especially relative to norms for the industry and line of business.
Value of Climate-Related Financial Disclosures

- Policymakers and regulators may need to determine best format for gathering information: continue with NAIC Survey; move to Task Force on Climate-related Financial Disclosures (TCFD) guidance; or other.
  - Financial Stability Board’s TCFD issued recommendations for disclosures in 2017. Narrative responses plus scenario testing required.
  - European Commission (EC) requests compliance with TCFD guidance from all companies with more than 500 employees.
  - Globally, more than 1,600 companies support TCFD, including 64 insurance companies. Four of those insurance companies are in the U.S.
- Useful to know what responses to current survey produce.
Academy Analysis of NAIC Survey Responses: Background

- NAIC’s Climate Risk Disclosure Survey, adopted in 2010, has asked nine Yes/No questions and required eight narrative responses each year.

- What exactly has been disclosed?
  - 2019 survey responses > 2,500,000 words
  - Yes/No questions are easily analyzed but difficult to interpret
  - Narrative responses contain much information but are long and time-consuming to process, with no baseline against which to judge
  - Considerable duplication among company/legal entities, with 1,228 entities responding (as of 10/23/20) for 2019, reduced to 463 distinct reports (distinct survey responses > 550,000 words)

Topics of Survey Questions
1. Emissions Plan
2. Risk Management Policy
3. Process for Identifying Risks
4. Current or Anticipated Risks
5. Investment Policy & Strategy
6. Encourage Policyholders
7. Engage Key Constituencies
8. Actions to Manage Risks
Academy Analysis of NAIC Survey Responses: Summary

- Y/N responses reveal differences over time, across questions, and across lines of business.
- Y/N responses must be interpreted with caution.
- Systematic, qualitative analysis reveals:
  - ~10-15% of companies provide robust responses
  - ~10-15% of companies provide some detail
  - ~70-80% indicate little of their assessment of climate risk or plans for management of that risk.
Academy Analysis of NAIC Survey Responses: “Yes”

Questions
1. Emissions Plan
2. Risk Management Policy
3. Process for Identifying Risks
4. Current or Anticipated Risks
5. Investment Policy & Strategy
6. Encourage Policyholders
7. Engage Key Constituencies
8. Actions to Manage Risks

- P&C companies answer “Yes” most frequently to most questions
- Health companies answer “Yes” least often for every question
Academy Analysis of NAIC Survey Responses: “Yes” Interpreted with Caution

- “No” does not necessarily mean bad for climate risk
  - 31% of all companies responded “Yes” to “reviewed investment policy” and “No” to “changed investment policy”
  - Typical comment: “[Our] investment strategy and risk management process address those [climate-related] risks and others.”

- “No” and “Yes” may not be that different:
  - Between 2018 and 2019, 259 responses changed from “No” to “Yes” or “Yes” to “No”; 35% were accompanied by identical text responses.
## Academy Analysis of NAIC Survey Responses: Length of Response

### Median Length of Survey Response (# of Words)

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<th>Life</th>
<th>Property &amp; Casualty</th>
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<td>Smallest 25% of Companies</td>
<td>519</td>
<td>414</td>
<td>530</td>
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<tr>
<td>Middle 50% of Companies</td>
<td>450</td>
<td>555</td>
<td>720</td>
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<tr>
<td>Largest 25% of Companies</td>
<td>1,975</td>
<td>1,100</td>
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- Length of response is an imperfect indicator of attention to the questions asked.
- In all Lines of Business (LoBs), the largest companies file longer responses than small and midsize companies.
- The largest health companies file particularly lengthy responses.
- Midsize P&C companies file longer responses than midsize Health or Life companies.
- Size of business appears to be one driver for attention given to the survey, with the largest 25% of companies in each LoB providing the most robust responses.
Most companies (80%) are in clusters where only three basic terms ("climate," "risk," and "change") are mentioned frequently.

A small proportion of the companies (8%) are in clusters where several terms (eight or more; adding to the basic terms words and phrases such as "climate change," "management," "policy" and "impact") are mentioned frequently.

Some companies (12%) are in clusters where a few terms beyond the basics are mentioned frequently.

Academy Analysis of NAIC Survey Responses:
Cluster Analysis of Companies’ Use of Key Words or Phrases
Academy Analysis of NAIC Survey Responses: Assessing Responses to Question #5

- Each of the eight questions requires closer analysis. We have begun with Question #5.

- **Question #5**: Has the company considered the impact of climate change on its investment portfolio? Has it altered its investment strategy in response to these considerations?

- **Question #5**: two Yes/No questions followed by text response, with six specific follow-up questions.
Academy Analysis of NAIC Survey Responses: Assessing Responses to Question #5

Six, specific follow-up questions for Question #5:

- Does the company consider regulatory-, physical-, litigation-, and competitiveness-related climate risks, among others, when assessing investments?
- Has the company considered the implications of climate change for all of its investment classes, e.g., equities, fixed income, infrastructure, real estate?
- Does the insurer use a shadow price for carbon when considering investments in heavy emitting industries in markets where carbon is either currently regulated or is likely to be regulated in the future?
- Does the insurer factor the physical risks of climate change (water scarcity, extreme events, weather variability) into security analysis or portfolio construction? If so, for what asset classes and issuers (corporate, sovereign, municipal)?
- How does climate change rank compared to other risk drivers, given the insurer’s asset liability matching strategy and investment duration?
- Does the insurer have a system in place to manage correlated climate risks between its underwriting and investments?

Are companies responding to these questions?

- Only regulatory risk (12%) appears to have been addressed by more than 10% of companies.
Academy Analysis of NAIC Survey Responses: Conclusions

- Some evidence of inattention or confusion in responses
- Variation in attention by LoB and size
- Certain Qs predominantly Y; others predominantly N
- Qualitative responses make clear that most companies in all LoBs provide narrow responses
- In each LoB, a small percentage of companies provide broad responses
- Most companies are answering Question #5 about their investment strategy with little detail, and limited attention to specific issues raised.
Implications of Academy Analysis

A. Research May Raise Considerations for the NAIC Climate and Resiliency Task Force to Consider:
   ➢ Encouraging broader responses from most companies
   ➢ Providing more guidance to those tasked with completing survey responses
   ➢ Making information from survey responses more easily accessible, whether NAIC surveys or TCFD or others

B. To accomplish these goals, may need more research
Plans for Phase 2 Research: Beyond the Current Survey

- Beginning in January, examining two gaps:
  - Gap between most robust Survey responses and the requirements of TCFD
  - Gap between most robust and less robust Survey responses

- Assess different possible methods of encouraging more robust responses from most companies, including:
  - Careful construction and testing of questions
  - More guidance for preparers
  - More Y/N and/or multiple-choice questions

- Expect results by summer 2021
Questions?

Or if you have any further questions, please contact us:

Steve Jackson
American Academy of Actuaries
sjackson@actuary.org
Assessment of and Insights from NAIC Climate Risk Disclosure Data

Climate Task Force | 3:30 p.m. Dec. 4, 2020

Lisa Groshong, PhD
Communication Research Scientist

National Association of Insurance Commissioners & The Center for Insurance Policy and Research
Overview

• Climate risk disclosure report
• Brief overview of results
• Global shift to TCFD
• CIPR recommendations
• Next steps
Assessment of and Insights from NAIC Climate Risk Disclosure Data

November 2020
• How do insurers across lines of business assess & manage risks related to climate change?
• How have these responses changed over the past 10 years?
Key takeaways: Yes/ no questions

P/C insurers are more likely to answer “yes” to almost every question.
Key takeaways: Yes/No questions

• P/C make up a large number of companies, but **life represents most premium**
• Climate has larger impact on **investment strategy** among **life & health** companies
• Over time, **health** insurer engagement is uneven but **trending upward**
• Companies are equally likely to take internal action (e.g., upgrade buildings)
Results dashboard

Helps visualize data we have already collected

Company information
Y/N responses over time
Location of risk by premium & peril

Premium Detail

Top 5 Lines of Business
- Fire: $268,257K
- Inland marine: $224,361K
- Allied lines: $154,225K
- Commercial multiple peril (non-liability portion): $80,592K
- Boiler and machinery: $54,084K
- DPW - Largest Lines of Business: $781,519K
2019

- Responses due Aug. 31, 2020
- Companies could submit TCFD in lieu of NAIC survey
  - 82 TCFD responses submitted by 8 groups and handful of individual companies
  - 1,234 companies filed traditional NAIC climate risk disclosure
Global reporting shift

Task Force on Climate-related Financial Disclosures (TCFD) guidelines increasingly adopted as global standard for reporting climate risks

• TCFD overlaps with NAIC climate risk disclosure questions
• TCFD recommends disclosures in four content areas:
  – Governance
  – Strategy
  – Risk management
  – Metrics and targets
Challenge/ opportunity

• Filing either climate risk disclosure requires large investment of time & resources from companies that answer thoughtfully

• Valuable information is lost because stakeholders can’t easily interpret the narrative data
Recommendations

• Require answers to existing NAIC climate risk disclosure survey sub-questions
• Create sub-question answer options using previous years’ responses
• Combine TCFD and NAIC climate survey into multiple choice format with open-ended options
  – Provides concrete answer choices
  – Analyze quickly & objectively
  – Reduce reporting & analysis burden
  – Allows for best practices to emerge
Q2: Does the company have a climate change policy with respect to risk management and investment management?

1. **Existing sub-question:** Where in the structure of the company is climate risk addressed?  
   **Potential options:**  
   - Chief Executive Officer  
   - Risk committee  
   - Other (please specify)  
   - Climate risk is not currently addressed

2. **Existing sub-question:** Does the company approach climate change as an Enterprise Risk Management (ERM) issue?  
   **Potential options:**  
   - Yes  
   - No
Results dashboard

Data from added multiple choice questions would provide more ways to categorize results.
Questions?

Lisa Groshong, PhD
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