

CLIMATE AND RESILIENCY (EX) TASK FORCE

Climate and Resiliency (EX) Task Force Aug. 15, 2021, Minutes

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Draft Pending Adoption

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Climate and Resiliency (EX) Task Force
Columbus, Ohio
August 15, 2021

The Climate and Resiliency (EX) Task Force met in Columbus, OH, August 15, 2021. The following Task Force members participated: Ricardo Lara, Co-Chair, represented by Mike Peterson (CA); Raymond G. Farmer, Co-Chair, Michael Wise and Michelle Proctor (SC); Colin M. Hayashida, Co-Vice Chair (HI); James J. Donelon, Co-Vice Chair, and Warren Byrd (LA); Kathleen A. Birrane, Co-Vice Chair, and Kory Boone (MD); Mark Afable, Co-Vice Chair, (WI); Andrew R. Stolfi, Co-Vice Chair (OR); Lori K. Wing-Heier represented by Sarah Bailey (AK); Jim L. Ridling and Jimmy Gunn (AL); Michael Conway and Peg Brown (CO); Andrew N. Mais and George Bradner (CT); Karima M. Woods (DC); Trinidad Navarro (DE); David Altmaier and Susanne Murphy (FL); Gary D. Anderson (MA); Eric A. Cioppa and Robert Wake (ME); Anita G. Fox represented by Chad Arnold (MI); Grace Arnold (MN); Jon Godfread, John Arnold, and Chris Aufenthie (ND); Eric Dunning represented by Justin Schrader (NE); Russel Toal represented by Jennifer Catechis (NM); Barbara D. Richardson (NV); Linda A. Lacewell represented by My Chi To (NY); Judith L. French (OH); Jessica K. Altman (PA); Elizabeth Kelleher Dwyer, Matthew Gendron, and Jack Broccoli (RI); Scott A. White, Rebecca Nichols and Don Beatty (VA); Michael S. Pieciak represented by Rosemary Raszka (VT); Mike Kreidler and Jay Bruns (WA); James A. Dodrill (WV); and Jeff Rude (WY). Also participating were: Kathy Schmidt and Barb Rankin (KS); Doug Ommen and Travis Grassel (IA); Mike Chaney (MS); Lisa Cota-Robles and David Bettencourt (NH); Glen Mulready (OK); Mark Worman and J'ne Byckovski (TX) and Tracy Klausmeier (UT).

1. Adopted its 2021 Spring National Meeting Minutes

Commissioner Altmaier made a motion, seconded by Commissioner Dodrill, to adopt the Task Force's April 9, 2021, minutes (*see NAIC Proceedings – Spring 2021, Climate and Resiliency (EX) Task Force*). The motion passed unanimously.

2. Received Reports from its Workstreams

a. Pre-Disaster Mitigation Workstream

Commissioner Afable said the Pre-Disaster Mitigation Workstream met May 12 to discuss its goals and deliverables. He said the first goal was to compile a list of mitigation actions. The list has been compiled using reputable sources, such as the Insurance Institute for Building & Home Safety (IBHS), the Federal Emergency Management Agency (FEMA), the National Institute of Building Sciences (NIBS), and state departments. The list of mitigation actions has been exposed for a public comment period, and the Workstream is gathering comments on the mitigation actions as well as input on risk-based factors for insurance coverage. The initial focus is on wind mitigation, and the list of actions will help with production of consumer education and outreach, working with community stakeholders.

Commissioner Afable said the NAIC's Center for Insurance Policy and Research (CIPR) hosted a meeting for state departments in late July to facilitate discussion with Hagerty Consulting to explore the use of federal funding options for state resiliency projects. He said the Biden administration has increased funding levels for resiliency projects, raising the Building Resilient Infrastructure and Communities (BRIC) fund from \$500 million to \$1 billion for fiscal year 2021. President Joe Biden also announced that \$3.46 billion in mitigation funding would be made available through the Hazard Mitigation Grant Program (HMGP). HMGP is available in 59 states, territories, and tribes following disaster declarations due to the COVID-19 pandemic. Additionally, the U.S. Senate recently approved a \$1.2 trillion infrastructure package, which includes substantial funding for pre-disaster mitigation and flood mitigation assistance.

b. Solvency Workstream

Commissioner Birrane said the Solvency Workstream is focused on the regulatory oversight of climate-related financial risks faced by U.S. insurers. Specifically, the Workstream will identify and recommend enhancements to existing financial surveillance and reporting tools, such as the Own Risk and Solvency Assessment (ORSA) and the *Financial Condition Examiners Handbook* (Handbook), to ensure that climate-related risks are appropriately addressed. She said the Workstream expects to deliver its recommendations to the Climate and Resiliency (EX) Task Force in the fourth quarter of this year. The recommendations will include proposed referrals to the substantive committees that oversee the content of the applicable tools. The Workstream held public meetings in May, June, and August. Each meeting consisted of presentations regarding critical foundational knowledge and context to guide its recommendations to the Task Force.

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During its May 5 meeting, the Workstream provided a baseline of the state of climate-related financial surveillance by state insurance regulators and insurer responses. Deloitte provided a presentation on the evolution of regulator reaction to climate-related financial risks that insurers face. DLA Piper Global Law Firm provided an in-depth analysis of the history and current state of regulatory directives internationally. The Workstream also heard a presentation from FTI Consulting regarding insurer development of strategic and institutional responses to climate-related financial risks, as well as existing and anticipated governmental actions related to those risks. Furthermore, the Workstream held discussions with international organizations affecting the insurance sector, including the United Nations Environmental Programme's (UNEP's) finance initiatives, the UN Principles of Responsible Investment (PRI), and the Sustainable Insurance Forum (SIF).

During its June 1 meeting, the Workstream identified and defined the kinds of financial risk experienced by insurers and identified frameworks for evaluating and managing the risk. The Insurance Information Institute (III) described current industry practices for identifying risks, particularly related to physical risks in underwriting. AM Best and Moody's described how they account for climate-related risks in their assessment of credit worthiness and the impact on corporate credit. They described frameworks developed to determine the economic impact of climate risks on insurers.

During its Aug. 6 meeting, the Workstream explored risks on both sides of the balance sheet, asset, and liability risks. It considered transition risk to investments, as well as underwriting and liability. The Workstream heard presentations from the UN-Convened Net Zero Asset Owner Alliance, Transamerica, Allstate, and the UNEP Principles for Sustainable Insurance (PSI). Each presenter had an opportunity to describe their recommendation for revisions to U.S. financial solvency tools concerning climate-related risks. The Asset Owner Alliance shared its member-driven approach to shifting investments to both mitigate transition risk and prove good corporate citizenship and environmental stewardship. Transamerica shared tools for measuring and quantifying climate-exposure risk for investment portfolios and addressed the systemic nature of climate-risks. Transamerica shared viewpoints on financial surveillance tools, such as the ORSA's adaptability to address climate-related risk. PSI described its assessment frameworks for addressing physical, transition, and liability risks to insurers and its approach to portfolio assessment of such risks. Allstate described its coordinated top-down approach to integrating climate-related risk into its overall risk management strategy and demonstrated tracking of weather-related losses and the impact to underwriting.

Commissioner Birrane said the Workstream plans to meet on Sept. 20 to summarize the key takeaways from its earlier meetings, hear a presentation from the New York Department of Financial Services regarding its recently released guidelines and expectations for insurers related to climate risk, and hear a federal update. The Workstream will also invite comments regarding the need for enhancements to U.S. regulatory financial surveillance tools to better address climate-related risks and then shift its focus from information gathering to drafting its recommendations.

c. Climate Risk Disclosure Workstream

Commissioner Stolfi said the Climate Risk Disclosure Workstream met June 9 to hear a presentation from Morgan Stanley Capital International (MSCI) regarding environmental, social, and corporate governance (ESG) investment policies and climate solutions. The Workstream also reviewed comments received on its guiding questions to determine objectives of the NAIC Climate Risk Disclosure Survey. The Workstream then met in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy on Open Meetings, to discuss comments received and prioritize the recommendations to be made by the Workstream. The Workstream determined that the purpose of the tool is to be a regulator resource to assess the risk management processes of insurers. It also determined that the results should continue to be publicly available, and the questions will be redesigned to align with the framework developed by the Financial Stability Board's (FSB) Task Force on Climate-Related Financial Disclosures (TCFD). Commissioner Stolfi said a drafting group was formed including California, New York, Oregon, and Washington. A draft of the new survey will be exposed for a public comment period before a recommendation is made to the Climate and Resiliency (EX) Task Force.

Commissioner Stolfi said Gary Gensler (U.S. Securities and Exchange Commission—SEC) remarked in an online seminar that while it is good to learn from external standard-setters like the TCFD, he believes in moving forward with writing rules and establishing the appropriate climate-risk disclosure regime for U.S. markets. Commissioner Stolfi said Mr. Gensler also indicated that he asked the SEC to develop a mandatory climate risk disclosure proposal for the SEC's consideration by the end of the year and consider metrics for specific industries, such as banking and insurance.

Commissioner Stolfi said the FSB is considering new metrics to capture quantitative information on climate risks. The FSB's TCFD is on a timeline to submit recommended updates to the FSB by Sept. 15 and publish guidance and implementation guidelines with the new metrics in October 2021. He said 15 states are participating in the NAIC Climate Risk Disclosure Survey in 2021. Six states have been participating for several years: California, Connecticut, Minnesota, New Mexico, New

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York, and Washington. Nine states were added in 2021: Delaware, District of Columbia, Maine, Massachusetts, Maryland, Oregon, Pennsylvania, Rhode Island, and Vermont.

d. Innovation Workstream

Commissioner Hayashida said the Innovation Workstream met May 10 to hear a presentation from the First Insurance Company of Hawaii regarding its parametric product FirstTrack. FirstTrack offers coverage for pre- and post-hurricane expenses like emergency supplies, groceries, debris removal, and minor repairs. The Workstream also met June 3 to hear a presentation from Jerry Skees (Global Parametrics). Mr. Skees described parametric products created for developing countries, including a risk pooling arrangement for 16 governmental organizations through the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC) and the African Risk Capacity (ARC), a specialized agency of the African Union established to help African governments improve their capacity to plan, prepare and respond to extreme weather events. The Workstream also met July 21 to hear presentations from the Bermuda Monetary Authority (BMA), Nephila Capital, and Renaissance Re. The BMA described its supervisory approach, working with capital solution providers to tailor products for alternative capital climate risk solutions. Nephila Capital described products for agriculture, utilities, governments, and school districts. Renaissance Re described how basis risk (the risk of losses incurred being higher or lower than the actual payout) is reduced when parametric products are used for communities or businesses instead of individual insureds. It also shared the history of the market for parametric products in alternative capital markets. The MetroCat Catastrophe Bond for the New York City subway is triggered by coastal surge. The Penn Union Catastrophe Bond for Amtrak is triggered by tidal and wind measurements using U.S. Geological Survey (USGS) data. The Workstream will continue hearing from parametric solutions for climate-related risk and summarize the design features integrated to close coverage gaps from extreme weather events.

e. Technology Workstream

Commissioner Donelon said the Technology Workstream met May 7 to discuss the need for a referral to the Catastrophe Insurance (C) Working Group to consider revisions to the *Catastrophe Computer Modeling Handbook* (Catastrophe Handbook). The Catastrophe Handbook was developed in 2010 to explore the use of catastrophe models and discuss issues arising from their use. The Workstream discussed the need for updates to include more perils and future looking climate models. The referral was delivered to the Catastrophe Insurance (C) Working Group and discussed during its public meeting on July 22. The Technology Workstream also met June 7 and Aug. 6 in regulator-to-regulator session, pursuant paragraph 6 (technical guidance from NAIC staff) of the NAIC Policy Statement on Open Meetings, to hear about the Center for Insurance Policy and Research (CIPR) study of wildfire risk in California, Colorado, and Washington in conjunction with the Risk Management Agency (RMA), as well as to discuss the wildfire model review taking place under the Catastrophe Risk (E) Subgroup.

3. Heard a Presentation on the California Department of Insurance Climate Working Group Recommendations Report

Mr. Peterson said Senate Bill 30, passed by the legislature and signed by the California Governor in September 2018, required the California Insurance Commissioner to convene a working group to identify, assess, and recommend risk transfer market mechanisms that, among other things, promote investment in natural infrastructure to reduce the risks of climate change related to catastrophic events, create incentives for investment in natural infrastructure to reduce risks to communities, and provide mitigation incentives for private investment in natural lands to lessen exposure and reduce climate. The California Climate Insurance Working Group is comprised of 18 members, including the Natural Resource Defense Council (NRDC), The Greenlining Institute, the Environmental Defense Fund (EDF), The Nature Conservancy, the Audobon Society, Los Angeles County, Swiss Re, and Munich Re. The Working Group developed a report, *Protecting Communities, Preserving Nature and Building Resiliency*, which shows that the best long-term strategy is to drastically reduce greenhouse gas emissions. Mr. Peterson said the report includes impacts from extreme heat, wildfire, and flood—the most pressing perils affecting California right now. The report stresses community resilience, especially for the most vulnerable communities. Mr. Peterson said without greater investment in risk reduction and improved tools for financial resilience, communities are likely to enter a damaging feedback loop where escalating risks lead to increased losses, financial consequences, fewer insurance options, and a diminishing capacity for future resilience. The report recommends improved hazard mapping and disclosures, land and building codes, closing the protection gap, nature-based solutions, and innovation with mitigation.

Alice Hill (Council on Foreign Relations—CFR), chair of the Working Group, said insurance gaps are not only seen in developing economies, coverage gaps exist in California and states across the U.S. Construction standards through building codes and retrofitting properties improve resilience.

Raghuveer Vinukollu (Munich Re) said the report explores combining risk reduction with risk transfer, promoting policy development that recognizes nature-based solutions, and making insurance more affordable and recovery faster.

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Katelyn Roedner Sutter (Environmental Defense Fund—EDF) said California is experiencing extreme drought and heat. People with lower incomes, older adults, and people with chronic health conditions are more vulnerable to suffering the effects. Nature-based solutions such as investments in wetlands, urban forests, and ecological forest strategies can reduce damages to health and infrastructure. The EDF has been working to design environmental impact bonds and other market-based financing concepts for investing in wetlands along the coast of the Gulf of Mexico. The Restoration Insurance Services Company (RISCO), with funding by Climate Finance Lab, uses insurance and blue carbon as revenue streams to protect and restore mangroves that reduce flood risk. The Working Group report includes the following nature-based solutions: prioritizing nature-based solutions in city planning, initiating pilot projects on nature-based insurance solutions, linking business investments to nature-based solutions to support resilience, and coordinating with state and federal agencies to develop strategies promoting urban greening, prescribed burning, and sand dune restoration. Engaging local communities and educating residents is critical to the success of these projects. Ms. Sutter said it is important for insurers to get involved and find ways to incentivize risk reduction and resilience.

Serena Sowers (Swiss Re) said the Working Group made recommendations to rank and name heat waves to better communicate the deadly risks to consumers, help communities prepare, and create pilot projects for extreme heat. Ms. Sowers said many of the recommendations are general and adaptable and could apply to all states and multiple climate perils.

4. Heard a Presentation from the RAA on its Resiliency Mapping Tool and Analysis

Dennis Burke (Reinsurance Association of America—RAA) said the RAA is an advocate for using data to identify and communicate risk and plan for mitigation. FEMA published the National Risk Index (NRI) data in late 2020 to help identify communities most at risk to natural hazards. FEMA evaluated natural hazards of 18 perils and combined risk assessment data with social vulnerability and community resilience metrics. Mr. Burke said Scott Williamson (RAA) combined FEMA's NRI data with U.S. Census Bureau data to analyze the economic impact of perils in each state and identify disaster-prone communities that lack the resources to recover from disasters without state or federal assistance. Many disaster-prone communities lack the ability to use federal funding due to the cost-share provisions and FEMA disaster co-payments required. The RAA's tool helps identify resource-constrained communities that would benefit from additional legislative provisions to improve their resiliency. Mr. Burke said President Biden's proposed infrastructure bill includes funding that could be combined with public and private funding to address the needs of these communities which the RAA has termed Community Disaster Resilience Zones (CDRZ). While not formally defined, CDRZ are the most socially and economically at-risk populations of the U.S. The tool could be used by state departments to conduct benefit-cost analysis necessary for federal grant applications because the underlying data was provided by FEMA.

The RAA is promoting the CDRZ Act to improve America's infrastructure, focusing on public and private infrastructure funding to protect America's communities from the increasing threat of natural disasters. The RAA is advocating for direct pay bonds such as Build America Bonds (BABs), private activity bonds, transferrable tax credits for community-level projects and individual homeowner retrofits, and corporate and individual charitable contribution tax credits. Finally, the RAA is advocating to waive the required matching funds for FEMA's BRIC fund due to resource constraints for many communities most in need of the support. The RAA welcomes the support of the NAIC and state insurance regulators in advocating for legislation to improve the resilience of America's communities.

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

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