RAA
REINSURANCE ASSOCIATION OF AMERICA
1445 New York Avenue NW, 7th Floor, Washington, DC 20005

Telephone: (202) 638-3690
Facsimile: (202) 638-0936
http://www.reinsurance.org

VIA email c/o Aaron Brandenburg (abrandenburg@naic.org)

December 20, 2023

Commissioner Lori Wing-Heier
Commissioner Ricardo Lara

RE: NAIC Climate and Resiliency (EX) Task Force National Climate Resiliency Strategy for Insurance

Dear Commissioners:

On behalf of the Reinsurance Association of America (RAA) and its members, we want to thank you for permitting comments on the NAIC's National Climate Resiliency Strategy for Insurance (sometimes referred to herein as the "Strategy document").

The RAA is a national trade association representing reinsurance companies doing business in the United States. RAA membership includes reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance company affiliates.

Because of the constraints on member availability due to the January 1 reinsurance renewals, we hope for an opportunity to supplement these comments and we urge you to extend the deadline to the January 18 deadline for comments to the Solvency Workstream recent release to allow for more input from members. These comments are preliminary in nature and highlight some initial questions and thoughts for your consideration.

While our comments are short, we recommend you review the detailed comments from NAMIC and others for a more in-depth suggestion of possible edits. The RAA suggests the Task Force and the NAIC

Overview

In general, we support the efforts of the Task Force to ensure both regulators and insurers familiarize themselves with the potential financial and solvency considerations arising from a changing climate. We also urge all parties to recognize: (a) the inherent uncertainty regarding the precise implications of climate change and related transition risks; (b) that insurers and reinsurers routinely evaluate a multitude of risk in their investment and underwriting activities, including climate related risks; (d) that insurers and reinsurers desire to continue to provide risk transfer services to consumers and businesses to enable them to manage their risks in an effective and efficient manner; and (e) that regulators support the right of insurers and reinsurers to manage their investment and underwriting operations as they, their managements and boards deem appropriate – consistent with traditional insurance solvency and related regulatory oversight.

The Internal Strategy Document

We support the Task Force's drafting of an "internal" strategy document to guide regulators future actions relating to climate change and solvency regulation.

We note that despite your best intent, the internal document is public. Because the NAIC will be evaluated on its ability to achieve the goals set forth therein, we suggest the NAIC evaluate and categorize its activities into near term, mid-term, and aspirational goals.

Principle Observations

Engagement

Despite the general openness of the NAIC and state regulators to interested parties and their perspectives, the Strategy document does not reflect the need to consider the thoughts and perspectives of interested parties.

- As risk takers (re)insurers have at least as great an interest as state regulators do in ensuring a functioning private insurance market. We encourage the NAIC to consider editing its Strategy document to reflect the need to consider the views of regulated entities and cross-border participants in the market.
- Regulated entities have a symbiotic relationship with our regulators.
    - A well-regulated system is good for insurers.
    - Well regulated insurers are good for regulators.

A key example of where the perspectives of (re)insurers are relevant is in the Strategy documents' goals of identifying and closing protection gaps and flood insurance gaps.

- Because of differing: business models, underwriting focus in terms of lines, sublines and geographic locations, policy terms and conditions, and other operational differences, we believe engagement with industry is necessary to understand the variety of reasons for where and when insurers are writing and their respective abilities to increase their writings and, perhaps, the need to reduce writings on occasion.
- Insurers are essential for closing protection gaps.
- While we anticipate that regulators would continue to be open to the views of interested parties, expressly recognizing the need to engage with interested parties in an important document such as the Strategy document sends a strong message to all parties.

Scenario Analyses

The Solvency Workstream of the Task Force is the principal group focusing on how regulators and regulated entities can attempt to test and estimate the implications of a changing climate, generally, and on individual groups. Their work in this area continues.

As requested above, we encourage the Task Force to extend the comment deadline for the Strategy document to coincide with the Solvency Workstream's release deadline. This will enable comments regarding the Scenario portion of the paper to be current and topical.

Further, it will give the Task Force the benefit of more significant and topical comments to consider for its possible edits.

Conclusion

We applaud the Task Force for developing a Strategy document and work plan to guide its future efforts. We also appreciate the Commissioner Wing-Heier's comment that the Strategy document is intended to be a living document.

We plan to continue our engagement with the Task Force in an effort to achieve the best possible result for consumers, regulators, and insurers as we move forward and collectively seek to address the challenges brought on by an unknown future, with a changing climate and other societal and economic fluctuations.

While we provided the RAA's guiding principles with respect to climate change regulation, we believe they have stood the test of time and urge the Task Force to continue to consider them as your work evolves.

- Regulation should not supplant management decision making (underwriting, investment and risk management). Each insurance entity is unique in its business model and the execution of it in the marketplace. Regulatory supervision should recognize that.

- Regulatory action should not be prescriptive. Regulators should focus on ensuring that insurers are evaluating future conditions as part of their risk management processes, rather than on fixed metrics. For example, regulator involvement in the investment arena should focus on the ability of risk management processes to identify significant potential future investment impairment, and be in no way granular.

- Rather than develop additional disclosure tools, regulators should utilize, assimilate and recognize existing disclosure requirements and other climate tools (NAIC survey, SEC, ORSA, TCFD, CDP, Climatewise) and not layer additional disclosures and requirements onto those already in use. Thoughtful, robust climate disclosures require significant insurer time and resource commitments. The ability to cross-reference or provide climate risk disclosure responses made in other contexts is important to avoid repetition and reduce unnecessary administrative burdens.

- Companies should be able to provide a single set of disclosures to all regulators or limit disclosures to a single regulator. Consistency is key.

- To the extent that a company is part of a corporate group, disclosures at the group level should be permitted for legal entities in the group. Coordination with international supervisors and other U.S. regulatory bodies is encouraged.

- Stress tests and scenario analyses, if needed, should be conducted and evaluated at the group level, not the individual insurer level.

- Due to the inherent problems involved with down-scaling climate models and in predicting the timing and impact of future climate scenarios, particularly on a regional, state or local geographic basis consistent with (a) insurer business operations and (b) state insurance regulation, model output becomes more speculative. Accordingly, stress tests and scenario analyses should be conducted as a risk management exercise to identify climate issues, not as a solvency tool. It is important to recognize that climate scenario analyses are tools to help understand the long-term effects of climate-related risks on insurance and other financial markets and institutions. They are not the same as traditional stress tests, which have a short-term solvency focus.

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Thank you for the opportunity to provide comments on these important issues. We look forward to continuing to work with you with respect to the evolution of NAIC focus on climate issues and insurance regulation generally.

Sincerely,

Dennis C Burke

Dennis Burke
VP, State Relations

cc: Aaron Brandenburg, NAIC
Mike Peterson, CDI