NAIC Climate Scenarios
Frequently Asked Questions

Non-technical questions

1. When do companies have to provide climate-conditioned PMLs in the RBC filing?

   Starting with YE2024 RBC filing that is due by March 1, 2025

2. Does a company need to submit climate-conditioned PMLs, if it is exempt from the RBC CAT requirements?

   No, if a company is exempt from the RBC CAT requirements, it is exempt from providing climate-conditioned PMLs.

3. Is this a one-off exercise or will companies have to submit climate conditioned PMLs every year in the RBC filing?

   Companies will have to submit climate conditioned PMLs for YE24, YE25 and YE26 RBC filings. The regulators will then evaluate whether to require this information to be submitted in future years.

4. Will the results submitted by companies remain confidential?

   RBC filings are filed with the NAIC but remain confidential through state law which requires those filings to the NAIC.

5. How will the results submitted by companies be used by regulators?

   Company-specific results provide valuable information to regulators to engage in meaningful discussions with their domestics about the impact of climate change on their underwriting, business, and reinsurance strategy. Regulators will conduct these discussions using the existing solvency framework embedded into the 'Financial Analysis Handbook' and 'Financial Condition Examiners Handbook' procedures.

6. Will the results be aggregated and used to inform policy development?

   Currently there is no plan for aggregating the data for the above-mentioned use case.

7. I have questions on the RBC instructions, who can I contact at the NAIC?

   Any specific questions that are not addressed in this 'FAQ' document and related to the new R-CAT reporting changes for climate scenarios should be directed to the dedicated email address: ClimateScenariosHelp@NAIC.org.

8. I need assistance with the calculation of the climate-conditioned PMLs, who shall I contact?

   NAIC and state regulators do not provide specific guidance on this matter or on either the technical implementation or technical calculations of the climate-conditioned PMLs. The company has full discretion to seek advice from external experts (such as reinsurance brokers) or to follow widely accepted industry practices.

Technical questions

9. Can a company reflect the changes in underwriting or reinsurance or management actions in the calculation of the climate-conditioned PMLs?

   Climate-conditioned PMLs should be calculated using the same book of business, reinsurance program, and assumptions for management actions as those used for baseline PMLs. The objective of this exercise is to account for future hazard changes under forward-looking climate scenarios, while keeping the book of business, reinsurance strategy, and management actions static.

10. Can a company use different frequency adjustment factors instead of the ones specified under the 'frequency-based' approach?

    If the company intends to apply different frequency adjustment factors, this can be achieved by using a 'time-based' approach alongside an 'Own-view-of-risk' option.

11. How should a company account for sea-level rise under the 'frequency-based' approach?

    The current proposal gives companies the flexibility to decide whether to include the impact of sea-level rise in their hurricane-related reported numbers. The 'frequency-based' approach, however, is not designed to capture the effects of sea-level rise. If a company intends to factor in sea-level rise for forward-looking scenarios, this can be done using the 'time-based' approach.

    Companies should assess the materiality of surge coverage within their existing baseline reported PMLs (Probable Maximum Losses). Currently, the NAIC and state regulators do not provide specific guidance on how to account for sea-level rise, giving companies flexibility in their approach. They may choose to use methods available in vendor model catalogs, apply an 'Own-View-of-Risk' approach, or follow the guidance of external experts.

12. Are companies required to use the same methodology ('time-based' vs. 'frequency-based') from one year to the next?

    There is no requirement or expectation that the company must use the same methodology each year. However, if the company chooses a different methodology, it should be able to provide an explanation supporting the change.

13. For the time-based (insurer own-view-of-risk) approach, what should be the climate trend considerations (ex. Cat 4-5 increase, Cat 1-3 decrease)?

    NAIC and state regulators do not provide specific guidance on this matter. The company has full discretion in determining the appropriate scientific perspective, whether through its in-house experts, advice from external experts (such as reinsurance brokers), or widely accepted industry practices (such as published scientific papers).

14. For the frequency-based approach: how to enact the 10% and 50% frequency adjustments?

    NAIC and state regulators do not provide specific guidance on this matter or on the technical implementation of adjustments. The company has full discretion to seek advice from external experts (such as reinsurance brokers) or to follow widely accepted industry practices.