



Comments of the Center for Economic Justice
To the NAIC Climate Risk and Resilience Task Force
Recommended Improvements to Climate Risk Disclosure
March 3, 2021

The Center for Economic Justice (CEJ) offers the following comments in response to the Task Force’s request regarding questions to determine objective of the NAIC Climate Disclosure.

1. Who is the Audience and what do they wish to glean from the results?
 - a. What qualitative and quantitative metrics do they need?
 - b. How should information be formatted to be useful?

The NAIC Climate Risk Disclosure and other climate risk disclosures, such as the TCFD, focus on the financial implications of climate on the reporting companies and are targeted for use by investors, investment analysts and financial regulators. There is opportunity for improvement and convergence towards a single framework for climate-related financial disclosures. Our colleagues’ comment letter identifies some of the principles and opportunities for such improvement.

Our comments focus on a major gap in the current NAIC CRD (and other climate risk disclosure frameworks) that is unique to the insurance industry – namely, the lack of disclosures related to insurance company’s offerings in the face of a changing climate. This is information to be used by consumers to better assess which insurer they want to do business with because of confidence the insurer will remain the market for the consumer. These types of disclosures are also important and necessary for policymakers to craft public policy as insurers prepare to leave certain markets or dramatically modify product offerings and price.

To illustrate the gap in the NAIC CRD for audiences other than financial regulators and investors, we offer the following additional questions:

- What models or type of modeling do you utilize for assessing the impact of climate change on the products you are willing to offer and business strategy?
- What are the key assumptions regarding the magnitude of climate change you utilize in your climate modeling?
- Over the past five years, what changes affecting the availability and affordability of your products and coverage in the markets you serve – in terms of geography, types of insurance, perils insured and rate change – have you made as a result of climate change impacts?
- Based on your current assessment of climate risk, what impacts do you currently anticipate on the availability and affordability of products and coverage in the markets you serve – in terms of geography, types of insurance, perils insured and rate change – as a result of climate change?
- If (provide metric for climate impact, e.g. 2 degree temperature rise), what impacts do you anticipate on the availability and affordability of products and coverage in the market you serve – in terms of geography, types of insurance, perils insured and rate change?
- Based on your current assessment of climate risk, what actions are you taking to be able continue serving the markets you currently serve for the next 10 years?

While some questions and answers must be qualitative, it is important to include quantitative measures of climate impact against which the insurers can describe their response. We also suggest that identification of specific geographic areas at a state and county level with the associated insured perils and insurer response is needed and we consider those to be quantitative responses. Another area for quantitative question and response is for anticipated price / rate change. For example, when and where does the insurer anticipate rate changes of 15%, 30%, 50% and 100% due to climate risk?

In terms of format, we suggest a tabular presentation with column for location, climate impact metric (e.g. 1, 1.5 and 2 degree temperature rise), time frame (5, 10, 15, 20 years), relevant peril, relevant product(s) and anticipated action.

2. Who should report?
 - a. What is the threshold?
 - b. Compulsory?
 - c. What states?

All insurers should report the insurance-specific climate disclosures we suggest in response to question 1 for three reasons. First, active consideration of insurer business response to climate risk is simply good corporate governance. Second, consideration and disclosure of anticipated responses to climate risk enables policymakers to better work with insurers to craft partnerships for resilience and mitigation to promote availability and affordability. Third, any insurance consumer should be able to assess their insurer's approach to and planned responses to climate risk. All insurers should report because the impacts of climate change impact every type of peril insured throughout the country.

3. What report framework should be used?

As noted above, we believe there is convergence in climate financial disclosure frameworks and we support our colleague's comments on how to improve those financial disclosures. Our comments are focused on insurer-specific disclosures, which should start as part of – or be – the NAIC Climate Risk Disclosure and the NAIC should work with the IAIS to make these insurer-specific climate disclosures an international standard.

4. How should the questions be designed?

As noted above, the answers to the questions should be provided in a tabular format. While more structured questions (multiple choice or close-ended) answers might be developed over time, we suggest initially framing the insurance-specific questions as set out above.

5. When should information be reported with what effective date?

We suggest an initial report for the insurance-specific disclosures about six months following the adoption of the new questions. We also suggest that, instead of annual reporting, insurers update their disclosures quarterly. In many instances, such quarterly updates will simply be “no change.” But, if and when an insurer determines a change in offerings or major change in price related to a new assessment of climate risk, such update should be provided more timely than an annual submission. This is particularly relevant given insurers' history of “discovering” risk following catastrophic events, despite the use of catastrophe models, with insurers making major changes in product offerings and price.

6. Where should climate disclosures be reported?

For efficiency, there should be a single national site for reporting and for public access, though the two need not be the same. The site for public access must be accountable to the public, which puts the NAIC at a disadvantage.

7. Who should see the disclosures?

Speaking for the insurance-specific disclosures we suggest, it is foundational that such disclosures be public information.