

Welcome to the
Climate &
Resilience
(EX) Task
Force:
Climate
Disclosure
Workstream

OUR MEETING WILL BEGIN SHORTLY

NAIC Confidential

- ✓ All audio will be muted upon entry
- ✓ Prior to speaking, unmute both **Webex** and your **cell phone**
- ✓ If you have joined by phone, to mute and unmute your line, press*6
- ✓ Enter with video on or off (your choice)
- ✓ Use the “Chat” feature for questions, comments or assistance from moderators
- ✓ For any technical challenges please contact the NAIC Technical Support Team at MeetingTechHelp@naic.org or 866-874-4905
- ✓ The meeting is being recorded
- ✓ Task Force members, please post in Chat that you are present

Date: 2/5/21

Virtual Meeting

**CLIMATE AND RESILIENCY (EX) TASK FORCE
CLIMATE RISK DISCLOSURE WORKSTREAM**

Wednesday, February 10, 2020

2:00 – 3:15 p.m. ET / 1:00 – 2:15 p.m. CT / 12:00 – 1:15 p.m. MT / 11:00 a.m. – 12:15 p.m. PT

ROLL CALL

Andrew R. Stolfi, Vice Chair
Grace Arnold

Oregon
Minnesota

Linda A. Lacewell
Mike Kreidler

New York
Washington

NAIC Support Staff: Anne Obersteadt/Jennifer Gardner

AGENDA

1. Hear a Presentation on Climate Disclosure Insurance Recommendations Attachment A
—*Steven Rothstein, Jim Coburn and Monica Barros (Ceres Accelerator)*
2. Hear a Presentation on Zurich’s Climate Disclosure Process and Preferences Attachment B
—*Daniel Eherer (Zurich)*
3. Hear a Presentation on American International Group’s Climate Disclosure Process and Preferences Attachment C
—*Jennifer Waldner Grant (American International Group—AIG)*
4. Discuss Any Other Matters—*Commissioner Andrew R. Stolfi (OR)*

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Hear a Presentation on Financial Climate Disclosures

—Steven Rothstein, Jim Coburn and Monica Barros (Ceres Accelerator)



Ceres

Sustainability is the bottom line.

Presentation to
**National Association of Insurance
Commissioners Climate and Resiliency (EX)
Task Force: *Climate Disclosure Workstream***

Steven M. Rothstein, Managing Director
Jim Coburn, Senior Manager, Disclosure
Monica Barros, Senior Associate

Ceres Accelerator for Sustainable Capital Markets

Feb. 10, 2021

The Ceres **ACCELERATOR** FOR SUSTAINABLE CAPITAL MARKETS

ACCELERATING EFFORTS TO TRANSFORM CAPITAL MARKETS
AND DRIVE WHOLESALE ACTION ON THE CLIMATE CRISIS



The Ceres Accelerator will, in the short term, work towards:

- **Achieving Paris-Aligned Portfolios**
- **Regulating Climate as a Financial Risk**
- **Financing a Net-Zero Economy**
- **Board governance for a sustainable future**



Addressing climate as a systemic risk:

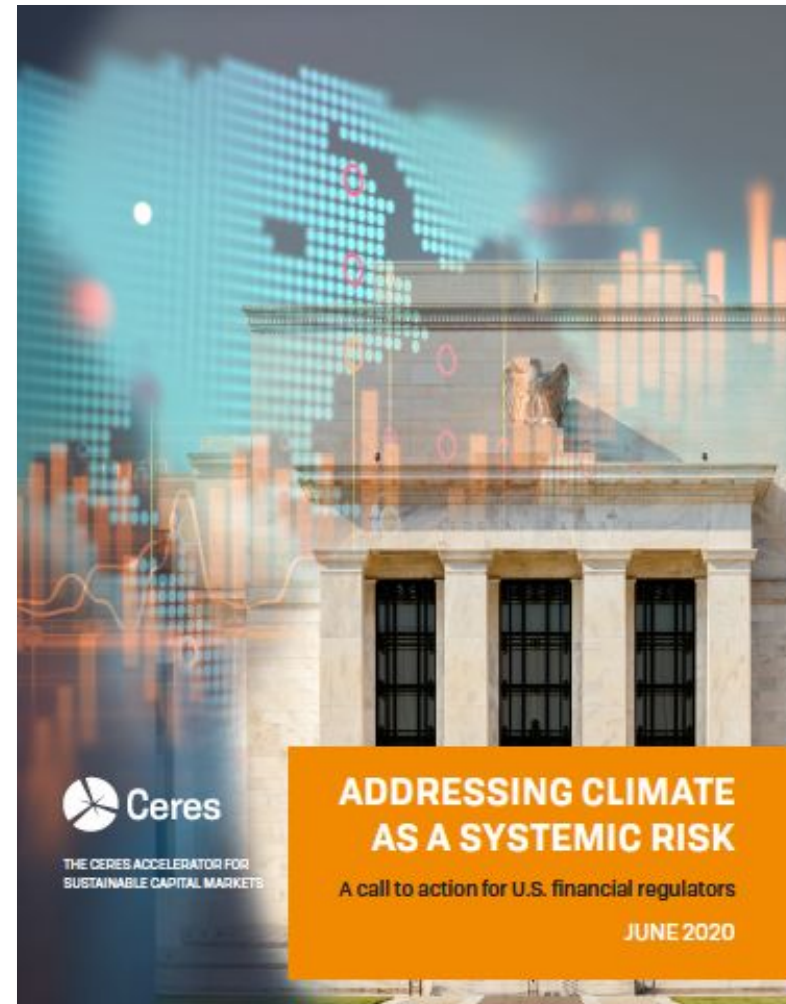
A call to action for U.S. financial regulators

Goals of report:

- ✓ Make the case that climate change is a systemic risk
- ✓ Outline action steps that U.S. financial regulators can take based on *their existing mandate*

Focused on federal and state regulators

Built on detailed legal analysis and a comprehensive literature review; 3 dozen interviews with current and former regulators, academics, investors and NGOs, assessment of evolving practice globally



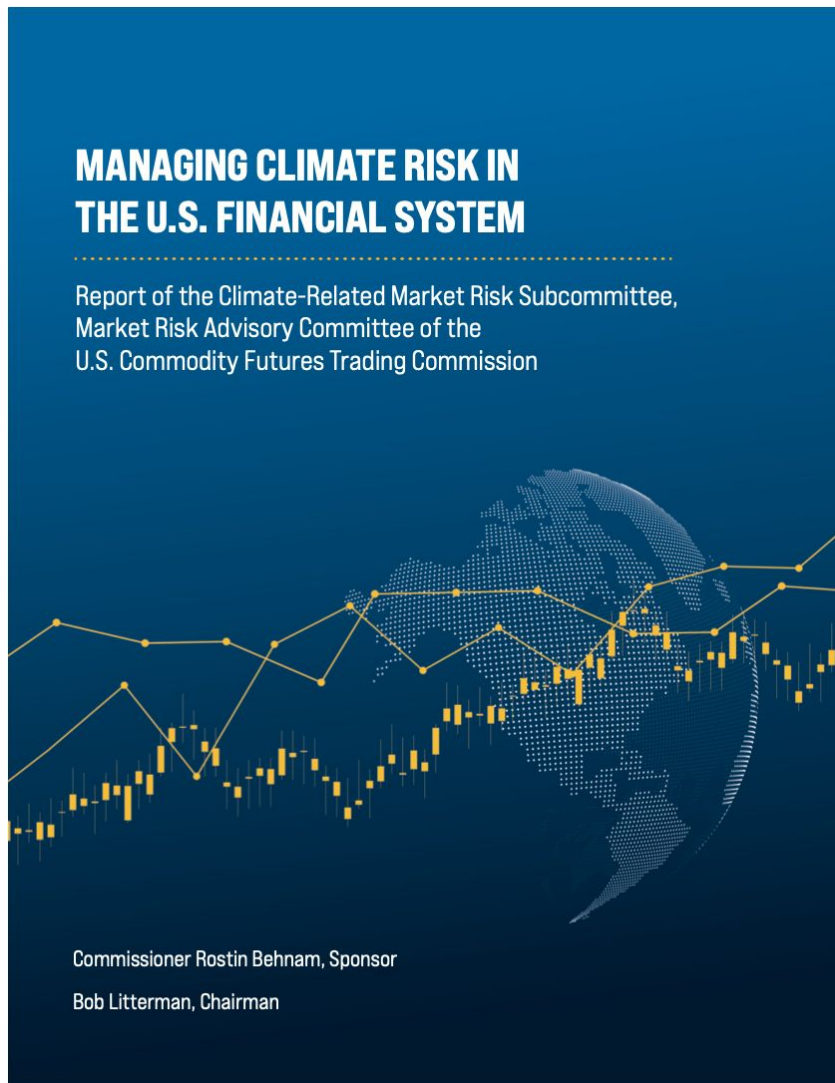
Actions US Financial Regulators Can Take on Climate Change

U.S. financial regulators should proactively address and act on climate change across their mandates to:

- **Affirm** that climate change is a systemic risk and **assess** climate impacts on financial market stability
 - **Integrate** climate change into prudential supervision
 - **Mandate** climate change disclosure
 - **Coordinate** with each other and the global regulator community to develop a shared approach to addressing the global crisis
- **Federal Reserve System:** Financial Stability, Supervision, Prudential Regulation, Monetary Policy, Community investment, International Cooperation
 - **Office of Comptroller of the Currency & Federal Deposit Insurance Corporation:** Supervision, Stress Tests, Deposit Insurance Fund impacts
 - **Securities and Exchange Commission:** Research on impacts on securities market; Fiduciary Duty, Disclosure, Accountants and auditors, Credit Raters
 - **Commodity Futures Trading Commission:** Climate Change Sub-committee (Ceres CEO, Mindy Lubber is a key member)
 - **State & Federal Insurance Regulators:** Risk Management, Investments, Disclosure, Products
 - **Federal Housing Finance Agency:** Climate impacts of mortgage backed assets
 - **Financial Stability Oversight Council:** Prioritize and coordinate between federal agencies on climate



CFTC: Climate change report



- Deep dive into climate financial risk across regulatory agencies
- Resource on key literature & data mapping initiatives
- Urges US financial regulators move urgently and decisively to measure, understand, and address these risks.
- **Several specific insurance related recommendations**
- Approved 34-0 by subcommittee

“I do think that the public will expect and has every right to expect that in our oversight of the financial system, we will account for all material risks and try to protect the economy and the public from those risks. Climate change is one of those risks. [...] the science and art of incorporating climate change into our thinking about financial regulation is relatively new, as you know. And we are very actively in the early stages of this, getting up to speed, working with our central bank colleagues and other colleagues around the world to try to think about how this can be part of our framework.”

— Federal Reserve Chairman Jerome Powell at Fed Press Conference on November 5, 2020

Federal Reserve Chairman comments on climate risk



Roles of insurance regulators in addressing climate risk

1. Prioritization

- Assess the adequacy of current insurer actions for addressing climate risks
- Declare that climate is a systemic risk

2. Risk management

- Require insurance companies to conduct scenario analyses to evaluate potential financial exposure to climate change risks

3. Investments

- Require insurance companies to assess and manage their climate risk exposure through their investments
- Examine how climate trends affect insurance company investment holdings and long-term solvency

4. Products

- Encourage insurers to develop products for the new technologies, practices and business models that will emerge in response to climate risk that are responsive to climate risks and opportunities

5. Disclosure

- Mandate insurer climate risk disclosure using the TCFD recommendations
- Assess the insurance sector's vulnerabilities to climate change, and report findings to the Financial Stability Oversight Council



TCFD

- **What:** 11 recommendations in 4 categories:

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

- **Why:** Global corporate, investor and government support:
 - [Supported by](#) 1,700+ companies, investors and others from 77 countries, including 110 regulators and government organizations
 - 26+ [implementation initiatives](#) or reports for insurers, financial institutions and many other industries
 - 22+ government initiatives



How the TCFD works

- Frameworks provide an outline or structure that serves as a guide to a specific objective or goal. (i.e., TCFD), while standards are concepts or principles used generally as an example or model to compare or measure the quality or performance of a practice or procedure. (i.e., SASB, GRI, ISO)
- **TCFD is principles-based** -- The TCFD framework provides “a common set of principles that should help existing disclosure regimes come into closer alignment over time.”
- **Use TCFD with existing reporting standards** -- “[P]reparers disclosing climate-related information under other regimes will be able to use existing processes and content when developing disclosures based on the Task Force’s recommendations.”



TCFD with Metrics

- TCFD allows insurers to provide financially-relevant disclosure, and TCFD with metrics, etc. will improve the quality of the data.
- [IAIS](#) & Sustainable Insurance Forum recommend insurers disclose metrics, targets, and performance against targets.
- *Recommendation*: TCFD using metrics, multiple choice questions, and checkboxes will provide improved comparability compared to TCFD alone or current NAIC questionnaire.



Illustrative Metrics on Physical Risks

- Source: [Climate Risk Financial Forum](#)

Table 4. Suggested metrics relating to risk analysis – insurers (note not all categories include basic, stretch and advanced metrics, reflecting the varying levels of experimentation in the market)

Category	Suggested metrics	Purpose
	Basic	
Physical risks	<ul style="list-style-type: none"> • Proportion of underwriting activities exposed to identified key indicators of physical climate risk. e.g. Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes 	<ul style="list-style-type: none"> • Indication of concentrations of risk for existing underwriting activities
	<ul style="list-style-type: none"> • Actual natural catastrophe and severe weather-related losses by business unit across the financial institution – gross and net (after reinsurance) 	<ul style="list-style-type: none"> • Indication that risk assessment systems are in place and indication of impact of adverse weather on profit

Illustrative Metric on Investments

- Source: [SASB](#)

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory	Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing, and (3) screening	Quantitative	Reporting currency	FN-AC-410a.1
	1.1 AUM shall be defined broadly as per Section 203A of the Investment Advisers Act of 1940 Section 203A as, "the securities portfolios with respect to which an adviser provides continuous and regular supervisory or management services."			
	1.2 Integration of ESG issues is defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions, as aligned with the PRI Reporting Framework – Main definitions 2018 .			



Illustrative Metrics on Board Oversight

- Source: [CDP](#)

(C1.1b) Provide further details on the board's oversight of climate-related issues.

[FINANCIAL SERVICES ONLY] Scope of board-level oversight

Select all that apply:

- Climate-related risks and opportunities to our own operations
- Climate-related risks and opportunities to our bank lending activities
- Climate-related risks and opportunities to our investment activities
- Climate-related risks and opportunities to our insurance underwriting activities
- Climate-related risks and opportunities to other products and services we provide to our clients
- The impact of our own operations on the climate
- The impact of our bank lending activities on the climate
- The impact of our investing activities on the climate
- The impact of our insurance underwriting activities on the climate
- The impact of other products and services on the climate

We Value

- Special efforts from CA, NY, NM, CT, MN and WA over many years on climate risk disclosure
- The commitment from NAIC and task force members
- The research on climate disclosures from NAIC Center for Insurance and Policy Research and American Academy of Actuaries



Recommendations

- Consider public comment period on your proposed decisions
- Public disclosure and analysis of annual results is key
- Offer educational opportunities for and dialogues with insurance companies to better understand TCFD
- Consider adding NAIC staff expert(s) on climate risks facing insurers
- Consider lowering size of insurance company premiums
 - Possibly from \$100 Million to \$50 Million in premiums to include more companies



Recommendations

- Require TCFD using metrics, multiple choice questions, and checkboxes:
 - Will improve quality of responses because of specificity required
 - Will substantially improve the level of comparability
 - Could also include most important content from NAIC questionnaire
- Mandate TCFD using metrics for larger insurers
- Mandate TCFD for small/medium insurers



Thank you

For further contacts and questions

Steven M. Rothstein
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Jim Coburn
coburn@ceres.org



Hear a Presentation on Zurich's Climate Disclosure Process and Preferences

—*Daniel Eherer (Zurich)*

Scope and relevance of Group level TCFD reporting

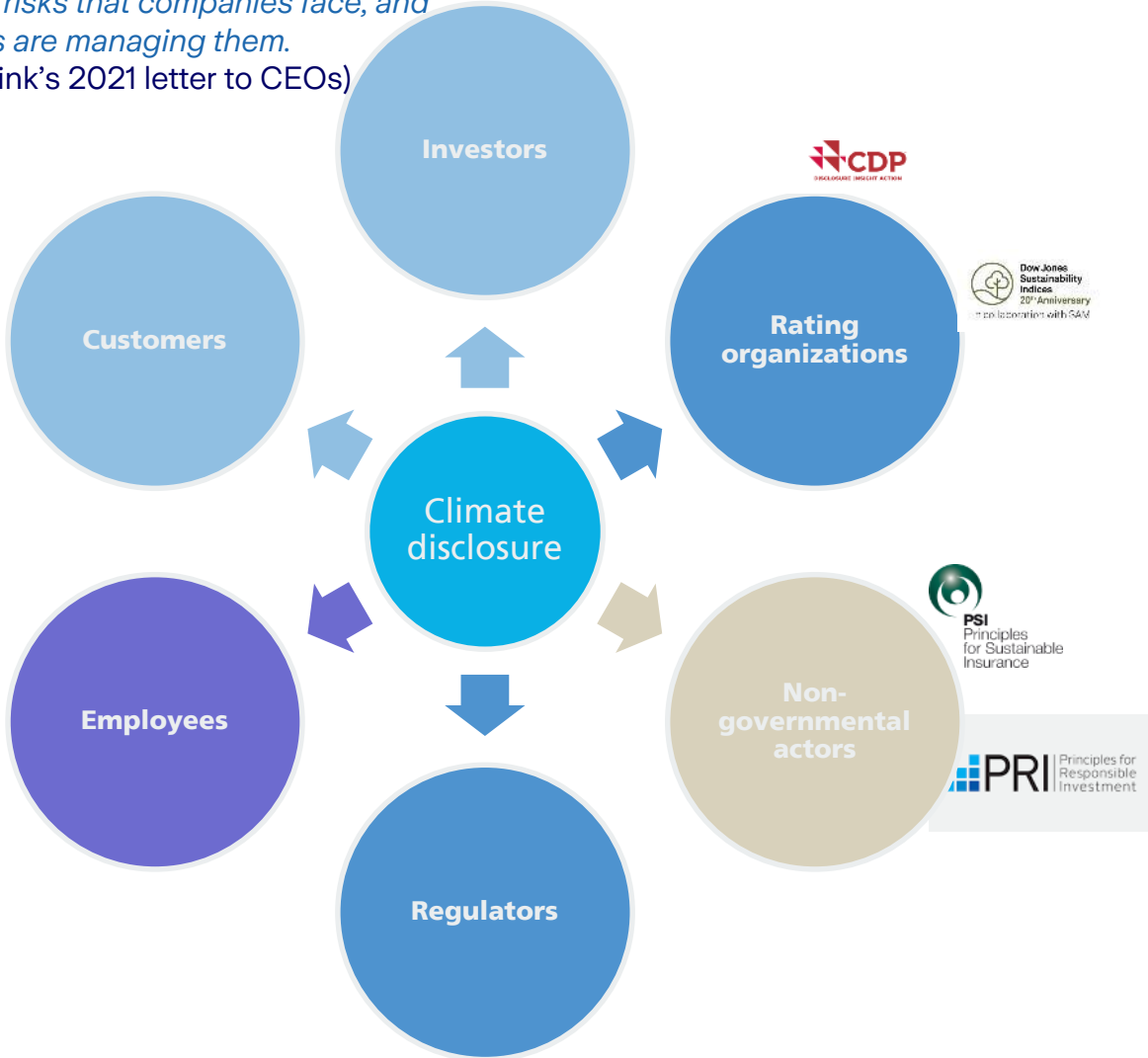
10/02/2021

Daniel Eherer, Risk Manager Sustainability and Emerging Risks
Zurich Insurance Group

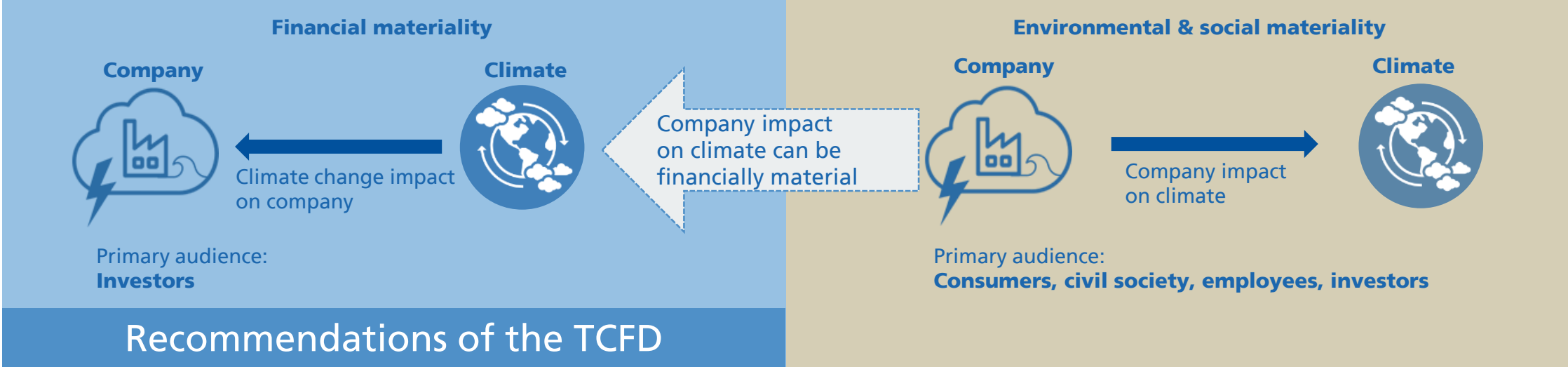


Disclosing in line with TCFD has quickly become essential

“TCFD reports are the global standard for helping investors understand the most material climate-related risks that companies face, and how companies are managing them.”
(Extract Larry Fink’s 2021 letter to CEOs)

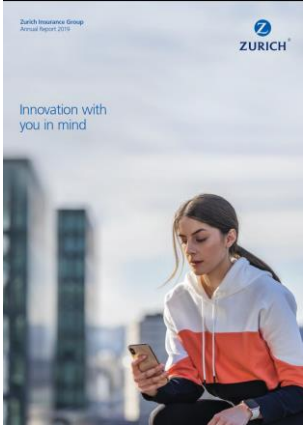


TCFD content is driven by financial materiality



Based on: https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

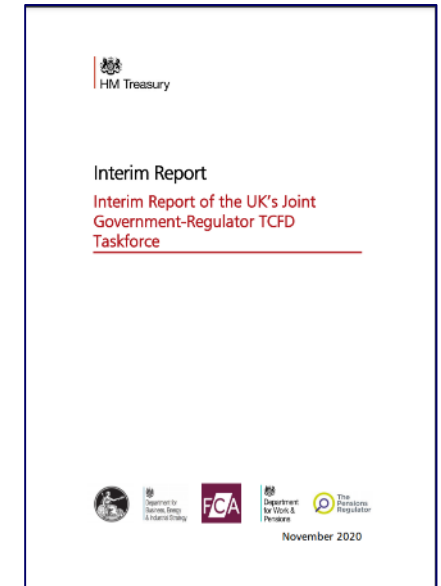
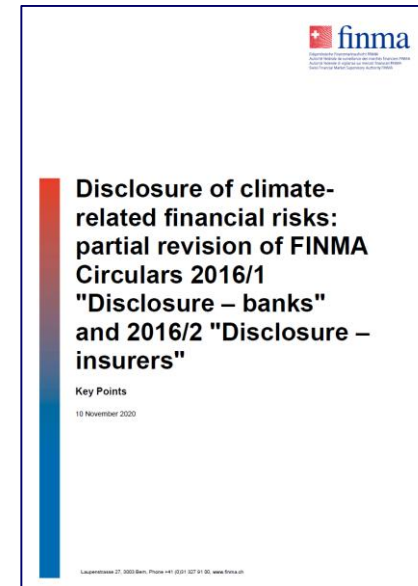
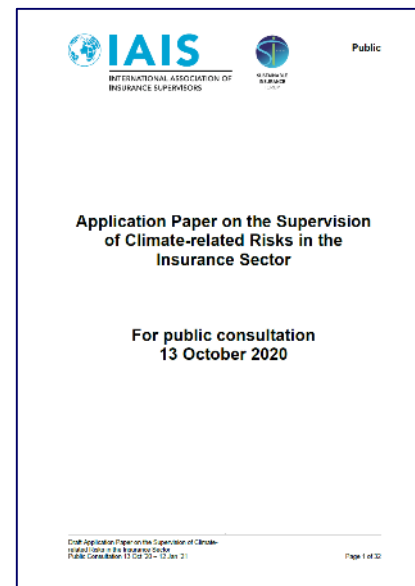
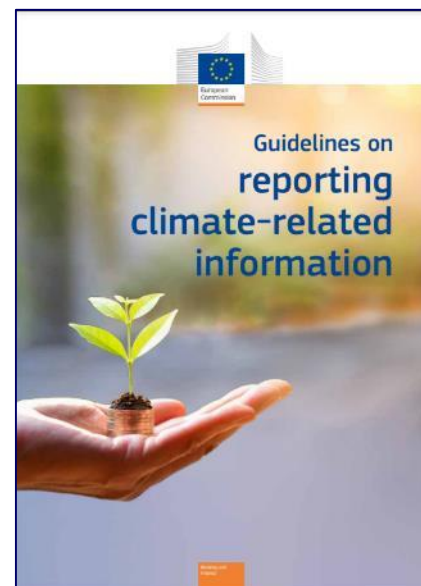
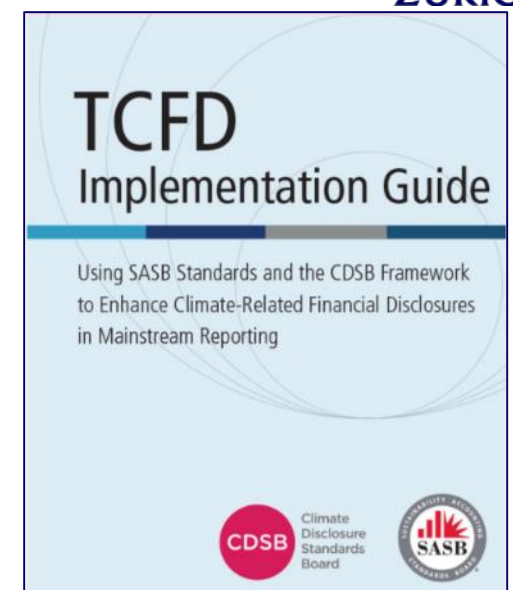
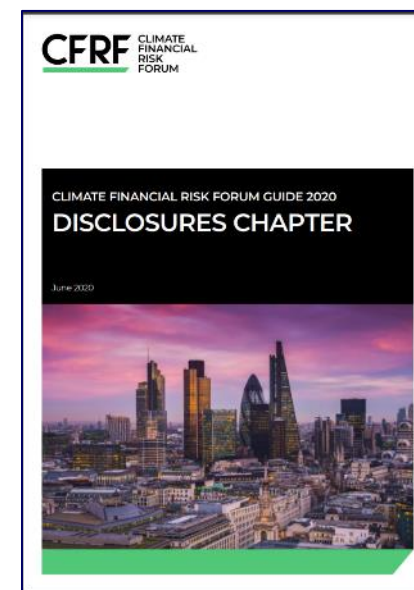
Financial report



Sustainability report

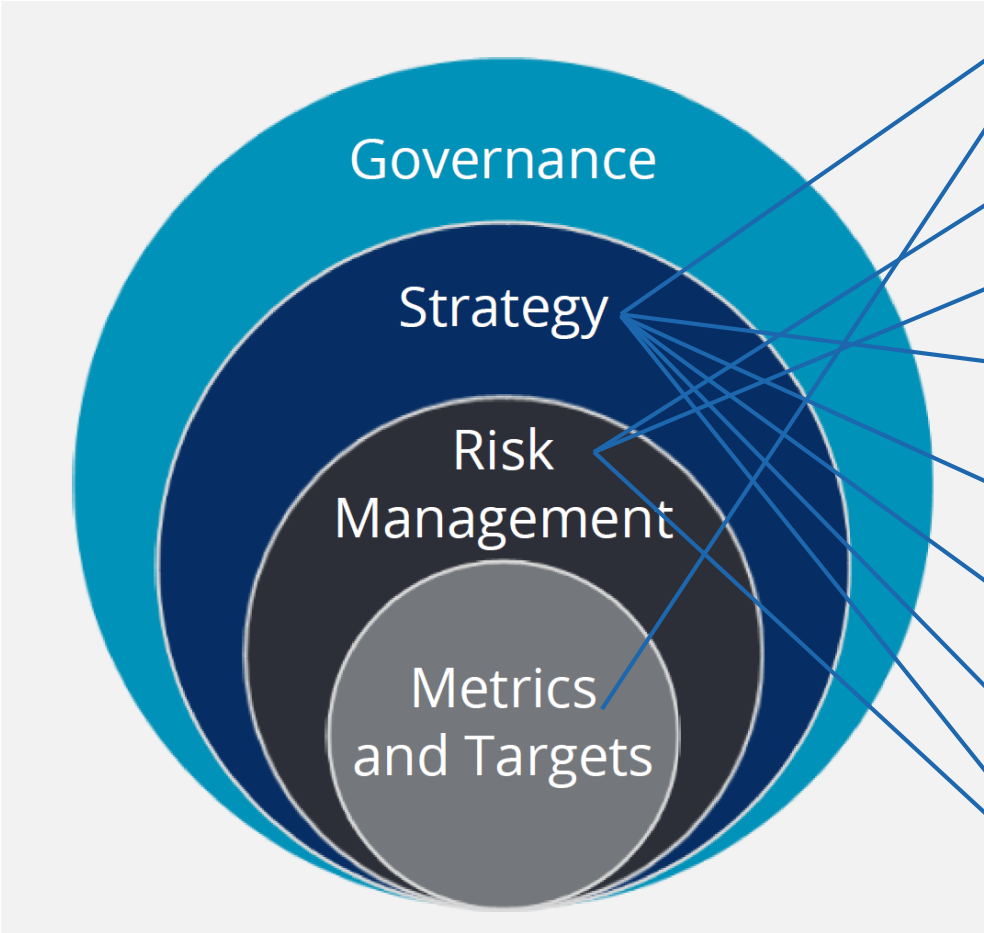


Heading towards standardization or fragmentation?



Surveys can help initial narrative but have limitations

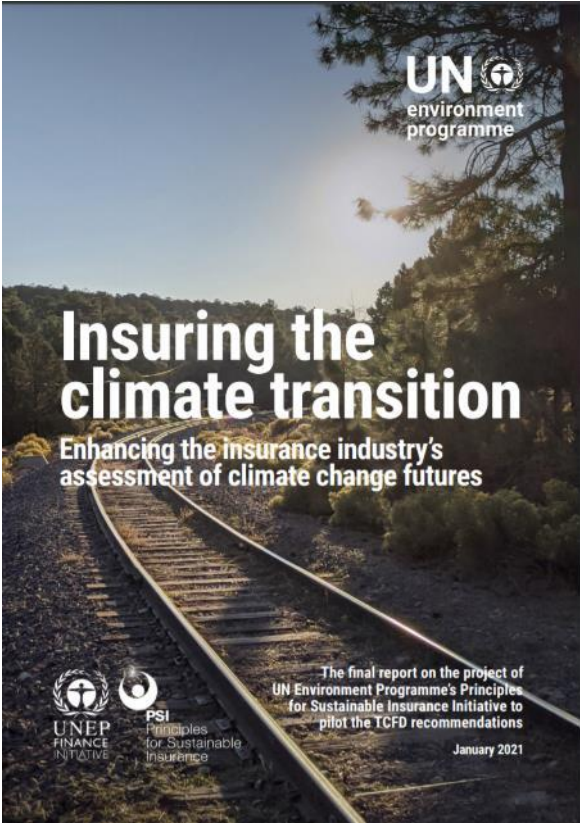
Core Elements of Recommended Climate-Related Financial Disclosures



1. *Does the company have a plan to assess, reduce or mitigate its emissions in its operations or organizations?*
2. *Does the company have a climate change policy with respect to risk management and investment management?*
3. *Describe your company's process for identifying climate change-related risks and assessing the degree that they could affect your business, including financial implications.*
4. *Summarize the current or anticipated risks that climate change poses to your company. Explain the ways that these risks could affect your business. Include identification of the geographical areas affected by these risks.*
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? If so, please summarize steps you have taken.*
6. *Summarize steps the company has taken to encourage policyholders to reduce the losses caused by climate change-influenced events.*
7. *Discuss steps, if any, the company has taken to engage key constituencies on the topic of climate change.*
8. *Describe actions the company is taking to manage the risks climate change poses to your business including, in general terms, the use of computer modeling.*

<https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

Clear trend towards risk quantification, but challenges remain



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Hear a Presentation on AIG's Climate Disclosure Process and Preferences

—*Jennifer Waldner Grant (AIG)*



Climate Disclosures

Presentation to the Climate Disclosure Workstream
February 10, 2021

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American International Group, Inc.
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jennifer.waldner@aig.com

AIG's sustainability journey



AIG's sustainability priorities

Four sustainability priorities align with our core business strategy and focus on the future proofing communities. Examples of recent achievements on each priority area include:



1

Community resilience

AIG has partnered with Wood Group plc to create a Resilience Framework that helps our clients and communities arrive at more **resilient solutions for urban development projects** through a multi-tiered approach for design and construction.



2

Financial Security

Partnering with the Foundation for Financial Planning, AIG Retirement Services helps **connect the financial planning community to people in need**. Through this effort, financial advisors providing **pro bono advice** to individuals and families to put them on a path to a **more secure financial future**.



3

Sustainable Operations

AIG UK operations **decreased office energy emissions by 69%** from 2010 baseline, exceeding three times the UK Carbon Reduction Commitment target (20% reduction by 2020).

AIG NYC operations **decreased office energy emissions by 40%** from 2011 baseline, exceeding the NYC Carbon Challenge target (30% reduction by 2023) by 10 percentage points four years early.



4

Sustainable Investing

AIG has been a leading investor in renewable energy projects for over 30 years. The company is also leading investor in green energy projects, such as waste-to-energy, transmission and distributed generation.

\$2.2B invested in renewable energy including wind, solar, geothermal and hydroelectric

We have a strong history of giving back to our communities and in 2020 **we re-launched the AIG Foundation**.

The AIG Foundation will align our corporate giving and charitable work with our sustainability priorities.



Cross-functional teams and working groups have been established to drive integration and advancement into all lines of business

The Sustainability Office is responsible for driving cooperation and alignment among these working groups

ESG Investments Working Group



ERM Sustainability Group



Sustainability Integration Team



Climate Change Working Group



Employee Sustainability Network

Align efforts across all investment functions by sharing education, research, and data, as well as creating working principles and assessing ESG

Align ERM and AIG's sustainability efforts by identifying and assessing ESG risks within AIG's enterprise risk management framework

Drive sustainability initiatives within their respective areas, as well as influence and mobilize the execution of AIG's sustainability strategy across the organization

Address business implications, risks and opportunities related to climate and support the development and execution of AIG's climate change strategy

Provide an opportunity for employees to get involved in sustainability initiatives on a more local, grassroots level, while also helping advance AIG's sustainability agenda

Each working group is sponsored by a member of AIG's Executive Leadership Team to cascade the tone at the top throughout the entire organization



Climate reporting



- In August 2020, we published our second **Task Force on Climate-related Financial Disclosures (TCFD)** report to provide greater transparency and align reporting activities with industry standards.
- AIG has also responded publicly to **CDP's climate change questionnaire** since 2010.
- When AIG previously responded to the NAIC climate risk disclosure survey, **we repurposed answers from our CDP response** to complete the questions.
- We now submit our TCFD report in lieu of the NAIC climate risk disclosure survey
- We will expand our reporting beyond climate and publish our **first sustainability report focused on ESG** in June 2021 aligned with SASB, GRI and TCFD



Click [here](#) to read the report.

Why TCFD?

- Designed to solicit **consistent, decision-useful, forward-looking** information on the **material financial impacts** of climate-related risks and opportunities **across four core elements of how organizations operate**: governance, strategy, risks management, metrics and targets
- Provides an opportunity to be more **responsive** and **transparent** with stakeholders
- Reflects the **company's increased attention to and awareness** of climate-related risks
- Offers a more **consistent approach** that aligns with other reporting efforts
- Provides **a structure to guide internal discussions and thinking** around climate-related risks
- Allows **for proactive reporting**, with indications that mandatory reporting will likely be instituted in some jurisdictions

What we learned

- **Identifying and engaging with cross-functional colleagues** across the company to develop responses is imperative
- Responding to the TCFD is **a commitment of time and resources**
 - Had a timeline of approximately three months from kick-off to publication date for second report (first report – 5 months)
 - Interviewed and collected content from more than 30 internal subject matter experts across the organization globally
 - Conducted a comprehensive review process that involved Legal, Finance, Internal Audit, AIG's Disclosure Committee, external auditors and outside counsel
- Publishing our second report meant **we had a starting point** and were **able to leverage prior year learnings and contacts, resulting in greater internal awareness** of the **importance of these disclosures** to different stakeholder groups and **better cooperation**
- Demonstrating continuous improvement earns positive feedback from external groups primarily investors – focus on progress and not perfection

How do we use our climate disclosures?

- Helps us **build a cohesive narrative** for sharing our climate-related risks and opportunities
- Serves as a **resource for responses** to media, RFPs, due diligence questionnaires, surveys, scorecards, etc.
- **Promotes dialogue with stakeholders** who review the report, particularly investors and regulators
- Provides a **record of actions and progress**; holds us more accountable
- **Guides climate-related messaging and talking points** for executive leadership, board, client presentations, etc.

Considerations for implementing TCFD Recommendation for small and medium-sized companies

- Recognize that full implementation of the TCFD recommendations is a journey and will involve gradual progress over time
- Leverage the breadth of publicly available resources to get started
 - Climate Disclosure Standards Board (CDSB) has a [10-step checklist of how to prepare for the TCFD Recommendations](#)
 - [TCFD Implementation Guide](#) provides an overview of the framework, how to get started and highlight good practice disclosures
 - [TCFD Knowledge Hub](#) includes guidance, tools, research, insights and courses on implementing the TCFD recommendations
- Establish a cross-functional group composed of key functions across the business (e.g., Sustainability, Enterprise Risk Management, Government Affairs, Legal and Compliance, Underwriting, Investments, etc.) to develop an implementation plan
- Develop a roadmap to achieve full implementation
- Secure executive buy-in on implementation plan
- Annually report on progress to demonstrate improvement to stakeholders

Considerations for conducting scenario analysis

- Consider impact of climate risks and opportunities on investments and underwriting
- Conduct a current state assessment to understand what your exposures and opportunities are on both side of the balance sheet before setting goals and targets
- Determine to what extent you have the necessary skills and resources internally to conduct the scenario analysis
 - Consider opportunities for partnering through industry association groups or industry-led coalitions
- Develop a roadmap for full implementation
 - Identify and prioritize climate risks and opportunities
 - Choose the relevant scenarios
 - Assess the financial impacts
 - Communicate results annually

2021 Sustainability Priorities

- Commit to reach net-zero operational carbon emissions by 2050
- Conduct a carbon exposure assessment of our investment and underwriting portfolios
- Publish our first sustainability report in alignment with global standards and frameworks (e.g., SASB, GRI, TCFD)
- Become a member of the UN Global Compact
- Continue to work with the NAIC and other key stakeholders to report on and discuss climate-related risks and their impact on our company and the industry

Thank you

To learn more, visit <https://www.aig.com/about-us/sustainability>.



Q&A