March 3, 2021

To the NAIC Climate Risk and Resilience Task Force,

On behalf of the Insure Our Future campaign and its millions of members and supporters, we welcome the opportunity to reply to the Climate Disclosure Workstream's Questions to Determine Objectives of NAIC Climate Disclosures. The Workstream has the opportunity to revise the disclosure framework in a way that positions state insurance regulators as leaders in a space where American insurers have been lagging global best practices.

When the NAIC first adopted the Insurer Climate Risk Disclosure Survey in 2010, little reporting existed on climate exposure among any kind of financial firm. The Survey provided a valuable new window into this world. Since its adoption, both the recognition of climate risk and the resulting demand for decision-useful climate related information have grown substantially. Adequate information about the risks arising from climate change is needed to accurately price assets, allocate capital, and guard against shocks to financial stability.

Disclosure is particularly important regarding insurers, who are both major asset owners and society's risk managers. For the economy to be resilient to climate risk, insurers will need to be prepared to cover higher costs coming from the physical impacts of climate change and the shifts coming from a green transition. Continued entanglement with fossil fuels assets, which contribute to physical risks and will become increasingly worthless in a green transition, is antithetical to a safe transition.

Insurers around the world are increasingly retreating from coal, with a few leaders acknowledging the reality that they will need to shift away from oil and gas as well.[1] This mirrors a broader trend of capital flight from the fossil fuel markets, with banks and asset managers joining insurance companies in starting to divest from coal, oil, and gas.[2] Continued investment in fossil fuels exposes insurers to risks from stranded assets, falling asset prices, and ongoing reputational harm. Indeed, a recent Societe General report found that an insurer's position on coal underwriting and investments affects its valuation by -3% to +9%.[3] Similarly, a 2020 Moody's report found insurers' retreat from coal as "credit positive, as it protects them against potential climate change liability risk, and reduces the risk of their investment assets becoming 'stranded.'"[4] In other words, the market views coal exit policies as an important component of long-term insurer viability. Improved disclosure will reveal which insurers are prepared for the future, and which are investing in their own fossil status.

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[1] 2020 Scorecard on Insurance, Fossil Fuels and Climate Change, Insure Our Future, December 2020.

[2] 2020 Scorecard at 7.

[3] Tim Quinson, *As Insurers Exit Coal Underwriting, They May Find It's Good for Stock Valuations*, Insurance Journal, Feb. 2, 2021, https://www.insurancejournal.com/news/international/2021/02/02/599641.htm.

[4] Moody's – Insurers' retreat from coal is positive, reducing stranded asset risk, limiting liability risk, Feb. 24, 2020.

Unfortunately, American insurers are mostly preparing to follow the dinosaurs. In the latest Insure Our Future Insurance Scorecard, only one major American insurer was among the leaders on coal exit, while six major American insurers brought up the rear.[5] Many major US insurers continue to underwrite coal and oil and gas without any restrictions, and every US insurer assessed in the scorecard supported lobby organizations that oppose climate actions.[6] This behavior exposes US insurance companies to ever-increasing physical and transition risks, making it even more important that regulators and the public obtain full disclosure of all their climate-relevant information.

The NAIC's Climate Disclosure Survey can once again lead the way by adopting a comprehensive disclosure framework that provides this information. Individual states, like California, have already shown leadership by requiring periodic disclosure of investments in fossil fuels.[7] With the threat of climate catastrophe continuing to increase, even as the transition to green energy accelerates, now is the time for regulators to assess the threats to the insurers they oversee and make sure they're adequately preparing for the future. Disclosure is an important first step.

Features of an effective reporting framework

As the Climate Disclosure Workstream revises its survey framework, it should take this opportunity to start fresh. The analysis of the current NAIC survey by the American Academy of Actuaries showed that the current Yes/No framework with optional survey responses yields only the bare minimum reply from insurers that are not otherwise engaged in this effort. Adding more multiple choice questions will not adequately reveal the extent to which an insurer is taking climate risk seriously.

Any new reporting framework needs to allow regulators and the public to understand the extent of an insurer's climate exposure and how it is managing those risks. For the reporting to be useful and meaningful, it must come in a framework that is standardized, comprehensive, and transparent. A framework missing any of these features will leave gaps in insurers', regulators' and the public's ability to assess the level of risk an insurer bears.

A framework is standardized if it requires disclosure of specific information, based on a well-defined methodology, that allows comparison across insurers. Without standardized metrics and methods, insurers will report information in a way that best fits with their goals. This will make it impossible to distinguish between insurers who are making active efforts to address climate harms, those who are trying to delay action via obfuscation and accounting tricks, and those who simply aren't taking the reporting requirement seriously. The resulting obfuscation will prevent regulators from focusing attention on insurers that pose actual risks and limit dissemination of best practices for managing climate risk across the insurance market.

A framework is comprehensive if it requires disclosure of all relevant information about climate impacts.[8] Climate change poses a complex, evolving series of risks to the planet, as well as

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[5] 2020 Scorecard at 8.

[6] 2020 Scorecard at 9.

[7] *See, e.g.*, the California Department of Insurance's Climate Risk Carbon Initiative results.

[8] Some international regulators now employ the concept of "double materiality" to require disclosure of information that is material to climate impact, even if not strictly material to financial performance. Although the NAIC should monitor developments in this area, the recommendations in in this comment are based on what's

insurers. Narrowly focusing on a few metrics will provide a skewed portrait of an insurer's riskiness, amplifying the possibility of unanticipated shocks to an insurer's solvency. All climate-relevant information should be disclosed if it is feasible to gather. At a minimum, relevant information includes a management's approach to managing climate risk, an insurer's greenhouse gas emissions for all scopes,[9] projected future emissions and their alignment with global emissions targets, and forward-looking financial metrics covering exposure to transition and physical risks across a range of standardized scenarios.

A framework is transparent if the methods and data used are publicly available. As climate science evolves, specific disclosures under the framework may require updating to better align with new understandings of climate risk. By adopting a transparent framework, the NAIC will ensure that these updates can be made expeditiously, avoiding the risk that the survey becomes stagnant and ceases to be fit for its intended purpose. The NAIC can ensure transparency by making results broadly and freely available in a machine readable format. This will allow academics, public interest groups and the broader public to assess how the data provided matches with other information about risks posed by insurers operating in their jurisdictions and to provide useful supplemental information and analysis to insurers and commissioners.

No existing framework meets these three criteria. Much of the world is aligning around the TCFD's voluntary disclosure framework. Unfortunately, the TCFD's own reviews have found that preparers struggle with the lack of standardized metrics and targets, while users feel that disclosures lack clarity on the financial impact of climate-related issues on companies.[10] Other public frameworks that do call for more detailed, standardized disclosure lack a forward-looking assessment of the financial impact of climate change.[11] Proprietary approaches like CDP's may yield sufficiently standardized and comprehensive data, but they lack the public transparency that is needed to make the findings useful to the full range of interested or impacted stakeholders.

In the absence of an existing framework that adequately reveals the full extent of an insurer's climate exposure and plans for addressing it, we recommend that the NAIC combine the existing requirements from several frameworks to assemble a new framework. By combining existing frameworks, the NAIC could make it possible for insurers to use the NAIC survey answers to meet their other reporting obligations, limiting the reporting burden raised as a concern by several insurers during the workstream calls.

What should be disclosed?

Understanding future financial impacts and impacts on climate change poses the biggest challenge in developing standardized disclosures.[12] Few metrics exist today, and those that do

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needed to adequately assess an insurers' riskiness and solvency. *See, e.g.*, European Commission, *Guidelines on non-financial reporting: Supplement on reporting climate-related information*.

[9] Scope 1 emissions are direct GHG emissions from sources owned or controlled by a company. Scope 2 are GHG emissions from generation of purchased electricity consumed by the company. Scope 3 emissions are other emissions in a company's value chain, including debt and equity holdings and insurance contracts. *GHG Protocol Corporate Standard*.

[10] 2020 TCFD Status Report at 46.

[11] Recommendations of the Task Force on Climate-related Financial Disclosures at 1, June 2017.

[12] TCFD, Forward-Looking Financial Sector Metrics Consultation, October 2020.

often lack a consistent methodology. Given these difficulties, some insurers may object that reporting on this information in a standardized way is not feasible today.

We agree that existing metrics leave something to be desired. The accuracy of these metrics will improve as climate science develops, and the framework should be flexible enough to accommodate that development. But with climate risk rapidly evolving, regulators cannot afford to wait. In the meantime, we recommend inclusion of related metrics that all insurers can measure and that provide insight into both future emissions pathways and exposure to climate risks.

First, the framework should require disclosure of all investments by an insurer in fossil fuel related entities. These investments are at high risk of declining in value and ultimately becoming stranded assets as the world transitions to a low-carbon economy. Today, American insurers have $90 billion invested in coal.[13] As the transition accelerates, it will threaten solvency of insurers that are heavily invested in coal and other fossil fuel assets. A thorough accounting of these exposures will provide transparency regarding which insurers are most at risk.

Second, we recommend disclosure of all fossil fuel-related entities that the insurer underwrites or otherwise insures, as well as the total premium from those projects. Fossil fuel companies' responsibility for greenhouse gas pollution is increasingly resulting in litigation from both governments and citizens seeking compensation for environmental harms and the effects of climate change. Coupled with the increasingly precarious financial position of these companies, this litigation leaves insurers as the deep pockets that plaintiffs will seek recovery from. State insurance regulators must monitor insurers to avoid any threat to their solvency from this potentially massive liability. This threat is compounded by the fact that the physical harms from climate change will also lead to an increase in claims from other customers, further pressuring insurer solvency and increasing insurance costs borne by consumers. In addition, the reputational risks from fossil fuel underwriting are growing, as some insurers have begun to note.

In the future iterations, disclosures should include investments and underwriting for other high-emissions activities, as their risk profiles will increasingly resemble those of fossil fuels. But the NAIC should proceed with fossil fuels now so that it can act quickly, then work on improving and broadening the framework soon.

How should the results be made available?

The NAIC should continue making survey results publicly available, even as they become more detailed. Insurance regulators are charged with protecting the public interest, and nothing can be more in the public interest than monitoring contributions to and exposure to climate catastrophes, as well as safeguarding against the instability that could flow from financial institutions' poor management of the rapid transition to sustainable energy. Insurers have declined to disclose information about fossil fuel coverage, claiming it is a trade secret. Cutting off the public in the name of protecting trade secrecy would not further the mission of the NAIC or regulators. Consumers deserve to be able to make informed decisions about doing business with insurers who are putting themselves and the planet at risk with continued support for fossil fuel companies.

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[13] Chris Seekings, *US Insurers still have $90bn invested in coal*, The Actuary, Feb. 24 2021.

Conclusion

Standardized, comprehensive, and public disclosure is a key first step in assessing and encouraging the appropriate level of preparation for climate-related risk. We encourage you to take this opportunity to revise the survey in line with the gravity of the situation and the centrality of insurance companies and regulators to addressing it.

For questions, please contact Yevgeny Shrago at yshrago@citizen.org and David Arkush at darkush@citizen.org.

Sincerely,

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Public Citizen
Americans for Financial Reform Education Fund
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