

CONSULTATION RESPONSE

NAIC DRAFT PROPOSED CLIMATE RISK DISCLOSURE SURVEY

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 4,500 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$121 trillion in assets under management.¹

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

ABOUT THIS CONSULTATION RESPONSE

The United Nations-supported Principles for Responsible Investment (PRI) writes in support of the NAIC's above-referenced draft. The NAIC's proposed revised survey on climate risk usefully adapts the recommendations of the Task Force on Climate-Related Financial Disclosures to the specific needs of the insurance industry and its stakeholders.

STRENGTHS OF THE NAIC DRAFT

- In a welcome expansion on the core TCFD recommendations, the survey requests that reporting organizations explain how they define materiality, describe how they engage key constituencies regarding climate, and specify the time frames they consider short, medium and long-term.
- Recognizing the unique risk-management role that the insurance industry plays in society, the survey includes questions on how firms' underwriting activities are helping to manage climate risk and support the energy transition, and whether and how the firm is educating policyholders about managing their own climate-related risks.
- The survey also acknowledges the multifaceted nature of climate risk for this industry by inquiring about how climate risk is being managed both in a firm's underwriting business and in its investment portfolio, including regarding the way that scenario analysis is being used in each case.

¹ See PRI signatories, available at: <https://www.unpri.org/signatories/signatory-resources/signatory-directory>.

SUGGESTIONS FOR POSSIBLE REVISION

- In the Strategy section, consider separating into two parts the closed-end question #2, which currently reads: “Does the company provide products or services, or make investments, to support the low carbon transition or help customers adapt to climate risk? (This can include underwriting and/or investments.)” It would be more informative to have separate versions of the question that apply to underwriting and to investments (as is done in the Risk Management section of the draft survey, where closed-end question #4 refers to underwriting and #6 to investments).
- In the Metrics and Targets section, consider mentioning more of the seven cross-industry metrics recommended by the TCFD. Currently the narrative disclosure section of the draft mentions two of the seven: carbon emissions (both financed and direct), as well as the percentage of assets exposed to physical climate risk. Two others which could easily be added are the percentage of assets exposed to transition risk and the percentage of business activity aligned with climate-related opportunity; these topics are already touched upon in other sections of the draft survey related to underwriting and policyholders, and could appear in the metrics section as well. The final three cross-industry metrics recommended by the TCFD relate to climate-related capital expenditures, the use of internal carbon prices, and the percentage of executive remuneration aligned with climate considerations. These are not yet touched upon in the draft, but could be included in the metrics section for fuller alignment with TCFD.