

Dear Commissioner Stolfi,

On behalf of Public Citizen and its more than 500,000 members and supporters, we appreciate the opportunity to provide recommendations on the Climate Risk Disclosure Workstream of the NAIC’s Climate and Resiliency (EX) Task Force’s (NAIC) Draft Proposed Climate Risk Disclosure Survey. It is critical for insurers to provide regulators, insurance market participants, and the public with the information that they need to assess how insurers are managing the present and growing threats posed by the climate crisis. Although the draft proposed survey represents a major step forward from the current version, it requires additional revision to fully meet these needs.

Rising temperatures are driving more frequent and severe natural catastrophes.¹ The year 2020 set U.S. records for costly disasters, with 22 weather and climate disasters that cost at least \$1 billion. 2021 followed close behind, with 18 such disasters as of October 8th.² The increased frequency and severity of these disasters leads to higher insured losses. In total, 2021 had \$112 billion in global insured catastrophe losses, the fourth highest on record.³ If insurers base their catastrophe models on past experience, as is common practice, they will be unprepared for the increasing losses they face.

Along with their role as risk managers, major insurers are among the largest investors in the world. Investment in fossil fuel-related assets exposes insurers to risks from stranded assets, falling asset prices, and reputational harm. A 2020 Moody’s report found that insurers’ retreat from coal is “credit positive, as it protects them against potential climate change liability risk, and reduces the risk of their investment assets becoming ‘stranded.’”⁴ Insurers who invest heavily in fossil fuels risk having their portfolios negatively affected by stranded assets and falling asset prices just as they most need strong returns to offset rising losses. These insurers will also face increasing reputational costs with investors and customers who object to their continued financing of activities that are not aligned with a safe future for humanity.

¹ IPCC, 2021: Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [MassonDelmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. Cambridge University Press.

² National Oceanic and Atmospheric Administration, “[Billion Dollar Weather Disasters](#),” Updated Oct. 8, 2021.

³ Swiss Re, [Global insured catastrophe losses rise to USD 112 billion in 2021, the fourth highest on record. Swiss Re Institute estimates](#), Dec. 14, 2021.

⁴ “[Insurers’ retreat from coal is positive, reducing stranded asset risk, limiting liability risk](#),” Moody’s, Feb. 24, 2020.

The current survey is not up to the task of assessing these risks. It asks only general, high-level, qualitative questions. It was designed in 2009 and has not been brought into alignment with global standards for climate risk disclosure.⁵ Analysis by the American Academy of Actuaries shows that the current survey format yields only the bare minimum reply from most insurers.⁶

The Draft Proposed Survey is a much-delayed step forward. It requests additional detail in line with the framework developed by the Task Force on Climate Financial-Related Disclosures (TCFD). But the TCFD itself has found that disclosures under its framework vary widely in their level of specificity⁷ and that many users would find them more helpful if they included more standardized and transparent metrics.⁸ Given the urgency of the threat that insurers face from the climate crisis, and the value of the information that insurers could provide to regulators and the public, the NAIC has a responsibility to incorporate these lessons in moving quickly to make the new edition of the survey as informative as possible.

To achieve this, the NAIC should include guidance with the survey that regulators expect insurers to provide detailed, transparent answers. To reflect the specific responsibility of insurance regulators to protect insurance markets, the survey should ask insurers to disclose how they are incorporating treatment of consumers, particularly those in historically underserved communities, into their climate-risk management. To help standardize metrics, the NAIC should clarify that Scope 3 insured and financed emissions should be disclosed by all insurers, provide guidance on more granular reporting of key metrics, direct insurers to disclose their fossil fuel investments and underwriting, and provide additional detail on the climate scenarios that need to be disclosed.

1. *The NAIC should encourage insurers to provide detailed, thoughtful answers to each open-ended question.*

The draft proposed survey currently allows a wide range of possibilities for how detailed insurers' answers will be. Unfortunately, the need for useful information is too urgent—and the threats from climate-related risk are too severe and immediate—to wait and see whether disclosures under the proposed survey happen to be adequate. The NAIC must immediately set a high floor for the level of disclosure required. Fortunately, there is plenty of material to work with to define what a good survey response looks like. The NAIC can build on initial reviews done by the TCFD as well as the initial assessments conducted by

⁵ Insurers are permitted to submit their Task Force on Climate-Related Financial Disclosures (TCFD) report in lieu of a survey. Eight insurers chose to do so in 2019.

⁶ [“NAIC Climate Risk Disclosure Survey Responses of Insurers Coming Into Sharper Focus,”](#) JDSupra, Sept. 9, 2021.

⁷ TCFD, [2020 Status Report](#), October 2020.

⁸ TCFD, [“Summary of Responses,”](#) *Forward Looking Financial Metrics Consultation*, March 2021.

European regulators.⁹ Where insurers are doing a good job of answering the current climate risk disclosure survey or in providing TCFD responses, the NAIC could also highlight model answers as part of the new survey.

To make sure that insurers are providing meaningful answers that actually reflect the way they do business, the NAIC should also recommend that states review the survey answers as part of their examination of licensed insurers. Examiners should assess the answers and compare them to the discussion in an insurer's Own Risk and Solvency Assessment or its replies to Form F and the Annual Corporate Governance Disclosure. Examiners should then provide feedback to insurers on where responses are sufficient and where they need to be expanded and integrated into other supervisory tools.

- 2. The survey should incorporate consideration of how climate risk management by insurers is affecting consumers, particularly communities of color and low-income and other underserved communities.*

Insurer solvency is not the only climate risk that insurance regulators must monitor and address. Insurers may pursue strategies that limit their own risk by reducing the availability and affordability of coverage for insurance customers. Insurance regulators are responsible for addressing the risks to individuals, businesses, and communities that such strategies pose. Today, climate risk disclosure standard setters design their disclosures primarily from the perspective of asset owners and investors. This means the standards are not designed to assess how seemingly prudent risk management decisions might negatively affect the markets that insurers participate in.

This concern is particularly acute for communities that have already been harmed by decades of environmental racism. As insurers recognize the negative impacts of the climate crisis on their business, these disadvantages are increasingly reflected in the practice of “bluelining,”¹⁰ or identifying areas as at higher environmental risk and raising costs or avoiding underwriting in those areas. An insurer's seemingly risk-based analysis could follow the same or similar boundaries as those established by previous redlining decisions that have created and perpetuated racial and economic inequality in the United States. This bluelining itself will further entrench inequality and racial disparities. Areas that avoided the negative effects of bluelining can use their existing tax base to invest in climate adaptation, which will allow them to retain insurance, while the loss of insurance in bluelined areas will lower property values, degrade the tax base, and make it harder for those communities to invest in necessary adaptation.

⁹ AMF-France, “[TCFD Climate Reporting in the Financial Sector](#),” December 2020.

¹⁰ Abraham Lustgarten, “[How the Climate Crisis Will Shape Migration in America](#),” The New York Times (Sept. 15, 2021).

In its recent climate guidance, New York has already recognized that insurance regulators have a responsibility to protect insurance consumers and prevent insurers' practices that have a disparate impact on the basis of a consumer's race or ethnicity.¹¹ The first step in addressing such behavior is for all regulators to understand how insurers' risk management plans might affect vulnerable communities in both the short and long-term.

Unfortunately, granular information on changes to the availability and affordability of insurance is not publicly available. In most states, the information that insurers are required to report to regulators on rating changes does not directly reflect whether insurers are monitoring the impact of those changes on communities that historically have faced discrimination.

To remedy these concerns, the survey should include questions designed to understand how insurers deal with these issues. It should, at a minimum, assess insurers' safeguards against recreating racial and ethnic discrimination as part of their climate risk management processes and how those safeguards are incorporated into governance, strategic planning, and risk management. It should also request the metrics that insurers use to track the impact of their climate risk mitigation on communities of color and low-income communities, including rate increases, rates of non-renewal, and claims denials in these communities as compared to overall rates.

3. The metrics section should require metrics that reveal the actual level of climate risk faced by insurers.

The current proposal directs insurers to disclose Scope 3 emissions, *if appropriate*. This qualification leaves ambiguity about when Scope 3 emissions must be disclosed. The NAIC should clarify and adopt the emerging global consensus: all insurers should disclose both their financed and insured emissions, as well as any other relevant Scope 3 emissions.

The latest guidance from the TCFD states that "financial sector organizations are specifically encouraged to disclose GHG emissions related to their investing, lending, and underwriting activities."¹² The Principles for Carbon Accounting Financials, a UN-backed working group that includes numerous major global banks and insurers, has already developed standardized metrics for assessing the emissions of many types of investments.¹³ It is currently collaborating with the

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¹² ["Guidance on Metrics, Targets and Transition Plans,"](#) Task Force on Climate-related Financial Disclosures, Oct. 2021.

¹³ ["The Global GHG Accounting & Reporting Standard for the Financial Industry, First Edition"](#) Partnership for Carbon Accounting Financials, 2020.

UN-backed Net Zero Insurance Alliance, a group of major global insurers, to develop specific metrics for measuring insured emissions.¹⁴

Critically, Scope 3 emissions must be measured and disclosed based on the number of tons of carbon emitted. Some insurers may push for standards that disclose only the carbon intensity of insured or financed emissions, as opposed to the absolute level of emissions. Carbon intensity is a measure of tons of carbon emitted divided by some denominator, such as millions of dollars of revenue. Carbon intensity metrics, alone, do not provide a sufficient picture of the risk that insurers face. Global climate commitments and science-based climate targets are expressed in absolute emissions, not intensity. Insurers who grow their emissions, even while reducing their intensity, are still taking on a higher level of transition risk. To be effective, disclosures must include absolute emissions.

Another way to make disclosures more transparent and standardized is to adopt the TCFD's recommendation for disclosures to be more granular than the enterprise level.¹⁵ Both the physical and transition risks that insurers face will vary by geography, business line, and sector financed or insured. Reporting climate risks and metrics only at the enterprise level will obscure important risk factors. Instead, the NAIC should ask for disclosure of emissions and climate risks based on a standard set of geographies (by state or region), the Uniform Certificate of Authority lines of business, and industry classifications.

If this recommendation proves too complex for an initial survey, the survey should at least specifically require disclosure of underwriting and investment for companies or projects that plan to construct or operate new oil and gas fields, new fossil-fired power plants, or new infrastructure for transporting fossil fuels. There is a scientific consensus that new fossil fuel production is incompatible with the 2.7°F future needed to avoid the worst climate harms. That means that investment and underwriting of these projects is particularly susceptible to transition risk. Both New York and California, when assessing the transition risk of insurer portfolios, have found that they are overweight in fossil fuel investments.¹⁶ It is critical for regulators and the public to know which insurers are taking serious risks that may threaten their solvency and which are acting prudently.

Along with providing valuable information, disclosing Scope 3 financed and insured emissions and investment with sufficient granularity to identify support for new fossil fuel projects will provide a valuable sanity check for other claims about climate risk management made in the survey. Regulators should cast a

¹⁴ [“Partnership for Carbon Accounting Financials collaborates with UN-convened Net-Zero Insurance Alliance to develop standard to measure insured emissions,”](#) Partnership for Carbon Accounting Financials, Sep. 6, 2021.

¹⁵ TCFD, *supra* at 12.

¹⁶ 2 Degree Investing Initiative, [“An Analysis of New York Domestic Insurers’ Exposure to Transition Risks and Opportunities from Climate Change,”](#) June 10, 2021; 2 Degree Investing Initiative, [“Insurance Companies Operating in California,”](#) 2018.

skeptical eye on insurers who claim to have robust climate risk management in place, even as they take on more transition risk and increase the likelihood of catastrophic physical impacts.

- 4. The NAIC should provide additional guidance on scenarios that should be disclosed and the key assumptions behind them.*

The survey appropriately asks insurers to disclose the scenarios they use to measure risk. But without more guidance, this disclosure will be of little value. Regulators must set standards to prevent insurers from adopting parameters for their scenarios in ways that help them reach the conclusions that they want to justify their current business decisions. The draft survey recognizes the importance of disclosing the “type of scenario,” but this alone isn’t enough for either assessing the risk that insurers face or comparing risks across insurers.

Ultimately, the necessary standards must be developed by the Solvency workstream, relying on ongoing work by international bodies and academics. To help improve the standardization and transparency of disclosure, future iterations of the survey should provide some basic guidance about best practices for scenario disclosure, based on those standards. For now, the survey should encourage insurers to disclose a wide range of scenarios and to specify assumptions about both the probability of specific outcomes and their magnitude, for both transition risk and physical risk.

Climate scenarios are valuable for assessing risk, but only if those reviewing them and those producing them have a common understanding of the assumptions behind them. The NAIC can provide some baseline recommendations here to encourage transparency, in advance of developing more robust scenario analysis standards managed by state regulators in the future.

Conclusion

The proposed draft guidance is an important modernizing step by the NAIC. Unfortunately, it still does not require enough for regulators and the public to fully assess the climate risks that insurers face. We urge you to adopt the revisions proposed in this comment, and to launch the new survey in time for the 2023 reporting year.

We look forward to continuing to engage with you and individual state regulators on these questions in the future.

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

Sincerely,
Public Citizen