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National Association of Insurance Commissioners
444 North Capitol Street NW, Suite 700
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Submission Via Email: aobersteadt@naic.org

Re: Questions to Determine Objectives of NAIC Climate Risk Disclosures

Dear Ms. Obersteadt:

Thank you for the opportunity to comment on the Questions to Determine Objectives of NAIC Climate Risk Disclosures published by the Climate Risk Disclosure Workstream. We support the efforts of the NAIC to update its approach to more closely align with Task Force on Climate-related Financial Disclosures (TCFD) recommendations and promote greater uniformity in reporting requirements.

By way of introduction, the Sustainability Accounting Standards Board (SASB) is an independent non-profit organization that connects businesses and investors on the financial impacts of sustainability. SASB Standards, used by many large insurance companies including Travelers, Prudential, MetLife, and Aflac, enable businesses around the world to identify, manage, and communicate the environmental, social, and governance (ESG) factors that are material to the creation of enterprise value. SASB Standards are industry-specific and are designed to be decision-useful for investors and cost-effective for companies. The SASB Standards enable robust implementation of the TCFD recommendations and are among the most frequently referenced tools by the TCFD in its guidance.

At SASB, we recognize that the Insurance industry faces both risks and opportunities as acute and chronic climate-related impacts continue to have material implications for the industry. Industry assessments of physical risks—such as those arising from rising sea levels or increased flooding—may be relatively well established but inconsistently disclosed. Risks related to the transition to a resilient, low-carbon economy—such as the risk that investments may lose value—are less well understood and related disclosure is lacking. Finally, liability risks—including direct legal claims against insurers for failing to manage climate-related risks as well as claims under liability insurance policies—are more recently emerging. Meanwhile, on the opportunity side, as “value at risk” grows throughout the economy, new markets will open to insurance firms that are well positioned to provide innovative solutions and services.

The extent of these impacts is likely to evolve as climate change increases the frequency and severity of both modeled and non-modeled natural catastrophes, including hurricanes, floods, and droughts. Our analysis has shown that failure to appropriately understand environmental risks and price them into underwritten insurance products may result in higher-than-expected claims on policies. Insurance companies that incorporate climate change considerations into their underwriting process for individual contracts as well as the management of firm-level risks and capital adequacy will be better positioned to protect shareholder value and maintain adequate capital to pay claims over the long-term.

As climate factors have been shown to have material impacts on the performance of companies and other assets, there is an increasing need for insurance companies to incorporate these factors into the management of their investments. Failure to consider these issues could lead to diminished risk-adjusted returns of their portfolios and limit a company's ability to issue claim payments.

Additionally, the industry is in a unique position to generate positive social and environmental externalities, not only through risk transfer but also risk mitigation. Insurance companies have the ability to incentivize individual and organizational behaviors that can support a smoother, more resilient economic transition. Policy clauses that provide incentives for insured entities to manage environmental, social, and governance (ESG) factors can be used as tools to mitigate risk in the overall underwriting portfolio, which can reduce insurance payouts over the long term.

We recognize the critical importance of disclosure on climate-related risk by insurance companies and offer our responses to your questions to support your efforts:

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 the information in the survey be formatted to be useful?

Sustainability disclosure has attracted the interest of a broad range of stakeholders, including investors, companies, and regulators. There is a growing belief that capital markets can only deliver long-term value to shareholders if companies and investors understand their sustainability-related risk exposures, benchmark and compare performance among peers, and efficiently price the risks and opportunities associated with environmental, social, and governance factors, including climate change. The TCFD recommendations and SASB Standards are two complementary initiatives that have emerged to address this market need.

Although SASB Standards were developed to meet the information needs of companies and investors, we believe they can also be useful to regulators. All these decision makers can benefit from climate-risk information that is:

- **Material** to the creation of enterprise value over the short, medium, and long term;
- **Comparable** across companies, especially within an industry;
- **Consistent** across time periods;

- **Reliable,** meaning it is prepared subject to effective internal control and board governance and can be assured by an independent third party;
- **Connected** to information in the financial statements (i.e., identifying the actual or potential impact of a sustainability topic on a company's financial statements—via future revenue, expenses, valuation of assets and liabilities, cost of capital, and/or future cash flows);
- **Industry-specific** (with cross-industry metrics useful for certain topics such as board governance of climate risk);
- **Quantitative** and **metrics-based**, with **qualitative** information to provide context about governance, strategy, risk management, and performance;
- **Comprehensively used for reporting across an investible universe**, including by small, medium, and large-cap companies, public and private companies, and applicable across markets.

The above characteristics can all work together to the same end: namely, to produce decision-useful information that helps companies, investors, regulators, and others better understand climate-related risk and opportunity exposures and how well insurance companies are positioned to manage them.

SASB's 2016 *Climate Risk Technical Bulletin,*[1] a detailed mapping of industry-specific climate risks likely to have material financial impacts, showed that the Insurance industry is most vulnerable to physical and transition risks related to climate change. More frequent and severe weather-related events can result in droughts, flooding, wildfires, greater precipitation, higher wind speeds, and other impacts that damage property, significantly increasing claims paid by insurance companies. Additionally, financial risks could arise for insurance firms from the transition to a lower-carbon economy, especially given that an insurer's solvency is heavily dependent on its investment portfolio.

SASB's Insurance Industry Standard includes qualitative and quantitative metrics that help insurance companies demonstrate their management of and performance on the physical and transition risks associated with climate change, as it relates to underwriting and investment management.

Climate-risk metrics for the insurance industry include:

TRANSITION RISK			
Metric Code	**Disclosure Topic**	**Accounting Metric**	**Accounting Metric Category**
FN-IN-410a.1	Incorporation of Environmental, Social, and Governance Factors	Total invested assets, by industry and asset class	Quantitative

[1] Sustainability Accounting Standards Board (SASB), Climate Risk Technical Bulletin (October 2016); available at https://www.sasb.org/knowledge-hub/climate-risk-technical-bulletin/

	in Investment Management		
FN-IN-410a.2	Incorporation of Environmental, Social, and Governance Factors in Investment Management	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment management processes and strategies	Discussion and Analysis
TRANSITION RISK + PHYSICAL RISK			
Disclosure Topic	**Accounting Metric**	**Accounting Metric Category**	**Accounting Metric Category**
FN-IN-410b.1	Policies Designed to Incentivize Responsible Behavior	Net premiums written related to energy efficiency and low carbon technology	Quantitative
FN-IN-410b.2	Policies Designed to Incentivize Responsible Behavior	Discussion of products and/or product features that incentivize health, safety, and/or environmentally responsible actions and/or behaviors	Discussion and Analysis
PHYSICAL RISK			
Metric Code	**Disclosure Topic**	**Accounting Metric**	**Accounting Metric Category**
FN-IN-450a.1	Environmental Risk Exposure	Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes	Quantitative
FN-IN-450a.2	Environmental Risk Exposure	Total amount of monetary losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance)	Quantitative
FN-IN-450a.3	Environmental Risk Exposure	Description of approach to incorporation of environmental risks into (1) the underwriting process for individual contracts and (2) the management of firm-level risks and capital adequacy	Discussion and Analysis

The SASB Insurance Industry Standard, which is publicly available, includes:

- **Disclosure topics** – A minimum set of industry-specific disclosure topics reasonably likely to constitute material information, and a brief description of how management or mismanagement of each topic may affect the creation of enterprise value.
- **Accounting metrics** – A set of quantitative and/or qualitative accounting metrics intended to measure performance on each disclosure topic.
- **Technical protocols**[2] – Each accounting metric is accompanied by a technical protocol that provides guidance on definitions, scope, implementation, compilation, and presentation, all of which are designed to ensure consistent, comparable, reliable data

2) Who should report? a) What is the threshold? b) Should it be compulsory? c) What states are participating?

Companies of all sizes are under increasing pressure to provide certain climate-related risk information to other businesses, in particular if they are suppliers to large companies. In addition, financial institutions are increasingly likely to request certain climate risk information from companies to whom they provide financial capital. In this respect, companies that do not provide climate risk (and opportunity) information may experience a negative impact on their commercial opportunities or on their access to or cost of capital.

Harmonizing NAIC climate risk disclosures—to the extent possible—with existing, widely used standards and frameworks can help limit the reporting burden on insurance companies. Because they view climate change through the lens of financial materiality, the TCFD recommendations and SASB Standards enable companies to address a relatively small, focused set of climate-related impacts that are fundamentally tied to their ability to create enterprise value. Therefore, companies of all sizes can benefit from incorporating these issues into their internal enterprise risk management (ERM) processes and their external reporting efforts.

3) What report framework should be used? a) TCFD? b) NAIC Climate Disclosure Survey? c) Another framework (such as CDP)? d) Some combination?

Investors are increasingly coalescing around TCFD recommendations and SASB Standards as foundational tools for climate-risk related disclosure. In 2020 alone, a substantial range of global market participants publicly encouraged the use of SASB Standards and TCFD recommendations.

For example:

- The **Board of Governors of the Investment Company Institute (ICI)**, a leading global association of regulated funds, including mutual funds, exchange-traded funds, closed end-funds, and unit investment trusts whose membership manages US$34 trillion, issued a statement encouraging US public companies to provide enhanced reporting on ESG factors "consistent with the

[2] The SASB Standards Application Guidance establishes guidance applicable to the use of all industry standards and is considered part of the standards. Unless otherwise specified in the technical protocols contained in the industry standards, the guidance in the SASB Standards Application Guidance applies to the definitions, scope, implementation, compilation, and presentation of the metrics in the industry standards.

recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the standards of the Sustainability Accounting Standards Board (SASB)."[3]

- The **CEOs of Canada's eight largest pension plan investment managers** asked portfolio companies to "measure and disclose their performance on material, industry-relevant ESG factors by leveraging the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) framework to further standardize ESG-related reporting."[4]
- The **UK Financial Reporting Council (FRC)** encouraged UK public interest entities to voluntarily report using the TCFD recommendations and SASB Standards, noting that these two approaches are well suited to "to meet the information needs of investors and other capital providers."[5]
- Specific **institutional investors—including BlackRock[6] and State Street Global Advisors**,[7] two of the world's largest asset managers—made public calls for companies to use SASB Standards and TCFD Recommendations. While these open letters to corporate directors and/or CEO's were among the most visible statements of investor support for SASB in 2020, similar statements are included in the stewardship, proxy voting, and/or ESG integration policies of dozens of other institutional investors, including Goldman Sachs Asset Management,[8] Morgan Stanley Investment Management,[9] and numerous others. Many of these investors call for both SASB and TCFD disclosure.

SASB Standards enable robust implementation of the TCFD recommendations by providing an industry-specific set of metrics to facilitate target setting and illuminate the effectiveness of a company's governance, strategy, and risk management related to climate risk. A growing number of jurisdictions globally are mandating TCFD-based climate disclosure over the next five years. Therefore, the more NAIC can align with the TCFD recommendations the less incremental burden companies will face in responding to multiple surveys. By implementing the TCFD Recommendations, combined with using the climate-risk metrics in the SASB Insurance Industry Standard, companies will have a cost-effective way to provide insight into how effectively they are mitigating existing challenges and adapting their business model and operations in the face of climate risks. Using the SASB Standards will enhance the comparability of the reported information across companies and therefore the usefulness to decision-makers, and it will ensure that insurers can use common tools (TCFD and SASB) for reporting to both regulators and investors.

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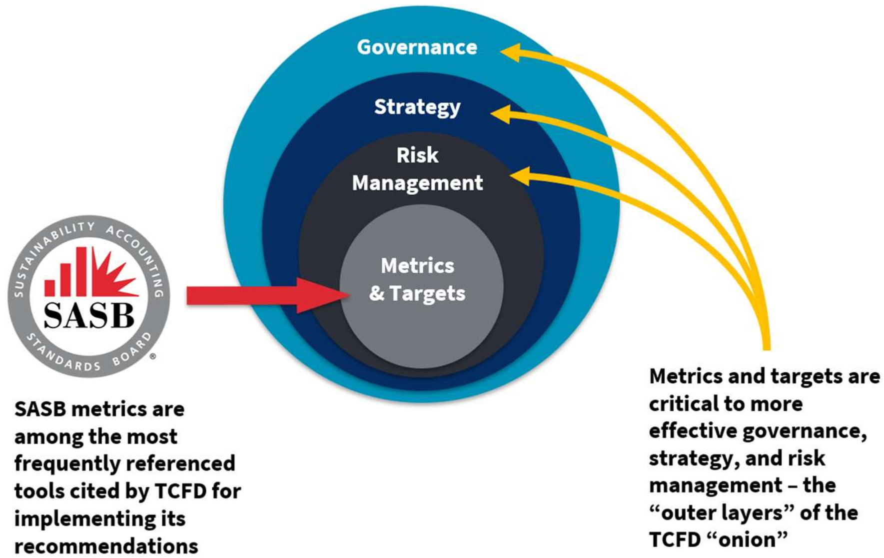
[3] Investment Company Institute, "ICI Board Unanimously Calls for Enhanced ESG Disclosure by Corporate Issuers," press release (December 7, 2020).
[4] Maple 8, "Companies and investors must put sustainability and inclusive growth at the center of economic recovery" (November 25, 2020).
[5] Financial Reporting Council, "FRC Statement on Non-Financial Reporting Frameworks" (November 10, 2020).
[6] Larry Fink, "A Fundamental Reshaping of Finance," open letter (January 14, 2020).
[7] Cyrus Taraporevala, "CEO's Letter on our 2020 Proxy Voting Agenda," open letter (January 28, 2020).
[8] Goldman Sachs Asset Management, "Policy, Procedures and Guidelines for GSAM Global Proxy Voting 2020 Edition" (March 2020).
[9] Morgan Stanley Investment Management, "Proxy Voting Policy and Procedures" (September 2020).

SASB Enables Robust TCFD Implementation

Industry-specific metrics and targets provide actionable information on climate risk



4) How should the questions be designed? a) Multiple choice? b) Open-ended? c) Close-ended (rating scale, dropdown, ranking, etc.)?

However, questions are designed, they should yield comparable, consistent, decision-useful information. In the case of climate risk, questions would be most helpful if they reveal the impacts that climate risk has on business models, financial performance, and long-term enterprise value, and how businesses adapt corporate strategy, risk management, and governance in response. Questions should also be designed to yield information which will help set targets and measure performance on climate risk most relevant to long-term enterprise value creation. Thus, climate-risk disclosure should not only enhance a company’s external disclosures but serve as a useful tool for management and board decision-making and investor assessment of that decision-making.

5) When should the information be reported and what is the effective date of the changes?
SASB does not have specific views on this question.

6) Where should climate disclosures be reported? a) Continue to make it available through California’s website? b) Build an NAIC repository? c) Directed to the domestic state?
SASB does not have specific views on this question.

7) How should the results be made available? a) Only to regulators? b) Publicly available (as it is today)?

Sustainability information, including climate-related disclosure, should be publicly available to facilitate transparency and accountability.

In closing, we would like to emphasize that market input is foundational to SASB's standard-setting process. As NAIC engages with insurance industry participants on the issue of climate risk, we welcome the opportunity to learn how the insights gained might usefully inform our work as SASB Standards evolve alongside markets.

Thank you again for the opportunity to participate in the consultation. If you have any additional questions or comments, please contact me at janine.guiilot@sasb.org.

Kind regards,

Janine Guillot, CEO
The Sustainability Accounting Standards Board