AMERICAN ACADEMY *of* ACTUARIES

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January 11, 2021

Mr. Jonathan Dixon
Secretary General
International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel Switzerland

Re: *Application Paper on the Supervision of Climate-related Risks in the Insurance Sector*, Public Consultation Document (October 13, 2020).

Dear Secretary General Dixon,

On behalf of the ERM/ORSA Committee's Climate Related Financial Disclosures Work Group of the American Academy of Actuaries,[1] I appreciate the opportunity to provide comments on the International Association of Insurance Supervisors' (IAIS) *Application Paper on the Supervision of Climate-related Risks in the Insurance Sector* public consultation document, dated October 13, 2020. Below are the Work Group's specific responses, organized by question number:

Section 1.1 Context and Objective

Response:

The American Academy of Actuaries has been actively assessing changes in climate risk for several years and continues to do so. The Actuaries Climate Index (ACI), jointly developed and maintained in partnership with three other North American actuarial associations, documents the relatively steady increase in climate extremes from North America since 1990. The website of the ACI not only allows examination of trends in six distinct climate indicators, it also presents illustrations of these trends at the supranational, national, and regional levels. All of these different changes in climate indicators can be useful to insurance supervisors. The ACI has been the basis for other actuarial associations around the world to develop similar indices in their own countries or regions.

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

The Academy's publication of *Actuaries Climate Risk Index: Preliminary Findings*, in January 2020, reflected the first effort to develop systematic estimates for property losses due to changes in climate, controlling for changes in exposure. Our estimate for the U.S. from 1991 – 2016, indicated that about 3.3% of the losses from climate-related events were due to those changes in climate. And while many experts generally expect property losses to increase by the end of the century, most suggest little or no damage could yet be directly ascribed to climate changes.[2] Our research paper places a quantitative estimate, albeit with substantial uncertainty around that estimate, on the extent of loss already experienced. Continuing to develop these estimates with more refined methods, and observing the results into the future, should provide robust estimates valuable to insurance supervisors of the pattern of losses due to changes in climate.

Section 2.2.1 Information Gathering

Paragraph 19 Response:

The Academy's ERM/ORSA Committee embarked late in 2019 on a two-phase project to provide information to the National Association of Insurance Commissioners, other regulators, and stakeholders on the opportunities and challenges presented by various options for obtaining climate-related financial disclosures in the future. In the first phase, we are examining the current disclosures contained in the responses of more than 1,200 U.S. insurance entities to the National Association of Insurance Commissioners (NAIC) Climate Risk Disclosure Survey; in the second phase, we are examining gaps in the information provided through the survey and ways to encourage more robust responses from insurance companies on their responses to climate risk. The NAIC survey consists of nine "Yes/No" questions and eight narrative responses, with a set of suggested questions to be included in each of those responses.

Having completed the analysis of Phase 1, the committee has identified three main results: 1) while answers to Yes/No questions reveal some insightful patterns and differences, there is reason to interpret responses to these questions cautiously, and to pay close attention to the wording of these questions; 2) 30% or fewer of the surveyed companies have provided robust responses to the survey; and 3) very few surveyed companies are replying effectively to any of the specific suggested questions for their narrative responses. We have concluded that there is a need for steps to encourage more robust responses. There is also a need to make those responses more accessible, both for the supervision of individual companies and for the analysis of the status of the industry (as a whole and by line of business and size) in responding to climate risk.

In Phase 2 of our research, beginning soon, we expect to focus on two gaps: 1) the gap between those who provide robust responses and those who do not; and 2) the gap between the robust responses and broader guidelines for disclosure, such as the guidance from the Financial Stability

[2] For example, the Intergovernmental Panel on Climate Change 2014 Report concluded, based on its review of all available studies: "Economic costs of extreme weather events have increased over the period 1960–2000. … However, the greatest contributor to increased cost is rising exposure associated with population growth and growing value of assets." *Climate Change 2014: Impacts, Adaptation, and Vulnerability*. Part A: Global and Sectoral Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. Field, C.B., V.R. Barros, D.J. Dokken, K.J. Mach, M.D. Mastrandrea, T.E. Bilir, M. Chatterjee, K.L. Ebi, Y.O. Estrada, R.C. Genova, B. Girma, E.S. Kissel, A.N. Levy, S. MacCracken, P.R. Mastrandrea, and L.L. White (eds.). Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

Board's Task Force on Climate-related Financial Disclosures (TCFD). As we assess these gaps, we will then assess various options for implementing new or revised disclosure protocols, including improvements to the design of questions, increased guidance to companies on best practices in responding to the disclosure requests, and the possible inclusion of more Yes/No or multiple-choice questions in the protocols.

On behalf of the committee, I would be happy to discuss the results of this research to date, and plans for the next phase, in more detail if the IAIS would be interested.

Paragraph 20 Response:

It is important that the IAIS recognizes the significance of disclosure of U.S. insurance entities' climate risk responses through the NAIC's decision in 2010 to create a Climate Risk Disclosure Survey; securing the participation of six states which required companies within their jurisdiction to participate, thereby requiring approximately 70% of the U.S. insurance market to provide information on their climate risk responses. These surveys, completed annually by more than 1,000 entities since 2012, provide evidence for how companies respond to requests for qualitative information which should not be ignored as supervisors are encouraged to systematically integrate climate disclosures into their work.

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Thank you for this opportunity to provide our views on the *Application Paper on the Supervision of Climate-related Risks* public consultation. If you have any questions or would like to discuss this letter in more detail, please contact Shera Niemirowski, the Academy's risk management and financial reporting analyst, at niemirowski@actuary.org.

Sincerely,

Michelle Young
Chairperson, Climate Related Financial Disclosures Work Group
ERM/ORSA Committee
Risk Management and Financial Reporting Council
American Academy of Actuaries