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January 10, 2022

Honorable Andrew Stolfi
Oregon Commissioner of Insurance
National Association of Insurance Commissioners (NAIC)
Chair of the Climate Disclosures Workstream
Climate and Resiliency (EX) Task Force

Attention: Jennifer Gardner

Dear Commissioner Stolfi:

On behalf of the newly formed Climate Change Joint Task Force of the American Academy of Actuaries (Academy),¹ we appreciate this opportunity to provide the following comments regarding the NAIC's proposed redesign of its Climate Risk Disclosure Survey including responses to questions the Climate and Resiliency Task Force asked.

Academy Research Related to the Existing Disclosures

The Climate Related Financial Disclosure (CRFD) Work Group of the Academy previously had been undertaking the research examining climate disclosures as they apply specifically to insurers, and that work has now been assumed by the joint task force. In the first part of that research, presented to the NAIC in December 2020 and January 2021,² we examined the climate-related financial disclosures currently being completed by about 70% of the U.S. insurance market (measured by direct premiums written) that respond to the NAIC Climate Risk Disclosure Survey. That current survey consists of nine Yes/No questions, with eight narrative responses required to elaborate. In the second part of that research, we have compared the results for those companies that started submitting disclosures per the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) with their previous disclosures under rubric of the NAIC Climate Risk Disclosure Survey. The results of that additional research has recently been completed and is described in the report attached to this comment letter.

Our research to date, as presented previously to the Climate and Resiliency Task Force on its climate-related financial disclosures work, has revealed several characteristics of the current disclosure protocol in place for insurers since 2010:

¹ The American Academy of Actuaries is a D.C.-based 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 credentialed by one or more of the five U.S.-based actuarial organizations in the United States.

² [December 4, 2020, presentation to Climate and Resiliency \(EX\) Task Force](#); [January 27, 2021, presentation to Climate and Resiliency \(EX\) Task Force, Climate Disclosures Workstream](#)

- A. Insurers have generally been increasing their Yes answers, indicating greater awareness of and responsiveness to climate risks;
- B. There exists substantial variability in the narrative responses both by type of insurance product and by size of the company;
- C. It is difficult to extract information from the narrative responses with which to create benchmarks or otherwise compare the performance of any individual company to others; and
- D. A relatively small proportion of insurers—less than 30% of companies—are responding robustly to the current survey.

Our subsequent research on climate risk disclosures, not previously reported to the NAIC, focuses on what might be gained and what might be lost by moving to the TCFD disclosures. Comparing the TCFD filings of the eight companies that submitted them for 2019, which is the set of data with which the Academy’s initial investigations began, to those companies’ prior NAIC survey responses, our results can be summarized as follows:³

1. TCFD reports generally provide more information than the NAIC disclosure surveys;
2. The increase in information provided by the TCFD reports is accompanied by an increase in the variability of responses;
3. Certain topics—governance, metrics and model results, and opportunities provided by climate change—are significantly better covered than in the NAIC surveys;
4. Certain topics—operational risk, underwriting risk, and engagement with policyholders and key stakeholders—are less completely covered than in the NAIC surveys;
5. Only companies that are relatively large have been voluntarily submitting it;
6. The TCFD responses, as is true of the NAIC surveys, are difficult to benchmark and
7. The absence of systematic questions—whether Yes/No, multiple-choice, or quantitative—makes the creation of benchmarks difficult and, thus, makes it difficult to assess individual companies against those benchmarks.

Based on this research, the Climate and Resiliency Task Force might wish to pay attention to three issues:

- a. While the addition of Yes/No questions from the NAIC Disclosure Survey is an excellent start to making benchmarks feasible, there exist at least two surveys which might offer more and better questions to include. Both the Carbon Disclosure Project (CDP) survey and the Cambridge Institute for Sustainability Leadership’s ClimateWise survey are used by many companies voluntarily, and both are designed to satisfy the requirements of the TCFD reporting guidance. As a result, while the current proposal may be the best possible option for adding systematic questions quickly, it might be worth considering studying these two surveys (and others which meet the same criteria of widely used, systematic, and meeting TCFD requirements) more closely to determine how best to draw from them to improve the NAIC’s disclosure requirements. The Academy would be happy to examine options for multiple choice questions to assist the (EX) Task Force;
- b. There might be an appeal to extrapolate from the experience of the 24 companies that filed TCFD reports in 2020 to the reports which would be filed by all companies if the NAIC required TCFD (with or without “Plus”) disclosures. However, when we observe that the companies which filed TCFD are atypical of the large group of companies which filed NAIC disclosure surveys, it would argue for caution in any extrapolation. According to the Academy’s prior research, 70% - 80% of companies were filing narrow, not robust, narrative responses to the NAIC survey. The TCFD

³ See the attached report, *Task Force on Climate-related Financial Disclosures (TCFD) and National Association of Insurance Commissioners (NAIC) Climate Disclosure Survey Responses Compared Qualitatively and Quantitatively*, in which we compare TCFD and NAIC Survey responses for companies which submitted TCFD responses, for more details.

responses to date have come largely from the 20% - 30% that were already submitting relatively robust responses to the NAIC survey. They tend to be larger and they tend to be operating in multiple lines of business.

- c. Regulators may wish to put together a set of goals or goals that apply to several phases for what they are generally seeking. For more context for this suggestion, see response to specific question 1 below.

It would seem reasonable to expect that those companies which were responding narrowly to the NAIC survey would respond narrowly to the TCFD requirement as well. The (EX) Task Force might consider examining the need for and possibilities of improving the response from all companies, and especially those least prepared to respond robustly at the moment, by providing and/or encouraging more education and training aimed at those tasked with completing the disclosures.

Comments on the redesigned NAIC Climate Risk Disclosure Survey

The Purpose Statement

The purpose statement contains five goals of the NAIC Climate Risk Disclosure Survey. Each of these goals is qualitative in nature (i.e., enhancing transparency, provide baseline information, promote insurer strategic management, enable regulatory collaboration on climate, and align with international climate risk disclosure frameworks.) The extent to which these goals are expected to be met by the redesigned survey may need to be articulated along with a measurement basis for whether the goals are met.

Our comments on the redesigned survey are based on the Academy research to date that focuses on the quality of the information provided under the existing disclosure survey. Our research relates more to the transparency and baseline nature of disclosures. Our work, as stated above, indicates that the narrative responses are hard to compare due to the variability of the responses by company, particularly based on the size of the company and the type of insurer. As a result, using narrative responses to develop benchmarks both for disclosures and for comparing in a measurable way the progress to mitigating impacts of climate change is difficult. Our comments on individual topics of the redesigned questions focus on the whether the narrative questions appear to be more directed to a response that will be more comparable.

Topics of Questions

Governance: The governance narrative questions appear to be fairly straightforward and answerable in a comparable way. In addition, having governance-related questions adds a dimension currently existing in the TCFD disclosures that is absent in the current NAIC questions.

Strategy: The answers to the strategy-related questions are likely to vary by type of insurer, the geography in which it operates, as well as its size and level of sophistication. While there may be insights gained for a regulator assessing the potential long-term solvency of an insurer as a result of the answers to these questions, a feedback loop to insurers may need to be developed after observing the types of answers that are provided to this set of questions. In addition, the possibility exists that all sizes and types of insurers have not currently assessed the risks and opportunities in detail on each time horizon or have quantified the company's resilience in a 2-degree Celsius warming trend.

Risk Management: The risk management questions outline broadly the areas that an insurer may already be considering in its enterprise risk management (ERM) work. But the questions may need more prompts in order to obtain comparable information. For example, the request for describing the organization's

process for managing climate-related risks could get more comparable responses if there are prompts to separately identify the process related to investing assets, underwriting new business, and monitoring valuation assumptions. While there are closed-ended questions on those topics, further descriptions could be appropriate. The closed-ended questions on managing climate-related risk may have limited meaning without a follow up in the narrative or additional more specific, closed-ended questions. For example, a further prompt may be needed related to the time horizon on which the management of climate risk is occurring.

Metrics and Targets: Some of the prompts on the metrics and targets might on the surface appear to be comparable, but likely abstracting the metrics from the narrative in order to compare companies could be difficult in this first phase. After receiving responses, additional closed-ended questions may be developed to make the resulting disclosures more comparable. In addition, having these questions on metrics would add an area that has been addressed in TCFD disclosures but rarely presented in the NAIC disclosures. The questions on metrics and targets are a good first step in increasing the comparability of the responses.

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Thank you for the opportunity to comment on the redesign of the NAIC Climate Risk Disclosure Survey, and we look forward to continuing to work with you as you work to develop and implement this new regime. If you wish to discuss these comments with us or have questions that we can address, feel free to contact Steve Jackson, assistant director for research (public policy) at sjackson@actuary.org.

Sincerely,

Lisa Slotznick, MAAA, FCAS
Chairperson

Michelle Young, MAAA, FSA
Vice-Chairperson

Academy Climate Change Joint Task Force