



AMERICAN ACADEMY *of* ACTUARIES

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June 30, 2008

Sean Dilweg, Commissioner, State of Wisconsin, Office of the Commissioner of Insurance  
Chair, Climate Risk Disclosure (EX) Working Group  
National Association of Insurance Commissioners  
c/o Pam Simpson

Re: Climate Risk Disclosure Proposal

Dear Commissioner Dilweg:

The Natural Catastrophe Subcommittee of the Extreme Events Committee of the American Academy of Actuaries<sup>1</sup> (“the Academy”) welcomes the opportunity to provide input on the second draft of the Climate Risk Disclosure Proposal dated May 28, 2008 (hereafter, “the proposal”).

The Natural Catastrophe Subcommittee has reviewed the proposal and offers the comment below.

As written, Question 4 could be interpreted to create an expectation that insurers may provide incentives that are not based on sound actuarial principles. Question 4 could also be interpreted as encouraging insurers to provide such incentives. The Subcommittee is concerned about how this question would be interpreted in the context of adherence to, for example, Actuarial Standard of Practice No. 12, *Risk Classification* states, in part, the following:

3.2.1 Relationship of Risk Characteristics and Expected Outcomes. The actuary should select risk characteristics that are related to expected outcomes. A relationship between a risk characteristic and an expected outcome, such as cost, is demonstrated if it can be shown that the variation in actual or reasonably anticipated experience correlates to the risk characteristic. . . .

We suggest a more direct question, such as the one proposed below, may garner the same type of information without unintentionally encouraging insurers to offer price changes and incentives when they may be unsupported.

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<sup>1</sup> The American Academy of Actuaries’ mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists 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.

4. ~~What steps has the company taken to encourage policyholders to reduce the losses caused by climate change influenced events, including for example, price incentives, new products, financial assistance for policyholder mitigation and loss mitigation public policy initiatives~~ Do company rating plans consider policyholder mitigation efforts or provide financial assistance for policyholder loss mitigation? Does the company participate in any research or public policy initiatives regarding loss mitigation?

We hope that you will find these comments helpful.

Sincerely,

Shawna Ackerman, chair  
Natural Catastrophes Subcommittee  
American Academy of Actuaries