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March 2, 2021

Commissioner Andrew Stolfi
Vice Chair
Climate and Resiliency (EX) Task Force
Climate Risk Disclosure Workstream
National Association of Insurance Commissioners (NAIC)

Dear Commissioner Stolfi,

On behalf of the American Academy of Actuaries¹ Climate-Related Financial Disclosures (CRFD) Work Group, I would like to provide the following comments on the set of questions that was exposed during the February 17 meeting of the Task Force's Climate Risk Disclosure Workstream. Before proceeding to the comments, I begin with our thanks for the transparent process you have arranged for the workstream, for inviting the work group to present our results to the workstream, and for the other very interesting presentations you have arranged.

Turning to the workstream questions, the work group notes that they are all interesting and relevant. However, we believe there are three topics which might be added, all of which follow from the fact that the NAIC is not approaching climate disclosures in a vacuum. Given the foresight with which the NAIC acted, regulators have almost a decade of experience with the Insurer Climate Risk Disclosure Survey. Given that experience, the overarching question might be framed: Given the experience with the Insurer Climate Risk Disclosure Survey, what would be the best content and format for climate disclosures going forward, and how shall a transition from the current survey to that successor be managed?

While each of the commissioners and regulators on the workstream have their own experiences with the current NAIC survey, we and the Center for Insurance Policy and Research (CIPR) team (led by Lisa Groshong) have spent the last year mining the responses to those surveys and have identified some key insights and some key questions. Some of these questions are implied by the questions posed in the workstream but not included explicitly in your current inventory.

Among the key insights from our research:

- There is significant variation in survey participation based both on size of company and line of business²;
- A relatively small share of responding companies are providing robust responses to the narrative questions;

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.

² Line of business in this context refers to P/C, life, and health.

- For those companies providing robust responses, eight of which have submitted Task Force on Climate-related Financial Disclosures (TCFD) responses for 2019, it is very difficult to extract information from their narratives which can provide information to others on best practices, or which can be used to set baselines for those best practices.
- The vast majority of companies across all lines of business are responding in a minimal way to the questions posed for the narrative responses. Most companies are not responding to the specific prompts for the narratives.

These insights suggest to us that the following topics/questions might usefully be considered by the workstream in formulating recommendations for the task force:

1. What might be done to encourage small and mid-size companies in all P/C and life lines of business, and health insurance companies of all sizes, to participate and to participate robustly in whatever disclosure regime is established?
2. For those companies already providing robust responses to the NAIC survey, what information not already being provided would be useful?
3. What can be done to make responses from the disclosures more useful for analysis by regulators and others, and more likely to provide information on best practices to other companies?
4. What can be done to encourage companies providing minimal responses to the current survey to provide more robust responses?
5. Who within a company is responsible for filling out the disclosure (or specific questions), and how does that affect the nature of the information supplied?
6. What transitional arrangements would maximize responsiveness and minimize disruption for participating companies?
7. What motivates a company to take actions to mitigate climate risk and how can this be better understood via the survey questions or disclosure prompts?

As we have previously informed the task force, we are aiming to provide assessments of some of the options for responding to each of these seven questions in phase two of our research. We are working to provide results to the task force by the time of the NAIC Summer National Meeting and hope that this timing will still be useful to you.

If you would like to have a further discussion on our comments or if you have additional questions, please contact the Academy's risk management and financial reporting analyst Shera Niemirowski, at niemirowski@actuary.org.

Thank you for considering our input.

Sincerely,

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