AMERICAN ACADEMY of ACTUARIES

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June 23, 2021

Linda A. Lacewell
Superintendent
New York State Department of Financial Services
1 State Street
New York, NY 10004-1511

Re: *Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change*

Dear Superintendent Lacewell,

The American Academy of Actuaries (Academy),[1] Actuaries Climate Index/Actuaries Climate Risk Index (ACI/ACRI) Work Group, and the Climate Related Financial Disclosures (CRFD) Work Group appreciate the opportunity to comment on the New York State Department of Financial Service's (NYS DFS) "Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change." In their practice, actuaries are grappling increasingly with risks associated with climate change both in our roles as risk managers and in our roles assessing premiums and reserves. We commend the NYS DFS for taking a lead in trying to improve awareness of and responsiveness to climate risks. The public, regulators, insurance interested parties, and companies all can benefit from enhanced information and effective action. As New York is one of the first states to move actively in this area, others are likely to be influenced by your actions.

ACADEMY RESEARCH ON CLIMATE CHANGE AND CLIMATE RISK DISCLOSURES

In addition to perspectives gained from our working experience, the Academy has also spent considerable time in recent years on two research initiatives that have provided us additional insight into changing climate risks and the need for appropriate financial reporting responses.

Actuaries Climate Index and Actuaries Climate Risk Index

First, the Actuaries Climate Index® v 1.1, created and maintained by four North American actuarial associations, including the Academy, documents changes in extreme occurrences of six climate-related elements of weather and sea level. The index, a measure summing the observations across all of the six elements, covers the U.S. and Canada, and breaks results down

[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.

for 12 regions, seven in the U.S. While the index generally shows increasingly extreme climatic conditions since the end of the reference period, 1961–1990, it also reveals the variability in those increases—both by element and by region. In 2020, the Academy published a preliminary model, the Actuaries Climate Risk Index v 1.0, providing estimates for the property losses during the period 1991–2016 that could be attributed specifically to changing climate, controlling for changes in exposure.

Climate Related Financial Disclosures

Second, the CRFD Work Group of the Academy has been examining climate disclosures as they apply specifically to the insurance industry. In the first part of that research, presented to the National Association of Insurance Commissioners (NAIC) in December 2020 and January 2021, the work group examined the climate-related financial disclosures currently being completed by about 70% of the insurance industry in response to the NAIC Climate Risk Disclosure Survey. That survey consists of nine Yes/No questions, with eight narrative responses required to elaborate. In the second part of that research, with results expected by August 2021, we are assessing options for moving forward with improved disclosures.

The Academy's research to date has revealed several characteristics of the disclosure protocol in place for insurers since 2010:

1. Insurers have generally been increasing their Yes answers, indicating greater awareness of and responsiveness to climate risks;
2. There exists substantial variability in the narrative responses both by insurance product and by size of the company;
3. 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;
4. A relatively small proportion of insurers—less than 30% of companies—are responding robustly to the current survey.

As a result of the work group's examination of the NAIC Climate Risk Disclosure Survey, it has identified several key tasks to be accomplished in the second part of its project, based in part on a comparison of the current NAIC survey with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP) survey:

1. Examine two gaps:
    a. Gap between most robust survey responses and the requirements of TCFD and/or CDP
    b. Gap between most robust and less robust survey responses
2. Assess different possible methods of encouraging more robust, informative responses from insurers, including:
    a. Careful construction and testing of questions
    b. More guidance for preparers
    c. More Yes/No and/or multiple-choice questions

SPECIFIC COMMENTS ON THE PROPOSED NYS DFS GUIDANCE

Based on the work completed on the Academy's research, and insights gained from our working experiences as actuaries, we offer the following specific comments.

Specifically referring to Section 3.7, Public Disclosures, the general approach seems quite promising, namely:

- To seek information largely consistent with the TCFD's guidelines; and
- To encourage more quantitative metrics over the next two to three years.

- Yet, the DFS proposed guidance would leave the nature and extent of the company responses entirely up to the company. As a result, each company might respond with different particulars and with different degrees of specificity. Even as each company adds more quantitative metrics, the definitions of those metrics might vary significantly. This might be helpful for the first year or two, as different responses might suggest fruitful ways to encourage future reporting.

- But, for the disclosures to be as useful as possible to the public, regulators, interested parties, and the companies themselves, comparability to other companies is important. If the DFS were to specify at least some Yes/No or multiple-choice questions (of the kind included in the CDP survey, for example), and/or were to specify at least some metrics that companies ought to be preparing to submit in the next two to three years, that would likely be very helpful. Examples could include a question such as "What metric(s) are you using to assess the magnitude of climate risk?" "How are you defining the metric(s)?" and "How are you measuring the metric(s)?"

- In becoming more specific, the DFS may need to continue to pay attention to two likely needs of both companies and others, which are currently implicit in Section 3.1, paragraph 13:
    - Recognition that climate risks will affect different lines of business and different geographic regions differently (e.g., NYS insurers with affiliated entities in the Southeast are likely to have different exposures to climate risk than those insurers without entities in that region). These differences in exposure not only flow from differences in major storm activity—such as hurricanes in the Southeast—but also from important regional differences in trends in temperature, precipitation, and wind that might also introduce different levels and kinds of risks, as the Actuaries Climate Index makes apparent.
    - Those who prepare responses are likely to require assistance, education. and training; this would be even more so if the questions are more demanding and specific.

- Finally, with respect to public disclosures, it would be very helpful if DFS clarified that everything requested in the proposed guidance is incremental to rather than duplicative of the existing information insurers already have to provide in response to the NAIC

Climate Risk Disclosure Survey. Highlighting information that is being requested which is not normally found in insurer responses to the current NAIC survey and recognizing that submission of NAIC survey responses with any supplemental required information would meet the requirements of the guidance would also minimize the likelihood of an unnecessary allocation of time and resources.

In addition to our comments on public disclosures, we would suggest the following with respect to proportionality under the Proportionate Approach (Section 3.1) and Risk Management (Section 3.5):

Section 3.1 asks insurers to extend their business planning to 30 years. This extended time horizon would pose challenges in identifying the best ways in which to estimate the risks that far into the future, especially for lines of business which do not typically look that far into the future. Our expectation is such projections would be heavily caveated and may be of questionable value going further and further out into the future. One way to gain insight without requiring projections that might be of limited value would be to ask insurers to simply provide information on what tools they think are helpful in projecting that far out rather than trying to quantify the impacts. The Actuaries Climate Risk Index provides one tool that might be adapted by insurers to estimate the impact of changing climate risk on losses. Calling attention to the need to find or develop tools, internally or externally, and generating responses that might be used to generate a list of frequently used sources, might be very helpful.

Section 3.5 would request information on risk identification and prioritization. It might be helpful if the DFS pointed to reliable and useful sources of information and, perhaps, to guidance on the future trends. Section 3.5 also would request an assessment of the impact of climate change on existing risk factors. Some more guidance on ways in which to assess these impacts with qualitative information, prior to the availability of systematic scenario analysis or stress testing, might be helpful.

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If you would like to have a further discussion on our comments or if you have additional questions, please contact the Academy's Director of Public Policy Craig Hanna at hanna@actuary.org.

Respectfully submitted,

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