Sustainability is the bottom line.

March 3, 2021

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Dear Anne,

Thank you very much for providing the public the opportunity to submit suggestions regarding improvements to the NAIC Climate Risk Disclosure Survey.

Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world's greatest sustainability challenges. The Ceres Accelerator for Sustainable Capital Markets works to transform the practices and policies that govern capital markets in order to reduce the worst financial impacts of the climate crisis. It spurs action on climate change as a systemic financial risk -- driving the large-scale behavior and systems change needed to achieve a net-zero emissions economy.

We also support the Investor Network on Climate Risk and Sustainability, which consists of over 175 institutional investors managing more than $30 trillion in assets, who advance leading investment practices, corporate engagement strategies, and policy and regulatory solutions to address sustainability risks and opportunities.

Following are Ceres' comments in response to the seven questions in the NAIC's *Questions to Determine Objectives of NAIC Climate Disclosures* survey:

1) Who is the audience and what do they wish to glean from the results?

a) What qualitative and quantitative metrics do they need?

b) How should the information in the survey be formatted to be useful?

The audiences for this information are insurance regulators, investors, and policyholders. The information is also invaluable for insurance company boards of directors and senior management, as it enables learning from and comparison of climate risk strategies with peers.

For regulators, the information helps them understand how well positioned insurance companies are for the growing climate risks and opportunities they face. Survey responses will help regulators discuss climate risks with companies and other stakeholders, resulting in companies improving their strategies for addressing climate risks and opportunities. This will not only position the companies for success, it will reduce costs for policyholders, affect the affordability and availability of insurance, and can play an important role in reducing the harms to the economy, housing, infrastructure and human health from climate risk.

Many policyholders have increased expectations for companies to help more in the fight against the climate crisis, and others want to purchase insurance products and services that provide climate benefits. Investors struggle to get the information they need from voluntary climate risk disclosure by insurers, so regulator requirements for disclosure of that information are absolutely vital. At insurance companies, senior management and directors find value in the process of assessing and disclosing climate risks, as discussed in our answer to question 7, below. Management and directors also need this information to guide the company's climate strategyand assure safety and soundness for all stakeholders.

These audiences wish to glean information about climate change preparedness, governance, risk management, and strategy, which are qualitative factors that are aligned with the Task Force on Climate-related Financial Disclosures' (TCFD) climate disclosure recommendations.

Investors, regulators and other financial market actors increasingly desire disclosure of quantitative metrics by insurers. We recommend the NAIC add quantitative metrics to the survey this year. Specifically, we recommend you consider integrating SASB's climate-related metrics for disclosure by insurers and asset managers into this year's survey.

Looking forward to future years, we recommend that the NAIC begin pilot testing additional metrics, by immediately setting up a group of insurers willing to work with the NAIC on this project. For pilot testing, we recommend you consider the insurance-specific metrics provided in the Climate Risk Financial Forum's *Climate Financial Risk Forum Guide 2020: Disclosure Chapter* (June 2020).

2) Who should report?

> *a) What is the threshold?*
> *b) Should it be compulsory?*
> *c) What states are participating?*

Ceres' position is that annual climate risk disclosure should remain compulsory, using the TCFD rather than the existing NAIC Climate Risk Disclosure Survey (please see our responses to questions 3 and 4 for more information). Disclosure should be compulsory because the NAIC annual information request is the most widely used source of information about insurers' responses to the climate risks they face. Making it voluntary would be a huge step backwards, which is our view based on Ceres' decades of experience with voluntary sustainability disclosure. That's because while excellent information is provided in some voluntary disclosures, only mandatory disclosure can result in the comparable, consistent reporting investors need.

We recommend lowering the size of insurance company premiums required to answer the survey, from $100 million to $50 million in premiums. This would be valuable because it would provide a fuller picture of U.S. insurers' responses to climate change, by capturing around 90% of the entire U.S. insurance market compared to about 70% at present.

We recommend that all NAIC members (the 50 U.S. states, the District of Columbia and five U.S. territories) consider participating in the survey. In the near term, for the survey being released in July 2021, we hope that the members of the NAIC climate and resiliency task force (31 states and the District of Columbia) will consider participating.

3) What report framework should be used?

a) TCFD?
b) NAIC Climate Disclosure Survey?
c) Another framework (such as CDP)?
d) Some combination?

We recommend that the NAIC change from using the NAIC climate disclosure survey to the TCFD framework, with the addition of some metrics, multiple choice questions, and checkboxes. For details, please see our answer to question 4.

The TCFD has become the global standard for corporate climate risk disclosure for good reason: it was created by the financial community and is designed to provide the information the financial community requires to integrate climate risks into their decision making.

The TCFD also has widespread global corporate, investor and government support. It is supported by 1,700+ companies, investors and others from 77 countries, including 110 regulators and government organizations, including 265 American companies. Around the world, there are over 26 implementation initiatives or reports for insurers, financial institutions and many other industries, as well as over 22 government initiatives on climate change disclosure aligned with the TCFD.

4) How should the questions be designed?

a) Multiple choice?
b) Open-ended?
c) Close-ended (rating scale, dropdown, ranking, etc.)?

We recommend that the NAIC begin using the TCFD framework this year, using multiple choice and close-ended questions, while retaining some open-ended questions from the framework.

The TCFD framework as designed solicits a great deal of narrative disclosure. Much of the TCFD framework has been slightly altered into a more decision friendly, multiple choice/close-ended format by CDP, the UN PRI and others. The TCFD was also designed for disclosure of metrics and targets using the work of ESG standard setters. Therefore, we recommend the NAIC use the

TCFD questionnaire but add metrics, where appropriate, and convert text to multiple choice questions and checkboxes, similar to the changes that CDP and UN PRI made when they integrated the TCFD into their annual questionnaires.

These changes will provide improved comparability of data compared to the TCFD alone or the current NAIC questionnaire. It may also improve the quality of responses because of the specificity required.

5) When should the information be reported and what is the effective date of the changes?

We recommend that the NAIC change to the TCFD framework as of July 2021, since the annual questionnaire is typically sent out each July. While we realize this is a short timeframe to also add metrics, multiple choice questions, and checkboxes based on the TCFD, we hope that some of that work could be completed by July 2021. In terms of when the information should be reported, we do not recommend any changes from previous surveys. Finally, we are aware that large and small companies have very different resources, in terms of staffing and financial resources, to devote to climate risk data collection and disclosure. Therefore, we support a phase-in period for smaller companies.

6) Where should climate disclosures be reported?

a) Continue to make it available through California's website?
b) Build an NAIC repository?
c) Directed to the domestic state?

For the survey being sent in July 2021, we recommend continuing to make responses available through the California Department of Insurance website. For future surveys, we recommend that the NAIC and the California Insurance office consider exploring the potential of building an NAIC repository, because of the efficiency of providing the information in one location that makes it easy for regulators, the public and investors to find.

7) How should the results be made available?

a) Only to regulators?
b) Publicly available (as it is today)?

Public availability of insurers' disclosures is absolutely vital. We recommend the survey responses continue to be made available to the public. Transparency is important both for accountability to regulators, investors and the public, and for ensuring a process that companies find valuable. Ceres has set out our arguments about the value of public disclosure in the *Ceres Roadmap 2030*, which provides a 10-year action plan to help companies navigate a new and ever-changing business reality and thrive in the accelerated transition to a more equitable, just and sustainable economy:

> "Public disclosure is an opportunity for companies to communicate to stakeholders a narrative that outlines how sustainability risks and opportunities are recognized,

managed and addressed. For companies just getting started, the value of public disclosure is found in the process. Evaluating existing data collection systems and creating new ones, partnering with decisions-makers from across the company to gain the necessary support and buy-in, engaging with external experts and stakeholders to ensure relevance and completeness—each of these steps in the process bring invaluable experience, insights and improved understanding of not only a company's risks and opportunities, but the business itself."

Thank you very much for your consideration of our recommendations. We have also included an Appendix with links to some of Ceres' insurance-focused research reports, which include three reports analyzing responses to the NAIC Climate Risk Disclosure Survey.

Ceres staff stand ready to collaborate in whatever ways we can be helpful, including facilitating educational opportunities about climate risk for task force members and other insurance regulators. To reach us, please contact Steven Rothstein, Managing Director, Ceres Accelerator for Sustainable Capital Markets at srothstein@ceres.org.

Sincerely,

Jim Coburn
Senior Manager, Disclosure
Ceres, Inc.

cc: Steven M. Rothstein, Managing Director, Ceres Accelerator for Sustainable Capital Markets

Appendix: Ceres research on insurance

Insurer Climate Risk Disclosure Survey Report & Scorecard: 2016 Findings and Recommendations

Oct 20, 2016 -- This report evaluates and benchmarks the quality and comprehensiveness of climate risk disclosures by insurance companies in response to the National Association of Insurance Commissioners (NAIC) Climate Risk Disclosure Survey.

Assets or Liabilities? Fossil Fuel Investments of Leading U.S. Insurers

May 24, 2016 -- This report focuses on the risks to insurance companies—the second-largest type of institutional investor after pension funds based on assets under management.

Insurer Climate Risk Disclosure Survey Report & Scorecard: 2014 Findings & Recommendations

Oct 21, 2014 -- Amid growing evidence that climate change is having wide-ranging global impacts that will worsen in the years ahead, *Insurer Climate Risk Disclosure Survey Report & Scorecard: 2014 Findings & Recommendations* ranks the nation's 330 largest insurance companies on what they are saying and doing to respond to escalating climate risks.

Building Resilient Cities: From Risk Assessment to Redevelopment

Dec 05, 2013 --This paper by urban strategist Jeb Brugmann is one of three documents arising from the “Building Climate Resilience in Cities” workshop series. It explains one of the core concepts developed through our workshop series. This new strategic planning framework, called a “Resilience Zone” is introduced and explored through a four-stage development process.

Building Climate Resilience in Cities: Priorities for Collaborative Action

Dec 05, 2013 -- This is one of three documents developed by insurance industry leaders and city stakeholders through the “Building Climate Resilience in Cities” workshop series convened by Ceres and ClimateWise in 2012 and 2013.

Inaction on Climate Change: The Cost to Taxpayers

Oct 28, 2013 -- When we examine the full costs of public programs that pay for disaster relief and recovery from extreme weather events—ad hoc disaster assistance appropriations, flood insurance, crop insurance, wildfire protection, and state run “residual market” insurance programs—we can begin to understand the price to U.S. taxpayers of inaction on climate change.

Insurer Climate Risk Disclosure Survey 2012

Mar 06, 2013 -- This report summarizes responses from insurance companies to a survey on climate risk developed by the National Association of Insurance Commissioners (NAIC). In 2012, insurance regulators in California, New York and Washington required insurers that write in excess of $300 million in direct written premiums, and are licensed to operate in any of the three states, to disclose their climate-related risks using this survey. The aim of the survey and Ceres’ analysis of the responses is to provide regulators with substantive information about the risks to insurers posed by climate change, as well as steps insurers are taking in response to their understanding of climate change risks.

Stormy Future for U.S. Property/Casualty Insurers: The Growing Costs and Risks of Extreme Weather Events

Sep 20, 2012 -- This report examines how extreme weather trends may be a harbinger of significant challenges ahead for a sector in which many companies are already confronting profitability and growth challenges. This analysis is based on a review of U.S. property/casualty insurance industry financial results as reported by A. M. Best Company in early 2012.

Availability and Affordability of Insurance Under Climate Change: A Growing Challenge for the U.S.

Dec 06, 2005 -- This report focuses on the growing risks that U.S. insurers, government and consumers face from climate change. The report includes specific recommendations for addressing this growing insurance challenge.