

Questions to Determine Objectives of NAIC Climate Disclosures

The following questions have been developed by the Climate Disclosure Workstream of the NAIC Climate Risk and Resilience Task Force. The questions were developed with substantial feedback from interested regulators and parties. They are designed to gain a solid foundation of the goals of climate disclosures. The responses will guide discussions on how the current climate disclosure framework should be revised to be more effective.

- 1) Who is/are the audience(s) and what do they wish to glean from the results (solvency regulation, risk evaluation, etc.)?

The primary audience should be regulators and the public. Although investors may also find the responses useful, the SEC is better placed than the NAIC to dictate what climate-related reporting is needed to ensure that investors' interests are protected.

From a regulator's perspective, DFS would like to use the responses for risk evaluation and solvency regulation.

For the public, the survey responses could be used by consumers to assess whether an insurer is well-managed and whether its business conduct is aligned with their value. They may also help consumers decide which insurers they want to do business with based on the likelihood that the insurer will remain in the market. Finally, comprehensive disclosures would enable consumer advocates and representatives to analyze the landscape of current business practices and promote successful climate strategies.

- a) What qualitative and quantitative metrics do they need?

We believe the following metrics should be captured through a combination of single-select multiple-choice questions, multi-select checkboxes, numerical questions, yes/no questions, and open-ended narrative textboxes:

On Risk Culture and Governance

- Which board member(s) or committee(s) is responsible for managing the financial risks from climate change ("climate risks")? (multiple choice)
- How often are climate risks discussed at board meetings? (multiple choice)
- Which senior management function(s) is responsible for climate risks? (multiple choice)
- Describe board members' experience and/or expertise related to climate risks (open-ended)
- Has the company implemented any remuneration policies to incentivize the management of climate risks? (Y/N) If yes, please describe the targets and incentives (open-ended)
- Do you have a committee focused on climate risks that cuts across business lines and/or functions? (Y/N) If yes, please briefly describe (open-ended)
- How do you acquire climate risk expertise? (multiple choice)

Business Strategies

- Which segments of the company's customers and investees would be affected by climate change and how? How big are these segments (revenue, investment amount) for the company? (multiple choice + short narrative descriptions)
- How does the company define materiality when assessing climate risks? (multiple choice)
- What products and services does your company offer on the underwriting side that contribute to climate mitigation and adaptation? (short narrative descriptions and numerical metrics such as premium amount)
- What investments does your company make that contribute to climate mitigation and adaptation? (short narrative descriptions and numerical metrics such as investment amount)

Risk Management

- Risk management framework
 - Description of framework (open-ended)
 - Control functions involved (e.g., risk management, information technology, compliance, internal audit, actuarial) (checkboxes and short narrative descriptions on what each function does and how the functions work together)
 - Metrics insurers use to assess and monitor climate risks, such as amount of exposure to business lines, sectors, and geographies vulnerable to climate change (absolute amounts and percentages), alignment with climate scenarios, 1 in 100 years probable maximum loss, Climate VaR, carbon intensity, and amount of financed carbon
 - Climate-related targets (checkboxes and numerical answers)
- How does climate change impact existing risk factors (checkboxes and open-ended questions)?
- What is the company's exposure on the underwriting and investment side to sectors and geographies sensitive to physical risks (e.g., hurricanes, flood, drought)? (numerical answers, such as the absolute amount and percentage of total premium or investments)
- What is the company's exposure on the underwriting and investment side to sectors sensitive to transition risks (i.e., high-carbon sectors like fossil fuel production, electric utility, automotive, aviation, shipping, cement, steel) and high- and low-carbon technologies within those sectors (e.g., coal, oil, and gas power generation vs. renewable power generation, internal combustion engine cars vs. electric vehicles or hybrid cars)? (numerical answers, such as the absolute amount and percentage of total premium or investments)
- What is the company's exposure on the underwriting and investment side to climate solutions? (numerical answers, such as the absolute amount and percentage of total premium or investments)

Scenario Analysis

- Does the company utilize climate scenarios on the asset and/or liability side? (Y/N) If yes, what types of scenarios are used? (checkboxes + short, open-ended descriptions)
Types of scenarios could be:
 - Top down – GHG emission based
 - Bottom up - technology pathway based
- What time frames are considered for each scenario? (checkboxes)
- How has the company used the outputs from the scenario analysis to inform decision making? (open-ended)
- How does the company plan to use the outputs from the scenario analysis to inform decision making in the future? (open-ended)
- If the company does not currently use scenario analysis, what is its expected time frame for developing and implementing scenario analysis (multiple choice, such as 1yr, 2yr, 3yr+)

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

The information should be a combination of single-select multiple-choice questions, multi-select checkboxes, numerical questions, yes/no questions, and open-ended narrative textboxes so as to make the responses easily comparable across insurers and across time.

c) What information not already being provided in the survey would be useful?

There are two aspects to this question. One relates to questions and sub-questions that are already in the survey but are not being answered by most insurers. These open-ended questions and sub-questions should be converted into close-ended questions to the extent possible and should be made mandatory. The current survey allows too much flexibility in terms of how the questions are answered, and therefore makes the responses hard to compare and evaluate.

The second aspect relates to questions and sub-questions that are not currently in the survey. This was answered in response to Question 1(a) above.

2) Who should report?

- a) **What is the threshold?** All insurers except for those in insolvency proceedings. The proportionality principle should be applied in evaluating the survey responses and in taking supervisory action. Each insurer to take a proportionate approach to managing climate risks that reflects its exposure to climate risks and the nature, scale, and complexity of its business. DFS recognizes that not all insurers have the same level of resources to devote to managing climate risks and that some insurers will take longer than others to develop and implement appropriate practices. However, all insurers, regardless of size, are expected to analyze their climate risks on both the underwriting and investment sides of their balance sheets. Small insurers are not necessarily less exposed to climate risks because they may

have concentrated business lines or geographies that are highly exposed to climate risks without the benefit of diversification available to larger insurers.

As an insurer's expertise and understanding of climate risks develop, the insurer's approach to managing these risks to mature. Over time, an insurer's analysis of climate risks and assessment of their materiality for its business should shift from a qualitative approach to a quantitative approach.

- b) **Should it be compulsory?** Yes. While all insurers should be required to respond (except for those in insolvency proceedings), the standard can be "comply or explain" for the first few years to give insurers time to build their capacity to manage climate risks and respond to the survey. If they cannot comply, they should provide a plan on how they will comply in the future. The "comply or explain" approach is used in the UK, France, and New Zealand for their climate-related reporting.

3) What report framework should be used?

- a) **TCFD?** The TCFD framework should be followed but it is very high-level and typically results in reports that are not standardized and therefore hard to compare. Thus, while TCFD reports contain good information, one company's TCFD report may be very different from that of another.
- b) **NAIC Climate Disclosure Survey?** The current survey contains questions that are similar to those in TCFD, but they need to be updated.
- c) **Another framework (such as CDP)?** CDP is not a different framework from TCFD. Its questionnaire, which is aligned with TCFD, merely provides companies with a standard set of questions so that they can disclose details beyond what is required by the high-level TCFD framework. CDP also provides a central location for the disclosures to be stored and viewed. CDP does not, however, have an insurance-specific questionnaire. While it is possible to create an insurance-specific TCFD-aligned survey based on CDP's questions, that could give rise to intellectual property issues.
- d) **Some combination?** The report framework should tailor the TCFD framework to the insurance industry and contain more specific questions. Ideally, given its expertise in this area, we would ask CDP to develop an insurance-specific questionnaire, but it would cost insurers money to respond.

4) How should the questions be designed?

- a) **Multiple choice?** Yes, depending on the question. For example, for the question "Which senior management function is responsible for climate risks?" choices could include Chief Executive Officer, Chief Risk Officer, Chief Investment Officer, Chief Marketing Officer, and Chief Sustainability Officer.

- b) Open-ended? Yes, depending on the question.
- c) Close-ended (rating scale, dropdown, ranking, etc.)? Yes, depending on the question. For example, for the question “What are the main barriers for your company to consider climate change’s impact on your investments?” a set of choices can be provided and insurers can be asked to rank them. There can also be an “Other(s)” option, with a follow-up question: “If you selected Other(s), please specify” and a textbox that allows for an open-ended response.
- d) Should insurers be able to respond to narrative responses by referencing an attachment or linked disclosure (such as TCFD)? Yes. Some companies already reference certain sections in their annual reports or sustainability reports when providing disclosures that are aligned with TCFD. At the same time, insurers should still be required to respond to the multiple-choice and close-ended questions, even if responses to those questions can be found in other reports. This will ensure the comparability of the responses without requiring too much additional work by the respondents.
- e) Should questions be tailored to size of company or logic added to meet companies where they are? The questions should not be tailored to the size of the company, but the evaluation of the responses should according to the proportionality principle. For example a response indicating inaction by a small company in a particular area could be deemed acceptable from a risk perspective by a regulator, although as stated earlier, small insurers are not necessarily less exposed to climate risks because they may have concentrated business lines or geographies that are highly exposed to climate risks without the benefit of diversification available to larger insurers.

5) How should a transition from the current survey to a successor be managed?

Insurers should all respond to the new survey. They can be given more time, such as an additional month or two, to respond to the new survey in the first year. Insurers that have not previously responded to the current survey (for example, because they did not meet the current threshold) should be given plenty of advance notice to familiarize themselves with the questions and prepare their responses.

- a) What should be the effective date of the changes? The effective date should be whenever the new survey is finalized.
- b) What should be the timing of information reported? Insurers’ annual statements are submitted by March 1 every year. To ensure that the data in the survey responses is up to date, the responses should be due close to that time, such as April 1. The survey can be sent out on February 1 of each year. This can start in 2023 but would ideally start in 2022 if the new survey can be finalized well in advance of February 1, 2022.

6) Where should climate disclosures be reported?

- a) Continue to make it available through California's website? [The California Department of Insurance has been most generous to host the disclosures for the past 12 years. In the long-term, it would make more sense for the NAIC to be the repository.](#)
- b) Build an NAIC repository? [That depends on how long it would take for the NAIC to build the repository and what it would look like.](#)
- c) Directed to the domestic state? [No. The information should be maintained in a central location.](#)

7) How should the results be made available?

- a) Only to regulators? [No.](#)
- b) Publicly available (as it is today)? [Yes.](#)
- c) Combination of public and regulator-only? If so, how should the disclosure information be separated? [Regulator-only information should be requested by examiners and analysts as part of the examination and audit process. NAIC should update its Financial Condition Examiners Handbook and its Financial Analysis Handbook to include such questions.](#)

8) What can be done to help companies recognize climate-related risks and how they should be disclosed.

[NAIC and regulators can provide seminars and trainings for insurers. As a first step, regulators themselves need to be educated on the issue and need to start talking to their regulated insurers about climate risks. NAIC already has a course on \[Climate Change and Risk-Focused Examinations\]\(#\) but it is unclear how widely it has been taken.](#)

[Trade associations are also able to organize workshops and trainings for their members.](#)

9) What support is necessary to assist companies in filling out the survey?

[If companies have questions regarding the survey, they should be able to contact NAIC staff, who can then forward the question the Disclosure Workstream. The Workstream can then respond to the insurer and post the answer in an FAQ page on the NAIC website.](#)