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Hon. Sean Dilweg  
Commissioner, Wisconsin Department of Insurance  
Chair, Climate Change and Global Warming (EX) Task Force  
National Association of Insurance Commissioners (NAIC)  
2301 McGee Street, Suite 800  
Kansas City, MO 64108  
ATTN: Ms. Pam Simpson

Re: *Climate Risk Disclosure Proposal (May 28, 2008 draft)*

Dear Commissioner Dilweg:

Thank you for the opportunity to provide comments on the May 28, 2008 draft of the Climate Risk Disclosure Proposal issued by the NAIC Climate Change and Global Warming (EX) Task Force.<sup>1</sup> ACLI commends the Task Force for the revisions incorporated into the latest draft of the Proposal. We view this as a significant step in the right direction. However, we would like to reiterate that, in our opinion, mandatory climate-risk disclosures for life insurers are neither warranted nor appropriate, and that the questions included in the Proposal have either limited or no applicability to life insurers. Further, we are particularly concerned about the speed with which the proposed disclosures would be implemented and the potentially negative consequences which may result. After reviewing our comments, we are hopeful that you will agree with our assessment.

The current draft Proposal would *require* life insurers to disclose how they plan to curb their greenhouse gas (GHG) emissions (question 1) and what actions they have taken to encourage others to do the same (questions 4 and 9; and, indirectly, question 2). Because life insurance is a service industry which generates trivial amounts of GHG's it is not clear why this information would be required or why it would be of any regulatory concern. Requiring such disclosures diverts limited resources from more useful purposes and imposes additional costs on insurers and policyholders with little benefit in return. As noted in an earlier comment letter (April 15, 2008), if policyholders, investors, management or society at large would benefit from life insurers providing this information, then they would do so *voluntarily*.

While reducing GHG emissions is a worthy objective, life insurers are not in a position to influence policyholder behavior in this regard. Because climate change is expected to have little or no impact on U.S. mortality rates, questions 4 (i.e. "What steps has the company taken to encourage policyholders to reduce losses caused by climate change-influenced events ...") and 7 (i.e. "Are there geographic locations where the company has increased rates or limited sales, ..., because of the effects of climate change? ...")

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<sup>1</sup> The American Council of Life Insurers (ACLI) is the principal trade association of life insurers, representing three hundred fifty-three (353) member companies operating in the United States, of which three hundred forty-five (345) are legal reserve life insurance companies, and eight (8) are fraternal benefit societies. These 353 member companies account for 93 percent of total assets, 93 percent of the life insurance premiums, and 94 percent of annuity considerations in the United States.

do not apply to life insurers.<sup>2</sup> Additionally, it is unlikely that life insurers would be able to exert any substantial influence on other industries, or that it would be appropriate or prudent to make such an attempt. Putting aside practicality and propriety, forcing life insurers to attempt to reduce GHG emissions by influencing third parties is costly and may lead to manipulation by groups and individuals with a political agenda but with no stake in the financial health of the industry. Also, because insurers would face this additional, somewhat arbitrary constraint, a possible consequence is that they may be forced to make suboptimal investment decisions.

Scientific debate on climate change is still very recent. As stated in previous comment letters, the impact of climate change on future weather patterns and on specific weather-related events cannot be predicted with any degree of certainty, yet several of the proposed disclosures (questions 5, 6, and to some extent 8) require that such predictions be made. Given the numerous assumptions necessary and the inherent subjectivity of the topic, similar companies that face comparable climate risk can reasonably reach vastly different conclusions regarding their exposure and may provide very different but fully defensible answers to the questions posed. Such an exercise seems to be of questionable value. Additionally, it is not yet possible to definitively link any “trends, events, demands, commitments, [or] uncertainties” to climate change. For this reason, any answer to question 6 would be based on speculation, which is entirely inappropriate for public records such as supplements to Annual Statements. Furthermore, requiring insurers to publicly report the results of internal analyses (i.e. questions 3, 5, 7, and 8) may force companies to reveal critical business strategy and may indirectly stifle innovation in risk assessment and risk management techniques.

As the current draft of the Disclosure Proposal notes: “regulators may do well to be wary of generating multiple reporting requests”. ACLI agrees wholeheartedly with this statement and would like to draw the NAIC’s attention to the fact that currently, 78 percent of life insurance companies are public and must comply with the SEC’s climate-risk disclosure requirements. Furthermore, insurers are already required to report loss contingencies, including certain losses arising from climate change, in their statutory filings. Consequently, even if a meaningful answer could be provided to question 6, it would be redundant. Clearly, requiring disclosures on similar information in a separate supplement adds little value.

ACLI is concerned that the information requested in the Disclosure Proposal may be misused or taken out of context by agenda-driven individuals and organizations who do not have the best interests of policyholders, insurers, or regulators in mind, or whose views of public welfare are strictly limited to climate change-related issues. Requiring disclosures (particularly questions 3, 4, and 9) places insurers in a highly vulnerable position and may ultimately impact the reputation and financial health of individual companies. For example, if groups or individuals involved with climate change issues feel that an individual company has not exerted sufficient pressure on policyholders, has not altered their investment portfolio in a sufficiently climate-sensitive manner, or hasn’t taken a recommended course of action, that company may face aggressive but unwarranted public attack by groups and individuals who may have an interest in mitigating climate change, but who have no knowledge of the insurance business and little or no interest in policyholders, insurer solvency, or the burden placed on regulators. If there were a significant economic downturn, or if the industry were to face difficult times, facing the added pressure of a negative public relations campaign and frivolous litigation may have dire consequences and may damage industry reputation.

The Proposal states that “[t]he objective is to facilitate initial disclosures in 2009 with refinement in future years as needed”. It further states that insurers with annual premiums over \$100 million would be required to provide disclosures as of 2009. This would account for approximately 94 percent of life insurers (measured by assets). As mentioned earlier, we fail to see why such an accelerated timetable is necessary and strongly suggest a more cautious, constructive approach until knowledge in the area of climate change and its implications has significantly progressed and until disclosures can be sufficiently focused to be useful. While climate change is an important issue, the pace at which the climate is actually

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<sup>2</sup> See ACLI’s April 30, 2008 comment letter on NAIC’s *Climate Change White Paper*, as well as the May 31, 2008 (final) version of the *White Paper* itself for further discussion on the potential impact of climate change on mortality.

changing calls for a more cautious approach. Given the many uncertainties regarding climate change, potential legal ramifications of disclosures, unintended consequences, and the regulatory bodies which already require or soon will require climate risk disclosures, it is preferable to take a longer term view.

To summarize, ACLI feels that mandating Climate Risk Disclosures for life insurers is unnecessary, inadvisable, and inappropriate because: (1) the questions posed apply only marginally, if at all, to the business of life insurance; (2) being a service industry, life insurer's GHG emissions are trivial and have little impact on climate change; (3) life insurers are in the business of underwriting and managing long-term, mortality-linked risk, and not in the business of influencing public policy, improving 'climate awareness', or providing incentives for policyholders or other industries to change climate-related behavior, and to force life insurers to do so is inappropriate and costly; (4) several of the proposed questions require that insurers make predictions about future weather-related events despite there being little consensus in the scientific community about what those events will be, or the rate at which their frequency will change; (5) facing new constraints (many of which are open to interpretation), insurers may be pressured into making investment decisions which are unrelated to the best interests of consumers or industry, but instead satisfy an external political agenda and which may expose insurers to frivolous and costly litigation; (6) disclosures are burdensome and may force insurers to reveal proprietary information; (7) mandating disclosures will very likely have unintended negative consequences which may ultimately be damaging to the industry, consumers, and regulators; (8) climate-related disclosures are already required by other entities; and (9) most of the information requested has little to do with ensuring solvency and soundness of the industry (i.e. the primary function of an insurance regulator).

In conclusion, ACLI strongly urges the NAIC to abandon climate risk disclosures for life insurers or, at the very least, to take a more measured and cautious approach, re-examining the appropriateness of *mandatory* disclosures, and carefully considering the various unintended consequences that could result. Publically revealing the information requested at a time when knowledge regarding the impact of climate change is still very limited would only serve to mislead and confuse, and may potentially cause a great deal of harm to policyholders, investors, and the industry.

Thank you again for providing us the opportunity to offer our comments on the latest Climate Risk Disclosure Proposal, as well as the opportunity to express our concerns. We look forward to participating in discussions on this matter. Please let me know if you have any questions or need additional information.

Sincerely,

A handwritten signature in cursive script that reads "Andrew Melnyk". The signature is written in black ink and is positioned above the typed name.

Andrew Melnyk, Ph.D.