Wisconsin Council of Life Insurers
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Allianz Life Insurance Company of North America
Ameriprise Financial Services, Inc.
American Family Life Insurance Company
Aviva USA
Catholic Knights
CUNA Mutual Insurance
Equitable Reserve
Guardian Life Insurance Company of America
Genworth Financial
National Guardian Life Insurance Company
Northwestern Mutual
Prudential Life Insurance
State Farm
Thrivent Financial for Lutherans

June 30, 2008

Hon. Sean Dilweg
Commissioner, Wisconsin Department of Insurance
Chair, Climate Change and Global Warming (EX) Working Group
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:

The Wisconsin Council of Life Insurers (WCLI), an organization representing both domestic and nondomestic life insurance companies licensed in Wisconsin, appreciates this opportunity to comment on the May 28, 2008, draft of the *Climate Risk Disclosure Proposal*. WCLI recognizes the efforts that you, as Chair of this Working Group, have made to address industry concerns and applauds the Working Group for moving away from the interrogatory format initially proposed for the disclosures. However, as outlined below, we continue to have concerns with the current proposal.

First, we have significant reservations about the absence of any definition for the term "climate change" as it is used throughout the disclosure form. As used in various popular media, scientific texts, political writings, and elsewhere, its meaning ranges from a relatively narrow set of climatological phenomena associated with increased greenhouse gases to a much broader set of events and circumstances flowing from those phenomena. Additionally, there is continuing scientific debate about the extent of the correlation of each of these phenomena with human activities. A requirement to assess risks relating to such an amorphous term and then report the results of that assessment on a public form is

impossible to fulfill in any responsible manner and creates litigation and compliance risk for companies.

Additionally, the WCLI questions whether the Working Group has overlooked the existing tools for evaluating insurer "climate risk" exposure. For example, the NAIC's Risk-Focused Surveillance Framework has been adopted by the NAIC and incorporated into the Financial Examiners Handbook. Additionally, the NAIC Financial Reporting Model Regulation (commonly referred to as the Model Audit Rule) directs companies to report on their financial and internal control processes and to ensure that they are appropriately valuing assets, liabilities and surplus consistent with rules promulgated by the States. To the extent that companies already are reporting or disclosing their assessments and/or activities in respect of particular perils or risks, it does no good for regulators to require them to report the same or similar information on a separate supplement.

Rather than inquiring about "climate risk," regulators could eliminate a great deal of ambiguity and controversy by identifying particular perils (e.g., rising sea levels, drought/water shortages, inland floods, coastal storm pattern changes) and asking companies whether they have developed plans to address those perils. However, these perils/risks are just a few of the many that each company faces, and if the intent is to improve solvency regulation, then the focus should be on the entity and all of the risks its faces based on a particular's company's products, geographic range of operations, investments, and risk mitigation and transference measures.

The stated basis for requiring climate risk disclosure is to improve solvency regulation. However, some questions (e.g., Qs 1 and 9) inquire about matters having little, if any, connection to company solvency, and others, (e.g., 4 & 9) assume that companies "should" be engaging in certain activities (e.g., providing financial assistance for policyholders; supporting improved research on the impacts of climate change; informing public policy making; and supporting climate awareness among customers) that do not necessarily have any clear link to a company's solvency.

Moreover, some of the requested disclosures require predictive or even speculative statements based on factual assumptions with which companies may disagree. Under these circumstances, it is difficult if not impossible to answer the questions in the proposal with the degree of certainty and accuracy required for annual statement disclosures.

As mentioned above, WCLI supports the decision by the Working Group to move away from the interrogatory format initially proposed for the disclosures, but we remain troubled by the fact that the disclosures remain part of the Annual Statement, even if they are made on a supplement to that document. Annual Statements and the supplements thereto are public records. In addition to the concerns described above, another reason for rejecting public access to the form is that some questions in the disclosure form call

for information that companies reasonably may consider to be proprietary and confidential (e.g., Qs 3, 7, and 8). Like many other broad changes affecting not only the insurance industry but society as a whole, climate change presents both risks and opportunities. Mandatory disclosure of a company's assessment of those risks and opportunities reduces or eliminates the incentive to seek a competitive advantage through the thoughtful and strategic application of particular combinations of risk management measures. If the Working Group ultimately concludes that "climate risk" ought to be the subject of a disclosure requirement, then the Management's Discussion and Analysis Supplement to the annual statement <u>might</u> be a more appropriate statutory reporting tool for public communication of risk management information that is not proprietary or sensitive.

Not all regulators, companies, shareholders, insureds, and other stakeholders agree that companies can or should try to exert influence on customers or investment targets (e.g., public or private firms) to reduce greenhouse gas ("GHG") emissions. Many feel that attempting to reduce GHG emissions will be far too costly and that limited resources are better expended on measures to adapt to the known consequences of climate change. The public policy debate on this issue has only begun, but the questions implicitly presume that this debate has been resolved and that the implications for law, technology, agriculture, industry, and other spheres of human activity are clear.

Because of the absence of definitions and the prevalence of assumptions inherent in the proposed questions, a great deal of the data that might be responsive to this disclosure would seem to be subjective or require disclosure in discussion format, which is of dubious benefit to someone trying to get an actionable picture of industry efforts. Also, the questionnaire generally does not distinguish between material and non-material information. Reviewing, analyzing and applying the necessary expertise to the information called for by these questions may prove to be challenging in our environment of limited regulatory resources. Further, these efforts may distract regulatory attention from other functions on behalf of consumers.

Considered in this light, there are legitimate questions about the benefits of requiring a special supplement for the disclosure of a particular set of politically sensitive risks (beyond making it easier for environmental groups and others to gather climate change information about insurance companies). Alternatively, if the purpose is to establish an informational foundation for the development of regulations whose objectives are to require companies to conduct themselves, both in their dealings with their customers and in their investments, in accordance with certain public policy agendas, then this is not only improper but also inefficient. Just as an insurer's GHG emissions can be measured and regulated more efficiently by state and federal environmental regulators at the point of production (i.e., the power plant) than at the point of consumption by insurance companies, the GHG emissions of those businesses in which insurers invest can be measured and regulated more effectively at the operational level.

Thank you for this opportunity to comment. Please contact me if you have any questions.

Sincerely,

PARRETT & O'CONNELL, LLP

Connie L. O'Connell