National Association of Insurance Commissioners & The Center for Insurance Policy and Research

NAIC Center for Insurance Policy and Research (CIPR)

Climate Risk Disclosure Activities

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▪ The Issue of Climate Change Surfaces

Scientists began to discuss the issue of climate change in the 1970s. The issue received more attention in the 1980s and 1990s, when the insurance industry faced record catastrophic losses from weather events such as Hurricane Andrew (1992) and Hurricane Hugo (1985).[1] However, political pressures and scientific uncertainty during this time also led to climate change becoming a controversial issue in the United States. In contrast, the issue was not as controversial in Europe, and, by the early 2000s, global reinsurers were beginning to take climate change into account within their risk-management strategies.[1] The implications of climate change on weather-related losses again came to the forefront in the United States in 2005 when the insurance industry faced record losses from Hurricanes Rita, Wilma and Katrina.

The National Association of Insurance Commissioners' (NAIC) involvement in climate change began in 2005, when climate scientists, key global reinsurers and other experts presented information to insurance regulators about climate change and the role that the regulators believed the insurance industry should play in managing its related risks and opportunities. In late 2005, the NAIC Property and Casualty Insurance Committee hosted a public hearing addressing the implications of climate change on insurers and insurance consumers. In 2006, the NAIC Climate Change and Global Warming Task Force was created to examine the impact of climate change on the availability and affordability of insurance products. The Task Force's first objective was to identify climate change-related issues faced by insurance regulators in the white paper, *The Potential Impact of Climate Change on Insurance Regulation*. The white paper, adopted by the NAIC members in June 2008, recommended that regulators develop a framework for the collection of information related to the impact of climate change on insurers.

▪ The Construction of an Insurer Climate Risk Disclosure Proposal

In response to the white paper, the Climate Change and Global Warming Task Force began drafting a climate risk disclosure proposal in 2008. The intention was to design an insurer reporting mechanism that would provide regulators with the information necessary to assess insurers' risk-assessment and management efforts in relation to climate change. The first draft was controversial because its 20 detailed questions would be associated with the financial annual statement filing and, as such, would be attested to by an officer of the insurer and be of public record. Over the course of the year, the proposal took on many forms and was eventually converted from part of an financial annual statement supplement to a survey, dubbed the *Insurer Climate Risk Disclosure Survey*, which was not associated with the financial annual statement filing.

The *Insurer Climate Risk Disclosure Survey* contained nine public questions and was designed to avoid the reporting of quantitative, speculative and proprietary information, which was a key concern expressed by insurance industry representatives. The survey also raised the premium threshold for insurers required to report from $100 million to $500 million. The survey questions were modeled after pertinent questions from the Carbon Disclosure Project (CDP)

[1] Haufler, Virginia and the Canada Institute of the Woodrow. (2011, Aug. 30). "Insurance and Reinsurance in a Changing World." *The Encyclopedia of Earth.* Retrieved Feb. 16, 2012, from www.eoearth.org/article/Insurance_and_reinsurance_in_a_changing_climate.

questionnaire. Although the CDP, based in the United Kingdom, holds the largest collection globally of self-reported climate change data from corporations, U.S. insurer participation is low. The *Insurer Climate Risk Disclosure Survey* was intended to fill this void of information. In the *Insurer Climate Risk Disclosure Survey*, insurers are asked to report on how they incorporate climate risks into their mitigation, risk-management and investment plans. They are also asked to identify steps taken to engage key constituencies and policyholders on the topic of climate change. The survey instructions reference relevant CDP questions, reducing duplicative response efforts for those insurers that already complete the CDP disclosure.

▪ CONTROVERSY ARISES

The *Insurer Climate Risk Disclosure Survey* was adopted by the Executive Committee March 16, 2009. This adopted version contained a mandatory and public reporting requirement, with an initial reporting deadline of May 1, 2010. To obtain responses from the majority of the insurance market, the survey's premium thresholds were applied by insurance group (where applicable), not each individual insurance entity within the group. To avoid having the survey submitted by multiple entities within the same group, the survey was intended to be submitted to the domiciliary state of the lead company for each insurance group. As the reporting deadline approached, concerns that had been thought to have been settled during the drafting phases resurfaced.

Proponents of the survey pointed out that this level of transparent information was necessary for regulators and other public interest groups to gauge how, and to what level, insurers are responding to the impact of climate change, and the effect of climate change on the affordability and availability of insurance. Opponents of the survey believed that, due to the political nature of the issue and evolving science, confidentiality and litigation risks remained primary concerns. Additionally, some jurisdictions feared that implementing the survey would leave them vulnerable to rate increases filed by insurers citing climate change risks. Other jurisdictions, particularly those reliant on carbon producing industries, denounced the survey on political grounds. Several jurisdictions — along with many insurers and trade associations — objected to the survey's collection by the domiciliary state of the insurance group's lead insurer, stating that it was an overreach of authority.

To satisfy concerns regarding liability and confidentiality, the NAIC membership modified the *Insurer Climate Risk Disclosure Survey* to make it a voluntary and confidential instrument. Language within the survey instructions was also clarified to ensure that implementation and collection of the survey was at the discretion of each domiciliary state, not the lead state of the insurance group. The instructions also called for the NAIC to request aggregated data from participating jurisdictions and provide a summary of these responses. This modified version of the *Insurer Climate Risk Disclosure Survey* was adopted by the Executive Committee March 28, 2010.

▪ THE INSURER CLIMATE RISK DISCLOSURE SURVEY IN PRACTICE

Although officially a confidential and voluntary survey, in practice, jurisdictions exercised their regulatory authority to administer the survey as they saw appropriate, or to not administer it at all. A total of 21 states indicated to the NAIC that they would be administering the survey in 2010, many with extended deadlines ranging from June to August 2010. Those jurisdictions that administered the survey did so in various combinations of mandatory or voluntary and confidential or public. One state implemented the questions into their financial examination process. The NAIC also offered an electronic tool for jurisdictions to allow their participating insurers to respond to the survey.

Overall, the larger property/casualty insurers tended to provide the most robust survey responses, identifying climate change-influenced catastrophes as their main concern. Many of the insurers from the life and health industry reported that they saw little risk from climate change on their businesses. Predictively, participation among jurisdictions that implemented the survey as voluntary was lower than those that implemented it as mandatory. However, probably most illuminating was the wide gap in quality responses between confidential and public survey respondents.

The Climate Change and Global Warming Task Force was dissolved in 2011, halting further NAIC efforts toward collecting information from those jurisdictions that distributed the *Insurer Climate Risk Disclosure Survey*. In August 2011, the Climate Change and Global Warming Working Group was established and given charges that reflected a more financial focus. The Working Group is currently drafting a proposal to add risk-focused examination questions addressing the impact of climate change in the 2013 *Financial Condition Examiners Handbook*. The Working Group is also exploring altering the *Insurer Climate Risk Disclosure Survey* to have a financial emphasis. Other work includes considering the United Nations' request that state insurance regulators promote participation in the United Nations Environment Programme Finance Initiative (UNEP FI) global survey: Advancing the Role of the Insurance Industry in Climate Change Adaptation.

Although the Climate Change and Global Warming Task Force was dissolved in 2011, the states were free to continue to administer the *Insurer Climate Risk Disclosure Survey* as they saw appropriate. However, only a few jurisdictions actually did administer the survey in 2011. On Feb. 1, 2012, California Insurance Commissioner Dave Jones issued a press release announcing that California would be joining Washington and New York in a multi-state effort to require insurers to participate in the *Insurer Climate Risk Disclosure Survey*.[2] Although the survey questions will remain consistent with the 2009 NAIC-adopted version, the premium threshold for required reporting will be reduced from $500 million to $300 million in direct written premium and be applied mandatorily to all individual companies that write business in one of these states regardless of where they are domiciled. Additionally, and consistent with California's previous survey administrations, survey responses will be made available to the public.

This multi-state *Insurer Climate Risk Disclosure Survey* effort was initiated to bolster insurer participation in the survey[2] and will effectively capture most of the insurance industry. In his Feb. 1, 2012 press release, Commissioner Jones stated that, "This multi-state effort will not only seek to strengthen this survey, but also to ensure the results of the survey continue to be made public."[2] The press release also specified that California, Washington and New York "will continue to work cooperatively with other NAIC member states and jurisdictions participating in the NAIC Climate Change and Global Warming Working Group to revise and improve the Survey and its application and to also consider revisions to the risk focused financial surveillance process."[2]

▪ Other Insurance-Related Climate Change Disclosure Activities

Effective Feb. 8, 2010, the U.S. Securities and Exchange Commission (SEC) adopted guidelines designed to assist public companies in incorporating climate change information into the SEC's existing disclosure requirements.[3] According to the SEC, the guidance was in response to several petitions for interpretive advice submitted by large institutional investors and other investor groups.[3] The SEC's guidance specifies that corporations note any regulatory, legislative, operational and financial impact that climate change could have on their business.[4] Specific disclosure areas within an SEC filing that corporations should consider include: Impact of Legislation, Regulation Impact of International Accords, Indirect Consequences of Regulation or Business Trends, and Physical Impacts of Climate Change.[4]

As mentioned previously, the UK's Carbon Disclosure Project (CDP) collects the largest amount of self-reported climate change data from corporations worldwide.[5] The CDP initiated its first annual data request in 2003 with only 221 companies responding.[6] In 2011, the CDP's response rate had grown to more than 3,000 companies.[7] The CDP's annual questionnaire asks companies to disclose the impact of climate-related risks on their businesses and how they are responding to these risks.[6]

Based in Amsterdam, the Global Reporting Initiative (GRI) is a global network of about 30,000 people and functions as a Collaborating Centre of the United Nations Environment Programme.[8] The GRI provides organizations with a global Sustainability Reporting Framework that includes disclosures, guidelines, and sector supplements. The Sustainability Reports are intended to provide consistent and comparable data, supporting transparency. The Sustainability Reporting Guidelines are designed to allow flexible implementation and include disclosure on broad areas such as economic,

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[2] Insurance Commissioner Dave Jones Announces Multi-State Effort on Climate Risk Disclosure Survey. (2012, Feb. 1). Retrieved Feb. 16, 2012, from http://insurance.ca.gov/0400-news/0100-press-releases/2012/release009-12.cfm.

[3] Commission Guidance Regarding Disclosure Related to Climate Change. *Securities and Exchange Commission*. Retrieved Feb. 16, 2012, from www.sec.gov/rules/interp/2010/33-9106.pdf.

[4] SEC Issues Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change. (2010, Jan. 27). *Securities and* Exchange Commission. Retrieved Feb. 16, 2012, from www.sec.gov/news/press/2010/2010-15.htm.

[5] *Catalyzing Business and Government Action.* Carbon Disclosure Project. *Retrieved Feb. 16, 2012, from www.cdproject.net/en-US/Pages/About-Us.aspx.*

[6] Carbon Finance and the Global Equity Markets. *Carbon Disclosure Project*. (2003). Retrieved Feb. 16, 2012, www.cdproject.net/CDPResults/cdp_report.pdf.

[7] *Who discloses to CDP?* Carbon Disclosure Project, Investor CDP. *Retrieved Feb. 16, 2012, from www.cdproject.net/en-US/Programmes/Pages/CDP-Investors.aspx#who.*

[8] About GRI, Network Structure, and About Sustainability Reporting. *Global Reporting Initiative.* Retrieved Feb. 16, 2012, from www.globalreporting.org/information/about-gri/Pages/default.aspx.

environmental, and social and governance performance.[8] In 2010, the GRI released a linkage document outlining how its reporting guidelines compare to the CDP's questionnaire.[9]

The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between the United Nations Environment Programme (UNEP) — the United Nation's system's designated entity for addressing environmental issues at the global and regional levels — and the global and financial sector.[10] Through UNEP FI, UNEP collaborates with nearly 200 insurance companies, banks and investment firms globally.[10] The UNEP FI global survey, Advancing the Role of the Insurance Industry in Climate Change Adaptation, states that it has two primary aims: 1) to identify climate-related risk management and risk transfer activities, products and services of the insurance industry and major changes in these areas; and 2) to access how the insurance industry can support countries by facilitating increased resilience to climate-related risks.[11] The UNEP FI global survey is a confidential and comprehensive online survey, and the results are available in an aggregated format.

▪ CONCLUSION

The issue of climate change and, more specifically, reporting of insurer assessment of its impact on their business activities remains controversial. There are insurers actively involved with and promoting climate risk disclosure, while others remain skeptical and opposed to public reporting. Similarly, insurer trade associations are divided, with some actively or tacitly supporting climate risk disclosure, while others are steadfastly opposed to it. Only time will tell.

[9] Global Reporting Initiative & Carbon Disclosure Project Release Linkage Document. (2010, July 14). *The CSR Digest.* Retrieved Feb. 16, 2012, from www.csrdigest.com/2010/07/global-reporting-initiative-carbon-disclosure-project-release-linkage-document.

[10] What we do. *UNEP Financial Initiative.* Retrieved Feb. 16, 2012, from www.unepfi.org.

[11] UNEP FI global survey: Advancing the Role of the Insurance Industry in Climate Change Adaptation, retrieved Feb. 16, 2012, from www.naic.org/documents/committees_e_climate_unep_fi_survey_adaptation.pdf