American Property Casualty Insurance Association

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APCIA Responses to NAIC Questions to Determine Objectives of NAIC Climate Disclosures

The American Property Casualty Insurance Association (APCIA) represents nearly 1200 insurers and reinsurers with a wide range of business models and sizes that play a key role in America's financially strong, competitive, and innovative insurance markets that protect and serve consumers and enterprises. Our responses to the questions posed by the NAIC regarding the climate risk disclosure framework are underlined below.

1) Who is/are the audience(s) and what do they wish to glean from the results (solvency regulation, risk evaluation, etc.)? <u>Public climate disclosures are for the company to discuss its policies and should reflect an insurer's unique business model and risk profile which is driven by materiality and the other factors that govern public reporting. In contrast, the objectives of regulatory reporting are providing policyholder protection while concurrently preserving the solvency condition of the insurer. Therefore, for regulator mandated reporting, the audience should be solely state regulators with respect to their responsibility to oversee insurer solvency and consumer protection, with confidentiality protection particularly for forward looking disclosures.</u>
   a) What qualitative and quantitative metrics do they need? <u>We strongly believe that any additional mandatory reporting should be confidential and be solely provided to regulators for regulatory purposes. If reporting is to exceed current mandates, only qualitative reporting, similar to that required in the current survey, should be required. Any quantitative reporting should remain at the carrier's discretion to encourage reporting practices and metrics in this nascent area to evolve and mature over time.</u>
   b) How should the information in the survey be formatted to be useful? <u>We find the current survey formatting, along with the option to file reports based on the TCFD framework, to be sufficient.</u>
   c) What information not already being provided in the survey would be useful? <u>We are not aware of any.</u>
2) Who should report?
   a) What is the threshold? <u>The current threshold and definitions should not be changed to include more companies, as most of the industry is already included. The notion of materiality should also be reflected in whether a company must file and if so, in what detail.</u>
   b) Should it be compulsory? <u>The current survey and TCFD are currently mandated, and we see no reason to increase or change the mandate.</u>
3) What report framework should be used?
   a) TCFD? <u>Filing a report based on the TCFD framework, as now, should continue to be permitted.</u>
   b) NAIC Climate Disclosure Survey? <u>For non-TCFD filers, the current survey at the current levels of participation should be continued.</u>

c) Another framework (such as CDP)? We do not oppose additional options being permitted, so long as the current two options are permitted. However, we also need to be mindful of the proliferation of approaches making reporting and necessary comparisons more difficult.

d) Some combination? We do not support new reporting mandates from combinations. Some companies have invested many resources to comply with the current options and adding more costs to them would not be beneficial.

4) How should the questions be designed?

a) Multiple choice? We urge the NAIC to proceed with caution before implementing multiple choice questions. The multiple-choice format is not conducive to the type of nuanced answers that are often required for climate disclosures.

b) Open-ended?

c) Close-ended (rating scale, dropdown, ranking, etc.)?

d) Should insurers be able to respond to narrative responses by referencing an attachment or linked disclosure (such as TCFD)? We would support this additional flexibility, so long as TCFD reports would continue to be an option.

e) Should questions be tailored to size of company or logic added to meet companies where they are? If the regulatory reporting is to become more resource intensive, we strongly support a proportional approach.

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

a) What should be the effective date of the changes? We do not believe that changes are necessary. But depending on the type of change, if any, a year to reprogram would be appreciated along with an additional year to report.

b) What should be the timing of information reported? Reporting should be in the second half of the year.

6) Where should climate disclosures be reported?

a) Continue to make it available through California's website? Depending on the best guarantee of confidentiality of sensitive information, we are comfortable with continuing to have it on the California website, at the NAIC or in the domestic state.

b) Build an NAIC repository?

c) Directed to the domestic state?

7) How should the results be made available?

a) Only to regulators? The current survey and answers should remain public. However, if there are major changes and expansion, the additional mandatory reporting should be only to regulators with adequate confidentiality.

b) Publicly available (as it is today)?

555 12th Street, NW, Suite 550, Washington, DC 20004 | 202-828-7100
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c) Combination of public and regulator-only? If so, how should the disclosure information be separated? Regulatory and public reporting should be separate. Regulator mandated reporting, such as stress tests, scenario analyses, ORSAs and forward-looking information should be protected and available to regulators only.

8) What can be done to help companies recognize climate-related risks and how they should be disclosed. Major issues for companies include how to understand and report transition risks, how to handle potential liability for forward-looking statements beyond traditional time horizons and with high uncertainty, time to comply, and reporting at the group versus legal entity levels. A major challenge in assessing risks and making consistent public disclosures is the lack of available and reliable climate related data from customers and investee companies. The availability of good quality and reliable data is largely outside insurers' control and is a shared responsibility of the wider economy. Supervisors should focus on supporting appropriate policy actions and help develop appropriate solutions that do not force insurers to rely on third-party data providers to obtain data at the asset level such as emission data and targets. Quantitative reporting also requires data on the risks that investee companies and customers face that is not yet readily available and standardized.

9) What support is necessary to assist companies in filling out the survey? If the disclosure methodology remains as is, little additional help is needed. But if the mandate expands, additional help on the issues mentioned above will be important.

The deliberate and inclusive approach taken by the NAIC on these important and complex issues is appreciated. Recognizing that there are different perspectives, we hope for the continuation of this mutually beneficial dialogue.

Respectfully submitted,

David F. Snyder
Vice President

555 12th Street, NW, Suite 550, Washington, DC 20004 | 202-828-7100
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