

# NAIC Climate Scenarios

## Frequently Asked Questions

### Non-technical questions

1. When do companies have to provide climate-conditioned PMLs in the RBC filing?

*Starting with YE2024 RBC filing that is due by March 1, 2025*

2. Does a company need to submit climate-conditioned PMLs, if it is exempt from the RBC CAT requirements?

*No, if a company is exempt from the RBC CAT requirements, it is exempt from providing climate-conditioned PMLs.*

3. Is this a one-off exercise or will companies have to submit climate conditioned PMLs every year in the RBC filing?

*Companies will have to submit climate conditioned PMLs for YE24, YE25 and YE26 RBC filings. The regulators will then evaluate whether to require this information to be submitted in future years.*

4. Will the results submitted by companies remain confidential?

*RBC filings are filed with the NAIC but remain confidential through state law which requires those filings to the NAIC.*

5. How will the results submitted by companies be used by regulators?

*Company-specific results provide valuable information to regulators to engage in meaningful discussions with their domestics about the impact of climate change on their underwriting, business, and reinsurance strategy. Regulators will conduct these discussions using the existing solvency framework embedded into the 'Financial Analysis Handbook' and 'Financial Condition Examiners Handbook' procedures.*

6. Will the results be aggregated and used to inform policy development?

*Currently there is no plan for aggregating the data for the above-mentioned use case.*

7. I have questions on the RBC instructions, who can I contact at the NAIC?

*Any specific questions that are not addressed in this 'FAQ' document and related to the new R-CAT reporting changes for climate scenarios should be directed to the dedicated email address: [ClimateScenariosHelp@NAIC.org](mailto:ClimateScenariosHelp@NAIC.org).*

8. I need assistance with the calculation of the climate-conditioned PMLs, who shall I contact?

*NAIC and state regulators do not provide specific guidance on this matter or on either the technical implementation or technical calculations of the climate-conditioned PMLs. The company has full discretion to seek advice from external experts (such as reinsurance brokers) or to follow widely accepted industry practices.*

9. Which catastrophe-related interrogatories need to be answered regardless of whether the company is exempt from filing a catastrophe risk charge in RBC for all or for some perils?

*The catastrophe risk reinsurance program interrogatory PR027INTA is intended for completion by all property and casualty RBC filers that are exposed to natural catastrophe perils, and is not limited to earthquake, hurricane and wildfire and the associated RCAT exemptions.*

## Technical questions

10. Can a company reflect the changes in underwriting or reinsurance or management actions in the calculation of the climate-conditioned PMLs?

*Climate-conditioned PMLs should be calculated using the same book of business, reinsurance program, and assumptions for management actions as those used for baseline PMLs. The objective of this exercise is to account for future hazard changes under forward-looking climate scenarios, while keeping the book of business, reinsurance strategy, and management actions static.*

11. Can a company use different frequency adjustment factors instead of the ones specified under the 'frequency-based' approach?

*If the company intends to apply different frequency adjustment factors, this can be achieved by using a 'time-based' approach alongside an 'Own-view-of-risk' option.*

12. How should a company account for sea-level rise under the 'frequency-based' approach?

*The current proposal gives companies the flexibility to decide whether to include the impact of sea-level rise in their hurricane-related reported numbers. The 'frequency-based' approach, however, is not designed to capture the effects of sea-level rise. If a company intends to factor in sea-level rise for forward-looking scenarios, this can be done using the 'time-based' approach.*

*Companies should assess the materiality of surge coverage within their existing baseline reported PMLs (Probable Maximum Losses). Currently, the NAIC and state regulators do not provide specific guidance on how to account for sea-level rise, giving companies flexibility in their approach. They may choose to use methods available in vendor model catalogs, apply an 'Own-View-of-Risk' approach, or follow the guidance of external experts.*

13. Are companies required to use the same methodology ('time-based' vs. 'frequency-based') from one year to the next?

*There is no requirement or expectation that the company must use the same methodology each year. However, if the company chooses a different methodology, it should be able to provide an explanation supporting the change.*

14. For the time-based (insurer own-view-of-risk) approach, what should be the climate trend considerations (ex. Cat 4-5 increase, Cat 1-3 decrease)?

*NAIC and state regulators do not provide specific guidance on this matter. The company has full discretion in determining the appropriate scientific perspective, whether through its in-house experts, advice from external experts (such as reinsurance brokers), or widely accepted industry practices (such as published scientific papers).*

15. For the frequency-based approach: how to enact the 10% and 50% frequency adjustments?

*NAIC and state regulators do not provide specific guidance on this matter or on the technical implementation of adjustments. The company has full discretion to seek advice from external experts (such as reinsurance brokers) or to follow widely accepted industry practices.*

16. For the frequency-based approach: In RMS each event has wind and storm surge associated with it. It makes it difficult to adjust frequency for only wind. How should the company apply the “wind-only” frequency adjustment?

*NAIC and state regulators do not provide specific guidance on this matter or on the technical implementation of such adjustments. The company retains full discretion to seek advice from external experts—such as model vendors or reinsurance brokers—or to rely on widely accepted industry practices and tools.*

17. Does RMS or Verisk wildfire model support a climate conditioned catalog for time-based methodology?

*To NAIC's knowledge, the mentioned model vendors provide climate-conditioned catalogs for wildfire to support the reporting of climate-conditioned PMLs required for the new climate-scenario interrogatories.*

18. Can you clarify whether CoreLogic can be used for WF?

*CoreLogic is not yet an approved model by the NAIC for wildfire PML reporting in the baseline view (see Q19 on approved models by peril). RMS, Verisk and KCC are approved commercial model vendors for wildfire PML reporting. Also note that the company should develop a climate-adjusted view using the baseline view model as the starting point. Below are some example scenarios:*

**Time-Based Approach - Option A:** *As an example, if the company used the Verisk wildfire catalog for baseline PML reporting, the climate-conditioned catalog should also come from Verisk.*

**Time-Based Approach - Option B:** As an example, if using the Verisk wildfire catalog for baseline PML reporting, the Own-View-of-Risk should be developed using the Verisk baseline catalog as the foundation.

**Frequency-Based Approach:** As an example, when using the Verisk wildfire catalog for baseline PML reporting, apply the frequency adjustment (e.g., 10% or 50%) directly to the Verisk baseline catalog.

**Note:** If the baseline PML reporting uses a blend of Verisk and RMS wildfire catalogs, the climate-conditioned view should also blend climate-conditioned catalogs from Verisk and RMS.

19. Can you clarify which third-party catastrophe models can be used for the peril-specific calculation blanks (PR027A-PRA027D) in the YE24 RBC filing:

*The following table summarizes the approved models for these blanks:*

	Peril-specific calculation blanks:			
CAT Models:	Hurricane	Earthquake	Severe Convective Storm	Wildfire
Verisk/AIR	✓	✓	✓	✓
RMS	✓	✓	✓	✓
CoreLogic	✓	✓	✓	
KCC	✓	✓	✓	✓
ARA's Hur Loss	✓			
Florida Public Hurricane Model	✓			

20. What should the company do when for the 'Time-based approach -Option A', the model vendor's climate-conditioned catalog does not include the specific time-horizon required for the climate scenario interrogatories.

*NAIC and state regulators do not provide specific guidance on this matter. The company retains full discretion to seek advice from model vendors or reinsurance brokers—or to rely on accepted industry practices, such as interpolation between the time-horizons available in the vendor catalogs to calculate the PMLs for the time-horizon required for the climate scenario interrogatories.*

## FAQ Document Update Timeline

Date	Update	Comments
11/13/2024	First version released	
12/06/2024	Added questions received after the joint RAA NAMIC APCIA webinar of December 4, 2024	