National Association of Insurance Commissioners

Climate Change and Global Warming (EX) Task Force

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Climate Risk Disclosure Proposal

As noted in the White Paper there is good availability of reporting formats and measures in the climate risk arena. At the same time regulators may do well to be wary of generating multiple reporting requirements. Thus this proposal seeks to adopt a mainstream approach with only minimal deviations where necessary to reflect the particular nature of the insurance industry. This proposal is a starting point for the discussion regarding new interrogatories. It may need to be revised and expanded. The object is to facilitate disclosure in 2008 with refinement in future years as needed.

Framework1

In order to provide as much flexibility as possible it is proposed that within a common framework, insurers have a choice of precise reporting format. The framework used to organize these regulatory questions is the Global Framework for Climate Risk Disclosure. Developed by investor, state pension and other organizations, the Framework encourages standardized climate risk disclosure to make it easy for companies to provide information. Moreover, because the Framework supports the leading mechanisms for global corporate climate risk disclosure including: mandatory financial filings with securities regulators;2 The Carbon Disclosure Project (CDP);3 and The Global Reporting Initiative (GRI),4 duplication can be avoided.

Briefly the Framework has four components;

- Emissions Disclosure
- Strategic Analysis Of Climate Risk And Emissions Management
- Regulatory Risks
- Physical Risks.

[1] See Ceres web site for extensive discussion of Framework development. In particular this proposal leans heavily on the following presentation: http://www.dgardiner.com/doc/crdi_report_full_v9.pdf

[2] Financial regulatory bodies such as the Securities and Exchange Commission (SEC) require companies to disclose information of financial importance to the company and its shareholders, and many companies now include climate risk information in their standard financial reporting like the 10-K.

[3] The Carbon Disclosure Project (CDP) is a process whereby over 200 institutional investors collectively sign a single global request for disclosure of information on greenhouse gas emissions. CDP's web site is the largest registry of corporate greenhouse gas emissions in the world.

[4] The Global Reporting Initiative (GRI) is a sustainability reporting framework that creates Guidelines for comprehensive reporting on organizations environmental, economic and social impact. Using the G3 Guidelines (released in October 2006), organizations can disclose significant information regarding their climate risk and opportunities. The G3 is part of the GRI Reporting Framework, which also includes other guidance on technical issues and sector specific reporting.

Emissions Disclosure and Emissions Management

Total greenhouse gas emissions by insurers are low. While assessment and disclosure of such information may be desired by investors, management or policyholders, this is an area that does not yet rise to the level of regulatory concern. Nonetheless some companies may wish to voluntarily report this information or some states may require reporting in which case the Corporate Accounting and Reporting Standard (revised edition) of the Greenhouse Gas Protocol, developed by the World Business Council for Sustainable Development and the World Resources Institute should be used.

Regulatory Question	Where Disclosed[5]	Example
What actions have you taken to assess the GHG emissions of your operations? Total GHG emissions can be disclosed in:	**GRI** *EN16* **CDP** *Question 6* **SEC 10-K** *Appendix*	e.g. Total GHG emissions are estimated from heating/cooling energy consumption to be XYZ per premium dollar in 2007
What actions have you taken to assess the indirect GHG emissions of your operations? Indirect GHG emissions can be disclosed in:	**GRI** *EN16, 17* **CDP** *Questions 6 & 7*	e.g. Indirect GHG emissions from operations are estimated to be ABC per premium dollar in 2007
What actions have you taken to reduce or mitigate emissions by your company? What actions have you taken to reduce or mitigate emissions by your suppliers? What actions do you plan to take to reduce or mitigate emissions by your company? What actions do you plan to take to reduce or mitigate emissions by your suppliers? Future direct and indirect emissions can be disclosed in:	**GRI** *EN16, 17* **CDP** *Questions 6 & 7*	e.g. Plan to reduce GHG emissions by 2% per premium dollar until 1990 level reached [expected in 2011]

Strategic Analysis of Climate Risk

The challenges and opportunities associated with climate change are clearly of regulatory concern. Hence this is an area for required disclosure. The immediate regulatory need is for assurance that the insurer is cognizant of the climate risks involved in their business and are taking appropriate action.

Regulatory Question	Where Disclosed	Example
1. What actions have you taken to assess the impact of climate risk and global warming on your operations? 2. What are the results of your assessments of the impact of climate change risk and global warming? 3. Does the company have a climate change statement with respect to risk management and investment management under changing climate risk? If yes, provide. 4. What analysis have you conducted regarding limitations on	**GRI** *1.1, 4.8, Environmental DMA* **CDP** *Question 1*	e.g. 1. The book of business and invested asset portfolio were reviewed in light of the most recent UN report on possible changes in climate. The company used its usual "all

[5] CDP is in the process of issuing an updated form, so references will need to be updated when the new CDP form is available.

access to reinsurance due to climate change and global warming? What are the results of your assessment? 5. How do you plan to address current and future limitations, if any, of reinsurance availability or affordability? Disclose company climate change statement and policy formation with respect to risk management and investment management under changing climate risk in:		department" review process. e.g. 2. Only minor possible impacts were found, and these were incorporated into the annual "all department" review cycle.
1. Describe your utilization of computer modeling to assess the impacts of climate change impacts. Have you assessed the reliability and usefulness of such modeling to consider the impacts of climate change and global warming impacts on your company? What are the results of your assessments of modeling? 2. Are there any known trends, events, demands, commitments, and uncertainties stemming from climate change that have had, or are reasonably likely to have, a material effect on your financial condition or operating performance? What are these events and what are the material effects? 3. Are there geographic locations you have increased rates or limited sales, or expect to increase rates or limit sales, because of climate change effects? Are there specific perils or coverages you have limited or eliminated, or for which you expect to limit or eliminate coverage? 4. Have you assessed the validity of the assumptions underlying your loss reserves in light of climate change and global warming? If yes, what effect has this assessment had on determining or restating your loss reserves? Disclose how insurer is including climate risk, and climate risk changes, in their internal risk assessment process and with regard to pricing, availability, and reserving	**GRI** *1.1, 1.2, 4.11-13 EC2 Environmental DMA; EN3–7, EN18, EN26–28* **CDP** *Questions 1, 4, 8, 9*	
What steps have you taken to assure that consumers face appropriate economic signals about the true cost of building or other activity in certain geographic areas? Disclose corporate governance approach with respect to climate risk in:	**GRI** *4.1, 4.5, 4.9, Environmental: Organizational Responsibility, Training and Awareness* **CDP** *Question 5*	
Most information from this section can be disclosed in: **SEC 10-K** *Item 1 (Rule S-K Item 101), Item 7 (Rule S-K Item 303), (MD&A)*		

Regulatory Risks

Insurers are exposed to direct and indirect regulatory risk with respect to climate risk. While the insurer itself as a low emitter is unlikely to encounter direct regulatory constraints, its business itself will be affected. Depending on the book of business and patterns of investments the insurer will face changes in client risk profiles as well as possible regulatory impacts on their invested assets. Because change in client risk profiles impact the book of business directly and investments indirectly this is an area of required disclosure.

Regulatory Question	Where Disclosed	Example
1. What analysis have you conducted of the impact of climate change and global warming on your investment portfolio? What are the results of your assessment? Disclose regulatory scenario analyses in:	**GRI** *1.1, 1.2, EC2* **CDP** *Questions 2, 10* **SEC 10-K** *Item 7 (Rule S-K Item 303)*	e.g. analyses of how the book of business risk profile is impacted by non-insurance related regulation such as required emissions reductions by insured properties or owned assets. e.g. analyses of how assets might be adversely affected by changing climate risk

Physical Risks.

Physical risk to an insurer's operations will be dependent on location. Likewise physical assets may incur their own climate risk dependent on location. There are few locations in the US that will not have some exposure to changing climate risk. Consumers in particular need to know their insurer will be operational and have adequate assets in the event of a loss so that this is an area of required disclosure.

Regulatory Question	Where Disclosed	Example
1. What steps have you taken to ensure that there is adequate separation of underwritten risks and physical asset risks? 2. What steps have you taken to encourage policyholders to reduce the losses caused by climate change-influenced events, including, for example, price incentives, risk classifications, new products, financial assistance for policyholder loss mitigation and loss mitigation public policy initiatives? Disclose physical risks including provision for servicing consumers in:	**GRI** *1.1, 1.2, EC2, Environmental DMA* **CDP** *Question 3* **SEC 10-K** *Item 1A (Key Risks), Item 7 (Rule S-K Item 303*	e.g.1. Review of the geographic spread of risk showed substantial overlap in asset and underwritten risk in the downstate area. This will be dealt with by gradually redistributing the asset portfolio to the northwest sector.

Application

These disclosures are to be submitted as a mandated supplement with the Annual Statement as follows;

Year of Business	**Mandatory Disclosure**	**Voluntary Disclosure**
2008	Premium over $100M	All others
2009	Premium over $50M	All others
2010	Premium over $10M	All others
2011 and thereafter	Premium over $1M	All others

It may well be that the statutory annual statement interrogatories are the appropriate place eventually for these questions. However, the goal is to quickly obtain pertinent information. During the phase in period experience with this reporting format can lay the basis for the development of annual statement interrogatories.

Insurance consumers are best protected by a functioning competitive insurance market that delivers products that are affordable and adequately cover risk that consumers face. While regulators are charged with consumer protection it is vital that functioning competitive insurance markets are not compromised in the process. Thus interaction with both consumer groups and industry groups will be required for a successful outcome.

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