

CLIENT ALERT

National Association of Insurance Commissioners Adopts New Climate-Risk Disclosure Framework

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The NAIC has adopted a new Climate Risk Disclosure Survey (“CRDS”) as a means to modernize climate-related disclosure requirements and enhance transparency of how insurers manage their climate-related risks. The new NAIC survey is aligned with the international standard of the Task Force on Climate-Related Financial Disclosure (TCFD).

The new NAIC survey is built around four areas: governance, strategy, risk management, and metrics and targets. With respect to governance, insurers must disclose any publicly stated goals on climate-related risks and opportunities, and where climate-related disclosure is handled. For risk management, it requires insurers to disclose the actual and potential impacts of climate-related risks and opportunities on their businesses, strategy, and financial planning where such information is material. In disclosing how the insurer identifies, assesses, and manages climate-related risks, each insurer must consider their impact on its underwriting portfolio, and how the company is managing its underwriting exposure in relation to physical, transition and liability risk. In addition, insurers should disclose steps taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable. Finally, where such information is material, insurers must disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities.

In 2021, there was a marked increase from prior years in the number of states requiring the NAIC’s CRDS. California, Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Minnesota, New Mexico, New York, Oregon, Pennsylvania, Rhode Island, Vermont and Washington were the participating jurisdictions in 2021. Any insurer writing business in a participating state and that writes countrywide premium of at least \$100 million must submit their survey response annually. Nearly 80% of 2021 direct premium was written in those jurisdictions.

Besides enhancing transparency, the NAIC stated the new CRDS will provide a baseline supervisory tool to assess climate-related risk affecting the insurance industry, promote strategic management and better-informed collaboration among insurers, and align with international frameworks to reduce redundancy in reporting requirements for insurers.

Basing the new survey on the TCFD standard was an effort to enhance U.S. disclosure requirements for insurers, which may be perceived as less robust than international requirements. The TCFD standard is a framework created by the Financial Stability Board, which consists of 31 members from across the G20 and is chaired by Michael Bloomberg. Published in 2017, the TCFD assists public companies with climate-related reporting on risks and opportunities. It touts the benefits of better disclosure for risk assessment, capital allocation, and strategic planning. It encourages the use of scenario analysis, integration of climate risk into an insurer’s existing risk management frameworks, and clear metrics, targets, and transition plans.

Insurers required to complete the NAIC survey must comply by November 30. Under the new disclosure regime, the NAIC expects that nearly 400 insurance companies and groups will provide TCFD-compliant reports. Information disclosed in survey responses will be public.

The American Property Casualty Insurance Association raised concerns with adoption of the new survey, particularly regarding the short time frame for compliance. The NAIC addressed some of these concerns by including new language on materiality, flexibility, confidentiality, allowing for insurers to make “best efforts” to complete the survey this year, and delaying the response deadline from August 31 until November 30.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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