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# REDESIGNED STATE CLIMATE RISK DISCLOSURE SURVEY

## INTENT AND PURPOSE

The Climate Risk Disclosure Survey is a voluntary risk management tool for state insurance regulators to request from insurers on an annual basis a non-confidential disclosure of the insurers' assessment and management of their climate-related risks.

The purpose of the Climate Risk Disclosure Survey is to:

- Enhance transparency about how insurers manage climate-related risks and opportunities.
- Identify good practices and vulnerabilities.
- Provide a baseline supervisory tool to assess how climate-related risks may affect the insurance industry.
- Promote insurer strategic management and encourage shared learning for continual improvement.
- Enable better-informed collaboration and engagement on climate-related issues among regulators and interested parties.
- Align with international climate risk disclosure frameworks to reduce redundancy in reporting requirements.

## BACKGROUND

The NAIC adopted the original Climate Risk Disclosure Survey in 2010 and it has since been administered by the California Department of Insurance. In 2021, fifteen states participated in the climate risk disclosure survey initiative, up from six states in prior years. Because any insurer writing business in a participating state is required to submit their survey response annually, adding nine states in 2021, increased the market coverage from approximately 70% in 2020 to nearly 80% of the market in 2021 based on direct premium written.

In 2021, the Financial Stability Oversight Council (FSOC) produced a series of recommendations for financial regulators to enhance supervision, data analysis, staff resources, and regulatory cooperation related to climate risk. This included a recommendation to consider enhancing public reporting requirements for climate-related risks in a manner that builds on the four core elements of the Task Force on Climate-Related Financial Disclosure (TCFD), to the extent consistent with the U.S. regulatory framework and the needs of U.S. regulators and market participants.

This revised survey responds to FSOC's recommendations and incorporates international best practices in adopting a TCFD aligned framework for US insurers to report on climate risks when requested by their state regulator.

The TCFD framework is structured around four thematic areas that are core elements for how insurers operate—governance, strategy, risk management, and metrics and targets. The four thematic areas are supported by key climate-related financial disclosures—referred to as recommended disclosures—that build out the framework with information that will help regulators and others understand how reporting organizations assess and approach climate-related issues.

## INTRODUCTORY GUIDANCE

### *Timeline and expectation for reporting*

We expect that every company who will be asked to complete the survey in 2022 will have already completed the existing NAIC survey or filed a TCFD report; nearly all companies having participated for several prior years. The table below outlines the timing and other expectations for reporting in 2022 and 2023 as the new survey is phased in. If a company has not previously responded to the NAIC survey, it should be given until 2023 to first respond.

| Reporting Year | Expectation Regarding Content | Deadline for Completion |
|---|---|---|
| 2022 | • If the insurer has already completed a TCFD for this reporting year, they can submit it as is.<br>• If the insurer has not already completed a TCFD for this reporting year, they should make their best effort to complete the survey below or include such information in their TCFD filing, as is requested below.<br>• Closed-ended questions are voluntary for 2022, and states may opt out of requesting responses to closed-ended questions. | To allow additional time for insurers to move to the new reporting structure, submission deadlines should be moved from Aug. 31 to Nov. 30. Extensions may be granted by the state that initiated the request to the company or the lead state for the group filing. |
| 2023 | Insurers are expected to address the content of the entire TCFD aligned survey below, to the best of their ability. | In accordance with prior years, submissions are due from insurers by Aug. 31st. Extensions may be granted by the state that initiated the request to the company. |

### *Threshold and voluntary state participation*

The reporting threshold remains consistent with the threshold implemented each year since 2013. All insurers with countrywide premium written of at least $100 million, licensed to write in any of the participating states/territories, are required to complete and submit their survey on an annual basis. As of 2021, the following states/territories participate: California, Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Minnesota, New Mexico, New York, Oregon, Pennsylvania, Rhode Island, Vermont, Washington.

***Confidentiality and best effort basis***

While the existing NAIC survey and TCFD contain sufficient overlap in the analysis required to answer, we recognize that many insurers will be moving to a new reporting framework in the TCFD. Insurers should make their best effort to answer each question honestly and completely, keeping in mind that the information contained in the filing will be made public. During the transition to the TCFD aligned survey, state insurance regulators should work closely with insurers to provide as much flexibility as possible in terms of responding to the survey and deadlines. Confidential information should not be included in this public disclosure unless it is intended to be made public. If additional detail is requested by a state insurance regulator, that request will be handled directly between the regulator and insurer.

***Materiality***

There is no requirement to provide information that is immaterial to an assessment of financial soundness (insurers may choose to disclose such information voluntarily, with no implication that such information is in fact material). Insurers should justify their materiality assessment. For the definition of materiality, refer to the Financial Condition Examiners Handbook and/or the U.S. Securities and Exchange Commissioner Accounting Bulletin: No. 99, if applicable.

Consistent with TCFD guidance, the Strategy and Metrics and Targets Sections involve an assessment of materiality, except for the question on Scope 1 and Scope 2 greenhouse gas emissions within the Metrics and Targets Section. Disclosures related to Governance and Risk Management Sections do not involve an assessment of materiality.

***Assessing financial impact of climate-related risks and opportunities***

The financial impacts of climate-related issues on an insurer are driven by the specific climate-related risks and opportunities to which the insurer is exposed and its strategic and risk management decisions on seizing those opportunities and managing those risks (i.e., accept, avoid, pursue, reduce, or share/transfer). Once an insurer assesses its climate-related issues and determines its response to those issues, it can then consider actual and potential financial impacts on revenues, expenditures, assets and liabilities, and capital and financing.[1]

Consistent with the TCFD Guidelines, determining whether an individual organization is or may be affected financially by climate-related issues usually depends on:

- the organization's **exposure** to, and anticipated effects of, specific climate-related risks and opportunities;

[1] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf, pg.9

- the organization's planned **responses** to manage (i.e., accept, avoid, pursue, reduce, or share/transfer) its risks or seize opportunities; and
- the **implications** of the organization's planned responses on its income statement, cash flow statement, and balance sheet.[2]

Importantly, an organization should assess its climate-related risks and opportunities within the context of its businesses, operations, and physical locations in order to determine potential financial implications. In making such an assessment, an organization should consider (1) current and anticipated policy constraints and incentives in relevant jurisdictions, technology changes and availability, and market changes and (2) whether an organization's physical locations or suppliers are particularly vulnerable to physical impacts from climate change.[3]

See pages 10-12 of the TCFD's Implementation Recommendation Report for more guidance on assessing exposure, response and implications.

**ADDITIONAL SPECIFIC GUIDANCE**

One of the several benefits of aligning with the TCFD is that it allows insurers to benefit from years of guidance and supporting material developed and being regularly updated by the TCFD and other organizations.

For those insurers new to TCFD reporting, the Implementation Recommendation Report provides a useful guide. It contains guidance for all sectors on each of the four thematic areas of governance, strategy, risk management and metrics and targets. For example, in relation to the risk management disclosure to describe the insurers' processes for identifying and assessing climate-related risks, it provides the following guidance:

> Organizations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organizations determine the relative significance of climate-related risks in relation to other risks.
>
> Organizations should describe whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered.
>
> Organizations should also consider disclosing the following:
> - processes for assessing the potential size and scope of identified climate-related risks and

[2] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf, pg.10
[3] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf, pg. 11

 

- definitions of risk terminology used or references to existing risk classification frameworks used.[4]

The same document also provides supplemental insurance-sector specific guidance. For example, for the same disclosure question, it provides:

> Insurance companies should describe the processes for identifying and assessing climate-related risks on re-/insurance portfolios by geography, business division, or product segments, including the following risks:
> - physical risks from changing frequencies and intensities of weather-related perils;
> - transition risks resulting from a reduction in insurable interest due to a decline in value, changing energy costs, or implementation of carbon regulation; and
> - liability risks that could intensify due to a possible increase in litigation.[5]

Notably, this general and supplemental guidance is not required to be included in a TCFD report. Rather, it is designed to support an insurer in developing climate-related financial disclosures consistent with the TCFD framework, including by providing context and suggestions for implementing the recommended disclosures.

The disclosures identified in bullet points in this survey are intended to be supplemental, insurance-sector specific guidance. They have been developed by the NAIC to respond to the TCFD and FSOC recommendations that regulators enhance public reporting requirements for climate-related risks in a manner that builds on the TCFD's four core elements. They are designed to further support insurers' in developing their disclosures by providing context and suggestions for the information a regulator may expect.

Additional guidance published by the TCFD includes:

***The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities*** (2017) provides information on types of climate-related scenarios, the application of scenario analysis, and the key challenges in implementing scenario analysis to support an organization's disclosure of the resilience of its strategy, taking into consideration different climate-related scenarios.

***Guidance on Risk Management Integration and Disclosure*** (2020) describes considerations for organizations interested in integrating climate-related risks into their existing risk management processes and disclosing information on their risk management processes in alignment with the Task Force's recommendations.

[4] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf, pgs. 32-33.
[5] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf, pg. 33.

 

***Guidance on Metrics, Targets, and Transition Plans*** (2021) describes recent developments around climate-related metrics and users' increasing focus on information describing organizations' plans for transitioning to a low-carbon economy. The guidance also describes a set of cross-industry, climate related metric categories (described in Appendix 2: Cross-Industry, Climate-Related Metric Categories) that the Task Force believes are applicable to all organizations.

The FSB frequently produces content to assist companies in creating TCFD reports, the knowledge hub with related content is accessible at https://www.tcfdhub.org/.

## SURVEY QUESTIONS

To provide clear direction for achieving a robust, insurance-sector specific TCFD report, narrative and closed ended questions follow, grouped into the TCFD's four topics: governance, strategy, risk management and metrics and targets.

The statements listed next to numbers and letters are directly taken from the TCFD Framework and should be fully addressed in the insurer's response. As discussed in detail above, insurers should consider including the bulleted items in their response to the TCFD statement above it. For additional guidance on sector specific content to consider including, refer to the Implementation Recommendation Report.

**Closed ended questions directly correspond to the narrative, allowing for explanation and qualification of the yes/no answers.**

**Closed ended questions are voluntary for reporting year 2022.**

### Governance – narrative

1. *Disclose the insurer's governance around climate-related risks and opportunities.*

*In disclosing the insurer's governance around climate-related risks and opportunities insurers should consider including the following:*

- Identify and include any publicly stated goals on climate-related risks and opportunities.
  **Oregon Mutual does not have a formal climate change policy. Notwithstanding, its leadership is abreast of the impacts of climate change on the industry.**
- Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level.
  **Disclosures are handled at the entity level: Oregon Mutual Insurance Company (NAIC number 14907).**

A. *Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities.*

*In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:*

- Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.

  **Climate-related financial risks are primarily overseen by the Investment Committee Chairperson, although the Risk Management Committee Chairperson may also provide guidance in this area.**

B. *Describe management's role in assessing and managing climate-related risks and opportunities.*
  **Primary responsibility for climate-related risks and opportunities with respect to insurance underwriting is held by the Chief Underwriting Officer. The Chief Financial Officer is primarily responsible to oversee and manage climate-related risks in within the corporate investment portfolio.**

**Governance – closed ended questions answered in addition to the narrative**

- Does the insurer have publicly stated goals on climate-related risks and opportunities? (Y/N)
- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? (Y/N)
- Does management have a role in assessing climate-related risks and opportunities? (Y/N)
- *Does management have a role in managing climate-related risks and opportunities? (Y/N)*

**Strategy – narrative**

2. *Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material.*

*In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:*

- Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency.*
  **Oregon Mutual's reinsurance partner provides a computer modeling service. OM has requested its reinsurers provide ongoing information on global warming as it relates to the risks underwritten. OM's reinsurance partner uses the latest technology and is proactive on the global warming issue. Oregon Mutual has no plans to commit direct resources to climate change research. As information on climate change becomes available, OM will respond accordingly.**
- Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations.*
  **OM is employing a combination of strategies to reduce its data center**

**footprint. This includes embracing the concept of infrastructure as a service to reduce data center footprint and power consumption. The Company has a road map that will permit it to significantly reduce power consumption in the data center over the coming few years. OM undertakes a variety of additional activities to reduce carbon footprint. This includes an active recycling program, use of high efficiency lighting, and installation of an electric vehicle charging station.**

*Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.*

*In describing the climate-related risks and opportunities the insurer has identified over the short, medium, and longer term, insurers should consider including the following:*

- Define short, medium, and long-term, if different than 1-5years as short term, 5-10years as medium term, and 10-30years as long term.
  **In the short term, the risk of increased wildfires is the primary risk that has been identified. Medium-term risks may include storms of increased severity, including both winter storms and damage in warmer months due to high winds and increased rainfall leading to landslides and flooding. Additionally, volatility in investment portfolios may become an increased risk in the medium term. Long-term risks may include issues related to rising sea levels, future climate-related litigation, and unknown risks related to the possibility that geoengineering solutions to climate change may be pursued.**

B. *Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.*

*In describing the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning, insurers should consider including the following:*

- Discuss if and how the insurer provides products or services to support the transition to a low carbon economy or helps customers adapt to climate-related risk.
  **Oregon Mutual does not at this time offer products or services specifically aimed at transitioning to a low-carbon economy.**
  Discuss if and how the insurer makes investments to support the transition to a low carbon economy.

  **Oregon Mutual employs a conservative investment philosophy. While there is no formal climate change policy relating to investments, OM's research group considers all potential risk factors when choosing whether to initially purchase or continue to hold investments.**

C. *Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.*

**It is unclear to us what is being defined as "resilience" in relation to this question. Therefore, we are not prepared to make any representations in response to this question.**

 

**Strategy - closed ended questions answered in addition to the narrative**

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? (Y/N) *
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk? (Y/N)
- Does the insurer make investments to support the transition to a low carbon economy? (Y/N)
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N)*

**Risk Management – narrative**

3. *Disclose how the insurer identifies, assesses, and manages climate-related risks.*

*In disclosing how the insurer identifies, assesses, and manages climate-related risks, insurers should consider including the following:*

- Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability risk.*
**Oregon Mutual is focused on underwriting risks as they relate to climate change. As an example, with the assistance of its reinsurers, it uses technology to observe risk accumulation in geographic areas that may be more prone to increased wildfire experience. The claims division also endeavors to proactively contact policyholders in areas experiencing wildland fires.**

- Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable.*
**Historically, OM's greatest risks have been winter storms in the Northwest, with wildfires growing as a risk in recent years. OM has sent a bulletin to selected policyholders whose risk of wildfire is greater than others that details wildfire loss mitigation tips. OM will respond accordingly as information becomes available.**

- Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered.*
**Climate change is not a primary driver of the investment philosophy of Oregon Mutual. However, consideration of climate change may apply in specific decisions as to whether to purchase or hold particular securities. Such scenarios may include the following: 1) With regard to municipal bonds, OM seeks a geographically diversified portfolio to insulate risks presented by natural disasters. 2) With regard to utility industry holdings, OM's research group monitors credits and may also consider environmental litigation risk relating to fossil fuel usage by utilities. 3) With regard to corporate bonds, OM may consider drought risks and commodity pricing where applicable in the evaluation of financial risk.**
    A. *Describe the insurers' processes for identifying and assessing climate-related*

*risks.*

*In describing the insurers' processes for identifying and assessing climate-related risks, insurers should consider including the following:*

- Discuss whether the process includes an assessment of financial implications and how frequently the process is completed.*
  **Oregon Mutual incorporates the effect of climate change by analysis of the variation in both the frequency and severity of historical loss trends. As the impacts of climate change occur over time, the data reveals such trends.**
  *Describe the insurer's processes for managing climate-related risks.*

B. *Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.*

*In describing how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management, insurers should consider including the following:*

- Discuss whether climate-related risks are addressed through the insurer's general enterprise-risk management process or a separate process and how frequently the process is completed.

  **Climate-related risks are primarily addressed within the individual business function, such as Finance or Underwriting. However, they are also documented more generally through the general enterprise risk management process, which is subject to annual review.**
- Discuss the climate scenarios utilized by the insurer to analyze its underwriting risks, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.
  **Oregon Mutual's reinsurance partners use the latest technology in catastrophe modeling. Oregon Mutual has requested information on climate change from reinsurance brokers and will continue to evaluate climate change risks. The Company monitors Probable Maximum Loss quarterly. During the annual reinsurance renewal process, OM uses computer modeling to evaluate and assess risks. OM is limited to the changes reflected in current computer models.**
- Discuss the climate scenarios utilized by the insurer to analyze risks on its investments, including which risk factors are utilized, what types of scenarios are used, and what timeframes are considered.
  **With respect to enterprise risk management, the effects of climate change are accounted for in the rigorous analysis of loss history frequency and severity experience by the actuarial, underwriting, and claims divisions.**

**Risk Management – closed ended questions answered in addition to the narrative**

- Does the insurer have a process for identifying climate-related risks? (Y/N)
  - If yes, are climate-related risks addressed through the insurer's general

enterprise-risk management process? (Y/N)

- Does the insurer have a process for assessing climate-related risks? (Y/N)
    - If yes, does the process include an assessment of financial implications? (Y/N)
- Does the insurer have a process for managing climate-related risks? (Y/N)
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (Y/N/Not Applicable)*
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N)*
- Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N)*
- Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N)
- Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N)

**Metrics and Targets – narrative**

4. *Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material.*

*In disclosing the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material, insurers should consider including the following:*

Discuss how the insurer uses catastrophe modeling to manage the climate-related risks to your business. Please specify for which climate-related risks the insurer uses catastrophe models to assess, if any.

**As part of its operations, Oregon Mutual tracks on a quarterly basis the Probable Maximum Loss through catastrophe models provided by reinsurance partners. Over the long term, these strategies aim to provide resilience against global warming impacts such as flood, wind, and fire.**

A. *Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process.*

*In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:*

- In describing the metrics used by the insurer to assess and monitor climate risks, consider the amount of exposure to business lines, sectors, and geographies vulnerable to climate-related physical risks [answer in absolute amounts and percentages if possible], alignment with climate scenarios, [1 in 100 years probable maximum loss, Climate VaR, carbon intensity], and the amount of financed or underwritten carbon emissions)

  **Oregon Mutual underwrites insurance products in Oregon, Washington, Idaho, and California. In conjunction with its reinsurers, OM has identified the greatest risks presented by climate change. The primary risk is increased intensity of winter storms. However, there is currently little research available in this area. Additionally, the wildfire season in**

**the western United States has increased by almost 80 days over the past 30 years according to the Intergovernmental Panel on Climate Change. A potentially less significant risk posed is rising sea level, which could lead to greater severity of damage from tsunami formation in the Pacific. Although there is presently inconclusive research, there is concern about how climate change may affect frequency and severity of lightning storms. OM tracks industry research on the many possible effects of climate trends on its business.**

B. *Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.*
**Oregon Mutual does not have a policy in this area and does not manage risks in this area. Activities in this area may include but are not limited to: Scope 1: use of heating utilities (gas) and automobiles for travel to and from the main office as needed by employees, vehicle and air travel undertaken by employees in connection with contacting agents and policyholders; Scope 2: use of other utilities including electricity, water, and sewage; Scope 3: purchases of various office supplies ranging from computers to paper office supplies, from vendors who may or may not actively address climate-change issues.**

C. *Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.*
**Other than assessments of wildfire risks by underwriting staff as discussed above, Oregon Mutual does not assess performance in managing climate-related risks against quantifiable targets.**

**Metrics and Targets – closed ended questions answered in addition to the narrative**

- Does the insurer use catastrophe modeling to manage your climate-related risks? (Y/N)
- Does the insurer use metrics to assess and monitor climate-related risks? (Y/N)
- Does the insurer have targets to manage climate-related risks and opportunities? (Y/N)
- Does the insurer have targets to manage climate-related performance? (Y/N)

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[i] * Asterisks represent questions derived from the original Climate Risk Disclosure Survey.