Insurance in a Changing Climate – Regulatory Challenges and Opportunities

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Mission of the Task Force

- The mission of the Climate and Resiliency (EX) Task Force is to serve as the coordinating NAIC body for discussion and engagement on climate-related risk and resiliency issues, including dialogue among state insurance regulators, industry, and other stakeholders.

Workstreams

Facilitate discussion among 4 key themes:

1. Climate Risk Disclosure
2. Solvency
3. Innovation and Technology
4. Pre-Disaster Mitigation

Climate Risk Disclosure

The Climate Risk Disclosure Survey, which was first adopted by the NAIC in 2010, is an optional risk management tool for states to require of their companies. Any state can request information from the insurers licensed in their state, but the survey provides uniformity for insurers and promotes transparency and comparability of the data received.

Climate Risk Disclosure

- In 2022, the Task Force made an important update to the Climate Risk Disclosure Survey, aligning with the Financial Stability Board's Taskforce on Climate-related Financial Disclosure standards.
- Participation from state regulators in the new TCFD survey grew from 6 initial states in 2020 to a bipartisan group of 26 states in 2023.
- The Task Force expects to hear from the Society of Actuaries Research Institute about their review of the disclosures, including the degree to which insurers have conducted scenario analyses as requested by the TCFD.
- Individual states utilize the Disclosures as part of their Financial Analysis of domestic insurers

Revised Climate Risk Disclosure Survey

Revised Climate Risk Disclosure Survey adopted by the Task Force in 2022.

Former 8 Question Survey

- Risk and Investment Management Policies
- Identify Current or Anticipated Risks
- Investment Strategy
- Process to Identify Risk and Impact to Business
- Encourage Policyholder Mitigation
- Use of Catastrophe Modeling to Manage Risk
- Assess, Reduce, or Mitigate Emissions in Operations

Revised Climate Risk Disclosure Survey

Aligned to the Financial Stability Board's Task Force on Climate-Related Financial Disclosure

Governance	Risk Management	Strategy	Metrics & Targets

Solvency

Consider potential solvency impact and update resources appropriately.

- Assess regulatory tools available to understand, address, and support insurance companies' planning for climate-related risk and exposure
- Determine methodology for quantifying insurers' exposure to climate-related investments

- The Solvency Workstream adopted three referrals to address climate related risk within financial solvency tools. They've proposed updates to the NAIC's Financial Analysis Handbook, the Financial Condition Examiners Handbook, and the guidance manual for the Own Risk Solvency Assessment, the ORSA.
- Additionally, the Solvency Workstream is exploring how insurers are using scenario analysis to assess climate related risk within their own firms.
- The Workstream is also looking at creating protection gap dashboards.

Innovation

- Discuss the use of innovative insurance products that respond to climate-related risks

Technology

- Apply technology, such as early warning systems and predictive modeling tools, to understand and evaluate climate risk exposures

Innovation & Technology: Impact on Affordability and Availability

Identify and Catalog Product Offerings

- Parametric Coverage
  - Triggering Event
  - Automated Payout
- Levels of Coverage
  - Endorsement to Property/Coverage
  - Standalone Property/Coverage
  - Community-Based Coverage
- Regulatory Concerns
  - Indemnity
  - Proof of Loss
  - Consumer Awareness

Identify Impact to Consumers

- Risk Assessment
  - Long-Term
  - Near-Term
- Catastrophe Models
- Early Warning
- Risk Communication

Innovative Insurance Products

Parametric Insurance

https://content.naic.org/cipr-topics/parametric-disaster-insurance

- For Government
- For Organizations
- For Consumers

Catastrophe Bonds

https://www.artemis.bm/artemis-ils-market-reports/

Chasing Storms for Uncorrelated Returns

Inclusive Insurance/Community-Based Coverage

https://www.edf.org/inclusive-insurance

Project components

Deploy innovative insurance pilots	Build a community of practice	Link research to actionable change	Increase literacy and capacity

Catastrophe Modeling Center of Excellence

- 2022 – Technology Workstream proposed and NAIC approved a Catastrophe Modeling Center of Excellence to provide state insurance regulators with the necessary technical expertise, tools and information regarding catastrophe-related risks relevant for their region.
- Twenty-seven states have gained access to the regulator-only site which includes model documentation as well as some curated detail about the models to discern the most relevant information states need to effectively regulate their markets.
- Cat Model COE has conducted several training events for the states to share market insights and collaborate with industry and resilience partners to take the risk assessments from the models and identify ways to reduce the risk through better building practices and consumer education.

Catastrophe Modeling Center of Excellence

- Cat Model COE brought regulators to the Reinsurance Association of America Cat Risk Management Conference where states participated in panel discussions alongside insurance and reinsurance industry experts regarding how natural catastrophe perils are impacting insurance markets and consumers.
- Developing formal education program for state insurance regulators will be rolled out in 2023. The training will cover how models are developed, how insurers and reinsurers interact with them and what opportunities exist for regulators to utilize model outputs.

Pre-Disaster Mitigation

Loss Mitigation

- Participate in multi-agency/stakeholder educational efforts on coverage gaps and pre-disaster mitigation related to climate risks
- Incentivize insurer recognition of enhanced building codes in underwriting and rating
- Continue consumer education and awareness on coverage gap and mitigation related to climate risks and natural catastrophe exposure, including possible strategic partnerships (e.g., Federal Emergency Management Agency, Insurance Institute for Business & Home Safety)

Resiliency Resources

- Provide a centralized repository for use by other agencies, academics, and others in evaluating/studying climate risks impact on insurance

Working with Critical Stakeholders to Identify Mitigation Strategies

- Risk Assessment and Stakeholder Coordination
- Land Use and Building Codes
- Risk Mitigation to Close Protection Gaps
- Innovation in Resilience Funding
- Consumer Education and Outreach

Insurance Institute for Business & Home Safety®

FEMA

The National Risk Index Map

Verisk

Building Code Effectiveness Grading Schedule

CENTER FOR INSURANCE POLICY AND RESEARCH
CATASTROPHE MODELING
CENTER OF EXCELLENCE

Risk Assessment and Adaptative Design

STRENGTHEN ALABAMA HOMES

EARTHQUAKE BRACE+BOLT®

R4C

SC Safe Home Mitigation Grant Program

FEMA

Community Rating System

SMART HOME AMERICA

My Safe FL Home
Stronger Homes. Safer Florida.

Resilience Funding and Incentives

FEMA

FLASH®
FEDERAL ALLIANCE FOR SAFE HOMES

United Policyholders
Empowering the Insured

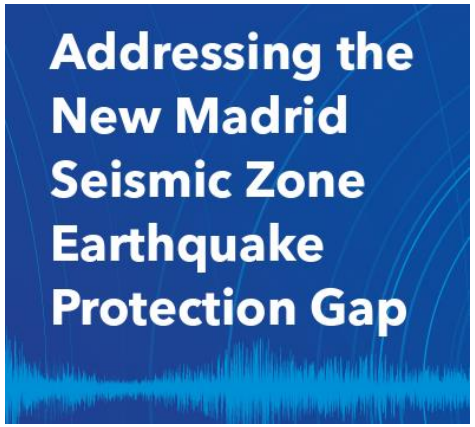
Consumer Outreach and Education

Public – Private Partnerships

Supporting Research

Studying Coverage Gaps

[Flood Insurance Redesigned: Regulatory Considerations for a Viable and Sustainable Private Market]



Assessing the Risk

Insurance Solutions for the Greater Good

Identifying and Addressing Health Impacts

Tools and Guidance:
Where to Find More and Continue Tracking

Climate and Resiliency Resource Center

- Created in 2021 by NAIC
- Highlights some of the ways state insurance regulators already play a critical role before and after disasters occur
- Will be updated continually throughout the year
- Provides info on current workstream initiatives
- Provides resources from relevant stakeholders

https://content.naic.org/climate-resiliency-resource.htm

Thank you!