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STATE OF CONNECTICUT

INSURANCE DEPARTMENT

NOTICE Public Exposure-Comment of Bulletin Re Managing Risks from Climate Change

Name Public Citizen

Title

Company/Organization Public Citizen

Email climateaction@citizen.org

Document Attachments

Comments
* If your comment relates to a particular section of the proposed bulletin please identify the section and page number.

comments attached

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To: State of Connecticut Insurance Department
Andrew N. Mais, Commissioner
Re: Proposed Insurance Department Bulletin Concerning Guidance For Connecticut Domestic Insurers On Managing The Financial Risks For Climate Change

Dear Commissioner Mais,

Public Citizen, a national public interest advocacy group with more than 500,000 members and supporters, including almost 9,000 in Connecticut welcomes the opportunity to comment on the Connecticut Insurance Department's ("Department") Proposed Insurance Department Bulletin Concerning Guidance for Connecticut Domestic Insurers on Managing The Financial Risks For Climate Change ("the bulletin"). Thank you for moving forward in addressing the financial risks that climate change poses to the insurance industry.

Although it represents an advance, the bulletin should be strengthened to better meet the Department's mission to protect consumers and the public interest. Recent changes in Connecticut law recognize that climate change poses a unique risk to insurance companies and vulnerable communities and that management of that risk, particularly through reducing insured and financed emissions, is key to protecting consumers and the insurance industry.

Public Citizen has advocated to the Federal Insurance Office (FIO), the National Association of Insurance Commissioners (NAIC), and New York's Department of Financial Services for climate risk regulation based on a precautionary approach that accounts for the disproportionate effect of climate change on vulnerable communities. As Public Citizen wrote to the FIO in November 2021, "Regulators lack an adequate view of the risks that most insurers face from the climate crisis." Unfortunately, as the climate crisis continues to accelerate, there is no time to gradually develop these views before acting. The Department must gather more data even as it takes an active role in directing insurers to follow standards based on existing examples from domestic and international peer regulators.

Based on the reasoning in those comments, further discussed below, we recommend that the Department direct insurers to develop a plan for addressing climate risk that reflects the unique risks posed by climate change. This includes adopting a whole-of-business plans to mitigate climate-related risks, including by using scenario analyses and by reducing financed and insured emissions in line with the Global Warming Solutions Act, ensuring that this climate risk management does not harm vulnerable communities, and providing for increased transparency by clarifying the materiality of disclosures of Scope 3 emissions in the National Association of Insurance Commissioners' (NAIC) Climate Risk Survey. Only by prioritizing climate risk management can the Department fulfill its responsibilities to protect both consumers and insurers.

Insurers have long known that the climate crisis threatens their own business, and that threat is only growing.[1] In total, 2021 had the second highest level of natural disaster insured losses on

[1] Alex Sammon, "The Oil Merchant in the Gray Flannel Suit," The American Prospect, Sept. 29, 2021.

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record globally, at $120 billion.[2] By investing in and insuring fossil fuel projects and companies, insurance companies contribute to climate change and increase the obligations they will have to pay in the future. Investment in fossil fuel-related assets also exposes insurers to risks from stranded assets, falling asset prices, and reputational harm.

Connecticut insurers' activities are not aligned with state law setting greenhouse gas emissions reductions requirements. Connecticut's legislation requires statewide greenhouse gas emissions be reduced to 45% below 2001 levels by 2030, and 80% below 2001 levels by 2050.[3] As of 2022, no Connecticut insurer had committed to aligning its underwriting and investments with Paris Agreement goals.[4] To meet this charge, state regulators should require the industries they oversee to develop and implement credible plans to align with state climate targets. For the Department, that means requiring plans by insurers to align insured and financed emissions with state law.

The Bulletin must articulate how climate-related risk is unique, and that it must be regulated and managed as such. Insurance companies operate by assessing, pricing, and managing risks. They run their business by using models, hedging, and reinsurance to match their risk exposure to their risk appetite. But, as New York's climate risk guidance states, climate risks are "non-linear, correlated, and irreversible" as well as hard to predict based on historical records.[5] The White House's climate risk strategy endorses a precautionary approach to manage these characteristics and reflects the reality that every "fraction of warming that can be prevented will mean lives saved and economic costs reduced."[6] The lesson of the 2008 financial crisis is that even supposedly sophisticated risk managers, like AIG, cannot engineer away unpredictable threats. The size and uncertainty of harms from climate change will fuel similar or even bigger threats to those that threatened AIG's solvency. To protect insurers and consumers, the Department should adopt a precautionary approach.

The appropriate precautionary approach means acting to mitigate risk even in the absence of perfect information and putting additional weight on reducing the probability of the large and irreversible damages from climate and financial crises.

A precautionary approach would do the following:

1. Incorporate estimates of increasing frequency and severity of extreme climate events.
2. Lead insurers to reduce or eliminate risks that they cannot adequately model where doing so will not have adverse impacts on the communities they serve.
3. End the financing of new fossil fuel projects that will become stranded before they pay off, and initiate a managed drawdown of existing fossil fuel investments.[7]

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[2] Sims, Tom and Hübner, Alexander, "Natural disasters cost insurers $120 billion in 2021, Munich Re says," Reuters, Jan. 10, 2022.
[3] Connecticut Department of Energy and Environmental Protection, "Climate Action Timeline for Connecticut," updated February 2022.
[4] Public Citizen Analysis of American International Group's 2022 Climate Commitments, March 2022.
[5] New York Department of Financial Services. Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change, Nov. 15, 2021.
[6] A Roadmap to Build a Climate Resilient Economy, The White House, October 14, 2021, at 9.
[7] David Arkush, "Unsafe at Any Charge," Roosevelt Institute, May 26, 2021

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4. Build larger margins of error into risk management procedures, rather than trusting policies and procedures based on a stated risk appetite.
5. Assume every part of the business is subject to climate risk, even where it seems implausible. What is plausible has changed quickly as the climate crisis worsens.
6. Recommend scenario analysis to better understand the range of possible outcomes.

Insurers must develop whole-of-business plans to mitigate climate-related risks. The bulletin does not do enough to address the risks that insurance markets face from climate change. Failing to adequately address those risks threatens Connecticut insurers and consumers.

The bulletin lacks details about what climate-related risk is, the dangers it poses, or how insurers should address it. These details are needed to provide context to the Department's important recognition that climate risk oversight starts at the board level and requires designated board members and senior management members to monitor it, even if an insurer determines that climate risk is not material. As the bulletin acknowledges, climate risk must be integrated into existing enterprise functions, including ORSA and internal control functions, rather than siloed away from the rest of the business. But the Bulletin does not relay best practices on how to actually implement these requirements.

We commend the Department's rejection of the idea that uncertainty precludes insurers from making informed judgments about climate risk and its encouragement for starting with a qualitative approach. It should follow this advice in developing its own guidance, and begin incorporating the long-term consequences of an insurer's investment and underwriting decisions into risk management. It should implement this recommendation by adjusting the time horizons it sets for climate risk management to be based not on insurers' current business planning timelines, but rather on the necessary timelines to address and manage the risk, in line with the Global Warming Solutions Act. One approach for meeting these requirements would be to direct insurers to incorporate a credible plan to align their investment and underwriting with science-based targets into their governance and strategy.

Climate risk management must not harm vulnerable communities. The impacts of climate change exacerbate long-standing issues of environmental racism, which occurs when communities of color suffer disproportionate exposure to toxins and other environmental threats.[8] Effects of outdated housing and infrastructure will expose already vulnerable communities disproportionately to increasing severity and frequency of extreme weather and heat.[9]

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[8] Michela Zonta and Zoe Willingham, "A CRA To Meet the Challenge of Climate Change: Advancing the Fight Against Environmental Racism," Center for American Progress, Dec. 2020.
[9] Johanna Bozuwa and Thomas Hanna, "Building Community Wealth Through Community Resilience" 14 COMM. DEV. INNOV. REV. 1, 87, Oct. 2019.

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As insurers recognize the negative impacts of the climate crisis on their business, these structural disadvantages are increasingly reflected in the practice of *bluelining*[10] or identifying areas as at higher environmental risk and raising costs or avoiding underwriting in those areas. An insurer's seemingly risk-based analysis will follow the same or similar boundaries as those established by previous redlining decisions that have created and perpetuated racial and economic inequality in the United States. This bluelining itself will further entrench inequality and racial disparities. Areas that avoided the negative effects of bluelining can use their existing tax base to invest in climate adaptation, which will allow them to retain insurance, while the loss of insurance in bluelined areas will lower property values, degrade the tax base, and make it harder for those communities to invest in necessary adaptation.

The Department's bulletin falls short compared to other regulatory recommendations, such as those from New York State, which acknowledge the potential for climate risk management to harm vulnerable communities and encourages insurers to contribute just transition and climate adaptation efforts, and not to abandon communities who would be even more vulnerable to climate harms if insurers stop covering them.

The Department should require insurers to assess and mitigate the impact that their risk management strategies will have on consumer markets and especially on low-income communities and communities of color. Insurers may face reputational risks to the extent they choose to mitigate climate risk by reducing affordability or availability of insurance. The Department should recognize that unless insurers plan ahead, they may conclude that increasing premiums or reducing coverage are the only cost-effective options for managing the costs of climate change. Already, in response to unprecedented wildfires in the western United States over the past few years, property and casualty insurers have been exiting fire-prone regions. Without additional guidance from the Department or legislative intervention, exit by insurers in response to increasing physical risks like flooding and severe storms will threaten the state's economic development and harm vulnerable communities.

If insurers decide to exit vulnerable areas and markets, low-income communities and communities of color will be hit the hardest. The Bulletin should recognize that if insurers do begin to raise prices or withdraw from areas that suffer the most from climate change, that will only deepen the damage to these already underserved communities. Beyond making it harder to recover from acute climate impacts like flooding and severe weather, insurer withdrawals will broadly raise the costs these communities face for housing and essential services. Insurers need additional guidance from the Department on how to protect continued affordability and availability. In particular, the Department should review whether planning to manage climate risk by withdrawing from or increasing prices for communities of color violates Connecticut prohibitions on discrimination because of race or color.

The Department can also encourage insurers to avoid needing to withdraw or raise prices by proactively investing in climate resilience and adaptation strategies for vulnerable

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[10] Abraham Lustgarten, "How the Climate Crisis Will Shape Migration in America," THE NEW YORK TIMES. Sept. 15, 2021.

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communities. One step it should recommend is reviewing whether any of the insurer's current investment or underwriting choices are exacerbating climate and other environmental harms. Not contributing to climate risks is an essential early step to mitigating them. Overall, the Department should clarify an expectation of insurers supporting low-income communities and communities of color as they deal with the climate crisis, not abandoning them at the worst possible moment.

Regulators and the public need more transparency about the risks that insurers face. The main tool for assessing climate-related risk that insurance regulators have today is the National Association of Insurance Commissioners (NAIC) Insurer Climate Risk Disclosure Survey. Although the 2022 revisions to the survey are a major improvement over the previous version, they are still inadequate.[11] To better capture these risks, the Department should clarify the materiality of Scope 3 disclosures for insurers and require insurers to disclose their financed and insured emissions.

Strengthening this guidance will help Connecticut claim a leadership role in implementing the emerging global consensus: insurers should disclose the role that they play in enabling carbon emissions, and they should mitigate their contributions and exposure to climate-related financial risk.

For questions, please contact Yevgeny Shrago at yshrago@citizen.org and David Arkush at darkush@citizen.org.

Sincerely,
Public Citizen

[11] Public Citizen Comment on NAIC Draft Proposed Climate Risk Disclosure Survey, Jan 2022.

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INSURANCE DEPARTMENT

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Name Public Citizen, Connecticut Citizen Action Group, Sierra Club CT

Title

Company/Organization Public Citizen, Connecticut Citizen Action Group, Sierra Club CT

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Document Attachments

Comments

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To: State of Connecticut Insurance Department
Andrew N. Mais, Commissioner
Re: Proposed Insurance Department Bulletin Concerning Guidance For Connecticut Domestic Insurers On Managing The Financial Risks For Climate Change

Dear Commissioner Mais,

On behalf of the undersigned 18 organizations, we welcome the opportunity to comment on the Connecticut Insurance Department's ("Department") Proposed Insurance Department Bulletin Concerning Guidance for Connecticut Domestic Insurers on Managing The Financial Risks For Climate Change. Thank you for moving forward in addressing the financial risks of climate change in the insurance industry.

The Bulletin should be strengthened in line with the Department's mission to protect consumers and the public interest. Recent changes in Connecticut law recognize that climate change poses a unique risk to insurance companies and vulnerable communities and that management of that risk, particularly through reducing insured and financed emissions, is key to protecting consumers and the insurance industry.

In this comment, we recommend that the Department 1) direct insurers to develop whole-of-business plans to mitigate climate-related risks, including by using scenario analyses and reducing financed and insured emissions in line with the Global Warming Solutions Act; 2) detail climate change as posing unique risks; 3) ensure that climate risk management does not harm vulnerable communities and 4) provide for increased transparency by clarifying the materiality of disclosures of Scope 3 emissions in the National Association of Insurance Commissioners' (NAIC) Climate Risk Survey.

Insurers have long known that the climate crisis threatens their own business, and that threat is only growing.[1] In total, 2021 had the second highest level of natural disaster insured losses on record globally, at $120 billion.[2] By investing in and insuring fossil fuel projects and companies, insurance companies contribute to climate change and increase the obligations they will have to pay in the future. Investment in fossil fuel-related assets also exposes insurers to risks from stranded assets, falling asset prices, and reputational harm.

Connecticut insurers' activities are not aligned with state law setting greenhouse gas emissions reductions requirements. Connecticut's legislation requires statewide greenhouse gas emissions be reduced to 45% below 2001 levels by 2030, and 80% below 2001 levels by 2050.[3] As of 2022, no Connecticut insurer had committed to aligning its underwriting and investments with Paris Agreement goals.[4] To meet this charge, state regulators should require the industries they

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[1] Alex Sammon, "The Oil Merchant in the Gray Flannel Suit," The American Prospect, Sept. 29, 2021.
[2] Sims, Tom and Hübner, Alexander, "Natural disasters cost insurers $120 billion in 2021, Munich Re says," Reuters, Jan. 10, 2022.
[3] Connecticut Department of Energy and Environmental Protection, "Climate Action Timeline for Connecticut," updated February 2022.
[4] Public Citizen Analysis of American International Group's 2022 Climate Commitments, March 2022.

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oversee to develop and implement credible plans to align with state climate targets. For the Department, that means requiring plans by insurers to align insured and financed emissions with state law.

Insurers must develop whole-of-business plans to mitigate climate-related risks. Failing to adequately address climate risk and insurers' contributions to it threatens Connecticut insurers and consumers. The Bulletin does not do enough to address the risks that insurance markets face. It lacks details about what climate-related risk is, the dangers it poses to consumers and insurers, and how insurers should address it. These details are needed to provide context to the Department's important recognition that climate risk oversight starts at the board level and requires designated board members and senior management members to monitor it, even if an insurer determines that climate risk is not material. As the Bulletin acknowledges, climate risk must be integrated into existing enterprise functions, including ORSA and internal control functions, rather than siloed away from the rest of the business. But the Bulletin does not relay best practices on how to actually implement these requirements. Most importantly, that includes incorporating the long-term consequences of an insurer's investment and underwriting decisions. To do this, the Department should direct insurers to incorporate a credible plan to align their investment and underwriting with science-based targets into their governance and strategy.

We commend the Department's rejection of the idea that uncertainty precludes insurers from making informed judgments about climate risk and its encouragement for starting with a qualitative approach. It should implement this recommendation by adjusting the time horizons it sets for climate risk management to be based not on insurers' current business planning timelines, but rather on the necessary timelines to address and manage the risk, in line with the Global Warming Solutions Act.

The Bulletin must articulate how climate-related risk is unique, and that it must be regulated and managed as such. New York's Department of Financial Services guidance on supervision of climate-related risk for insurers details that climate risks are "non-linear, correlated, and irreversible."[5] The White House's climate risk strategy endorses a precautionary approach to manage these characteristics and reflects the reality that every "fraction of warming that can be prevented will mean lives saved and economic costs reduced."[6] To protect insurers and consumers, the Department should adopt such an approach.

The appropriate precautionary approach means acting even in the absence of perfect information and putting additional weight on reducing the probability of the large and irreversible damages from climate and financial crises.

A precautionary approach would do the following:

1. Incorporate estimates of increasing frequency and severity of extreme climate events.

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[5] New York Department of Financial Services. Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change, Nov. 15, 2021.
[6] A Roadmap to Build a Climate Resilient Economy, The White House, October 14, 2021, at 9.

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2. Lead insurers to reduce or eliminate risks that they cannot adequately model where doing so will not have adverse impacts on the communities they serve.
3. End the financing of new fossil fuel projects that will become stranded before they pay off, and initiate a managed drawdown of existing fossil fuel investments.[7]
4. Build larger margins of error into risk management procedures, rather than trusting policies and procedures based on a stated risk appetite.
5. Assume every part of the business is subject to climate risk, even where it seems implausible. What is plausible has changed quickly as the climate crisis worsens.
6. Recommend scenario analysis to better understand the range of possible outcomes.

Climate risk management must not harm vulnerable communities. The impacts of climate change exacerbate long-standing issues of environmental racism, which occurs when communities of color suffer disproportionate exposure to toxins and other environmental threats.[8] Effects of outdated housing and infrastructure will expose already vulnerable communities disproportionately to increasing severity and frequency of extreme weather and heat.[9] As insurers recognize the negative impacts of the climate crisis on their business, these structural disadvantages are reflected in the practice of "bluelining,"[10] or identifying areas as at higher environmental risk and raising costs or avoiding underwriting in those areas.

The Department's Bulletin falls short compared to other regulatory recommendations, such as those from New York State, which acknowledge the potential for climate risk management to harm vulnerable communities and encourages insurers to contribute just transition and climate adaptation efforts, and not to abandon communities who would be even more vulnerable to climate harms if insurers stop covering them.

Regulators and the public need more transparency about the risks that insurers face. The main tool for assessing climate-related risk that insurance regulators have today is the National Association of Insurance Commissioners (NAIC) Insurer Climate Risk Disclosure Survey. Although the 2022 revisions to the survey are a major improvement over the previous version, they are still inadequate.[11] To better capture these risks, the Department should clarify the materiality of Scope 3 disclosures for insurers and require insurers to disclose their financed and insured emissions.

Strengthening this guidance will help Connecticut claim a leadership role in implementing the emerging global consensus: insurers should disclose the role that they play in enabling carbon emissions, and they should mitigate their contributions and exposure to climate-related financial risk.

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[7] David Arkush, "Unsafe at Any Charge," Roosevelt Institute, May 26, 2021
[8] Michela Zonta and Zoe Willingham, "A CRA To Meet the Challenge of Climate Change: Advancing the Fight Against Environmental Racism," Center for American Progress, Dec. 2020.
[9] Johanna Bozuwa and Thomas Hanna, "Building Community Wealth Through Community Resilience" 14 Comm. Dev. Innov. Rev. 1, 87, Oct. 2019.
[10] Abraham Lustgarten, "How the Climate Crisis Will Shape Migration in America," The New York Times. Sept. 15, 2021.
[11] Public Citizen Comment on NAIC Draft Proposed Climate Risk Disclosure Survey, Jan 2022.

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Sincerely,

State-level organizations:
Clean Water Action
Climate Reality Project, Southern CT Chapter
Common Cause in Connecticut
CT Citizen Action Group
CT Climate Crisis Mobilization (C3M)
CT League of Conservation Voters
National Association of Social Workers Connecticut Chapter
Sierra Club Connecticut
Sunrise Movement Connecticut

National/International Organizations:
Clean Energy Action
Consumer Federation of America
Mazaska Talks
Mid-Missouri Peaceworks
Public Citizen
Rainforest Action Network
Stand.earth
The Wilderness Society
urgewald

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STATE OF CONNECTICUT

INSURANCE DEPARTMENT

NOTICE Public Exposure-Comment of Bulletin Re Managing Risks from Climate Change

Name Public Citizen Members

Title

Company/Organization Public Citizen Members

Email ept@citizen.org

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Comments

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attached

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Dear Commissioner Mais,

Thank you for moving forward in addressing the financial risks of climate change in the insurance industry. The Connecticut Insurance Department's ("Department") proposed guidance for Connecticut Domestic Insurers on managing climate-related financial risk must be strengthened to better protect consumers and the public interest.

Climate change poses unique risks to insurance companies and vulnerable communities. Management of those risks, particularly through reducing insured and financed emissions, is key to protecting consumers and the insurance industry. To manage the financial risks from climate change, the Department should act even in the absence of perfect data.

Insurance companies' current activities—funding and underwriting fossil fuel projects that enable climate change—are not aligned with our state's commitment to reducing statewide greenhouse gas emissions to 45% below 2001 levels by 2030, and 80% by 2050. The Department should require the insurance industry to develop and implement credible plans to align their insured and financed emissions with the Global Warming Solutions Act.

The Department must also ensure that climate risk management does not harm vulnerable communities. The risk mitigation approaches that insurers have taken are already threatening these communities. The impacts of climate change exacerbate long-standing issues of environmental racism: outdated housing and infrastructure will expose communities disproportionately to increasing severity and frequency of extreme weather and heat. The Department's bulletin should acknowledge the potential for climate risk management to harm vulnerable communities and encourage insurers to contribute to just transition and climate adaptation efforts, and not to abandon communities who would be even more vulnerable to climate harms if insurers stop covering them.

Strengthening this guidance will help Connecticut claim a leadership role in implementing the emerging global consensus: insurers should disclose the role that they play in enabling carbon emissions, and they should mitigate their contributions and exposure to climate-related financial risk.

Sincerely,

Adam Parente, Ansonia, CT
Randi Byron, Avon, CT
Michele Scott, Bloomfield, CT
Stephanie C. Fox, Bloomfield, CT
Donald Weigt, Bloomfield, CT
Marge and David Schneider, Branford, CT
Robert Erman, Bridgeport, CT
Sam Carpenter, Brookfield, CT
Sue VanDerzee, Cromwell, CT

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Herbert Herschlag, Danbury, CT
John Harmon, Danbury, CT
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Carol Royce, Danbury, CT
Joseph Gulas, Derby, CT
Tanya Bourgoin, East Haddam, CT
Mary Goetz, East Haven, CT
Laura Ehrenkranz, Fairfield, CT
Donna Hryb, Glastonbury, CT
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Lauren Moss-Racusin, Hamden, CT
Nancy Meyers, Higganum, CT
Sherry Hansley, Killingworth, CT
Charles Paul Becker, Litchfield, CT
John Connor, Madison, CT
Kevin Walsh, Madison, CT
Terence Bleakley, Manchester, CT
Alan Benford, Manchester, CT
Robert Schondelmeier, Milford, CT
Ashwinee Sadanand, New Britain, CT
Avi Ornstein, New Britain, CT
Stephen and Robin Newberg, New Britain, CT
Steven Andrychowski, New Britain, CT
David Dougherty, New Britain, CT
Ellen Brainard, New Haven, CT
Sharon Tee, New Haven, CT
Flora Van Dyke, New Haven, CT
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Pablo Grillo, New London, CT
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Peggy McGrath, Newington, CT
CARLENE OKULA, Newington, CT
Brittany Chinigo, Norwich, CT
Ferran Puig, Oakville, CT
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Martha Dumas, Portland, CT
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Leif Smith, Redding, CT
Joel Blumert, Salisbury, CT
Melissa Meyer, Simsbury, CT
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Robert Cavaliero, Stamford, CT
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Kimberly Bentley, Stamford, CT
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Anna Franz, Wallingford, CT
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Lisa James, Waterbury, CT
Joan Russell, Waterbury, CT
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Lea White, West Hartford, CT
Paula Brinton, Wethersfield, CT
winn wilson, Willimantic, CT
Janice Ninomiya, Woodbridge, CT

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INSURANCE DEPARTMENT

NOTICE Public Exposure-Comment of Bulletin Re Managing Risks from Climate Change

Name Rory Whelan

Title Regional Vice President

Company/Organization NAMIC

Email rwhelan@namic.org

Document Attachments

Comments
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20 F Street N.W., Suite 510 | Washington, D.C. 20001

May 23, 2022

Commissioner Andrew Mais
Connecticut Insurance Department
153 Market Street
Hartford, CT 06103

Dear Commissioner Mais:

The National Association of Mutual Insurance Companies (NAMIC)[1] and its members, thank you for the opportunity to submit comments in response to the *"Proposed Industry Bulletin on Guidance for Managing the Financial Risks of Climate Change."*

Section VI of the draft proposal points to an **effective date** of January 1, 2023, for having the board governance and organization structure plans in place. NAMIC urges the Department to consider a longer lead time. Depending on the extent to which a company's existing approach corresponds to what is contained in the proposal, the groundwork for making modifications may take time. Some of that effort may need to occur before/after/between Board meetings. And, to engage in the kind of oversight and engagement outlined in the proposal, time should be allowed for any necessary Board meetings and any additional consideration that may be needed. When New York promulgated their guidance, it was preceded by a preliminary Circular in 2020, a lengthier and visible proposal and stakeholder engagement period, and a longer timeline for implementation (the time between when their guideline was finalized and the deadline for having specific components in place). Appropriately, nearly two years was provided.

The draft proposal references "**initiatives taken by the NAIC**" --- NAMIC asks you to consider several issues as the Department contemplates draft proposal. Some of those efforts – those relating to the initiatives being initiated by the Solvency Workstream of the Climate and Resiliency (EX) Task Force – are still pending. As NAMIC understands this group's current effort, **ORSA** is among the regulator solvency tools currently being considered for revision, considering climate risk specific considerations. To avoid potentially inconsistent requirements between what would apply to Connecticut domestics and what will be developed for the ORSA via the NAIC (to be applicable more broadly), kindly consider removing this section and waiting to move forward with the ORSA reporting aspect of a proposal until after the NAIC has completed its work in this area. Similarly, please note that various handbook (Financial Analysis Handbook and Financial Condition Examiners Handbook),

[1] The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of more than 1,400 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner's insurance market and 53 percent of the auto market.

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risk-based capital (RBC), and other initiatives to expand regulatory tools also appear to be advancing at the NAIC.[2] As with many operational items, uniformity and consistency is valuable.

Continuing with this theme, under the **Materiality** section of the proposal, reference is made to the NAIC Financial Condition Examiners Handbook. It is NAMIC's understanding that today that resource defines risk associated with climate changes to be weather events. Until the NAIC resources are updated, the proposal may risk confusion and inconsistency. Similarly, under the **Risk Appetite** section of the proposal, if this is based on the Handbook and that definition is applied, the risk associated with climate change is already being addressed with existing risk factors. Please consider the existing requirements and the pending NAIC revision efforts to avoid inconsistency.

Regarding **disclosures** (under the Overview Section, paragraph (I)(C)), kindly insert "As required" at the start of this provision or otherwise convey this idea. The concept of "appropriately" can be subjective -- legal/regulatory requirements involve more certainty. Because the redesigned NAIC Climate Risk Disclosure Survey now contains a hybrid approach that incorporates TCFD, there could be some question about whether the Department is seeking additional separate disclosure because of the use of "and" in this provision. The "as required" language should help to clarify. Finally, with the threshold exemption, not all insurers are mandated to prepare and submit such disclosure. Again, this underscores that "as required" could help provided a clearer trigger for the obligation than "as appropriate."

Also, kindly draw your attention to **bigger picture considerations**. For overall **context and scope**, NAMIC has received additional feedback. The insurance industry has been concerned with extreme weather since its inception – attention to weather/climate risks is not new. There should be an understanding and appreciation that "climate risk" is not really a stand-alone risk category. It is a factor that is largely part of the existing risk landscape, part of what considered today in modeling, rating, underwriting, and investment returns. Risks that are material will vary by company. A member asks, what a particular company's risk related to the changing climate is not material? Another member underscores that regulatory focus on information, including information on investments, should be focused ensuring solvency, consistent with existing/NAIC tools available for the states and aligned with a clearly articulated regulatory standard. It may be helpful to have some additional definition to provide more understanding or context around things that need to be done or defined, according to feedback supplied by one member. For example, the financial risks of climate change are not defined. This insurer asks whether it would be any different from the financial risks that are already being measured? Additionally, this insurer inquires whether about the definition of "climate risks" and how an insurer's Board will know if they have met the Bulletin's intent under (I)(A).

Together with considering proposed Guidance, NAMIC suggests the Department could consider also expanding engagement on mitigation and resilience initiatives to increase education and investment in these areas. After all, smart investments in mitigation save lives, properties, and taxpayer dollars. Focused on supporting initiatives like strengthening building codes approaches even further (such as

[2] See Solvency tab on the NAIC Climate Risk and Resiliency Resource Center: https://content.naic.org/climate-resiliency-resource.htm

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by expanding continuing education requirements for contractors) and/or on bolstering ways to facilitate retrofits that strengthen the foundation of residential resilience: reducing risk benefits Connecticut insureds and communities.

Thank you for your consideration of the aforementioned concerns.

Sincerely,

Rory Whelan
Regional Vice President, Northeast

From:	Brooke Foley
To:	Kosky, Jared
Cc:	Eric George
Subject:	IAC Comments to CTDOI Climate Guidance
Date:	Tuesday, May 24, 2022 3:47:02 PM
Attachments:	image001.png IAC Comments to CTDOI Draft Climate Change Guidance-Bulletin May 24 2022.docx

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EXTERNAL EMAIL: This email originated from outside of the organization. Do not click any links or open any attachments unless you trust the sender and know the content is safe.

Hi Jared,

Please accept the attached comments to the CTDOI Climate Change guidance bulletin on behalf of our insurance industry members.

I tried several times to file it on the website and was not able to do so. If you would please accept the comments, we would greatly appreciate it.

Thank you,
Brooke

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STATE OF CONNECTICUT

INSURANCE DEPARTMENT

TO: ALL DOMESTIC INSURANCE COMPANIES, DOMESTIC HEALTH CARE CENTERS, AND DOMESTIC FRATERNAL BENEFIT SOCIETIES AUTHORIZED TO DO BUSINESS IN THE STATE OF CONNECTICUT

RE: GUIDANCE FOR CONNECTICUT DOMESTIC INSURERS ON MANAGING THE FINANCIAL RISKS ~~FOR~~ FROM CLIMATE CHANGE

Pursuant to June Special Session, Public Act No. 21-2, Section 312, ("PA 21-2") the Connecticut Insurance Department ("Department") is to file biannually a report with the Connecticut General Assembly disclosing the Department's progress toward addressing climate~~-related~~ change impacts on the risks within the insurance industry along with regulatory and supervisory actions to bolster the resilience of insurers to the physical impacts of climate change.

This bulletin, which provides guidance for Connecticut domestic insurers on managing the financial risks of climate change, is consistent with the objectives of PA 21- 2 and is based upon ongoing dialogue with the insurance industry over the past few years along with initiatives taken by the National Association of Insurance Commissioners ("NAIC")[1] and other state insurance regulators.[2]

I. OVERVIEW

Commented [BF1]: Eric to provide language concerning various lines of insurance

As explained in more detail below, the Department expects insurers to take a strategic approach to managing climate change impacts on risks that considers both current and future risks and identifies actions necessary to manage those risks in a manner proportionate to the nature, scale, and complexity of insurers' businesses. Specifically, an insurer should:

A. Integrate the consideration of climate change impacts on risks into its governance structure at the group or insurer entity level. The insurer's board should understand climate change impacts on risks and maintain oversight over the management team responsible for monitoring and managing climate

[1] Climate and Resiliency (EX) Task Force

[2] New York Department of Financial Services Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change, published November 15, 2021.

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~~risks~~change impacts. The roles of the board and management in this area should be reflected in the company's documented risk management roles and responsibilities ~~risk appetite~~ and organizational structure.

B. Incorporate climate change impacts on ~~-~~risks into the insurer's existing financial risk management to the extent such impacts are material. This should include embedding climate change impacts on the risks addressed in its risk management framework and analyzing the impact of climate change on ~~risks on~~ existing risk factors. ~~Additionally, climate risks should be considered in the insurer's Own Risk Solvency Assessment ("ORSA").~~

C. Appropriately disclose its climate change impacts on risks and ~~engage~~ utilize ~~with~~ the Task Force on Climate-Related Financial Disclosures ("TCFD") disclosure framework, the NAIC Climate Risk Disclosure Survey, and other initiatives when developing its disclosure approaches.

Commented [BF2]: This should not be addressed in state-by-state guidance but instead should be discussed at the NAIC for inclusion in the ORSA manual.

Commented [BF3]: Is it the department's position that all domestic insurers regardless of size must prepare a TCFD and an NAIC survey?

II. EXPECTATIONS

Proportionate Approach

The Department expects all domestic insurers to take a proportionate approach to managing climate change impacts on risks that reflects its exposure to such impacts ~~climate risks~~ and the nature, scale, and complexity of its business. Climate change impacts can affect~~s~~ each insurer in different ways and to different degrees depending on the insurer's size, complexity, geographic distribution, business lines, investment strategies, and other factors. Not all insurers have the same level of resources to devote to managing the impact of climate ~~risks~~ change and some insurers may take longer than others to develop and implement appropriate practices, though many insurers have done this already. As an insurer's expertise and understanding of climate change impacts ~~risks~~ develop, the Department expects the insurer's expertise and approach to managing these impacts ~~risks~~ to mature. The Department also notes that smaller insurers are not necessarily ~~less~~ exposed to less climate ~~risks~~ change impacts because they may have concentrated business lines or geographies that are highly exposed to ~~climate risks~~such impacts without the benefit of diversification available to larger insurers.

An insurer that is part of a group may utilize policies, procedures, and processes developed at the group level for managing climate ~~risks~~ change impacts if: (1) the ~~risks~~ impacts considered at the group level include those facing the insurer; (2) the policies, procedures, and processes developed at the group level are implemented at the level of the insurer and address the insurer's material climate ~~risks~~change impacts; and (3) the insurer has appropriate access to relevant climate-related resources and expertise centralized at the group level. If these conditions are met, references in this guidance to an insurer's board can also mean the board of directors of the holding company for the group of which the insurer is a part. If an insurer's policies, procedures, or processes differ meaningfully from those of the group, the insurer should document and provide a justification for those differences in its internal risk management ~~reports~~documentation.

Materiality

The guidance provided in this bulletin, which includes several references to materiality or to material risks or exposure, is intended to address material climate ~~risks~~ change impacts faced by insurers. The quantification of ~~climate risks~~impacts is an evolving area with uncertain or, in some cases, unavailable data and models. The uncertainty of ~~the risk~~climate change impacts does not preclude insurers from making informed judgments about the significance of ~~climate risks~~the impacts to their businesses. For insurers early in the process of managing climate ~~risks~~ change impacts or with limited resources, a materiality assessment may be based on qualitative information, and on an analysis of portfolio exposure to certain sectors or geographies in underwriting or investments. Over time, when/if qualitative analyses demonstrate the ~~probability~~ likelihood of material climate ~~risks~~change impacts, this assessment should include quantitative analyses.

The NAIC Financial Condition Examiners Handbook 2020 ("Handbook") provides guidance for determining materiality in the examination context. When assessing the materiality of climate ~~risks~~change impacts, insurers may use the Handbook's materiality benchmarks (e.g., impacts in a given year that exceed 5% of surplus or one-half of 1% of total assets), subject to adjustment based on professional judgment and circumstances. An impact ~~risk~~ may also be considered material where knowledge of the risk could influence the decisions or judgment of an insurer's board, management, regulators, or other relevant stakeholders. Insurers should regularly assess their materiality assumptions. Depending on the nature, scale, and complexity of its business, an insurer should conduct this assessment at least annually, or in the event of a significant change in the estimated impact for the current year.

Commented [BF4]: IAC to research whether the handbook differentiates between group or individual company for purposes of materiality

III. Risk Culture and Governance

~~Board of~~ Governance

An insurer's board of directors is ultimately responsible for overseeing ~~the management of~~ management's approach to addressing all risks, including climate ~~risks~~change impacts. The Handbook lays out the components of an effective corporate governance program. Consistent with the Handbook, the Department expects an insurer's board of directors (or appropriate committee(s) thereof) or, if there is no board, the governing entity ("board"), to understand relevant climate ~~risks~~ change impacts and oversee their management within the insurer's overall business strategy and risk appetite. The board's approach should reflect an understanding of the distinctive nature of climate ~~risks~~ change impacts within a ~~as well as their long-term impact beyond any~~ standard business planning timeframe as well as estimates on the long-term effects. ~~As such, it may be appropriate for an insurer to have a board member with climate related expertise.~~

The Department expects each insurer to designate a member or committee(s) of its board as responsible for the oversight of the insurer's management of climate ~~risks~~change impacts. If an insurer is a part of a group, this can be done at the group

level, provided that the designated board member or committee(s) at the group level has appropriate access to the insurer's board or management and the risk appetite, processes, and framework developed by the group's board are implemented at the insurer level.

Commented [BF5]: Some insurers share updates to the full board. We would propose that CT expand the language to allow responsibility for overseeing climate risk by the full board OR changing the proposed expectation to a recommendation.

The Department also expects each insurer to designate one or more members of its senior management as responsible for the insurer's management of climate ~~risks~~change impacts. As climate change could impact multiple business units and require expertise from multiple functions, the designated member(s) of senior management may delegate responsibility to those business units and functions, provided that such member or members of senior management continue to oversee any such delegation of duty.

An insurer may determine, after a thorough assessment, that climate ~~risks~~ change impacts are not currently material to its business. However, because of the evolving nature of climate ~~risks~~change impacts, the insurer should still designate a member or committee(s) of its board as responsible for overseeing the insurer's management of climate ~~risks~~change impacts. The board and senior management should stay abreast of evolving climate ~~risks~~change impacts, and regularly assess the assumptions and materiality of, and the company's exposures to, those risks.

Risk Appetite

The Department expects an insurer to have a written risk policy inclusive of material climate change impacts to risks ~~adopted~~ reviewed by its board or a committee of the board describing how the insurer monitors and manages material climate ~~risks~~ change impacts in line with its risk appetite statement. This policy should include the insurer's risk tolerance levels and limits for financial risks, and consider relevant material factors beyond market conditions, regulatory changes, and technological advancements.

In addition, the impact of climate change on the insurer's risk tolerance levels and limits can be reflected in existing risk factors. While quantifying these factors may currently be challenging, insurers should nevertheless start the process beginning with qualitative assessments and eventually moving towards quantitative assessments over time.

Organizational Structure

Utilizing a proportional approach, the Department expects insurers to:

~~a.~~ Manage climate change impacts on risks through their existing enterprise risk management functions, including risk assessment, compliance, internal control, internal audit, and actuarial functions (collectively, "control functions").

a.

~~1.~~b. Ensure that their organizational structure clearly defines and articulates roles, responsibilities, and accountabilities, and that such organizational structure is reinforced by a risk culture that supports accountability in risk-

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based decision-making in setting climate risk limits, including climate change impacts on risks, and overseeing their implementation.

~~2.~~c. Implement reliable risk management processes across lines of business, operations, and control functions, with clear steps to ensure the effectiveness and adequacy of climate risk integration, including climate change impacts on risks.

~~3. Explicitly consider climate risk, if determined to be a material risk, in risk management processes, including in enterprise risk reports and ORSA summary reports, and in the decision-making processes of senior management.~~

~~4.~~d. Conduct objective, independent, and regular internal reviews of the functions and procedures for managing climate change impacts on risks, report the findings of the reviews to the board, and adapt insurers' functions, procedures, roles, and resources for addressing ~~managing~~ climate change impacts on risks as necessary.

~~5.~~e. Develop the skill, expertise, and knowledge for the assigned employees, including senior management, required for the assessment and management of climate change impacts on risks ~~at the level of the board and employees, including senior management~~.

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Commented [BF6]: Remove references to ORSA throughout document. ORSA is decided at the NAIC level and it would be problematic for states to make requirements related to ORSA

IV. Risk Management and Controls

The Handbook describes the key principles of an effective risk management framework that should be applied when assessing climate change impacts on risks. Insurers and other entities that are required to have enterprise risk management ("ERM") functions are expected to:

1. Address climate change impacts on risks through their existing ERM functions and in line with their board-approved risk appetites, including considering how climate risks affect the branded risk factors set forth in the Handbook;
2. Identify, assess, monitor, manage, and report on their exposure to these impacts to risks in a manner that is appropriate for the nature, scale, and complexity of the risk and their businesses;
3. Document in their written ERM and board risk reports the material climate change impacts on risks considered and update existing risk management policies to reflect climate risks if needed; and
4. Manage and monitor these impacts to risks using time horizons that are appropriately tailored to the type of insurer, the insurer's activities, the insurer's planning cycle, and the business decisions being made, and review their analysis on a regular basis. The Department expects a review of assumptions based on the insurers forward- looking analysis.

Managing risks, including climate change impacts on risks, is an ongoing ERM activity, operating at many levels within the organization, which requires a collaborative, enterprise-wide approach. If the impacts of climate risks are determined to be material, the Department expects insurers to demonstrate how they will ~~mitigate~~ address those risks and to develop a credible plan or policies for ~~managing~~ addressing those risks, including any related concentrations of risks~~reducing their concentration~~. If climate risks are determined to be immaterial, insurers should document their assessment of immateriality, along with its qualitative and, if applicable, quantitative basis.

The Department expects an insurer's control functions, including risk management, information technology, compliance, internal audit, and actuarial functions, to be integrated for purposes of managing climate change impacts on risks, to report material climate change impacts on risk issues in a coordinated manner, and to have the appropriate resources and expertise to support their consideration of material climate change impacts on risks. The control functions should identify, measure, monitor, and report on the insurer's climate change impacts on risks, assess the effectiveness of the insurer's risk management and internal controls, and determine whether the insurer's operations, business results, and climate change impacts on risk exposures are consistent with the risk appetite statement approved by the board.

Insurers should also consider developing plans to ~~mitigate~~ address their climate change impacts on risks.

Risk Reporting and Communication

The Department expects insurers to provide their boards with information regarding their exposure to material climate change impacts on risks, appropriate strategies~~mitigating actions,~~ and the time ~~frame~~ frames within which they propose to take ~~these~~ any actions. The information should enable the board to understand, discuss, and challenge the insurer's management of climate change impacts on risks as part of the board's oversight.

Commented [BF7]: States should collectively develop wording to include in the NAIC ORSA manual and not issue state-by-state guidance.

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~~*ORSA*~~

~~Certain insurers are required to regularly conduct an ORSA. For such insurers, the Department expects the ORSA to describe how the insurer identifies, categorizes, manages, and monitors climate risks, as well as the insurer's climate-related assessment tools and methods of incorporating new climate risk information to monitor and respond to changes in the insurer's risk profile due to economic changes, operational changes, or changes in business strategy. Insurers should continuously refine their reporting to keep pace with the evolving climate risk landscape.~~

~~The ORSA should be proportional to the nature, scale, and complexity of an insurer's business and risk, and should enable it to properly identify and assess the risks it faces~~

~~in the short and long term. Qualitative assessment may suffice for insurers not significantly exposed to climate risks, but quantitative assessment should be the long-term goal for insurers facing material climate risks.~~

V. Public Disclosure

Public disclosure ensures that market participants have adequate insight into financial institutions' risk exposures, risk assessment processes, and capital adequacy. Publicly traded insurers or companies with insurance businesses are subject to annual and other general disclosure requirements by the U.S. Securities and Exchange Commission. In addition, Connecticut, along with fourteen other states and the District of Columbia, requires insurers with annual country-wide premiums above $100 million to respond to the NAIC Climate Risk Disclosure Survey. The Department views public disclosure through the survey as an appropriate form of public disclosure if the responses satisfy the expectations and guidance set forth in this bulletin. For insurers not currently covered by the survey, the disclosure can be made on their websites or by augmenting public general-purpose financial reports with relevant climate risk information. Disclosure at the group level is appropriate if it specifically addresses practices at the insurer level.

The Department expects insurers to ~~engage with~~utilize the TCFD framework, the NAIC Climate Disclosure Survey, and other similar initiatives, including the tools and case studies that they provide, in developing their approach to climate-related financial disclosures.

VI. Timeline for Implementation

Implementing the expectations and guidance set forth in this bulletin may involve varying levels of difficulty and effort. The Department expects domestic insurers to implement its expectations relating to board governance and to have specific plans in place to implement the expectations relating to organizational structure by January 1, 2023. More complex expectations, such as those relating to risk appetite, reflection of climate change impacts on risks in the ORSA, and public disclosure, may take longer to implement. Consistent with the objectives of PA 21-2, the Department may issue further guidance on the timing for implementation of these more complex expectations but encourages insurers to start working on them now.

For more information regarding this Bulletin, please contact cid.financial@ct.gov.

Commented [BF8]: Please clarify whether companies must compete both the NAIC survey and TCFD or if one would suffice

Commented [BF9]: A company's Board of directors will likely need to meet one or more times to discuss, review and vote on various items related to this guidance. Please consider having this guidance effective on a later day (perhaps July 1, 2023).

Commented [BF10]: Please provide clarity on the longer timeframe for implementing the non-organizational structure expectations, as it is unclear what the timeframe is.

Commented [BF11]: [THIS SHOULD BE ADDRESSED THROUGH THE NAIC ORSA MANUAL AND NOT ON A STATE-BY-STATE BASIS]