



National Association of Insurance Commissioners

JURISDICTION: US – NAIC AUTHORITY: NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC)

Background

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff support these efforts and represent the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

Central to the NAIC's mission of protecting policyholders and advancing the state-based policy agenda, the NAIC's strategic priorities for 2020 are the following (in no particular order):

1. Covid-19
2. *Annuity Suitability & Best Interest Standard*
3. *Climate/Natural Catastrophe Risks & Resiliency*
4. *Data, Innovation & Cyber*
5. *Group Capital Calculation*
6. *Health Insurance*
7. *Long-Term Care Insurance*
8. *Macprudential Initiative*
9. *International*
10. Race and Insurance

Sustainability objectives

The NAIC considers addressing climate risk and resilience to be a strategic priority. In July 2020, the NAIC created a Climate & Resiliency Executive Task Force which will focus on five workstreams: (1) Solvency; (2) Climate risk disclosures; (3) Pre-disaster mitigation; (4) Technology; and (5) Innovation.

Prior to the creation of the new Task Force the NAIC had already been quite active in some of these areas through the work of the Climate Risk & Resilience Working Group.

In the area of solvency, the NAIC expanded the risks quantified in its Risk Based Capital Formula to include a specific charge for catastrophe risk. This category charge is currently in place for hurricane and earthquake perils, and regulators are considering adding other perils (such as wildfire and flood) in the future as exposure modelling becomes more accurate and prevalent.

As climate-specific revisions to the NAIC Financial Condition Examiners Handbook were last adopted in 2013, efforts are under way to review the Handbook for potential further climate risk- and resilience-related revisions. Additionally, online training courses on reviewing climate risks in solvency monitoring were developed between the NAIC and CERES and made available to state regulators.



The NAIC has taken several steps to support private flood insurance market growth including adopting “Considerations for State Insurance Regulators in Building the Private Flood Insurance Market” a [document](#) that provides actionable items for insurance regulators to take to grow their private flood insurance market.

Other disaster resilience activities include development of a [post-disaster claims guide](#) and [state disaster response plan](#).

This year, the NAIC plans to update its catastrophe modelling handbook and is drafting an Insurance Regulatory Discussion Points document, which aims to facilitate cross-learning among insurance departments by sharing the compiled responses to questions each insurance department most frequently receives related to resilience and catastrophe activities.

The NAIC website has information related to resiliency and preparedness with a [State Resilience Map](#) that allows users to click on a U.S. state or territory to learn what disaster resilience information is available on their insurance department website.

Relating to climate risk disclosures, the NAIC has an Insurer Climate Risk Disclosure Survey that is being administered in a multi-state initiative that includes California, Connecticut, Minnesota, New Mexico, New York, and Washington State. The [Climate Risk Disclosure Survey](#) webpage of the California Department of Insurance provides a central location for insurers, regulators, and members of the public to access survey information from the multi-state initiative. Survey responses are collected annually from insurers with direct written premiums over US\$100 million (about 1,000 insurers representing 70% of U.S. direct written premium). Beginning with this year’s reporting, insurers were asked to incorporate the TCFD guidelines when answering the survey, which should effectively align the survey with the TCFD guidelines. Those insurers who participate in the TCFD may file their TCFD responses in place of their survey responses.

Sustainability work highlights

The NAIC considers addressing climate risk and resilience to be a strategic priority. In July 2020, the NAIC created a Climate & Resiliency Executive Task Force which will:

1. Serve as the coordinating NAIC body for discussion and engagement on climate-related risk and resiliency issues, including dialogue among regulators and with industry and other stakeholders.
2. Consider appropriate climate risk disclosures within the insurance sector, including:
 - A. Evaluation of Climate Risk Disclosure Survey
 - B. Evaluation of alignment with other sectors and international standards
3. Evaluating financial regulatory approaches to climate risk & resiliency, including:
 - A. Investigation of the use of modeling by carriers and their reinsurers concerning climate risk
 - B. Investigation of how rating agencies incorporate climate risk into their analysis and governance
 - C. Investigation and development of climate risk-related stress-testing and scenario modeling
4. Consider innovative insurer solutions to climate risk and resiliency, including:
 - A. Investigation of how to apply technology and innovation to mitigation of storm, wildfire, earthquake and other climate risks
 - B. Evaluation of insurance product innovation directed at reducing, managing, and mitigating climate risk
5. Identify sustainability, resilience and mitigation issues and solutions related to the insurance industry.



6. Consideration of pre-disaster mitigation and resiliency and the role of insurance regulators in resiliency.

Membership of any other initiatives/networks working on sustainability

- IAIS

Recent engagement with SIF

The NAIC became a member of the SIF in February 2020, joining three US states (California, New York, and Washington State) who were already SIF members. Shortly after joining the SIF, NAIC contributed to the SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures, published in February 2020.

The NAIC provided an update of their activities for SIF's half yearly report published in June 2020. They also attended SIF's virtual meetings in May 2020, and contributed significantly to the development of SIF's Future Work Programme 2021-2023 by providing valuable input and comments.

The NAIC has contributed to the SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector, expected to be finalized in early 2021.

