



Federal Insurance Office (FIO)

Report on Insurance Supervision and Regulation of Climate-related Risks

September 2023

- Climate-related risks, including transition, physical, and litigation risks, present new and increasingly significant challenges for the insurance industry. The oversight of climate-related risks is therefore an emerging and increasingly critical topic for state insurance regulators as well as warranting careful monitoring by financial regulators, policymakers, and insurers.
- State insurance regulators and the NAIC are increasingly focused on incorporating climate-related risks into supervision and regulation, but in most cases their efforts remain at a preliminary stage.
- Current regulatory frameworks provide state insurance regulators with tools they can adapt to better consider climate-related risks, which the NAIC and some state insurance regulators are beginning to do.
- All state insurance regulators should prioritize efforts to adapt their regulatory and supervisory tools to incorporate climate-related risks. The NAIC and state insurance regulators should also prioritize the creation of new and effective climate-related risk tools and processes for use by state insurance regulators through, for example, the development of scenario analysis and increased use of the NAIC's Catastrophe (CAT) Modeling Center of Excellence.

- More work is needed by state and federal regulators and policymakers, as well as by the private sector and the climate science and research communities, to better understand the nature of climate-related risks for the insurance industry, their implications for insurance regulation and supervision, and for the stability of the financial system—including for real estate markets and the banking sector.

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- Adapt Existing Tools:** Every state should adopt climate-related risk monitoring guidance appropriate for their markets, as some states have done and that NAIC should adopt, and the state insurance regulators implement, climate-related considerations to existing tools, such as the NAIC's *Financial Analysis Handbook*, the *Own Risk and Solvency Assessment (ORSA) Guidance Manual*, and the *Financial Condition Examiners Handbook*.

Examiners Handbook Possible Test of Controls Summary

Identified Risk	Possible Controls	Possible Test of Controls	Possible Detail Test
The insurer's investment portfolio and strategy are not appropriately structured to support its ongoing business plan.	The insurer's investment strategy considers the impact of, and market expectations for, climate change on different investments, and the investment policy includes guidelines that require diversification to protect against the impact of climate change.	Review the company's investment strategy for consideration of climate change in different sections and asset classes.	Consider use of an investment specialist to evaluate the company's exposure to climate change-related risk regarding its investment portfolio/strategy.
The insurer has not established and maintained appropriate risk exposure limits (including catastrophe coverage) that are consistent with risk appetite.	Risk exposure limits established by the insurer consider the direct and indirect impacts of climate change risk.	Perform a walkthrough of the underwriting process and observe how the impact of climate change risk is considered when establishing risk exposure limits.	
The insurer has not established sufficient pricing practices, resulting in inadequate or excessive premium rates in relation to its assumed risks and expense structure. Consider utilizing an actuarial specialist to assist with test procedures related to this risk.	Pricing practices include consideration of future changes in loss development including the impact of climate change risk.	Perform a walkthrough of the pricing process and observe how the impact of claim trends including climate change risk and weather variability is considered when establishing rates/prices.	



- Develop New Tools and Processes:** The NAIC and state insurance regulators should also prioritize the creation of new and effective climate-related risk tools and processes for use by state insurance regulators through, for example, the development of scenario analysis and increased use of the NAIC's Catastrophe (CAT) Modeling Center of Excellence.
- Data Identification:** Data is very important to effectively implementing the recommended climate-related enhancements to insurance supervision and regulation. As a result, FIO recommends that state insurance regulators and federal authorities should continue encouraging insurers to capture more granular, consistent, comparable, and reliable data on climate-related risks and should continue identifying relevant data to better measure climate-related risks and fill data gaps.

Examples of Insurance-Focused Climate Scenario Analysis

Jurisdiction (Year)	Scope	Risk(s) Covered	Primary Results for Insurers
U.S.			
California (2018)	Insurers operating in California with more than \$100M in premiums	Physical, transition	<ul style="list-style-type: none"> Exposure to transition-impacted sectors Alignment between investee company production and that expected based on low-carbon pathways Percent of power plants in equity portfolio subject to water stress Percent of power, oil and gas, and coal assets in equity and fixed-income portfolios exposed to wildfire and flood risk
New York (2021)	Insurers domiciled in New York	Transition	<ul style="list-style-type: none"> Exposure to transition-impacted sectors Alignment between investee company production and that expected based on low-carbon pathways

Macroprudential Supervision and Regulation



- **Macroprudential Risk Assessments:** The NAIC should incorporate climate-related risks in future Macroprudential Risk Assessments.
- **Monitor Trends:** State insurance regulators and the NAIC should monitor trends that could indicate wider issues in the insurance market, including hardening of the reinsurance market, growth in residual and surplus lines markets, and the potential climate-related risks for state guaranty funds.



- **Education and Outreach:** The NAIC, state insurance regulators, the insurance industry, FIO, and other partners should work together to increase consumer education and outreach regarding climate-related risks, including pre-disaster mitigation efforts. Public-private partnerships with the insurance industry can aid this educational effort.

- **Improve Disclosures:** The NAIC and state insurance regulators should support efforts to improve climate-related disclosures by the insurance industry and that all state insurance regulators adopt the NAIC Climate Risk Disclosure Survey.
- **Report Summarizing Survey Results:** The NAIC should continue monitoring responses to its Climate Risk Disclosure Survey and publish an annual quantitative Report summarizing the Survey results and addressing how well the Survey is fulfilling its six purposes.

Summary of Selected Disclosure Initiatives

Initiative	Description
NAIC	Adopted in 2010, and amended in 2022 to be TCFD-aligned, the NAIC Survey is a voluntary disclosure mechanism for participating states. For the 2021 reporting year, 965 companies submitted completed surveys.
NYSDFS	The NYSDFS issued final guidance in 2021 for New York domestic insurers detailing its expectations related to insurers' management of climate-related risks, including public disclosures.
CID	CID finalized a bulletin in September 2022 for Connecticut domestic insurers related to insurers' management of climate-related risks, including public disclosures.
TCFD	In 2015, the Financial Stability Board convened the TCFD to develop voluntary climate-related financial disclosures in order to support informed investing, lending, and insurance underwriting. Nearly 4,000 organizations have expressed support for the TCFD Framework and regulators in several jurisdictions announced TCFD-aligned reporting requirements.

FIO plans to advance progress on the recommendations in this Report, including by:

- Monitoring the climate-related work of state regulators and how their work addresses the issues and gaps identified in FIO's Climate Report.
- Issuing periodic updates detailing the progress made by state insurance regulators and the NAIC in these areas.
- Engaging with the NAIC, state insurance regulators, and other domestic and international stakeholders on these issues.



Thank you!

Any Questions?