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**From guidance to expectation**

The growing importance of the insurance industry's Climate Risk and Disclosure Survey





The National Association of Insurance Commissioners' (NAIC) Climate Risk Disclosure Survey (CRDS) has evolved from a survey administered solely in California to an important tool for understanding the country's insurance industry's readiness for climate change. Although this survey is not required in all states, good-faith participation in the CRDS, as with the Task Force on Climate-Related Financial Disclosures (TCFD) and others, is becoming expected by stakeholders and regulators across the United States. Indeed, the NAIC itself has pivoted from asking insurers to make their "best effort" to complete the CRDS, to saying companies are "expected to complete the entire" CRDS for 2023.<sup>1</sup>

The shift from guidance to expectation is in line with increasingly visible perils from rapid climate change. The effects from the changes taking place are no longer avoidable either in the news or, as is often the case, insurers' bottom lines.<sup>2</sup> This, along with increasing attention from federal bodies,<sup>3</sup> and state insurance regulators will continue the focus on the issues of climate and sustainability. The NAIC CRDS and its recent 2022 refresh provides insight and understanding to an insurer's climate readiness along with its alignment to other widely accepted disclosures.

The revised CRDS is structured to follow the TCFD's increasingly ubiquitous standard sections: governance, strategy, risk management, and metrics and targets. For each of those areas, an insurer's submission will ideally be able to articulate the following:

- Governance: insurers can describe a clear climate risk governance structure, including board committees responsible for the topic, management structure and ownership of risk and disclosure functions, and management's role in assessing climate risk.

- Strategy: disclose actual and potential climate-related risks and opportunities pertaining to their businesses, strategies, and financial planning where applicable. This includes plans regarding greenhouse gases (GHG), defining timeframes for plans, and estimating business resiliency given various climate-related scenarios.
- Risk management: describe how they identify, assess, and manage climate-related risks within and throughout the entire risk-management process. Insurers should especially consider the physical, transitional, and liability risks of their underwriting and investment portfolios. Furthermore, insurers should be able to articulate how they inform policyholders of climate-related risks and how they encourage policyholders to manage such risks.
- Metrics and targets: address how catastrophe modelling incorporates climate-related risks, what metrics are used, and if there are general targets for any climate-related risks and opportunities.

Insurers are expected to answer all questions honestly and in good faith for deliberate progress to be made on climate readiness and resilience.<sup>4</sup>

1. National Association of Insurance Commissioners, "PROPOSED REDESIGNED NAIC CLIMATE RISK DISCLOSURE SURVEY," March 21, 2022, [https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey\\_0.pdf?msclkid=e24cf6f2b47211eca09ac1c752e22857](https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey_0.pdf?msclkid=e24cf6f2b47211eca09ac1c752e22857).
2. Thomas Frank, "Climate Change Is Destabilizing Insurance Industry," Scientific American, March 23, 2023, <https://www.scientificamerican.com/article/climate-change-is-destabilizing-insurance-industry/>.
3. U.S. Department of the Treasury, "Treasury's Federal Insurance Office Releases Report Assessing Climate-Related Risk, Gaps in Insurance Supervision," June 27, 2023, <https://home.treasury.gov/news/press-releases/jy1579>.
4. National Association of Insurance Commissioners, "Proposed Redesignated NAIC Climate Risk Disclosure Survey," March 21, 2022, [https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey\\_0.pdf?msclkid=e24cf6f2b47211eca09ac1c752e22857](https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey_0.pdf?msclkid=e24cf6f2b47211eca09ac1c752e22857).

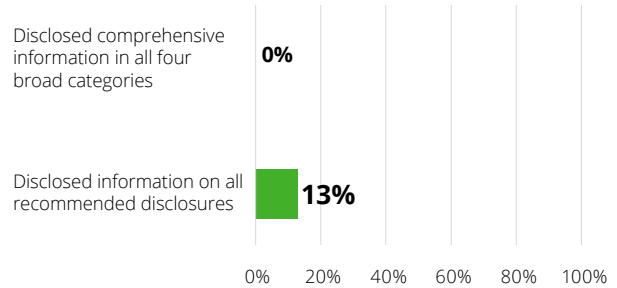
**From guidance to expectation**

Recently, the State of California, in cooperation with Ceres, published an analysis of the full set of 2021 CRDS responses to give a view of the current market conditions regarding to climate readiness and broad compliance with the CRDS.<sup>5</sup> The analysis reflected a US insurance industry that is far from mature practices in managing climate change. Important takeaways include:

- Only **13%** of analyzed responses disclosed information on all recommended disclosures. Furthermore, **zero** insurers submitted comprehensive disclosures in all four categories.
- US insurers lag greatly behind their European counterparts. In terms of metrics and target reporting, **81%** of European companies disclosed climate-related metrics and **74%** disclosed climate-related targets within TCFD. Whereas US companies disclosed only **33%** and **22%** respectively.
- Only **20%** of responses mention engaging in any climate scenario analysis, with a minority of that giving details on the scenarios uses.

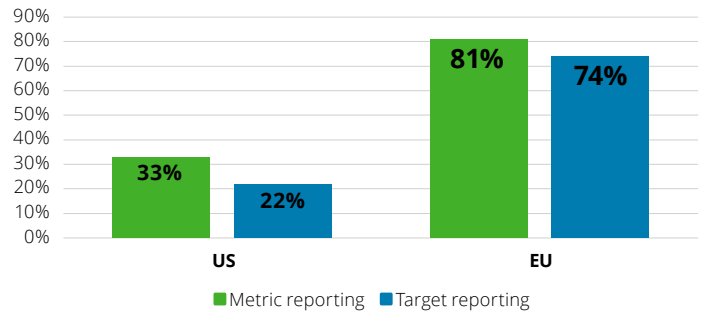
In sum, many US insurers will likely need to rapidly mature their climate risk capabilities in the coming years to keep abreast of regulatory expectations and, of course, climate change events that are multiplying in number and severity.

**Disclosure of climate-related information from US insurers**



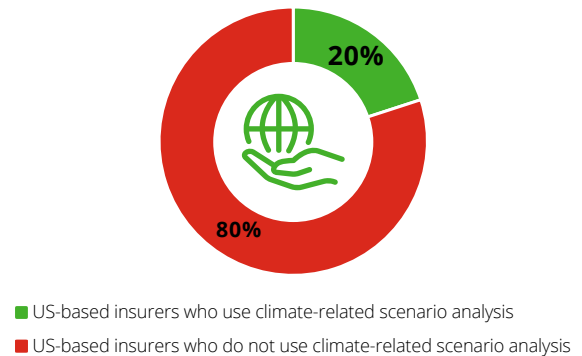
Source: Ceres and State of California, "Climate Risk Management in the U.S. Insurance Sector."

**Climate metric and target reporting**



Source: Ceres and State of California, "Climate Risk Management in the U.S. Insurance Sector."

**Usage of climate-related scenario analysis**



Source: Ceres and State of California, "Climate Risk Management in the U.S. Insurance Sector."

5. Ceres and State of California, "Climate Risk Management in the U.S. Insurance Sector," Climate Risk Management in the U.S. Insurance Sector, July 25, 2023, <https://www.ceres.org/resources/reports/climate-risk-management-us-insurance-sector>.

### Deloitte's CRDS Services

Deloitte's Sustainability, Climate & Equity (SC&E) practice offers a variety of services to insurance clients across areas such as CRDS readiness assessment, identification of potential opportunities for improvement of climate processes, and climate disclosures. Our team assists clients using our proprietary SC&E methodologies to combine leading industry practices and our understanding of current regulatory requirements and pronouncements.

When assessing readiness for the CRDS, Deloitte leverages its proprietary readiness diagnostic tool that consists of targeted questions aimed to identify gaps, which are areas of the survey where an insurance company could struggle to provide comprehensive responses. Deloitte works with its insurance clients to gain an understanding of climate governance structures, strategies, risk management capabilities, and metrics and targets currently in place to help identify areas of improvement in both their climate processes and CRDS readiness, but also climate-related disclosures more broadly.

Our SC&E methodologies bring practical climate risk insights from our skilled industry professionals to provide a distinct perspective on the CRDS and typical issues that arise. Beyond effectively navigating the CRDS process, Deloitte is well-positioned to continue to support insurance clients as they aim to effectively navigate the CRDS process.

For more information, please contact:

#### David Sherwood

##### Managing Director

Deloitte & Touche LLP

Tel: +1 203 216 8906

[dsherwood@deloitte.com](mailto:dsherwood@deloitte.com)

#### Brandon Righi

##### Manager

Deloitte & Touche LLP

Tel: +1 973 602 5078

[brighi@deloitte.com](mailto:brighi@deloitte.com)

### Citations

1. National Association of Insurance Commissioners. PROPOSED REDESIGNED NAIC CLIMATE RISK DISCLOSURE SURVEY, March 21, 2022. [https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey\\_0.pdf?msclkid=e24cf6f2b47211eca09ac1c752e22857](https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey_0.pdf?msclkid=e24cf6f2b47211eca09ac1c752e22857).
2. Frank, Thomas. "Climate Change Is Destabilizing Insurance Industry." Scientific American, March 23, 2023. <https://www.scientificamerican.com/article/climate-change-is-destabilizing-insurance-industry/>.
3. "Climate Risk Management in the U.S. Insurance Sector." Climate Risk Management in the U.S. Insurance Sector, July 25, 2023. <https://www.ceres.org/resources/reports/climate-risk-management-us-insurance-sector>.
4. "Treasury's Federal Insurance Office Releases Report Assessing Climate-Related Risk, Gaps in Insurance Supervision." U.S. Department of the Treasury, June 27, 2023. <https://home.treasury.gov/news/press-releases/jy1579>.

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