

CLIMATE CHANGE AND GLOBAL WARMING (EX) TASK FORCE

Climate Change and Global Warming (EX) Task Force Sept 24, 2009, Minutes

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Washington, DC
September 24, 2009

The Climate Change and Global Warming (EX) Task Force met in Washington, DC, Sept. 24, 2009. The following Task Force members participated: Joel Ario, Chair (PA); Mike Kreidler, Vice Chair (WA); Jim L. Ridling (AL); Steve Poizner represented by Bruce Patton (CA); Kevin McCarty represented by Al Willis (FL); Ralph S. Tyler, III, represented by Randi Johnson (MD); Morris J. Chavez (NM); James J. Wrynn represented by Paul Zuckerman (NY); Joseph Torti, III, represented by Paula Pallozzi (RI); Kent Michie represented by Neal Gooch (UT); and Sean Dilweg (WI). Also participating was: Mary Miller (OH).

1. Discuss Follow-Up Activities Related to the Climate Risk Disclosure Survey

Commissioner Ario stated that the Task Force would not be developing a Climate Risk Disclosure Guide with specific guidance for each question, as this would re-create the debate over what should be included in the survey. Instead, the Task Force will provide specific examples of each survey question from companies. Specific questions that have not been addressed by the prototype responses should be directed to NAIC staff.

The American International Group (AIG) survey responses were lengthy, as would be expected of a large property/casualty insurer that is likely to be operating on the forefront of climate issues. America's Health Insurance Plans (AHIP) provided survey responses from one large health insurer, one regional health insurer and one nonprofit health insurer. Responses from the health insurers were relatively short. The AHIP cover letter suggested that the survey responses were short due to the lack of relevance of many of the questions and, thus, health insurers should not be required to submit a survey. Commissioner Ario stated that, because the responses were so short, completing the survey would be not onerous for health insurers. However, he said, some of the questions applicable to all lines of business provided substantive information, such as the question of the carbon footprint of the company itself and investment practices. In addition, there is enough variance in the health insurers' short responses to provide a basis for understanding how the industry is responding.

Commissioner Ario stated that the Task Force would continue working with American Council of Life Insurers (ACLI) to produce prototype survey responses from the life insurance industry, similar to the AHIP responses. The Task Force will continue to review examples from property/casualty insurers as received. In addition, some states, such as California, will be looking for responses that reflect that state's specific risks. The Task Force intends to review these, as well.

Ms. Miller asked what the process would be if a non-domiciliary state was not satisfied with the comprehensiveness of the response and insurer provided to its domiciliary regulator. Commissioner Ario stated that he hoped all of the jurisdictions would require full, complete participation from their regulated entities, because the Climate Risk Disclosure Survey was unanimously adopted by this Task Force. While the domestic regulator would be responsible for overseeing the entities in their domestic state, this does not mean that other states cannot raise questions; however, they would not have direct authority over the responses.

Mr. Zuckerman asked what would be done with the survey responses after they are submitted. Commissioner Ario said the responses would be consolidated and posted on the NAIC Web site; however, at present, there is no determination on whether an analysis of the responses will be completed. Discussion on any potential analysis might be discussed at the Climate Change and Global Warming Summit during the Winter National Meeting.

Eric Nordman (NAIC) stated that the logistics on how to collect and compile survey responses were still being considered. He stated that a company with experience in analyzing the Carbon Disclosure Project (CDP) responses had approached the NAIC about performing similar services on the Climate Risk Disclosure Survey responses. Mr. Nordman anticipated presenting the Task Force with various options for the compilation and analysis of survey responses via a conference call before the Winter National Meeting.

Doug Cogan (RiskMetrics Group Inc.) offered his assistance in analyzing the Climate Risk Disclosure Survey responses. He suggested that the Task Force also review relevant insurer responses from the CDP, because the Climate Risk Disclosure Survey is mapped closely to many of its questions. Ron Blitenthal (Old Republic Insurance Company) asked if the responses for the Climate Risk Disclosure Survey should be completed on a single-entity or group basis. Mr. Nordman replied that the Climate Risk Disclosure Survey responses should be completed on a group basis. Mr. Blitenthal also asked if the response should reflect each individual entity's risk separately. Commissioner Ario stated that whether the survey response needed to

be detailed out for each individual entity probably depended on the type of risk involved. He encouraged Mr. Blitenthal to review the AIG Climate Risk Disclosure Survey response, which includes impacts by company and for the group as a whole.

Mr. Blitenthal inquired on what type of compilation the Task Force intended to do with the survey responses. Commissioner Ario stated that, at a minimum, insurers' aggregate responses would be posted to the NAIC Web site. However, there is still no determination on whether an analysis of the responses will be completed.

Stephen Kline (ACLI) stated that ACLI had hoped to have more of their members provide prototype survey responses; however, the downturn in the economy made it difficult for members to find available staff time. ACLI does take the Climate Risk Disclosure Survey seriously. Last year, ACLI was able to have 14 members, who collectively represented more than one-third of the association, take part in the CDP. Responses from members that have made their CDP responses public can be viewed at www.cdproject.net. Commissioner Ario stated that perhaps the Task Force could use CDP responses from life insurers of various sizes in providing Climate Risk Disclosure Survey responses similar to those provided by AHIP. Mr. Kline stated that he would provide these to Mr. Nordman.

2. Update on U.S. Securities and Exchange Commission (SEC) Disclosure Discussions

Commissioner Ario stated that the Climate Change and Global Warming Summit would likely include breakout sessions on disclosures in general, including the Climate Risk Disclosure Survey and a similar survey the SEC is considering.

Commissioner Dilweg provided an update on discussions with the SEC regarding disclosures. He said he has been involved in three or four discussions with the SEC to provide them with details on how the Climate Risk Disclosure Survey was developed. He stated that the larger institutional investors have a focus on this issue. In 2007, these large institutional investors brought a petition to the SEC's Corporate Financial Division on climate risk and how 10-K and 10-Q filings could be used to look at climate risk. Commissioner Luis A. Aguilar (SEC) and the newly created Investor Advisory Committee are committed to examining climate change and its effects on publicly traded companies. Some of the specifics they are dealing with include how to enforce this issue and, as investor groups have advised, keep a long-term perspective. It is expected that the SEC will direct the Investor Advisory Committee to review and, perhaps, report in early 2010 on the results from publicly traded companies on their disclosure results.

3. Discuss Details of Climate Change and Global Warming Summit

Commissioner Ario stated that the Climate Change and Global Warming Summit is anticipated to be held Dec. 9, in conjunction with the Winter National Meeting. He added that the summit would likely be Wednesday morning, which would follow an Earthquake Symposium planned for Tuesday afternoon. Due to budgetary concerns, the summit will not be available via webcasting; however, NAIC staff will research whether it might be possible to add a phone line for interested parties to participate via teleconference. The tentative agenda includes a general session from congressional or federal staff to provide an overview of the current U.S. climate change policy. This would be followed by breakout sessions that would include four areas: 1) investment issues (how insurers make sure their investment portfolios are sound in relation to this risk); 2) best practices in mitigation, such as pay-as-you-drive (PAYD) and "green" building; 3) climate scientists and risk modelers; and 4) disclosure issues related to insurance company, SEC responses and possibly CDP responses.

Dave Snyder (American Insurance Association—AIA) asked if there would be a session on mitigation, where insurers and professionals from institutions such as the Institute for Public Safety could discuss mitigation strategies. Commissioner Ario stated that it was these types of discussions that involve the identification and quantification of insurer risk that he foresees as likely to be included in the Summit.

4. Presentation on Value Pricing Pilot Program

Allen Greenberg (U.S. Department of Transportation—Federal Highway Administration) expressed his desire to participate in the Climate Summit. He explained that the concept of toll roads and congestion pricing is based on charging for access and use of the roadway network. He said that it encourages travelers to manage their travel choices, thereby reducing congestion without federal or state funding.

A key feature of congestion pricing is providing more variability in the charges that road users face. Currently, the per-trip price for transit is higher than the incremental cost of driving, which is subject to more large flat or bundled fees. In exchange for mileage-based pricing, drivers would see lower fixed costs, such as insurance and parking. Mileage-based pricing strategies include:

- Pay-as-you-drive-and-you-save (PAYDAYS) car insurance. PAYDAYS assesses individualized premiums based on miles driven, instead of a calendar-year premium. It provides motorists with a new option to save money by driving less and reducing their risk exposure. All existing rating factors are included. Companies that have piloted similar programs include Progressive Auto Insurance (1998–2001, 2004 and 2008), GMAC Insurance and OnStar (beginning in 2004), and MileMeter (2008).
- Car sharing or automated hourly neighborhood car rentals. These programs convert nearly all fixed-vehicle ownership costs to usage-based fees. The best-studied car-sharing program in the United States is San Francisco City CarShare, which showed significant reduction in vehicle miles driven.

Off-street parking is typically not priced, in part because zoning requires that it be provided in quantities sufficient for it to be offered for free. However, the need to accommodate numerous parking spaces increases the need for car ownership because it spreads destinations. Parking pricing options include:

- Parking cash-out. This option allows employers to offer their employees the option of receiving taxable cash in lieu of any parking subsidy offered, providing employees an incentive to find alternatives to drive-alone peak-period commuting.
- Variably priced metered parking. The goal in pricing metered parking is to price at a level that manages the limited parking supply, reducing the congestion of cars in search of a free parking spot.
- Pricing of off-street parking. This option, which includes introducing flexible parking passes, encourages alternatives to drive-alone trips to congested urban areas.
- Variable port access charges. In this freight-related strategy, trucks pay variable freight rates to discourage peak-period travel.

The results of various studies indicate that an 8% reduction in driving is possible, which relates to a saving of 1.7¢ per mile. Various results from PAYDAYS insurance include fewer miles traveled; fewer crash claims; less congestion; reduced air pollution and carbon emissions; less infrastructure costs, stronger cities and less urban “crawl”; increased consumer savings; and increased insurance company profits.

Submissions for PAYDAYS applications by governmental entities are due Nov. 3. The intent is to maximize innovation, provide incentives and increase participation.

Commissioner Kriedler said he was curious about how much of the safety aspect of the study is motivated by rewards/penalties. Mr. Greenburg responded that the quantity of driving was an important factor. In addition, the exposure matters a lot and is based in pricing and information provided. He added that it is important for there to be an audible sound that gets your attention, noting that the least safe drivers have the best results using these safety methods.

5. Adopted Proposed 2010 Task Force Charges

Bob Detlefsen (National Association of Mutual Insurance Companies—NAMIC) stated that the charges for 2009 included the development of a formal guidance document for the Climate Risk Disclosure Survey. Mr. Detlefsen stated that he was surprised when Commissioner Ario stated at the Summer National Meeting that a formal guidance document would not be provided. Mr. Detlefsen said he advised his members that a guidance document would be developed, and they were greatly anticipating one. He sought clarification on whether a guidance document would be produced. Commissioner Ario stated that the Task Force’s 2010 charges called for the continued review of prototype survey responses and that he viewed these to be of sufficient guidance for companies. Mr. Detlefsen expressed his concern over using the prototype responses as guidance. He stated that expecting other insurers to be held accountable to producing responses like AIG was not reasonable, especially given that, in the current economic climate, many insurers lack sufficient funds to engage in similar activities. Commissioner Ario stated that there is no set of scripted responses. Regulators anticipate that, and the AIG responses are just one type of response. He added that AIG was engaged in their climate change activities before the federal government became involved and has had to cut down on those activities for financial reasons, just like other companies. He stated that allowing the questions to remain broad allows for more flexibility in responding. Mr. Detlefsen stated that he foresees the AIG responses becoming the standard to which groups, such as Ceres, that monitor this type of data hold insurers accountable. Companies other than AIG will be pilloried by the climate activists for not engaging in the same type of activities as AIG. This survey requirement will place insurers under political pressure that is not appropriate for regulators to instigate.

Mr. Snyder stated that he would be providing the Task Force with an update on insurers’ activities at the Climate Summit. He stated that he supported the stance the Task Force is taking on providing prototype responses for guidance.

Commissioner Ario asked the Task Force to review the Task Force’s 2010 charges:

The mission of the Climate Change (EX) Task Force is to serve as coordinator of the NAIC analysis of the impact of climate change on insurance consumers, insurance providers and insurance regulators. The Task Force will continue to examine the implications of climate change on insurer solvency, the availability of affordable insurance coverage for the nation's insurance consumers and its impact on insurance regulation. The Task Force shall coordinate its efforts with other NAIC standing committees and task forces so that no duplication of effort occurs.

Ongoing Support of NAIC Programs, Products, or Services:

1. Address recommendations and conclusions cited in the 2008 Task Force white paper *The Potential Impact of Climate Change on Insurance Regulation*. Identify steps regulators need to take to assure that they are adequately monitoring insurers' activities with regard to managing the financial condition of insurance and the performance of insurance markets to the benefit of the nation's insurance consumers.
2. This includes addressing implementation issues related to its March 2009 adopted Insurance Company Climate Risk Disclosure Survey. The goal is for the first survey data to be submitted to regulators in May 2010, for the 2009 reporting year. The Task Force will evaluate the need to develop a prototype that illustrates the policies and procedures on how regulators and the public would request access to the survey data once companies filed. The Task Force will review voluntary prototype responses from insurers to facilitate its deliberations. The Task Force will continue to discuss preliminary plans to collect, compile and display the insurer responses.
3. Work with industry and climate change experts, insurers, and consumer advocates to identify and discuss best practices related to climate change in areas of consumer protection, increasing consumer confidence, solvency, identifying and addressing climate related risks and promoting a functioning competitive insurance market in regard to climate related risks. This includes the investigation of innovative "green" products.

Upon motion by Superintendent Chavez, and second by Commissioner Ridling, the proposed 2010 charges were adopted by the Task Force.

Having no further business, the Climate Change and Global Warming (EX) Task Force adjourned.

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