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Insurance Regulatory Update

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Building a better working world

With you today

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Current and future regulatory requirements around ESG and climate risks

UN Net Zero Insurance Alliance (NZIA) announced to accelerate transition to net–zero economy (July)

IFRS launches International Sustainability Standards Board (ISSB) (November)

NAIC approves redesigned Climate Risk Disclosure Survey (April)

Initial implementation of NY DFS climate–risk guidance (Aug 15)

Full implementation of NAIC refreshed survey (Aug 31)

Initial SEC climate–focused disclosures phased in (FY 2023)

2021 2022 2023 2024

NY DFS issues supervisory expectations on climate–related risks in the insurance sector (November)

SEC proposes climate–focused disclosure rules for publicly traded companies (March)

Comments on SEC proposed climate–focused disclosure rules are due (May)

Initial implementation of refreshed NAIC climate risk survey (Nov 30)

Full implementation of NY DFS climate–risk guidance (TBD)

SEC

Proposed new rules to enhance and standardize disclosures that registrants make about climate–related risks, their climate–related targets and goals, their GHG emissions, and how the board of directors and management oversee climate–related risks.

- *The proposal **draws on the framework developed by the TCFD and the GHG Protocol***

NY DFS

Guidance with implementation timelines for expectations on managing the financial risks of climate change, applicable to all New York regulated insurers.

- *The **supervisory expectations are in line with TCFD** and include "disclosure of climate risks and engagement with the TCFD and other initiatives when developing disclosure approaches."*

NAIC

*The redesigned Climate Risk Disclosure Survey **aligns closely with and expands upon the TCFD Framework** with initial partial implementation expected by Nov. 30, 2022 and full implementation to follow by Aug. 31, 2023*

- *Initial implementation allows for a TCFD report to be submitted in lieu of completing the survey with voluntary responses to close–ended questions*

The SEC's proposed climate disclosure requirements

Topic	Key proposal requirements
Governance Framework	• Disclosures on the oversight and governance of climate-related risks by the registrant's board and management, including details on how the board and management exercise their oversight and engage on the setting of climate-related targets and goals, as well as disclosure regarding climate-related expertise
Strategy & Outlook	• Disclosures on the description of the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning • Disclosures on the identification of the climate-related risks and opportunities over the short-, medium-, and long-term time horizons • If scenario analysis is used; disclosure of parameters, assumptions, analytical choices and projected financial impacts
Risk Management	• Disclosures on the description of processes for identifying, assessing and managing climate-related risks, as well as integration into an entity's overall risk management framework
GHG Emissions Metrics	• Disclosure of Scope 1, 2, 3 GHG emissions including entities/investments from the consolidated financial statements • Disclosure of methodology, significant inputs, approach and significant assumptions used to determine GHG emissions
Attestation	• Scope 1 and Scope 2 emissions must be attested by a qualified assurance provider (proposed FY 2024)
Targets and Goals	• Scope of activities and emissions included in climate targets, including plan to meet target • Defined time horizon to meet target and progress tracking on a consistent basis
Reg S-X Climate-related metrics	• Disclosure of financial impact of severe weather events, transition activities and any climate-related risks on line items in the financial statements • The disclosure of aggregate amount of expenditure expensed or cost capitalized to mitigate the above risks • Disclosures are required unless sum of absolute values of all impacts on the line items is less than one percent

Implementation timeline and comment letter themes

2022 — **March** Proposal issued; **June** Comment period closed

2023 — **April** Final rule expected

2024 — **January 1** Effective date*

2025 — **February** Reported in 10-K*

Comment letter themes

Standardize use of terms (e.g., materiality)	• Eliminate the 1% threshold and apply the traditional concept of materiality per other existing SEC standards. • Consistently use materiality throughout the proposal. Current proposal uses terms such as “significant” and “principal” and in some places calls for disclosure of “any” targets
Extend adoption & reporting timeline	• The SEC should extend the implementation and annual reporting timelines to allow registrants sufficient time to build reporting capacity and gather and verify disclosable data • Consider timing relief for emissions reporting and attestation/assurance
Remove climate-related disclosures from FS	• The disclosure of disaggregated climate-related costs and benefits on financial statement line items (Regulation S-X) should be removed as it will be difficult, if not impossible, to implement, and will result in disclosure of information that is not material to investors (i.e., 1% threshold)
Align to widely accepted GHG standards	• SEC should adopt widely accepted GHG accounting standards, such as the GHG Protocol. This would promote standardization in calculation and boundary methodologies
Expand safe harbor	• Expand the current safe harbor for Scope 3 emissions to include all forward-looking information that may be disclosed (e.g. results of scenario analysis)

*Based on the wording in the proposed rule and the time elapsed after release

NY DFS Climate Expectations

- This is **the first piece of regulatory guidance in the United States** for insurance companies around financial risks of climate change.
- This guidance applies to **all New York regulated insurance companies**. The NY DFS expects insurers to have implemented these expectations by **August 15, 2022.**

NY DFS supervisory expectations:

1. Integrate the consideration of climate risks into **governance structure (**e.g., risk appetite and organizational structure).
2. When making **strategic and business decisions**, consider the current and forward–looking impact of climate–related factors.
3. Incorporate climate risks into existing **financial risk management; c**limate risks should be considered in the company's ORSA.
4. Use **scenario analysis** to inform business strategies and risk assessment and identification (e.g., multiple pathways and time horizons).
5. Disclose **climate risks and engage with the TCFD** and other initiatives when developing disclosure approaches.

Looking Ahead

More complex expectations (e.g., **risk appetite**, analysis of the **impact of climate risks** on existing risk factors, reflection of climate risks in the **Own Risk Solvency Assessment (ORSA)**, **scenario analysis**, **public disclosure**) may take longer to implement:

- NY DFS will issue further guidance on the timing for implementation of these more complex expectations.
- NY DFS intends to continue to work closely with international and other US regulators to reduce compliance burdens.

NAIC Climate Risk Disclosure Survey

What you need to know:

1. In **2009, NAIC established a Climate Risk Disclosure Survey**. This was an 8 question (Y/N) survey where respondents could also include a supplemental short narrative
2. This survey is **mandatory if an insurer reports over $100,000,000 on its Annual Schedule T** filing with the NAIC in one of the 15 participating states (CA, CT, DE, DC, ME, MD, MA, MN, NM, NY, PA, OR, RI, VT, and WA).
3. **In April 2022, the NAIC approved the redesign of the Climate Risk Disclosure Survey:**
    1. Closely aligns to and expands upon the TCFD Framework
    2. Initial implementation by November 30th, 2022, with full implementation by August 31st, 2023

Nov 30th, 2022

- *Participants are allowed to submit an existing TCFD report*
- *If not completed a TCFD* for 2022, participants must ***make their best effort to complete the survey***
- Closed–ended questions are voluntary for 2022

Aug 31st, 2023

- Insurers are **expected to address the entire survey** (including closed-ended questions) to the best of their ability

NAIC Climate Risk Resources

- NAIC regulatory priorities, which include Climate Risk and Resiliency
- The Climate Risk and Resiliency task force home and resources website
- The original Climate Risk Disclosures Survey can be found here
- The redesigned Climate Risk Disclosures survey can be found here

Comparing TCFD, US and EU approaches to ESG disclosure

Key elements of the TCFD, SEC and CSRD proposed approaches to key aspects of ESG disclosure

	TCFD	SEC	CSRD
Current status of standards	Final	Draft	Complete
Type	Voluntary	Mandatory	Mandatory
Primary audience[1]	Investor	Investor	Multi-stakeholder
Materiality[2]	Enterprise	Enterprise	Societal
Disclosure location	Annual report	Mixed[5]	Annual report
Effective date[3]	N/A	~FY '24	FY' 24+
Assurance[4]	N/A	Mandatory	Mandatory
Governance, strategy, risk narrative	Required	Required	Required
Scenario analysis	Required	Conditional	Required
GHG Scope 1, 2	Required	Required	Required
GHG Scope 3	Conditional	Conditional	Required
2°C, or lower, alignment	Recommended	Not required	Required
Industry-specific disclosure	Recommended	Not required	Required

Summary of key differences

- Definition of materiality (i.e., enterprise vs. societal)
- Alignment with international climate agreements (e.g., Paris)
- Mandatory disclosure of Scope 3 GHG and/or scenario analysis
- Industry-specific overlay
- Location of disclosures (i.e., financial statements, separate sustainability report, or both)

Source: EY analysis, as of Nov. 25, 2022

[1]Audience refers to the primary intended users of the sustainability information. Investor refers to investor. Multi-stakeholder refers to investors, lenders, other creditors as well as employees, customers, communities, civil society, government and more.

[2]Materiality is defined as enterprise or societal. Enterprise materiality suggests that companies report on how sustainability issues impact their business. Societal materiality suggests that companies report on both how sustainability issues impact their business and their businesses' impact on people and the environment.

[3]Effective date refers to the first possible reporting period under the proposed rules. Note that with the SEC proposal, the requirements would be phased-in based on company size.

[4]The US SEC proposal starts with limited assurance before moving to reasonable assurance (derived from the AICPA's attestation standards, SSAE No. 18). The EU CSRD proposal starts with limited assurance and is expected to move to reasonable assurance, over time, but the recent ESRS general requirements state that disclosures are subject to at least the same level of assurance as the sustainability statements.

[5]All disclosures would be included within regulatory filing though some information would be included in a footnote to the financial statements.

[6]Corporate reporting SDR only - it is understood that the corporate reporting element of the SDR will include the ISSB standards, therefore, requirements are expected to be similar and mandatory, but details are pending consultation

Reporting requirements in global jurisdictions

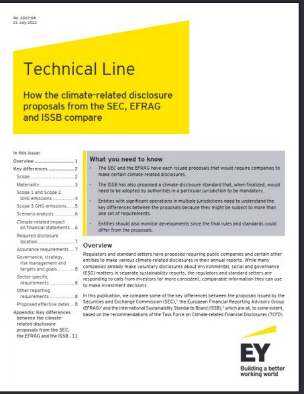
Corporate Sustainability Reporting Directive ("CSRD")

- The EU's European Sustainability Reporting Standards outlined in the Corporate Sustainability Reporting Directive requires:
    - Disclosures for environmental, social and governance matters, including strategy, governance and sustainability-related impacts, risks and opportunities
    - Applying double materiality
    - Reporting included in the company's annual report
- Likely to impact EU subsidiaries of multinational companies, dependent on revenues and legal structure
- Transition date
    - 1 January 2024: Applicable for companies subject to the NFRD (reporting in 2025 on 2024 data)
    - 1 January 2028: Third-country companies meeting certain criteria (reporting in 2029 on 2028 data)

EY CSRD overview publication

International Sustainability Standards Board ("ISSB")

- On March 31, 2022, the ISSB issued its first Exposure Drafts on International Financial Reporting Standards Sustainability Disclosure Standards
- ISSB also issued a publication encouraging continued use of SASB standards and the ISSB's intention to build upon SASB's industry–based requirements.
- These standards draw extensively from the existing frameworks already in use by many companies such as TCFD, SASB and the Greenhouse Gas Protocol
- The ISSB standards will also require both general and industry-specific disclosures



EY climate standards Technical Line

Additional stakeholders focusing on ESG and sustainability

Successful ESG risk and opportunity management consider the impact of business activities on an array of stakeholders

Company	Investors	Customers	Employees	Society	Regulatory Bodies
Profitability Long term viability Risk management	Value Reputation Volatility	Fit for purpose Reliability Innovation	Engagement Opportunity Stability	Social license Community value Needs met	Compliance Transparency Collective goals (growth, stability, etc.)

Questions

Appendix

Understanding the scope and requirements of CSRD

Scope of application:

EU legal entities that meet **at least 2** of the following criteria:

- €40 million in net turnover
- €20 million in balance sheet total
- Average of 250 employees during the year

Scope of disclosures:

- Includes disclosures for **environmental**, **social** and **governance** matters
- Disclosures regarding strategy, governance, and (potential financial effects of) sustainability-related impacts, risks, and opportunities
- Requires **double materiality**
- Published in the company's **management report (e.g., annual report)**

Scope of application:

Consolidated

- EU Parent companies of a large group are required to publish a consolidated sustainability report.
- Companies are exempt if they are included in a consolidated sustainability report of another company

Standalone reporting

- Large EU companies
- Subsidiaries are exempted if included in a consolidated parent company report. If the parent company is established in a third-country, the subsidiary is exempted if the EU recognizes equivalence of the reporting standards that are mandated in the third-country

2022 | 2023 | 2024 | 2025 | 2028

1 January 2024
Applicable for companies subject to the NFRD (reporting in 2025 on 2024 data)

1 January 2025
Applicable for large companies not subject to NFRD (reporting in 2026 on 2025 data)

1 January 2028
Applicable for third-country companies under a separate set of ESRS (reporting in 2029)

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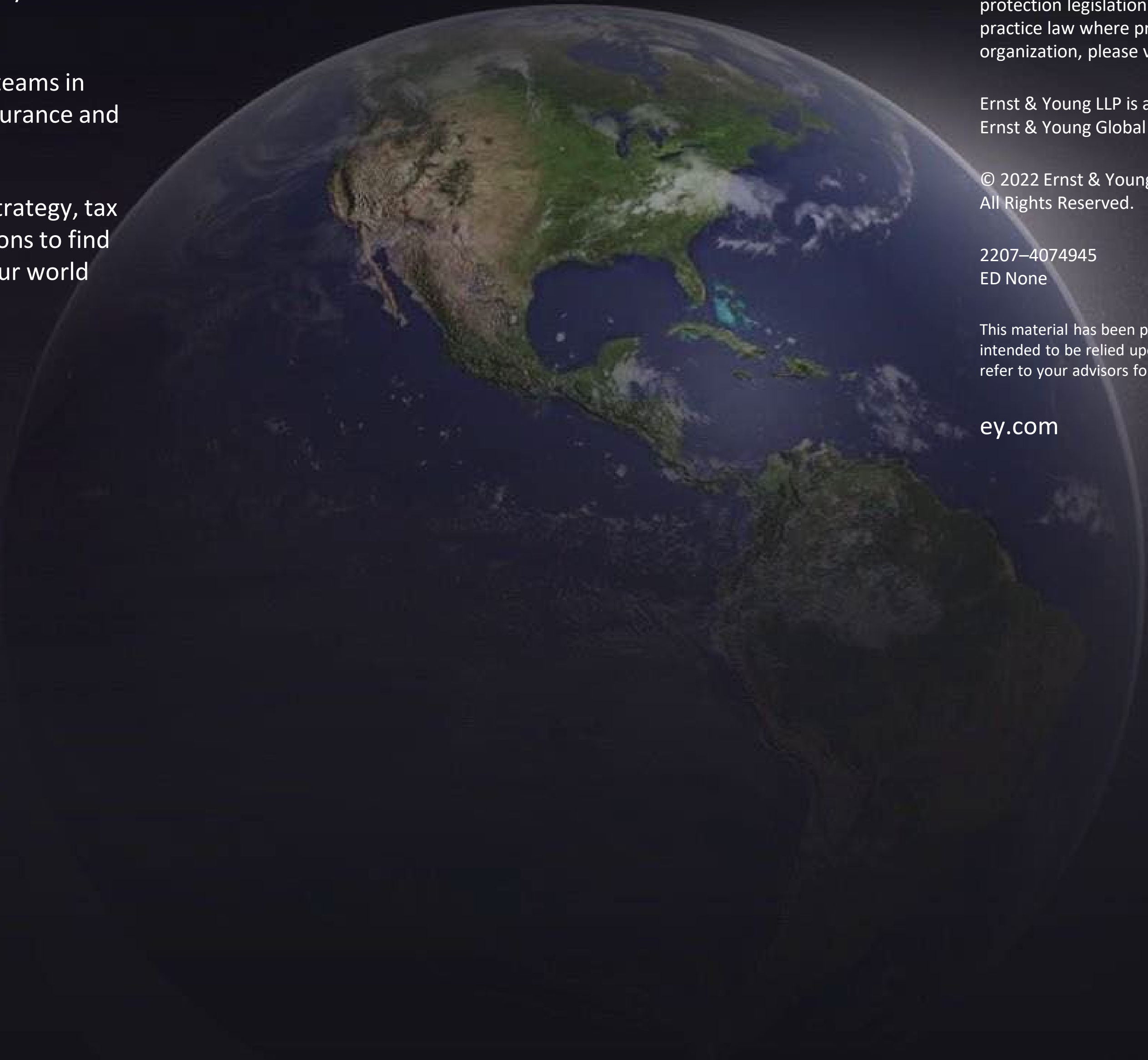

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