KPMG

Regulatory Alert for Financial Services

Regulatory Insights

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Climate Risk: Insurance data collection proposal, Reporting analysis, Community resiliency guidance

KPMG Insights. *With recent weather events as topline news, multiple regulatory bodies have issued proposals, analysis/reports, and guidance. The intent of these issuances is to expand climate-related financial and resiliency risk management practices across the financial services sector. Companies should continue to improve their climate-related risk and governance, in advance of rising regulatory expectations for climate-related data, reporting, and analysis.*

Regulators and standards setters continue to focus on climate-related financial risk. Recent actions have emphasized regulators' intention to collect and utilize climate-related data to inform supervision and guidance. New analysis from the FSB highlights progress on climate-related data, disclosures, and the importance of prudential oversight. These recent actions and reports include:

- Federal Insurance Office (FIO): Climate Data Collection Proposal
- Housing and Urban Development (HUD): Community resiliency guidance
- Financial Stability Board (FSB):
  - FSB Report on Supervisory and Regulatory Approaches to Addressing Climate Risks
  - Task Force on Climate-related Financial Disclosure (TCFD) – 2022 Status Report
  - FSB Progress Report on Climate Disclosures

Highlights of the actions and reports follow:

FIO Climate Data Collection Proposal

Pursuant to Executive Order 14030 on Climate-related Financial Risk, the Federal Insurance Office of the Department of the Treasury issued a request for comment on the proposed collection of data from property and casualty (P&C) insurers. FIO proposes to collect current and historical underwriting data on homeowners' insurance with the stated objective of identifying and assessing the financial impacts of weather-related events on insurers' exposures and underwriting over time, as well as on the availability and affordability of insurance.

FIO cites a need for consistent, comparable, and granular data to work on climate-related priorities and is therefore proposing data collection from P&C insurers in two categories:

- Nationwide insurers that wrote homeowners' insurance above a premium threshold of $100 million in 2021.
- Additional insurers to achieve an 80 percent market share threshold in each of 10 states that are potentially the most vulnerable to climate-related disasters (as identified in the request).

FIO notes that these two categories—together "representative sample insurers" —cover 213 institutions domiciled in 34 states. As proposed, the data collection would focus on homeowners' multi-peril insurance and cover only weather-related events, including convective storms, drought, hail, hurricanes, ice, sleet, snow, tornados, wildfires, and windstorms but would explicitly exclude liability exposures, flood insurance, and earthquakes. In addition, the data would comprise:

- Underwriting data, including information on claims, premiums, and losses that correspond to data reported in annual filings, as well as additional data elements such as premium renewals, replacement values, deductibles, and coverage limits.

- A reporting period of five years, 2017 through 2021, using an "Accident Year".
- ZIP Code level data for all U.S. ZIP Codes where the representative sample insurers operate.

Reporting would be mandatory for all representative sample insurers. Comments will be accepted for sixty (60) days following publication in the Federal Register. FIO has provided a link to the proposed collection template and related instructions.

Note: *The Department of the Treasury's Office of Financial Research (OFR) previously launched a pilot program for its Climate Data and Analytics Hub, which is a tool to help financial regulators assess potential climate-related risks to financial stability. This tool provides access to public climate data, computing tools, and integration of climate and financial stability data.*

HUD's Community Resilience Toolkit

The Department of Housing and Urban Development released the Community Resilience Toolkit (CRT), which is designed to help communities enhance their resilience to climate-related natural hazards and risks. The guidance is intended to offer resiliency ideas for communities and assist decision-making as communities invest their own resources.

FSB Climate Reports

Supervisory and Regulatory Approaches to Climate-related Risks. FSB published a report that discusses climate-related data and recommends a "system-wide" regulatory and supervisory approach to addressing climate-related risks and mitigating financial vulnerabilities. In this regard, FSB highlights:

- **Climate Data.** The report identifies relevant data and metrics that authorities may require, such as granular data on physical, transition, and liability risks; Scopes 1, 2, and 3 greenhouse gas (GHG) emissions; and geographical location data. It further considers the reliability of this data, the need for regulatory and supervisory oversight and internal controls, and key policy considerations including potential expansion of standard regulatory reporting requirements to include qualitative and quantitative information.
- **"System-wide" approach.** Such an approach considers physical and transition risks and their connection to market, credit, and insurance (underwriting) risks through spillovers, risk transfers, and feedback loops. FSB suggests it can be utilized within existing prudential frameworks through supervision and examinations, review and evaluation processes, scenario analysis and stress testing exercises, and macroprudential tools and policies such as capital measures and concentration limits.

TCFD Status Report. FSB's Task Force on Climate-related Financial Disclosures (TCFD) released its 2022 Status Report, analyzing the current state of climate-related disclosure practices and progress on alignment with TCFD's recommendations since their 2021 report. The report identified the following key takeaways and findings from TCFD's disclosure review (of 1,434 public companies' disclosures), survey results (from 42 respondent companies), and other analyses:

Source	Topic	Takeaways & Findings
Disclosure Review	**Alignment with TCFD Recommendations**	— 80 percent of companies disclosed in line with at least one (1) of the eleven (11) recommended disclosures — 40 percent disclosed in line with five (5) or more recommended disclosures — Only 4 percent disclosed in line with all eleven (11) recommended disclosures
	Level of Disclosures	— Companies across all global regions are increasing levels of disclosures; European (60 percent), Asia Pacific (36 percent), North America (29 percent)
Reporting Practices Survey	**Client and Beneficiary Reporting**	— 60 percent of asset managers and 75 percent of asset owners currently report climate-related information to client and beneficiaries (through annual, sustainability, or climate-specific reports)
	TCFD Alignment	— 50 percent of asset managers and 75 percent of asset owners reported information aligned with 5 or more TCFD-recommended disclosures

TCFD Survey	**Increase in TCFD Alignment in Annual Filings**	— Over 70 percent of companies implementing TCFD recommendations disclosed climate-related information in FY 2021, up from 45 percent in FY 2017
	Availability and Quality	— 95 percent of respondents saw an increase in the availability of climate-related financial disclosures since the release of TCFD recommendation in June 2017; 88 percent cite improvements in disclosure quality as well
	Investors' Decision-making and Pricing	— 90 percent of investors and other users are incorporating climate-related financial disclosures into financial decision-making; 66 percent indicate such disclosures factor into pricing

Progress Report on Climate-Related Disclosures. FSB published a similar report on progress toward strengthening the comparability, consistency, and decision-usefulness of climate-related financial disclosures. The report highlights progress in the following three areas:

- **Global baseline climate standards**, including the International Sustainability Standard Board (ISSB) work toward a global baseline reporting standard (expected early 2023) and the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) work toward enhancing existing global standards for assurance, ethics, and independence on sustainability reporting.
- **Jurisdictional promotion of climate standards**, noting that twenty (20) of twenty-four (24) jurisdictions responding to FSB's survey indicated some action on climate-related disclosures in 2022, including fourteen (14) with requirements in place and nine (9) with requirements being planned. Further, fourteen (14) of the jurisdictions indicated an intention to put in a place a structure or process for adopting, implementing, or otherwise making use of ISSB standards once finalized.
- **Firms' climate-related financial disclosures**, indicating a general increase in climate-related disclosures and reporting by companies across all regions, as well as TCFD-aligned disclosures.

Relevant KPMG Thought Leadership:

- KPMG Regulatory Alert | Climate-related financial risk in the insurance industry
- KPMG Regulatory Alert | Climate Reporting: Recent updates impacting financial services

For more information, please contact Amy Matsuo, Adam Levy or Michael Lamberth.

Contact the author:

Amy Matsuo
Principal and Leader
Regulatory and ESG Insights
amatsuo@kpmg.com

kpmg.com/socialmedia

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