American Property Casualty Insurance Association
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COMMENTS OF AMERICAN PROPERY CASUALTY INSURANCE ASSOCIATION ON TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD) NATURE-RELATED RISK AND OPPORTUNITY MANAGEMENT AND DISCLOSURE FRAMEWORK FINAL DRAFT – BETA V0.4

The American Property Casualty Insurance Association (APCIA) represents 1,200 (re)insurers that operate in the U.S. and around the globe. Our membership is characterized by diverse business models and companies of all sizes that provide critically important insurance coverage and loss prevention services that provide significant benefit to policyholders and the public.

We appreciate the opportunity from the Taskforce on Nature-related Financial Disclosures (TNFD) to provide feedback on the TNFD Nature-related Risk and Opportunity Management and Disclosure Framework Final Draft Beta v0.4. We understand that TNFD is nearing the end of its two-year framework design and development phase for the first integrated risk management and disclosure framework for nature-related issues (v1.0), expected in September 2023.

At a high level, the documents provide users with a useful informational framework with which to conceptualize nature-related risks, particularly through its LEAP approach and introduction of common terminology. For purposes of internal use, the framework provides firms with a way to consider assessing nature-related risks. However, the framework is not ripe to support public disclosure of nature-related risks given the state of science and lack of available data including the lack of agreed upon stable metrics for tracking and reporting. On this basis, the TNFD Framework should not be adopted by regulators to pursue risk management and disclosure objectives at this time. Although the TNFD acknowledges that they are developing a framework rather than a standard, it could be anticipated that standard-setters would use the framework as the basis for developing a global baseline standard, as suggested by the close coordination with the International Sustainability Standards Board (ISSB) and other groups, which regulators may then adopt in a largely unaltered manner. As described below, we believe disclosure of nature-related risks should be made on a voluntary basis at this time and the framework should make this clear.

The state of science related to nature-related risks and metrics is behind the understanding and development of climate-related risks and greenhouse gas emissions. Yet, the TNFD framework has been developed with an aggressive timeline that looks to incorporate a Scopes-type approach for nature-related impacts at the direct, upstream, downstream, and financed levels of a company's value chain. Similar to the way in which the reporting of Scope 3 emissions is dependent upon the availability and accuracy of emissions data from innumerable entities and small enterprises that lack sophisticated climate reporting, accounting for indirect upstream and downstream nature-related impacts is even less accessible, consistent, or reliable for the purpose of disclosure. The suggestion that "all companies and financial institutions – large and small, across sectors and along value chains – need to identify and assess their nature-related issue" is unrealistic and aspirational given the current lack of available data and standardized metrics.

As indicated in the draft framework, there is insufficient data available to understand and carry out the suggested analyses to quantify and disclose nature-related risks and opportunities. For example, there is limited data on "the locations of assets and activities in the organization's direct operations, and upstream and/or financed where relevant, that are in priority areas". Reliable and dynamic scenario tools that provide accurate and actionable insights are also lacking – nature-related economic modelling is currently rudimentary and would need to be substantially improved and supported by the scientific community at scale before it can be reasonably used to inform business decision making, create a baseline for comparability, and be the basis for public disclosure.

Moreover, there is insufficient guidance for companies on how to manage the trade-offs between climate and nature-related risks in their portfolios, which is important to address the dependencies of climate versus nature. For example, insuring a lithium mine may be a positive contribution to the climate transition as lithium will be necessary for the batteries that will replace fossil fuels but may have a negative impact on the ecosystem where such mining takes place. Guidance is needed to ensure that a firm's action to reconcile such trade-offs doesn't exacerbate its own climate or nature-related risks. There is also insufficient guidance on whether and how companies can rely on government environmental review processes. Ideally, any guidance would make clear that companies can rely on government approval processes rather than conducting their own environmental reviews. Finally, to the extent that firms do decide to voluntarily use the TNFD framework for purposes of their disclosure, we encourage the TNFD to consider additional ways that the framework can have clearer integration with TCFD. The current TNFD framework encourages joint reporting but provides little specific guidance on how to do so, which is further exacerbated by its lack of guidance on managing the climate/nature risk trade-off as described above.

In addition to the data and modelling issues cited above with respect to evaluating and reporting nature-related risks in a firm's value chain, the implication is that insurers (and other financial institutions) have control or influence over the business decisions by clients and policy holders to force them to re-evaluate and pursue alternative outcomes regarding their nature-related risks. This type of interference is not the role of an insurer and restricting coverage or capital to viable businesses would ultimately result in inferior risk transfer products or companies forgoing insurance altogether, creating protection gaps for companies and industries that are necessary for the global economy to function. Rather, the role of an insurer is to help its policyholders understand the risks associated with their activities and any attendant implications for their insurance coverage, and then help facilitate the choices policyholders make with that understanding.

As financial institutions that provide underwriting and investment capital, insurance companies have relatively small direct climate and environmental footprints. Yet insurance companies provide critical risk transfer products for every sector of economic activity. Accounting for upstream and downstream nature-related impacts would allocate potentially significant nature-related impacts onto the books of insurers with very little relevance to what an insurance company owns or controls. Reporting such information with little relevance to the business operations that are controlled by insurers greatly enhances potential insurer liability. The framework makes little or no mention of liability concerns with disclosing potentially inaccurate or overstated environmental impacts, which is concerning, particularly since the TNFD acknowledges the challenges of tracing nature-related issues up and down complex global value chains and the current lack of available data and analytical tools. These liability concerns in turn exacerbate the nature-related risk profile of any firm that chooses to disclose under the proposed framework. It is important that steps are taken to alleviate liability concerns before this framework is adopted for use as a public disclosure.

The framework provides examples of the engagement, feedback, and participation from multiple stakeholders throughout the development process. While the TNFD Members include global membership, some regions are disproportionately represented. The insurance markets across jurisdictions are very different and it is our view that a lack of jurisdictional balance impacts the representation of views, and consequently, undermines the global applicability of the framework developed by the TNFD.

We agree that tools such as the Data Catalyst are needed to improve access to nature-related data and analytical tools to help spur adoption of the TNFD framework. While making data publicly available can have benefits, we urge caution on any data that is proprietary, and we highlight the importance of maintaining confidentiality and privacy requirements in this context. Efforts to harmonize the collection of data nationally, regionally, and internationally should only be made while taking differing business models and regulatory requirements across jurisdictions into account. Data should only be collected that is readily measurable, verifiable, reliable, and not overly burdensome to the reporting entity, as the benefits of gathering data must outweigh the costs.

In summary, we believe the TNFD framework has negative consequences that have not been thoroughly assessed and that could create coverage gaps. It also erroneously assumes that insurers and other financial institutions have greater influence on their clients and policyholders as to force them to realign their approach to nature-related risks. Finally, the proposed framework does not address fundamental concerns with scope and applicability to financial institutions and fails to appreciate the significant data limitations that companies will face should they choose to implement the framework. For these reasons, we believe that public disclosures based on this framework is premature and inappropriate at this time and any public disclosure should be voluntary by firms and caveated with the limitations of the framework.

Thank you for considering the points addressed in this letter, and please do not hesitate to contact us if you have any questions.

Respectfully submitted,

Dave Snyder
Vice President, International & Counsel
American Property Casualty Insurance Association

Ethan Aumann
Senior Director, Environmental Issues & Resiliency
American Property Casualty Insurance Association