Climate Change and Climate-related Risk – What it means for Insurance Supervisors

IAIS Global Seminar – Moscow
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Moderator:
Geoff Summerhayes – Executive Board Member, Australian Prudential Regulation Authority (APRA); Chair, Sustainable Insurance Forum (SIF) and Executive Committee Member, IAIS

Panel members:
• Peter Skjoedt – Director Financial Stability and Regulation, Geneva Association
• Manuela Zweimueller – Head of the Policy Department, European Insurance and Occupational Pensions Authority (EIOPA)
• Kiyoshi Fukuwatari – General Manager, Risk Management Business, Sompo Risk Management & Health Care (representing GIAJ)
IAIS Issues Paper on Climate Change Risks to the Insurance Sector

SIF
- Network of leading insurance supervisors and regulators
- Collaborating on sustainability
- SIF2 June 2017 – Guidance to supervisors required
- SIF3 October 2017 – Partnership with IAIS
- July 2018 – Issues Paper approval

IAIS Issues Papers
- provide background
- identify regulatory and supervisory issues and challenges
- are primarily descriptive
- form part of the preparatory work for developing standards
Changes in climate requiring adaptation

- Increased frequency of large-scale heatwaves and record-high temperatures
- Longer fire season with more extreme fire danger days
- Prolonged high ocean temperatures
- More time spent in drought
- Greater proportion of rainfall from heavy rainfall events
- Sea level rises and increased frequency of coastal storm surge inundation

IAIS
Transitional risks in the global economy

Systemic shifts needed to mitigate physical risks:

1. Energy systems – including big implications for real estate
2. Transportation systems – decarbonised mobility, freight and mass transit
3. Food systems – agriculture, processing, transport and consumption habits

Lack of appropriate disclosure leading to mispricing of risk and assets
### More Physical Risk

- Uncontrolled change
- Limited short-term impact but major long-term impact
- Economic damages increase

### More Transitional Risk

- Controlled yet aggressive change
- Major short term impact but reduced long term impact
- Lowest economic damage
IAIS Issues Paper on Climate Change Risks to the Insurance Sector

Contents

1. Introduction and Background
2. The Climate Risk Landscape
3. How Climate Change may affect the Insurance Sector
4. Industry Responses to Climate Risks
5. Relevance for Insurance Supervisors
6. Applicability of Insurance Core Principles to Climate Change
7. Supervisory Approaches to Climate Change Risks
8. Observed Practices: Case Studies
9. Conclusions
10 case studies – including Australia

APRA’s response and need for resilience

- Internal response: working group, heat map, supervisory guidance
- Lay down public marker through two high profile speeches
- Warn of prudential risk of climate change to regulated entities
- Survey sent to APRA entities across insurance, banking and super industries

“The transition to a low carbon economy is underway and moving quickly. The weight of money, pushed by commercial imperatives such as investment, innovation and reputational factors, is increasingly driving that shift, rather than scientists or policymakers.” Nov, 2017

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<th>CPS 220 - Risk Management</th>
<th>Insurance</th>
<th>Banking</th>
<th>Superannuation (pensions)</th>
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## Governance
- What is the board’s and executive’s understanding of the risks and opportunities as a result of climate change?
- If the risks are deemed material, are there clearly defined roles and responsibilities of the board and senior management?

## Strategy
- How is strategy and business planning incorporating the impacts on infrastructure, assets, network, operations, revenue, costs and reputation of the business?

## Risks
- How are climate risks being identified, assessed and managed?

## Metrics & Targets
- What internal or external targets and disclosures are planned?
- TCFD disclosure recommendations
Market signals, international engagement and global regulatory response

- Paris Agreement
- Financial Stability Board Task Force on Climate-related Financial Disclosures (FSB TCFD)
- Sustainable Insurance Forum (SIF)
- **IAIS Issues Paper on Climate Risk to the Insurance Sector**
- Central Bank and Supervisors Network for Greening the Financial System (NGFS)
- International Investors Group on Climate Change (IIGCC)