



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

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

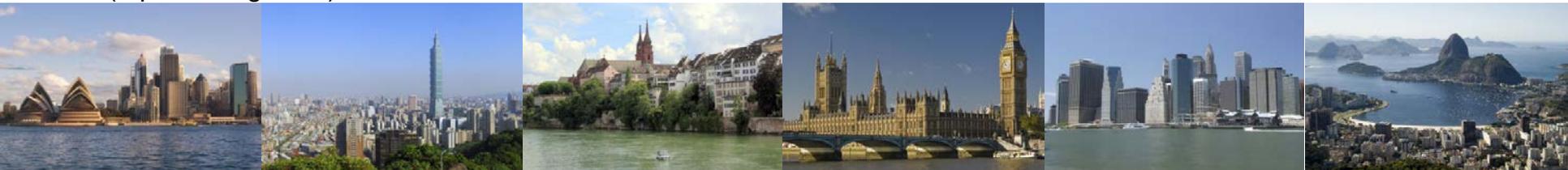
IAIS Global Seminar – Moscow
26-27 July 2018

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



SUSTAINABLE
INSURANCE
FORUM



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INSURANCE SUPERVISORS

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

occurring
now



emerging
threat

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



TCFD | TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

Transitional- Physical trade-off

Green scenario

Brown scenario

Specification	Baseline	Aggressive mitigation	Effective mitigation	Limited mitigation	Runaway
Policy action to limit green house gases	Based on current political consensus	Equivalent to meeting Paris Aspirational targets	Equivalent to meeting Paris Targets	Current commitments under NDICs	None
Temperature rise	Current	1.5°C	2°C	4°C	5°C
Transition risk	Current	Very significant	Significant	Limited	None
Physical risk	Current	Minimal	Limited	Significant	Extreme

Source: Deloitte

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



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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

CPS 220 - Risk Management	Insurance			Banking	Superannuation (pensions)
	GI	LI	PHI		
Credit Risk	Green	Green	Green	Red	Green
Market/Investment Risk	Yellow	Yellow	Yellow	Yellow	Red
Liquidity Risk	Green	Green	Green	Green	Green
Insurance Risk	Red	Yellow	Yellow	N/A	Yellow
Operational Risk	Yellow	Yellow	Yellow	Yellow	Yellow
Strategic/Reputation Risk	Red	Red	Red	Red	Red

APRA guidance for insurance companies

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)

