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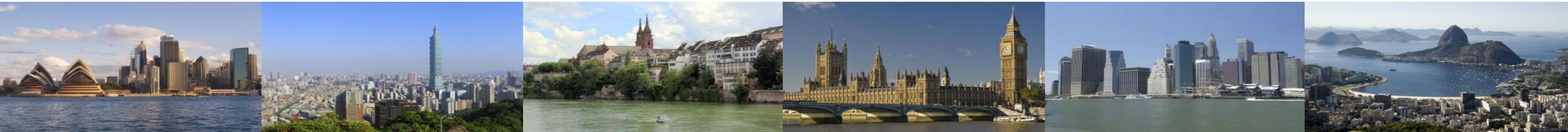
INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS



SUSTAINABLE
INSURANCE
FORUM

Joint SIF-IAIS webinar on the Application Paper on the Supervision of Climate-related Risks in the Insurance Sector

9 June 2021, 13.00 – 14.00 CEST



Agenda

Introductory remarks

- **Anna Sweeney**, Chair of the Sustainable Insurance Forum (SIF) and Executive Director – Insurance, Bank of England

Background on Application Paper and outcome of consultation

- **Peter Kohlhagen**, Co-chair of the SIF/IAIS drafting team and Member of the IAIS Audit and Risk Committee and Policy Development Committee. General Manager, Advice & Approvals, APRA
- **Emmanuel Rocher**, Co-chair of the SIF/IAIS drafting team and Member of the IAIS Macprudential Committee. Director, International Affairs, ACPR

Closing remarks

- **Conor Donaldson**, Head of Implementation (IAIS)

INTRODUCTORY REMARKS

Anna Sweeney

Introduction to the IAIS/SIF

About the IAIS

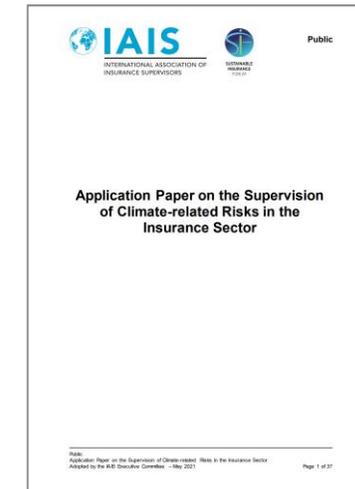
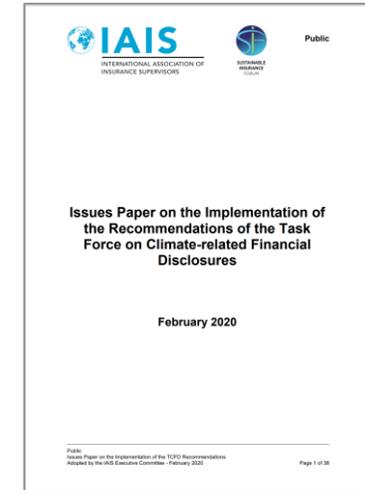
- The IAIS is the global standard-setting body for insurance supervision, with the objectives to promote effective and globally consistent supervision of the insurance industry to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to the maintenance of global financial stability. Its membership includes insurance supervisors from more than 200 jurisdictions.

About the SIF

- The UN-convened Sustainable Insurance Forum (SIF) is a leadership group of insurance supervisors and regulators working together to strengthen their understanding of and responses to sustainability issues facing the insurance sector. The long-term vision of the SIF is a global insurance system where sustainability factors are effectively integrated into the regulation and supervision of insurance companies. The UN Development Programme (UNDP) serves as the Secretariat for the UN-convened SIF. The SIF works closely with the International Association of Insurance Supervisors (IAIS), delivering collaborative projects and research on climate change issues. As of May 2021, the SIF has 31 jurisdictions as members.

Introduction to the IAIS/SIF work on climate risk

- The IAIS and SIF recognised early the importance of tackling climate risk and sustainability and have been developing a robust toolkit over the past few years.
- In previous years, the IAIS and SIF published the following Issues Papers:
 - Issues Paper on Climate Change Risks to the Insurance Sector (2018)
 - Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (2020)
- Application Paper on the Supervision of Climate-related Risks in the Insurance Sector:
 - Public consultation between mid-October 2020 – mid-Jan 2021
 - Received almost 500 [comments](#) from 25 different stakeholders
 - Final version of the document was [published](#) on 25 May



Application Paper on climate-related risks

Objective

The Application Paper provides recommendations and examples of good practice for insurance supervisors to manage the challenges arising from climate change, thereby describing how the Insurance Core Principles (ICPs) can be used.

Scope

- Supervisory review and reporting (ICP 9)
- Corporate governance, risk management and internal controls (ICP 7 & 8)
- Enterprise risk management for solvency purposes (ICP 16)
- Investments (ICP 15)
- Disclosures (ICP 20)

Supervisory review and reporting

- When integrating a climate risk perspective into insurance supervision, a useful starting point for the supervisor is, to assess:
 - the external environment and how this may impact the effectiveness of any supervisory initiatives
 - whether sufficient resources and training opportunities for supervisory staff are available
 - the relevance of climate-related risks to their supervisory objectives, including policyholder protection and financial stability
- The Paper recommends that supervisors collect quantitative and qualitative information on the insurance sector's exposure to, and management of, physical, transition and liability risks of climate change.
- The Application Paper also provides examples of relevant indicators and sources of information that supervisors may consider when assessing the risk of climate change on insurers.

Corporate governance, risk management & internal controls

- ICP 7 sets expectations for insurers to establish and implement a corporate governance framework; ICP 8 sets out supervisory expectations on how insurers establish effective systems of risk management and internal controls.
- When addressing climate-related risks, it is expected that insurers integrate these risks into their overall corporate governance framework. For instance, the control functions (including the risk management and actuarial functions) should properly consider climate-related risks and have appropriate resources and expertise to manage them.
- Practical examples:
 - Appointment of a chief climate risk officer in the Board
 - Inclusion of climate risk considerations in fit and proper assessments

ERM for solvency purposes

- ICP 16 sets out supervisory expectations on how insurers coordinate their risk management, strategic planning and capital management processes. The Paper focuses on underwriting policies and the ORSA
- Recommendations include:
 - Supervisors should expect insurers to identify the relevant physical, transition and liability risks inherent in their business portfolios, assess the implications for their underwriting strategy, and develop policies and procedures to integrate the management of these risks into their ERM.
 - Climate-related risks have the potential to impact all insurers; therefore, these risks should be considered for inclusion in the ORSA. Likewise, it is expected that insurers adopt the appropriate risk management actions to mitigate any identified risks.

Investments

- ICP 15 and 16 include standards for supervisors to require insurers to:
 - Construct their investment portfolio so that it is adequately diversified and allows for the payments to policyholders and creditors as they are due
 - Invest in a manner that is appropriate to the nature and duration of its liabilities
 - Invest in assets where it can properly assess and manage the risks
 - Include in their ERM framework an explicit investment policy
 - Include an ALM policy in their ERM framework
- When supervisors consider the risk in insurers' investment portfolios (including ALM), it is important to assess whether insurers incorporate the potential impacts of climate risk into investment decisions. Both transition and physical risk may negatively impact the portfolio.
- The Paper recommends that insurers assess the impact from physical and transition risks on their investment portfolio, as well as on their ALM. A forward-looking view, including the use of scenarios, may help insurers gain a better understanding of the risks.

Public disclosure

- ICP 20 includes Standards for supervisors to require insurers to disclose information on their:
 - Corporate Profile, including external environment in which it operates
 - Corporate Governance Framework
 - Insurance Risk Exposure
 - Investment Risk Exposure
 - Financial Investments and Other Investments
- The Application Paper asserts that material risks associated with climate change should be disclosed by insurers; this is important for policyholders and market participants to have a full understanding of the financial condition of an insurer. For some insurers, climate-related risks may have a significant impact on their insurance business while for others the risk may be more investment related.
- The paper indicates that supervisors may use the FSB TCFD framework when designing best practices or as input for setting their own supervisory objectives. Insurers should incorporate in their disclosure the extent to which their risk profile exposes them to the impacts of climate-related risks, as well as any metrics or targets developed by the insurer.
- The Paper also provides examples of current and developing disclosure practices of supervisors.

Comments received and changes to the Application Paper

High level outcome of public consultation (1)

- General support for the work and the guidance provided in the Paper
- Some comments and suggestions related to terminology and to clarifying that climate-related risks may be dealt with in the existing risk framework and risk categories
 - Addressed inconsistencies in terminology
- Suggestion to include reference to the need for cross-sectoral cooperation (not only cross-jurisdictional cooperation as it relates to group supervision)
 - Addressed in the section on the role of the supervisor
- Suggestion to make more explicit that measuring and addressing climate-related risks is an evolving area and expertise will continue to grow
 - Included several references noting that it is expected that the measurement of the risk, and as such the integration into the elements discussed in the paper, will improve over time

Comments received and changes to the Application Paper

High level outcome of public consultation (2)

- Some concerns around prescriptiveness of disclosure requirements
 - Addressed some prescriptiveness concerns (eg materiality), and ensured consistency with ICP 20 requirements (eg change some areas to encourage disclosure in line with current trends).
- Some concerns around prescriptiveness on remuneration policy and stewardship:
 - Addressed concerns by softening the language and highlighting examples
- Plus: various other examples, refinements and suggestions for clarifications were included
- The full list of public consultation comments and responses is available on the [IAIS website](#)

QUESTIONS?

CLOSING REMARKS

Conor Donaldson

What's Next

- **SIF/IAIS/PSI Webinars**

- Insurance Supervisors and Climate Action ([Sessions on 14 & 15 June](#))

- **IAIS Work Programme**

- In the coming months, the IAIS will publish a Global Insurance Market Report (GIMAR) featuring, as a special topic, an analysis of the investment exposures of insurers to climate change
- The Executive Committee will meet 22 June to discuss the next steps in the IAIS climate work programme

- **SIF Work Programme**

- Scoping Study on Nature-Related Risks in the Insurance Sector
- Work with IAA on Climate Risks in Actuarial Processes
- Impacts of climate-related risk on the insurability of assets - access and affordability
- SIF/IAA Webinar on Climate-Related Scenarios Applied to Insurers and Other Financial Institutions