

Public webinar

Public consultation on climate risk supervisory guidance – market conduct and scenario analysis

12 December 2023

13:00 - 14:30 (CET)

The webinar will soon start

Public background session: Climate risk consultation

12 December 2023





- Background on IAIS and climate risk work
- Update on consultation launched in March
- Draft Application Paper on climate risk market conduct issues in the insurance sector
- Draft Application Paper on climate scenario analysis in the insurance sector
- Q and A

Background on IAIS and climate risk work

Beth Dwyer, CRSG Vice Chair

IAIS – the global insurance standard setter

The mission of the IAIS is to:

- Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to
- Contribute to global financial stability.

More than **200** jurisdictions,
constituting **97%** of global insurance premiums,
represented by **39** members of our ExCo



Climate risk

Broad consensus that climate change is a source of financial risk that impacts the resilience of individual insurers, both in their roles as underwriters and investors, and could lead to financial stability risk.

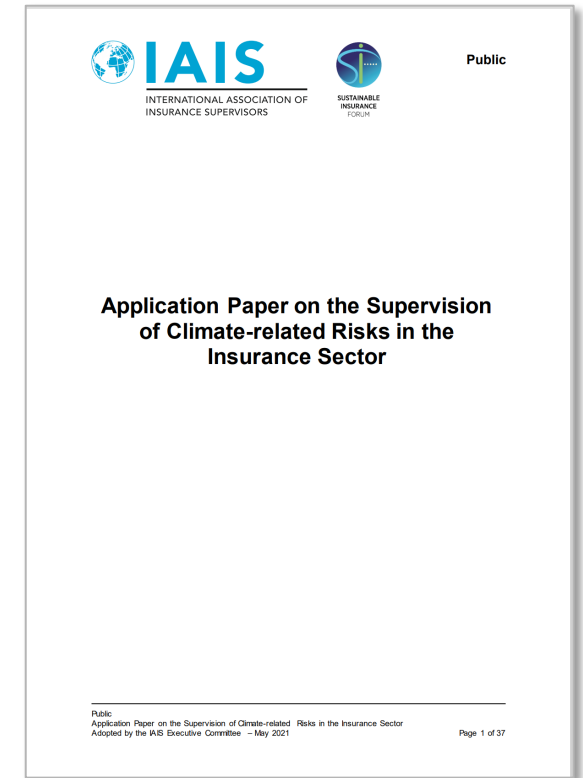
IAIS work on climate risk

IAIS work focuses on:

- **Undertaking analysis** to understand how climate change impacts the insurance sector and financial stability
- **Promoting a globally consistent supervisory response** to climate change, by developing guidance on supervisory practices, reviewing existing IAIS standards to assess whether further work is needed, as well as by supporting cross-sectoral initiatives
- **Assisting in capacity building** initiatives, in cooperation with our partners

Key milestones of IAIS climate risk work

- **2021:** Issuance of the Application Paper on the Supervision of Climate-related Risks in the Insurance Sector
- **2022:** Performed gap analysis of existing IAIS supervisory material to:
 - assess how climate risk is already captured; and
 - identify possible further work in terms of standard setting and/or providing further guidance on supervisory practices.



Timing of consultations

Timing	Content
Part 1 Public consultation between March and May 2023	<ul style="list-style-type: none">• Amendments to ICP Introduction; Supporting material for ICP 7 (Corporate Governance) and ICP 8 (Risk Management and Internal Controls); Questions seeking initial stakeholder feedback on the overall package of climate-related work
Part 2 Published in November 2023; public consultation until 23 February 2024	<ul style="list-style-type: none">• Supporting material covering issues on market conduct supervision (related to ICP 19 (Conduct of Business) and ICP 21 (Countering Fraud in Insurance)) and climate scenario considerations (related to ICP 16 (Enterprise Risk Management (ERM) for Solvency Purposes) and ICP 24 (Macroprudential Supervision))
Part 3 Public consultation planned to start in March 2024	<ul style="list-style-type: none">• Climate-related additions to the guidance in ICP 15 (Investments) and ICP 16 (ERM for Solvency Purposes)• Supporting material will cover issues including valuation, investments, enterprise risk management (ERM) for solvency purposes and macroprudential supervision.

Objective of application papers

- **Application Papers** provide supporting material related to supervisory material (ICPs or ComFrame).
- Application Papers **do not include new requirements**, but provide further advice, illustrations, recommendations or examples of good practice to supervisors on how supervisory material may be implemented.
- The **proportionality principle** applies also to the content of Application Papers.

IAIS Climate Risk March 2023 Public Consultation

Climate risk supervisory guidance – part one

Beth Dwyer, CRSG Vice Chair

Recap on first climate risk public consultation

Consultation material included:

- Proposed climate risk related text in ICP Introduction
- Material related to governance and risk management:
 - Outcome of the review of ICP7/8 related to governance and risk management content in the 2021 Application Paper
 - Comparison of IAIS and BCBS approaches on climate risk governance and risk management is aligned with BCBS
 - Request for suggestions for additional supporting material on ICP 7/8
- Request for suggestions on issues or themes to explore in the forthcoming consultations

Feedback received from first public consultation

136 responses were received from a combination of external stakeholders and IAIS Members (available on IAIS website [here](#)).

Overview

- Responses generally supported the proposed changes to refer to climate-related risk within the ICP Introduction.
- Responses were also in favour of making changes to the existing supporting material related to governance, risk management and internal controls.
- Responses were supportive of including considerations related to transition planning by insurers within the overall climate-related work programme of the IAIS.

Climate risk market conduct issues

Marco Traversa, EIOPA

Market Conduct Application Paper

This application paper aims to support supervisors in their efforts to identify instances of potential unfair treatment of consumers (ICP 19 - Conduct of Business) that can emerge in relation to:

- Sustainability-focused products - greenwashing
- NatCat protection products

However, ICP 21 (Countering Fraud in Insurance) may also be applicable where facts in a specific case may indicate behaviour that goes beyond misconduct to fraud.

Also, in the annex examples are provided that may support supervisors that want to adopt similar supervisory practices to address these issues.

Greenwashing Considerations

- Clear sustainability-related definitions and criteria, sustainability claims need to be clear, fair, accurate, and not mis-leading:
 - If policyholders have sustainability preferences offering products with sustainable features that such preferences and needs
 - Insurers promoting their own sustainability profile their claims need to be accurate and not mis-leading
 - Sustainability related information provided to policyholders needs to be accurate and provided in a way that allows policyholders to make informed decisions

Natural Catastrophe Considerations

- Provide easy to understand products, using plain language
- Test the understanding of exclusions and promote transparent advice
- Make sure pricing, fees, and charges are clear and easy to understand
- Facilitate access – through different tools including raising risk awareness and benefit of coverage
- Timely and fair claims handling

Consultation questions

IAIS is inviting general comments on the paper and each of the sections, and feedback on the following additional questions:

- Does the draft application paper provide sufficient detail to be a useful tool for supervisors and insurers?
- Is there any additional work the IAIS should be undertaking in the area of climate risk market conduct issues in the insurance sector?

Climate scenario analysis

*Alex Curtis and Tom Perkins, Bank of England,
and co-leads IAIS workstream*

Scenario Analysis Application Paper

Application Paper covers **four main areas**:

- Scenario analysis vs stress testing
- Scenario analysis objectives and design
- Macroprudential considerations (ICP 24)
- Scenario analysis to inform assessment of insurers risk management and governance (ICP 16)

IAIS will not develop scenarios, but will input into work of scenario designers eg Network for Greening the Financial System (NGFS)

Scenario analysis objectives and design

Four main design decisions

- Ready-made scenarios
- Modifying ready-made
- Reverse stress-tests

Scenario Selection

- Short-term horizons: **pragmatic for capturing transition risks with less uncertainty.**
- Longer-term horizons: **insightful when assessing physical risks**

Time Horizon & Interval

Exercise objectives drive scenario design

Top-Down vs. Bottom-Up

- Trade-off between **ease of implementation, consistency, comparability and the granularity of outputs**

Balance Sheet Choices

- **Static balance sheets**
- **Dynamic balance sheets**

Macroprudential considerations (ICP 24)

Scenario analysis useful tool for **assessing macroprudential impact** of climate change

- Assessing systemic importance
 - National and international
 - Protection gaps
- Supervisory response
- Transparency

Risk management and governance (ICP 16)

Scenario analysis useful tool for **assessing microprudential impact** of climate change.
Climate change should be integrated into existing risk management frameworks:

- Review Enterprise Risk Management framework
- Investment policies
- Underwriting policies
- Own Risk and Solvency Assessment
- Risk policies
- Risk appetite statement
- Board accountability

Consultation questions

IAIS is inviting general comments on the paper and each of the sections, and feedback on the following additional questions:

- Does the draft application paper provide sufficient detail to be a useful tool for supervisors and insurers?
- Are the different dimensions of climate risk for insurers namely (i) transition (ii) physical and (iii) climate-related litigation risks effectively covered in the application paper to both sides of insurer balance sheets?
- Are there concepts or approaches which should be added to the application paper?
- Does the application paper cover all relevant issues for scenario analysis from a macroprudential perspective (see section 4)?
- Does the application paper cover all relevant issues for scenario analysis related to Enterprise Risk Management and governance (see section 5)?
- Is there any additional work the IAIS should be undertaking in the area of climate-related scenario analysis?



Questions?

Consultation deadline: **23 February 2024 24:00 CET**





Thank you

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