

**Public webinar**

**Climate risk supervisory  
guidance – ICP guidance and  
supporting material**

15 April 2024

13:00 – 14:00 (CEST)

# Public background session: 3<sup>rd</sup> Climate risk consultation

15 April 2024





- Background on IAIS and climate risk work
- Climate Risk Consultation – Package 3
- Q and A

# Background on IAIS and climate risk work



# IAIS work on climate risk

**Supervisory practices:** Work in this area focuses on promoting a globally consistent supervisory response to climate change and providing supervisors with the necessary tools to monitor, assess and address climate-related risks to the insurance sector.

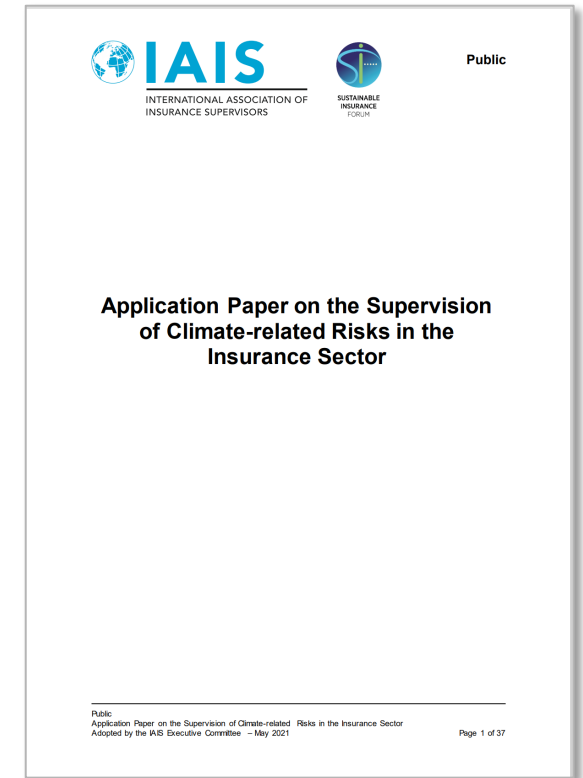
**Scenario analysis:** Work to develop and share practical capacity building materials for insurance supervisors will continue and a draft Application Paper has been developed.

**Data:** Climate data elements are now an integral part of the GME. Outcomes are annually reported in our Global Insurance Market Report (GIMAR).

**Insurance protection gaps:** The IAIS published a report on the role of supervisors in addressing natural catastrophe protection gaps in 2023. In 2025, we will publish a report examining the financial stability implications.

# Previous IAIS work on climate risk

- **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.
- **2023 - present:** Updating supervisory and supporting materials incorporating Climate Risk considerations



# Timing of consultations

Timing	Content
<b>Package 1</b> Public consultation between March and May 2023	<ul style="list-style-type: none"><li>• Amendments to ICP Introduction; Questions on 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</li></ul>
<b>Package 2</b> Published in November 2023; public consultation until 23 February 2024	<ul style="list-style-type: none"><li>• 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 (ERM for Solvency Purposes) and ICP 24 (Macroprudential Supervision))</li></ul>
<b>Package 3</b> Published in March 2024; public consultation until 19 June 2024	<ul style="list-style-type: none"><li>• Climate-related additions to the guidance in ICP 15 (Investments) and ICP 16 (ERM for Solvency Purposes)</li><li>• Changes to material covering corporate governance, risk management and internal controls to reflect comments received -on Package 1</li><li>• Supporting material covering valuation, investments, enterprise risk management (ERM) for solvency purposes.</li></ul>
<b>Package 4</b> Public consultation planned to start in June-July 2024	<ul style="list-style-type: none"><li>• Supporting material will cover issues related to supervisory review and reporting, public disclosure, macroprudential supervision and supervisory cooperation.</li></ul>

# IAIS Climate risk Public Consultation – Package 3



# ICPs and application papers

- The Insurance Core Principles (ICPs) form the **globally accepted framework for insurance supervision**. The ICPs seeks to encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions.
- **Application papers** provide supporting material related to supervisory material. Supporting material aids IAIS members to put the ICPs into practice.
- 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 to the content of both ICPs and application papers.

# Scope of package 3 public consultation

## Application Paper material:

- ICP 7/8 (Corporate Governance, Risk Management and Internal Controls)
- ICP 14 (Valuation)
- ICP 15 (Investments)
- ICP 16 (ERM)

## ICP guidance material:

- ICP 15 (Investments)
- ICP 16 (ERM)

# Scope of Package 3: ICP 7/8

## Proposed changes to supporting material:

The proposed changes reflect comments received in response to the First Climate Risk Consultation, published in March 2023:

- Linking variable remuneration of insurance directors with the expectation to achieve objectives of managing climate-related risks and alignment with climate targets.
- Including the expectation that the board of directors should have an adequate level of competence and experience in climate-related risks or climate/environmental science.
- Referencing the consideration for risks that have the potential to affect assets and liabilities through different channels and how the investment strategy and overall business model can impact climate change and the environment.
- Emphasising the importance of forward-looking assessments of climate-related risks.

# Scope of Package 3: ICP 14

## Proposed supporting material:

Impact on asset valuation – additional considerations on valuation approach and time horizon, including:

- Amortized cost valuation - impairment evaluations should consider the potential for a reduction in future cash flows due to transition and physical risk.
- Market valuation – consideration for the level of available market information in assessing whether all potential impacts of climate risk are reflected

Impact on liabilities valuation - separate considerations for life and non-life business, highlighting:

- Limitations in historic data
- Use of stress-testing or scenario-analysis to test valuation assumptions
- Use of forward-looking catastrophe modelling
- Impact from future climate litigation

# Scope of Package 3: ICP 15

## Proposed climate related text in ICP Guidance and supporting material:

The proposed changes cover climate change considerations in:

- Establishing regulatory investment requirements (15.1.3)
- Credit ratings (15.2.3)
- Asset and Liability Management (15.3.1)
- Data limitations for assessing investments exposure (15.4.1)
- Reflecting climate risks in investment risk assessments (15.4.2)
- Referencing the consideration for risks that have the potential to affect assets and liabilities through different channels and how the investment strategy and overall business model can impact climate change and the environment (new paragraph in 15.2)

# Scope of Package 3: ICP 16

## Proposed climate related text in ICP Guidance:

The proposed changes cover climate change considerations in:

- Risk identification (16.1)
- Measuring and modelling risk, and stress testing (16.2)
- Investment policy (16.6)
- ORSA (16.12, 16.16)

## Proposed supporting material:

Includes additional considerations on the issues above as well as on:

- Corporate Strategy & Time Horizons (16.3),
- Risk Appetite and Limits (16.4);
- Asset and Liability Management (16.5);
- ORSA (16.13, 16.14)



## Timelines and process of this consultation

- The consultation period is 19 March to 19 June 2024 24:00 CEST.
- Interested parties can submit your feedback via the consultation tool accessed via the [consultation page](#).

# Q and A





# Thank you

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