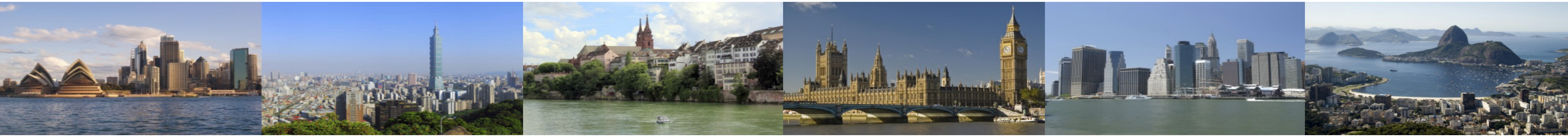
Webinar on Climate-related risks in the insurance sector

9 June 2020, 13.00 – 14.30 CEST



Agenda

Introductory remarks

- **Geoff Summerhayes**, SIF Chair and Member and Sustainability Champion of the IAIS Executive Committee. Executive Board Member at the Australian Prudential Regulation Authority (APRA)

Update on the development of the Application Paper

- **Peter Kohlhagen,** Co-chair of the SIF/IAIS drafting team and Member of the IAIS Policy Development Committee. General Manager, Advice & Approvals, APRA
- **Emmanuel Rocher**, Co-chair of the SIF/IAIS drafting team and Member of the IAIS Macroprudential Committee. Deputy Director, International Affairs, Autorité de contrôle prudentiel et de resolution (ACPR), France

Closing remarks

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

Introductory Remarks

Geoff Summerhayes

Introduction to the IAIS

- Voluntary membership organisation of insurance supervisors and regulators established in 1994.

- It is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector.

- The IAIS has more than 200 Members from 130+ jurisdictions

- Mission:
  - 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**

Introduction to the SIF

Network of insurance supervisors

- **What is it?**
  - Global network of insurance supervisors and regulators working together to strengthen responses to sustainability challenges facing the insurance sector
- **What does it do?**
  - Platform for international collaboration among supervisors, facilitating knowledge sharing, dialogue, and uptake of policy innovation
  - Convenes supervisors, makes consensus statements on sustainability optics, expert input on sustainability topics, produces research outputs
- **How does it work?**
  - Convened by UN Environment's division working on policy and regulatory aspects of sustainable finance (following from Inquiry Project 2015-2018)
- **Who are its members?**
  - The SIF has 31 jurisdictions from all over the world as members

SIF / IAIS joint work on climate and sustainability

2017

Start of partnership SIF / IAIS

2018

Release of joint **SIF / IAIS Issues Paper on Climate Change Risks to the Insurance Sector:**

First analysis of climate change risk by an international Standard Setting Body. Provides an overview of:

- how climate change is affecting the insurance sector and how this may evolve in the future
- how climate-related risks may be of relevance for insurance supervisors
- Range of current and contemplated approaches for addressing climate-related risks through supervisory practices.

2019

Release of joint **SIF / IAIS Issues Paper on the Implementation of the TCFD Recommendations**

Key messages:

- A vast majority of insurers expect climate change to affect their business
- The largest globally active insurers made progress on implementation of the TCFD Recommendations, but implementation is low across the sector as a whole (based on a Survey during H12019)
- The Paper sets out a range of supervisory approaches to encourage strengthened climate-related disclosures.

2020

Development of an Application Paper on the supervision of climate-related risks in the insurance sector

NEXT SLIDES

Application Paper on climate-related risks

Objective

Support supervisors in assessing and managing the impact of climate-related risks to the insurance sector, by describing how the Insurance Core Principles can be used to address risks associated with climate change

Scope

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

- As appropriate, specific considerations relevant to the supervision of reinsurers, and the difference in application to life versus non-life business, will be included in the Paper

Polling

- Do you support that the following topics are proposed to be in scope of the Paper?
  - ❑ Supervisory review and reporting
  - ❑ Corporate governance
  - ❑ Risk Management
  - ❑ Investments
  - ❑ Public Disclosures

- Which of the following other topics, not in scope for this Paper, do you support the IAIS/SIF to include in future work?
  - ❑ Macroprudential supervision
  - ❑ Valuation and Capital requirements
  - ❑ Conduct of business
  - ❑ Availability and affordability of insurance
  - ❑ Other (please specify via the chat function)

Supervisory review and reporting

- When integrating a climate perspective into the 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 is available
  - how climate-related risks may impact the financial system and insurance sector in its jurisdiction

- ICP 9 includes Standards and Guidance around:
  - setting up supervisory plans
  - obtaining the necessary qualitative and quantitative information
  - methods for supervisory feedback and follow-up

- The Application Paper will aim to provide guidance on how climate-related risks can be incorporated in each of these supervisory activities. This includes practical examples on qualitative and quantitative information requests.

Polling

- Do you agree that climate risks should be incorporated into supervisory plans?
    - Yes, and for the entire insurance sector
    - Yes, but only for larger, more complex insurers such as IAIGs
    - Yes, but only on a risk-based manner, for insurers that are likely more exposed to climate risk
    - No

- How should supervisors obtain information to form their supervisory assessments?
    - ❑Rely on public information such as TCFD-compliant disclosures
    - ❑Ad-hoc information requests (qualitative only)
    - ❑Ad-hoc information requests (quantitative)
    - ❑Integrating into regular, ongoing supervisory reporting (qualitative and quantitative)

Corporate governance

- ICP 7 sets expectations for insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders.

- The evolution of climate risk governance means that the allocation of responsibilities to the Board, Senior Management and Control Functions may not yet be as well-established as for other traditional risks. As the understanding of climate risk continues to evolve, so should the roles and responsibilities related to climate risks.

- This Application Paper looks at oversight and management responsibilities, corporate culture, the role of the Board, duties related to risk management and internal control, as well as remuneration through a climate risk lens.

Polling

- In your organisation, does the Board take a leading role in driving action in response to climate risk?
  - Yes
  - No
  - Not applicable

- Is there a role for remuneration requirements to provide incentives for appropriate management of climate risks?
  - Yes
  - No
  - No opinion/don’t know

- Would you support a supervisory requirement to nominate a responsible officer to be accountable for climate risk?
  - Yes, and this should be at the level of the Board
  - Yes, and this may be at a Senior Management level as appropriate
  - No
  - No opinion/don’t know

Risk management and internal controls

- ICP 8 sets out supervisory expectations on how insurers establish effective systems of risk management and internal controls.

- Given the potential impact of climate-related risks on the insurer solvency position, it is expected that these are considered within the existing categories of risks and lead to a review of the risk management framework in case of material change in these risks.

- This Application Paper looks at:
    - Integrating climate-related risks into the scope of the risk management system.
    - Consideration of climate-related risks by the control functions (risk management, compliance, actuarial and internal audit function).
    - Fitness and propriety of control functions on climate-related issues.
    - Integrating climate-related risks in the outsourcing decisions.

Polling

- In your organisation, do the Control Functions have sufficient expertise in climate risks?
  - Yes, all of the Control Function have sufficient climate risk expertise
  - Only some of the Control Function have sufficient climate risk expertise
  - No, but there is an established plan to build this expertise within the next 12 months
  - No
  - Not applicable

- How does your organisation integrate climate risk into its Risk Management Function?
  - As a standalone risk category
  - As an amplifier of other risks
  - A combination of the above
  - Not applicable

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 will focus on how insurers how climate-related risks can be integrated in an insurer's underwriting policy and underwriting processes. 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 risk into their ERM.

- The ORSA is a particularly useful tool for insurers and therefore supervisors should encourage insurers to consider all material climate-related risks arising in its ORSA process, including stress testing and scenario analysis.

Polling

- Supervisors should require insurers to incorporate climate-related risks in the underwriting policy
  - Yes, it is a material risk so this should be addressed
  - No, insurers should have the flexibility to include it or not
  - No opinion
  - Other (please specify via the chat function)

- Do you support incorporating climate risk into the ORSA, including through stress testing or scenario analysis?
  - Yes, and this should be part of the supervisory expectations
  - Yes and our organisation already includes climate-related scenario(s) into the ORSA
  - Yes but a qualitative assessment is sufficient
  - No
  - No opinion/don't know

Investments

- 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, for example:
  - real estate supported assets may be impacted by climate trends and weather related events
  - certain corporate securities may decline in value due to a shift to a low carbon economy.
- ICP 15 and certain standards in ICP 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 assess 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
- The Application Paper will aim to provide guidance, including practical examples, on how climate-related risks related to investment can be assessed by supervisors.

Polling

- How much impact do you expect climate risks to have over effective ALM?
  - Significant
  - Insignificant
  - Insignificant due to the short duration of assets
  - Not sure
  - Not applicable

- Does your organisation make use of external sustainability ratings in making investment decisions?
  - Yes
  - No
  - Not applicable

- Does your investment management function work with investee's to modify their business model to reduce their carbon footprint?
  - Yes
  - No
  - Not applicable

Public disclosure

- Disclosure of all material risks (including climate-related risks) of insurers 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.

- 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 intends to build upon the IAIS / SIF Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures and provide good practices on the disclosure of climate-related risks. This includes practical examples of both qualitative and quantitative information.

Polling

- Do you support a mandatory disclosure requirement based on the Financial Stability Boards (FSB) Task Force on Climate-related Financial Disclosures (TCFD)?
  - Yes
  - No

- Is the most challenging aspect of TCFD compliance the quantitative aspect?
  - Yes, due to the inability to uncertainty regarding transition
  - Yes, due to the inability to combine weather models with catastrophe models
  - No, we are able to model the quantitative impacts
  - Not applicable / don’t know

- In your jurisdiction, do consistent taxonomies and scenarios exist to support public disclosure?
  - Yes
  - No
  - Not applicable

Closing Remarks

Conor Donaldson