IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

SUSTAINABLE INSURANCE FORUM

Public Background Session:

Issues Paper on Climate Change Risks to the Insurance Sector

IAIS Secretariat

Basel, 10 April 2018

Overview

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3. About Issues Papers
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Public Consultation and Public Background session

- Development of Supervisory and Supporting Material by IAIS is subject to Public Consultation
- Part of the consultation is a Public Background Session to provide background information, describe the subject matter and specific issues
- Comments to be submitted via the Consultation tool on the IAIS website Non-Members

About Issues Papers

1. Issues Papers are "Supporting material" and provide background on particular topics, describe current practices, actual examples or case studies pertaining to a particular topic and/or identify related regulatory and supervisory issues and challenges.

2. Issues Papers are primarily descriptive and not meant to create expectations on how supervisors should implement supervisory material. They are therefore not binding.

3. Issues Papers often form part of the preparatory work for developing standards and may contain recommendations for future work by the IAIS.

Objectives of the Issues Paper

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Structure and Main Contents

1. Introduction
2. The Climate Risk Landscape
3. How Climate Change may Affect the Insurance Sector
4. Strategies for Insurer Climate Resilience
5. Relevance for Insurance Supervisors
6. Applicability of Insurance Core Principles for Climate Change
7. Supervisory Approaches to Climate Change Risks
8. Observed Practices: Case Studies
9. Conclusions

Context

- Climate change – the warming of the world's climate system, including its atmosphere, oceans, and land surfaces – is advancing around the world.
- In recent years, there has been increasing recognition at the global level that climate change will also affect the financial system, including insurance firms:
  - UNFCCC COP 21 Paris Climate Agreement
  - Financial Stability Board Task Force on Climate-Related Financial Disclosures
  - G20 Green Finance Study Group
- SIF was launched in December 2016 as a global platform for international collaboration by insurance regulators and supervisors on sustainability issues, and undertook several activities relating to climate change in 2017.
- At SIF2 (Windsor), members requested the SIF Secretariat to develop a guidance document on climate change and insurance supervision.
- At SIF3, (Kuala Lumpur), the SIF and the IAIS agreed to advance this document jointly as an issues paper.

Objectives of the Issues Paper

- Raise awareness for insurers and supervisors of the challenges presented by climate change, including current and contemplated supervisory approaches for addressing these risks.
- Provides an overview of how climate change is currently affecting and may affect the insurance sector now and in the future
- Provides examples of current material risks and impacts across underwriting and investment activities, and describes how these risks and impacts may be of relevance for the supervision and regulation of the sector.
- Explores potential and contemplated supervisory responses, and reviews observed practices in different jurisdictions.
- Identifies gaps and emerging areas which need to be resolved to allow for effective supervision.
- Offers insights from practice, and initial conclusions relating to the supervision of climate change risks to the insurance sector.

How Climate Change may affect Insurance

- Climate factors affecting insurance firms can be grouped down into two main categories of risks:
  i. **Physical Risks,** arising from climate trends (i.e. changing weather patterns and sea level rise) and shocks (i.e. natural disasters and extreme weather events such as storms, drought, and heatwaves).
  ii. **Transition Risks,** arising from disruptions and shifts associated with the transition to a low-carbon economy, motivated by policy, market, technological, or reputational factors affecting the value of financial assets.
- Climate risks pose different strategic, operational, and reputational risks to insurance firms, across:
  - **Underwriting Activities,** with wide ranging impacts across business lines (i.e. General, Life and health) and reinsurance
  - **Investment Activities,** with impacts across financial instruments – including long-term debt securities (i.e. Sovereign debt, real estate)

Relevance for Supervisors

Core objective	Implications of Climate Change	Potential Responses
Solvency and stability of insurance firms	Potential for physical and transition risks to pose risks for solvency of individual firms, stemming from underwriting and investment activities	• Supervisory engagement to quantify potential financial risks associated with physical climate damages (i.e. underwriting liabilities) • Surveys and Disclosure requirements
Market conduct, consumer protection, access and affordability, compliance	Potential for climate change render assets uninsurable (redlining); transparency for consumers on climate change practices and strategies; delivering enabling conditions for insurance product development	• Assessment of firm conduct on climate change issues • Supporting consumer awareness and literacy, including on risk profiles • Engagement with other policymaking bodies
Macroprudential stability	Potential for transition risks issues to pose systemic risks to the financial system and macro-economy	• Assessments of exposure to high carbon assets risk • Alignment of investments with climate goals

Applicability of ICPs

- ICPs provide the basis for supervisors to identify and respond to new and emerging risks facing the insurance sector.
- ICPs set out a framework for supervisors to address the insurance sector with respect to climate risks, including those already material to the insurance sector (i.e. natural disasters), as well as those not currently understood as material due to knowledge gaps or high uncertainty (i.e. transition risks).

  - **ICP 7 (Corporate Governance)**
  - **ICP 8 (Risk Management and Internal Controls)**
  - **ICP 15 (Investment)**
  - **ICP 16 (Enterprise Risk Management for Solvency Purposes)**
  - **ICP 19 (Conduct of Business)**
  - **ICP 20 (Public Disclosure)**

- Strong link to FSB TCFD Recommendations and Supplemental Guidance for Insurers (as underwriters and asset owners).

Supervisory Approaches

- Drawing on actions by SIF members, a set of options for supervisors to address climate risks, in line with their mandates and strategic objectives.

- **Assessing Climate Change as an Emerging Risk**
  - Mandates and Objectives
  - Initial Assessment
  - Signalling Expectations
- **Responding to Climate Change risks through Supervisory Practice**
  - Risk Frameworks
  - Information and Data Gathering
  - Engagement Strategies and Examination Tools
  - Stress Testing for Physical Risks
  - Examining Transition Risks: Exposure Assessments, Scenario Analysis, Alignment Evaluation
- **Collaboration and Cooperation**
  - Convening
  - Engaging with other public authorities
  - International Engagement

Not intended to create expectations or be considered as guidance.

Case Studies

1. **Australia**: Australian Prudential Regulation Authority (APRA)
2. **Brazil**: Superintendência de Seguros Privados (SUSEP)
3. **France**: Autorité de Contrôle Prudentiel et de Résolution (ACPR)
4. **Italy**: Istituto per la Vigilanza Sulle Assicurazioni (IVASS)
5. **Netherlands**: De Nederlandsche Bank (DNB)
6. **Sweden**: Finansinspektionen (FI)
7. **UK**: Bank of England Prudential Regulation Authority (PRA)
8. **USA –** National Association of Insurance Commissioners (NAIC)*
9. **USA – California**: California Department of Insurance (CDI)
10. **USA – Washington State**: Office of the Insurance Commissioner (OIC)

Conclusions

- Climate risks present significant material challenges for the insurance sector, which are likely to grow over time.
- It is imperative that resilience to climate risks be achieved by all insurers, regardless of size, specialty, domicile, or geographic reach.
- Emerging consensus across the financial sector that the potential systemic impacts of climate change require a similarly systemic global response (i.e. FSB, G20) – creating a strategic imperative for the IAIS and its members to consider the supervisory dimensions.
- Climate risks will require ongoing and intensifying scrutiny by supervisors, and the provide a general basis for the identification, assessment, and supervision of climate risks within the insurance sector.
- Supervisors should seek to increase understanding of climate risk, and develop supervisory capabilities to be able to accurately evaluate the insurance sector's actions to achieve climate resilience.
- Additional supporting material from the IAIS and the SIF on best practices for addressing climate risk issues in line with the ICPs may be helpful for supervisors and insurers.

Next steps

1. Consultation open as of 30 March for 30 days

2. Public background session on 10 April 2018 at 14:00 CET / Basel time (teleconference)

3. End of consultation: 29 April 2018

4. Consideration of comments, revision of draft, final approval process: completed by July 2018

5. Public Feedback Session: to be planned later, once resolutions of comments have been approved

Consultation tool

Comments to be submitted via the Consultation tool on the IAIS website

- Non-Members (consultations/current consultations): https://www.iaisweb.org/page/consultations/current-consultations

- Members (Members Extranet: consultations and surveys/current consultations): https://extranet.iaisweb.org/page/projects-and-activities/consultations-and-surveys/current-consultations

Questions?

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