8 May 2023

GFIA response to IAIS Public Consultation on climate risk supervisory guidance – part one

Q1. Do you have any comments on the proposed text referencing climate related risk within the ICP introduction?

The Insurance Core Principles (ICPs) introduction should include the definition of "climate-related risk", as stated in the 2021 Application Paper: "risk posed by the exposure of an insurer to physical, transition and/or liability risks caused by or related to climate change". If the terms "climate-related risk" and "climate risk" are used interchangeably that should be noted as well.

GFIA supports the amendment to the ICPs, which recognises the active efforts of supervisors to integrate climate risks into their practices, as some insurers already include them in their operations, such as underwriting and risk assessment. The active engagement of supervisors should take place in dialogue and cooperation with all stakeholders.

As highlighted in the proposed text, supervisors and insurers both play a key role in the assessment of climate risks and the assessment of the management and governance of such risks. They should therefore engage in close collaboration at both global and local level. For example:

- In France, the Autorité de Contrôle Prudentiel et de Résolution (ACPR) created a working group with French insurers in order to develop its proposal for a climate scenario analysis pilot exercise.
- In the US, insurers and regulators worked closely together when revising the annual climate risk survey so that it recognises proportionality, materiality and confidentiality.
- In Canada, the Bank of Canada and the Office of the Superintendent of Financial Institutions are conducting a pilot project on climate scenario analysis to help the financial sector improve its ability to analyse economic and financial risks that could arise from climate change.
- In Germany, the German Insurance Association (GDV) provided guidance for climate change scenario analysis in ORSA developed in a working group of German insurers. This initiative is welcomed by German supervisor BaFin. Furthermore, BaFin prepared a "Guidance Notice on Dealing with Sustainability Risks" that also addresses climate-related risks and provides risk management approaches (including stress tests and scenario analyses) in addition to governance aspects.
- In New Zealand, the External Reporting Board (XRB) observed over several months as the general insurance sector developed its scenario analysis. This was mutually beneficial. As the XRB had yet to set its scenario standards, it was able to gain insight from how a sector developed

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its scenarios. And having the standard-setter observing gave the sector confidence that it was on the right path.

Such collaborations should extend to policymakers so that they enable the incorporation of climate risks into insurers' approaches through the creation of a sound international regulatory framework and foster a level regulatory playing field.

Q2. Do you have any comments on the location of the proposed text?

GFIA believes it would be more appropriate to clearly dissociate the principle of proportionality and risk-based supervision and the question of the identification of the risks by locating the additional paragraphs in a new section named "Risks", while leaving the section "Proportionality and risk-based supervision" unchanged, as the risks referred to are not relevant to the application of proportionality. GFIA considers that the ICPs should primarily focus on material risks, which is not properly reflected in the current wording.

Q3. The IAIS considers that the 2021 Application Paper material related to ICP 7 (Corporate Governance) and ICP 8 (Risk Management and Internal Controls) remain appropriate in the context of climate risk management. Are there any issues related to corporate governance and/or risk management and internal controls from a climate perspective that are not addressed in the 2021 Application Paper that would be helpful for the IAIS to develop?

GFIA considers that a supervisory approach to the organisation of boards and management responsibilities that is too detailed would result in an undue burden for insurers. Each insurer should have the ability to define its own risk profile and governance structure as the materiality of climate risks and climate impacts varies between jurisdictions and entities.

Regarding risk management and internal controls, and as mentioned in the 2021 Application Paper, GFIA believes that offering general perspectives would enable each entity to shape its own policies in relation to specific duties and functioning.

Q4. Do you have suggestions on issues of themes to explore in the forthcoming consultations to improve the usability of the climate risk related Application Papers?

As already recommended in its response to the 2021 Application Paper, GFIA suggests focusing on the fostering of a broader exchange of experiences between supervisors, for example through the drafting of "dos and don'ts". A good example here are the natcat dos and don'ts in GFIA's March 2023 report, "Global protection gaps and recommendations for bridging them". The sharing of good and bad practices between supervisors and insurers will help shape their approaches to managing the transition to a lower carbon economy. This would be particularly relevant for jurisdictions that are at an early stage in climate-related regulation.

While the Net-Zero Data Public Utility is currently developing a global and open data platform related to climate change, climate-related risk assessment and climate scenario analysis are areas in which insurers are working on how to best use the data provided by companies to perform their own climate-risk assessments.

Moreover, as the IAIS develops supporting material on ORSA and climate scenario analysis, GFIA would like it to consider providing information such as best practices on various climate-related risk assessment and climate scenario analysis so that insurers can adopt the most appropriate method for their scale and business models and fully use their resources effectively. As ORSA is undertaking-specific, it should be left to the undertaking how to address this topic. Therefore, no mandatory provisions should be made by the IAIS. Any guidance should be principles-based, with a recognition of proportionality and materiality.

GFIA also encourages insurance supervisors to engage in dialogue and cooperation with other financial sector supervisors to ensure a consistent approach to climate risk and strengthen financial stability, taking into account the specific characteristics of the insurance sector.

While insurers have a key role to play on climate-related risks, GFIA would like to stress the importance of raising the awareness of society and all stakeholders, as a collective effort will be needed for effective action.

Q5. Should the IAIS work and upcoming consultations on climate risk also cover considerations related to transition planning by insurers?

GFIA recognises that transition planning is important for a smooth transition. The actual transition to a low-carbon economy is primarily the result of the policy decisions, actions or inactions of other sectors of the economy and government.

If the IAIS were to launch work on this issue, it should consider initiatives such as the Task Force on Climate Related Financial Disclosures and the Glasgow Financial Alliance for Net Zero that have already provided guidelines for transition planning and to which insurers are already responding. It may also consider work undertaken in other jurisdictions, such as the EU, to identify good practices. Any IAIS initiative on the scope of the supervisor's mandate should be sure to provide a sound framework that is principles-based and provides guidance rather than mandates.

Effective transition planning by insurers requires an understanding of the plans and actions of companies in other economic sectors. Any transition planning beyond that already undertaken under the above-mentioned private-sector initiatives should not be required until similar disclosure regimes are applied to all economic sectors.

Q6. Do you see anything missing from the current IAIS workplan on climate risk, as outlined in the IAIS 2023-2024 Roadmap?

Any IAIS initiative should be principles-based and be aligned with the specific characteristics of the insurance sector. At this point, GFIA does not see the need for additional climate work, except if it is focused on the role of other players, such as governments, to act to reduce the underlying risk.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 40 member associations and 1 observer associations the interests of insurers and reinsurers in 68 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.