GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

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GFIA response to IAIS consultation on draft supporting material on macroprudential and group supervisory issues and climate risk

ICP 24 (Macroprudential Supervision) guidance material

1 General comments on the draft climate risk ICP 24 related supporting material

GFIA agrees that potential financial stability implications of climate-related risks should be an integral part of macroprudential monitoring, and welcomes the IAIS's efforts to provide supporting material for national insurance supervisors.

GFIA also agrees that it is important for macroprudential supervisors to be aware of climate risks and their potential impacts. However, it needs to be reminded that in this area as in others, insurers are primarily mitigators of systemic risk rather than generators or transmitters of systemic risk. GFIA suggests that supervisors take that into consideration.

Many of the IAIS's recommendations and examples of good practice regarding potentially systemic climate-related risks are already in place in many jurisdictions around the world.

In dealing with climate-related risks as a new source of potential systemic risk, just as with any other of the potential systemic risks the insurance industry faces, it is crucial that the general principles of insurance supervision are fully adhered to. Supervisory action should be proportional and risk-oriented in order to avoid unnecessary burdens on insurers and supervisors or potential negative side effects on the functioning of the insurance industry. Considering that supervisors already have strong principles regarding systemic risks in place, climate risks should be integrated within this existing oversight framework.

With respect to financial stability implications from climate-related risks, the IAIS should place greater emphasis on the crucial role insurers play in managing risks on behalf of the broader economy, thereby mitigating overall systemic risk. Additionally, climate risk also presents an opportunity for insurers, given that risk management is their core business.

2 Comments on climate change and financial stability risks

3 Comments on data collection for macroprudential purposes

GFIA agrees with Paragraph 10's statement that "Supervisors should first make use of the data sets that are available and consider the costs and benefits of obtaining additional data."

4 Comments on risk dashboard for monitoring climate-related vulnerabilities

5 Comments on data analysis for macroprudential purposes

GFIA agrees that timely and good quality data is crucial as the basis of analysing potential financial stability implications of climate risk. However, in view of the increasing information requirements insurers are subject to, it is important that unnecessary burdens are avoided. In particular, it should be made clear that ad-hoc information requests on insurers should be avoided where possible and be limited to exceptional cases with a clear supervisory rationale.

As Paragraphs 10 and 12 rightfully highlight, supervisors should first make use of the data sets that are available, use data already provided by insurers as a proxy for exposures to climate-related risk drivers, and consider the costs and benefits of obtaining additional data.

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6 Comments on supervisory response

In GFIA's view, any supervisory response to potential systemic risks should be tailored to the risk and the specific circumstances of the insurance sector in the relevant jurisdiction. GFIA welcomes that the IAIS's draft stresses this necessary flexibility for supervisors. GFIA agrees that microprudential instruments can also be used with a macroprudential perspective in mind. However, GFIA believes that applying a capital add-on is not a suitable instrument to address potential systemic climate-related risk.

In risk based supervisory regimes like Solvency II in the EU, or the US financial examination regime, climate-related risks are already considered in calculating the regular supervisory capital requirements. Regarding potential systemic effects not covered in microprudential supervision, evidence-based quantification would be very difficult, if not impossible, because of the complex methodological questions involved and because of data gaps. If capital add-ons were incorrectly calibrated, this could impair the effectiveness of the insurance sector, eg in providing insurance coverage.

Additionally, in the introduction section IAIS mentions core risk categories as: market, credit, liquidity, underwriting, and then adds reserving. GFIA would suggest operational risk is a more appropriate risk category for climate risk drivers than reserving. For example, physical risks manifested in operational risks can closely correlate with the other categories.

The supporting material is problematic in this section. The measures suggested in Paragraph 35 go well beyond the ICP 10.2 that is referenced. ICP 10.2 generally covers actions supervisors should take for troubled insurers to protect policyholders interests or mitigate threats to financial stability. GFIA has concerns about the assumption that climate risk, for almost any insurer but certainly for life insurers, would result in material harm to policyholders' interests or threaten financial stability as long as the insurer is appropriately managing the other risks (market, credit, mortality, etc.) through which climate risk would manifest.

ICP 25 (Supervisory Cooperation and Coordination) guidance material

7 General comments on the draft climate risk ICP 25 related supporting material

GFIA welcomes the IAIS approach to group-wide supervision and the application of ComFrame and supervisory colleges.

8 Comments on group considerations for data collection

When defining climate-related data collection requests that affect insurance groups active in multiple jurisdictions, supervisors should coordinate with other involved supervisors and insurance standard setters. In addition, data collection requests should be made after confirming whether data could be collected from other supervisors.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 42 member associations and 1 observer association 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.