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A natural fit

Insurers are an obvious choice for policymakers seeking expertise on climate risks

In recent years, discussions around climate change have gained momentum all over the world and are now on top of the global political and economic agenda. For the first time, environmental issues dominated the 2020 Global Risk Report released by the World Economic Forum both in terms of impact and likelihood (see figure on p10).

Against this background, GFIA decided during its General Assembly in November 2019 to establish a working group dedicated to climate risks. The group has two goals: ensuring that the global industry's role in addressing climate risks and in mitigating natural disasters is well recognised by policymakers; and acting as a platform for sharing information on responses to climate risks between markets in order to enhance mutual understanding and promote best practices.

Acknowledging the global industry's role

Insurers play a critical role in climate risks because of their expertise in effectively managing risk, identifying opportunities to innovate on adaptation instruments and directing risk-appropriate investments. In September 2020, GFIA adopted a position paper on climate adaptation and mitigation that highlights the industry's leadership on this issue and sets out high-level principles to guide future work.

GFIA outlines the proactive approach of the insurance industry to measuring and pricing climate risk to inform risk management, adaptation and investment decisions, as well as to providing economic support when disasters hit. Insurers are also developing innovative solutions to enhance adaptation and mitigation, so GFIA calls on public authorities to establish a regular dialogue with the insurance sector in order to involve the industry in the discussions around adaptation and mitigation efforts and to enhance insurers' ability to serve their policyholders and society at large.

Insurers are engaged in enhancing the economic resilience of societies as providers of risk-transfer solutions and in pursuing opportunities to advise consumers on adaptation measures. As representatives of the global industry, GFIA is committed to working alongside public authorities to put its expertise at the service of society-wide efforts to address climate risk.

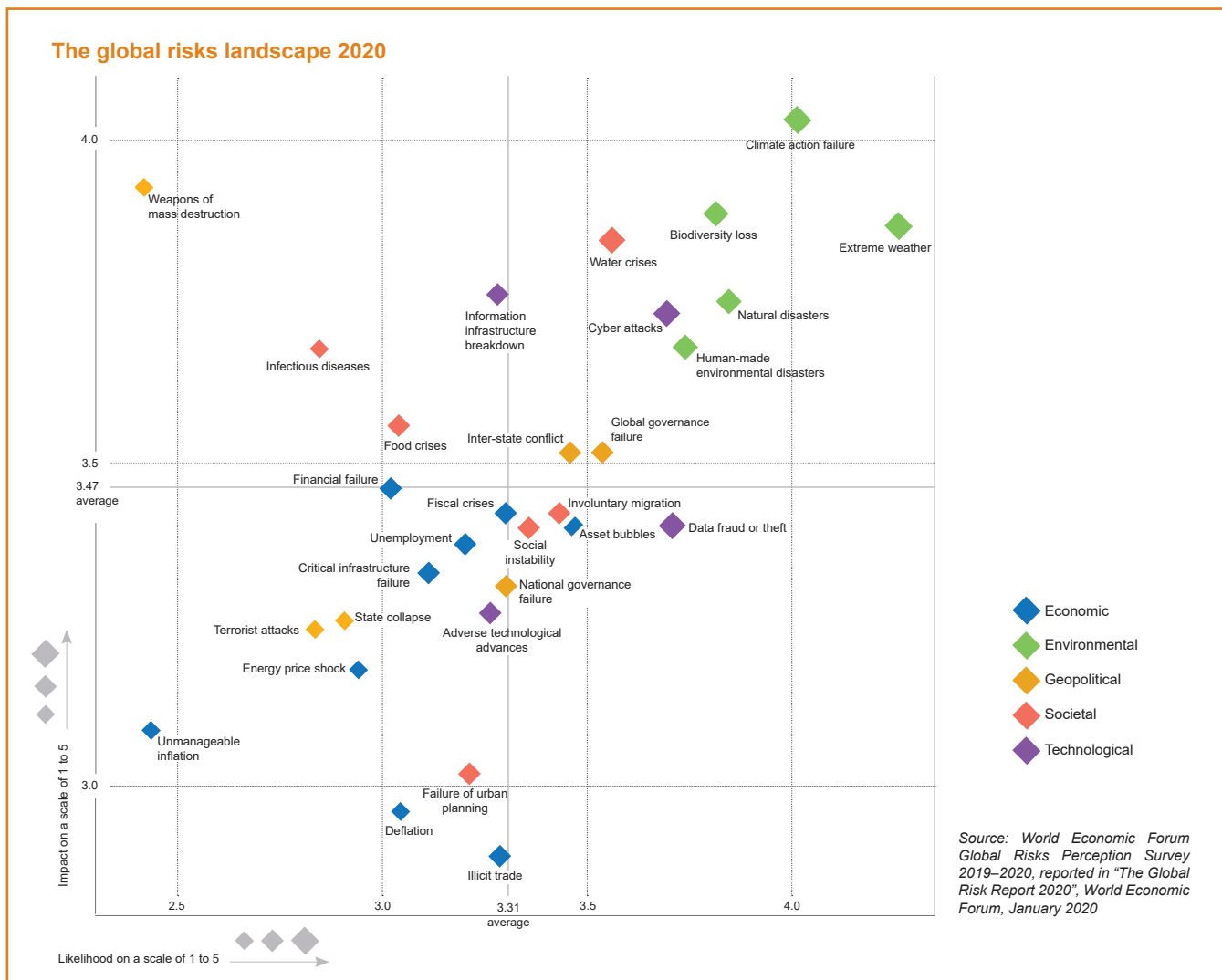
Engaging with international supervisors

As a follow-up to the Issues Paper on Climate Change Risks to the Insurance Sector published jointly by the IAIS and the Sustainable Insurance Forum in 2018, international supervisors released at the end of 2019 an Issues Paper on the implementation of the recommendations of the FSB's Task Force on Climate-related Financial Disclosures (TCFD). The paper acknowledged the important role of the recommendations in establishing a framework for climate risk-related disclosures for the insurance sector.

In February 2020, GFIA submitted comments to the consultation on the paper. GFIA believes that an incremental and phased approach is essential, whether supervisors want to foster greater voluntary disclosure or to make climate risk reporting mandatory. It will be crucial to assess carefully specific insurance guidance to support consistent and comparable disclosure. For instance, one of the main current obstacles to accomplishing the proposed disclosures is the lack of available, quality data.

GFIA also encourages the IAIS to consider that life and property and casualty insurers have very different risk profiles and business models. Standardised reporting could therefore limit the adequacy of the analyses, as well as the robustness of the material disclosures by these distinct types of insurers.

In terms of strengthening the capacity to assess climate risks,



GFIA is of the view that insurers are in the best position to identify, analyse and assess their risks. The TCFD’s recommended process and format are an appropriate discussion point between supervisors and insurers, providing examples of other analytical risk frameworks. However, an entity should be free to decide whether to implement a voluntary standard, since it depends whether the TCFD recommendations can be usefully and meaningfully applied to a specific business activity.

In its consultation response, GFIA highlights the wide variety of practices and tools that exist across jurisdictions to review and analyse insurers’ understanding of and preparation for climate risk. It warns that there could thus be potential overlaps of measures if further compulsory material is developed.

GFIA is currently following the work of the IAIS on its Application Paper on the Supervision of Climate-related Risks, which will cover several Insurance Core Principles on enterprise risk management, investments, governance and disclosures. In GFIA’s view, such an initiative should facilitate supervisory coordination across jurisdictions and constructive

engagement with stakeholders, which would avoid duplicative or contradictory standards between jurisdictions and would also facilitate insurers’ assessment of material climate risks. GFIA is committed to establishing a robust dialogue with supervisors on this very important topic.

Promoting resilient societies

2020’s outbreak of COVID-19 and the global crisis it has engendered have brought to the fore the critical need to build resilient and sustainable societies. The global insurance industry is already working towards this goal and remains committed to providing guidance and best practices to improve resilience. In the coming months, the climate risks working group will focus especially on the global industry contribution to the collective efforts to make the financial system sustainable. It will also discuss the insurance coverage of climate risks across markets in order to enhance mutual understanding of the climate protection gap worldwide.

Climate risks are a complex and multi-faceted issue in which insurers have a crucial and constructive role to play. ➤