

IAIS public consultation on draft application paper on climate scenario analysis in the insurance sector

1. General comments on the draft application paper on climate scenario analysis in the insurance sector

GFIA welcomes the opportunity to respond to the application paper of the IAIS on climate scenario analysis. GFIA would like to emphasise that climate scenario analyses are mostly prospective tools that can be used to better understand the exposure of insurers to climate risks. However, even if the scenarios may draw on quantitative data, for the most part the narrative within a scenario reflects subjective judgements made today about future possibilities. The IAIS should bear in mind these scenarios are future possibilities and not predictions of the future.

Rather, supervisors should regard scenario analysis as a tool that prudent insurers ought to be using when appropriate, and should ask insurers for specific, targeted purposes, and seek to understand what scenarios have been tested, why they have been tested, and what they have learned from them that supports their ability to manage possible future risks. For these reasons, supervisors must exercise caution about conclusions they may draw and certainly should not consider public disclosures or interventions either at a macro or micro level based solely on how an insurer is applying the learnings it has taken from the analysis.

Supervisors should focus on materiality and proportionality. To this extent it is important that firms have some flexibility to adapt the analysis to their risk profile, e.g. when conducting climate scenario analysis in the own risk and solvency assessment (ORSA).

GFIA highlights the limitations related to forward-looking climate risk assessments/scenario analyses that provide limited insights to inform concrete business decisions today (e.g. for short term liabilities). IAIS has to be mindful of these limitations and not to propose over utilising risk management tools for something they are not suited for. The IAIS should also clarify that there is no need to re-run such extensive exercises every year, also because underlying assumptions do not change fundamentally each year.

2. General comments on section 1 Introduction

Many stakeholders readily acknowledge that climate scenario analysis is subjective. GFIA's general comment observes that, for the most part, climate scenarios "reflect subjective judgements made today about future possibilities."

This view is also supported by some of the commentary in the application paper, e.g.

- Paragraph 5 of the IAIS paper acknowledges this subjectivity and uncertainty, noting, “*The use of scenario analysis as a supervisory tool should be proportionate to the supervisor’s assessment of the current uncertainty and limitations of scenario analysis (and the confidence in the validity of assumptions).*”
- Later, paragraph 34d alerts readers that “*Caution should be used when determining the impact to capital, given the high degree of tracking error, use of subjective assumptions, numerous variables, varying time horizons, range of possible outcomes associated with each scenario and overall uncertainty of scenarios.*”

However, the paper also endorses scenario analysis for a vast range of purposes, including: emerging risk identification; business strategy development; risk appetite assessment; product pricing; capital management (albeit with the caution of paragraph 34d); the management of investment, transition, underwriting, physical, litigation, and operational risks; identifying risk correlations; assessing financial stability at both the individual insurer and sectoral levels; and supervisory analysis and research.

Due to the inherent subjectivity and uncertainty of this type of analysis, GFIA would reiterate the need for supervisors to be cautious and not to place overreliance on scenario analysis for risk management purposes.

Paragraph 1:

(4th line) refers to "agreed policies", but GFIA recognises that what has been agreed at the policy level under the United Nations Framework Convention on Climate Change (UNFCCC) is limited. Therefore, "agreed goals" would be more appropriate.

Paragraph 5:

- GFIA agrees with what Paragraph 5 describes. While climate-related scenario analysis has great potential to be useful in understanding risks in the insurance sector, it is a relatively new analysis method. Therefore, the methodology and data to be used have not yet been fully established and maintained toward its introduction into insurance supervision, its use in specific decision making by insurance companies (e.g. underwriting and investment), and public disclosure of its results. It is necessary to refine the method by exploring exercises among jurisdictional authorities and insurance companies.

Existing frameworks on capital modelling and solvency assessments already require insurers to include all material risks. This includes climate change if applicable to the company’s strategy and exposures. In addition, the existing capital framework incorporates climate-related risks by reflecting higher capital

charges when larger losses are incurred and when there is an increase in unearned premium reserves. Beyond this, insurers themselves (and their investments) are also subject to third party assessments through rating agencies which take into account many factors including an insurer's risk management framework and the impacts of risks (including climate and credit risks). As part of the rating process, the agency engages in a rigorous review and will determine whether to downgrade a company (and/or its investments) based on the risks and approach presented.

3. Comments on section 2 Scenario analysis versus stress testing

Scenarios are not a future prediction and that this therefore has limitations in how they are to be used and how and to whom they are disclosed. GFIA appreciates, however, the paper's continued reference for the need for proportionality.

Paragraph 10:

- It describes that "supervisors should ensure that scenarios are sufficiently forward-looking". However, to "ensure" seems very difficult, because underwriting exposures at a future point in time, and vulnerabilities based on the development of disaster prevention infrastructure at a future point in time, will continue to be uncertain. The same paragraph also states that "supervisors need to consider the proportionality of exercises". GFIA would like to confirm that the intent is to continue to make improvements in consideration of complexity and feasibility.

For this reason, IAIS should regard scenarios as future possibilities and not predictions of the future. Its focus ought to be on whether future climate risks and their impact on underwriting or investment or supply chains have been considered and if so what, if anything, has an insurer done.

4. Comments on section 2.1 Identifying and applying climate change risk drivers

The focus on risk identification and understanding the drivers of risk is important. However, too much focus on risk and little or none on the opportunities that climate change brings will provide only part of the picture. The fact that litigation is occurring as noted in 15 should also acknowledge that judicial decisions bring clarity where there is uncertainty and that is beneficial for informing risk.

As far as managing catastrophe risk, property/casualty insurers have proven they are capable and up to the task of managing this risk. In the broader context, climate is one risk. For many insurers it may be an important risk. Yet, for some insurers it may not be the greatest priority risk. As discussed elsewhere in comments, there are mechanisms and established frameworks for identifying and handling risks.

The primary role of insurers is to be part of a risk management solution for others. Some insurers may also work to be helpful in reducing and transferring clients' transition risks. And if in this process there are material risks to an insurer from that transition, that insurer can assess and manage risks (as well as discuss them with

regulators) through its existing processes, tools, and filings. Also, it is crucial to avoid presuming that a long-time horizon (as opposed to a typical shorter business planning time frame) is relevant and viable for especially property-casualty insurers. Essentially the exercise threatens to be speculative; the further out in time, the less certain the situation/results.

Insurers should have the flexibility to exercise judgement as to how to best achieve climate-related goals. If the IAIS does elect to continue looking into this, among the considerations for such efforts is consistency with fundamental standards including being flexible and principles-based, risk-based, insurance fundamentals focused, materiality directed, respectful of data challenges, and iterative.

5. Comments on section 3 Scenario analysis objectives and scenario design (ICP 24 and 16)

N/A

6. Comments on section 3.1 Objectives of climate-related scenario analysis exercise

Scenario analysis can be conducted for a variety of purposes, such as understanding the risks of individual insurers, long-term (over 30 years) impacts, macroprudential impacts, and impacts on protection gaps. However, outcomes vary depending on scenario settings. To make the analysis results useful, it is extremely important to prepare in advance. It is also important to set appropriate objectives, select scenarios accordingly, and reduce insurer workload when designing scenarios. The objectives must be proportional and material to the insurer as well as to the jurisdiction for which the exercise is being done.

However, building capacity for the sake of it cannot be an objective of scenario analysis. In Table 4, the dynamic balance sheet approach is viewed as a more sophisticated approach meant to build capacity: “A dynamic balance sheet approach will allow insurers to consider the management actions they take to deal with the impact of climate change, thus building capacity.” But which capacity and for what? Developing capacities to perform fictional management actions under hypothetical assumptions could be very onerous while not adding much insight to the actual steering of the business in the “real world”. As a general rule of thumb, minimising the complexity of the scenario analysis is going to make the results more interpretable and yield more tractable conclusions.

If the participation of internationally active insurance groups (IAIGs) is determined by their group-wide supervisors to be necessary for scenario analysis to understand macroprudential impacts, whether it is necessary to include foreign subsidiaries within the scope should be considered depending on the purpose of the scenario analysis. Ideally, the macro-prudential exercises are conducted on a group consolidated level given the global diversification of the risks.

Regarding insurer-specific scenario analysis objectives, it should be recognised that some climate scenario objectives may be better addressed or already be addressed by alternative risk assessment tools. In some instances, this makes climate scenario analysis costly and duplicative without providing additional insights for the insurer.

Paragraph 22:

- Contains a very important sentence. “It is important to clearly define the objectives of the exercise from the onset.” Supervisors should be clear about the purpose of scenario analysis, and the purpose should be one that is within the supervisor’s responsibility.

Paragraph 24:

- GFIA also agrees with paragraph 24’s recognition of the cost in time and resources of performing scenario analysis, and the need for coordination with other supervisors if there is overlapping jurisdiction.

Paragraph 25:

- IAIGs should not be automatically included in the samples of all climate Stress Tests with financial stability objectives. An IAIG with globally diversified geographies would be less exposed to physical risk than a (re)insurer focused on a specific region, all other things being equal. The expected materiality of the exposure to the climate risks and geographies targeted by the scenarios should be the primary criterion to build the sample.

7. Comments on section 3.2 Scenario design

GFIA agrees that the scenarios to be used should be based on existing scenarios, such as NGFS scenarios. However, scenarios are not yet well established and would be continually refined. In conducting scenario analysis, scenarios should be firmly selected according to the exercise's objectives, the advantages and disadvantages of each scenario, and the intended outcomes. In addition, when assessing the results, the uncertainties and limitations of scenario analysis should be fully taken into account, as described in Paragraph 5.

Table 5 explores several key design choices which can have a material impact on the ability to derive insights from the analysis and the cost to perform it. As already mentioned above, minimising the complexity of the scenario analysis is going to make the results more interpretable and yield more tractable conclusions. In this light:

- The projection approach is much more complex and reliant on assumptions than the crystallisation approach. For a firm or supervisor trying to quantify risk exposures, the latter approach is more insightful as it allows a better understanding of the marginal contribution to the risk of a smaller set of key variables and drivers.

In the same vein, the dynamic balance sheet approach, implying the use of future management actions in the projection, is much more complex to implement and hypothetical as a result than the static balance sheet approach. GFIA would caution supervisors to take tentative management actions considered in an exercise for a prediction of recovery planning. Management actions in “real life” depend on the circumstances.

In terms of supervisory scenario analysis disclosure design, while it is necessary to ensure a certain degree of consistency and comparability of measurement results among insurers within each jurisdiction, each firm should also be free to develop their own scenarios according to their exposures and risk profile.

Regarding the additional scenario design considerations for insurers, these ought to be set within the specific objectives of the climate scenario. These considerations may not be relevant or material for all insurers and flexibility for materiality and business model should be explicitly noted.

Regarding paragraph 34(d)’s statement that “caution should be used when determining the impact to capital”, GFIA strongly agrees and believes that scenario analysis over the time periods discussed should not be used to challenge or determine an insurer’s required capital.

Para 48: On publication of the results, it is not clear what level of aggregation is sought and individual disclosure should be more clearly excluded given the level of uncertainty surrounding the scenario design and the results.

Any public disclosure of the results of scenario analysis should be on an aggregate basis only, so that confidentiality is maintained, and no insurer’s individual results are published. Scenario analysis is not reliable enough for disclosure of any individual company’s results.

Furthermore, while it is also important to strike a balance between global comparability and region-specific factors, considering the roles of IAIS and jurisdictional supervisors, what the IAIS’s application paper (AP) deals with in terms of scenario development and risk assessment should be limited to what IAIGs are effectively required to do.

8. Comments on section 4 Macprudential considerations for supervisors (ICP 24)

N/A

9. Comments on section 4.1 Assessing systemic importance (ICP 24.3)

To understand systemic risks, it is important to develop scenarios that consider issues at both the national and international levels. However, it is assumed, for example, that scenario analysis to measure impacts across multiple sectors at the national level involves considerable complexity. Therefore, when conducting scenario analysis exercises, careful consideration should be given to balancing intended outcomes and workload, as well as feasibility.

The impact of risk concentration on reinsurance is greatly influenced by the underwriting policies and management decisions of insurers (cedents) and reinsurers, as well as by trends in the global reinsurance market and capital markets as represented by cat bonds. Effective scenario analysis requires scenario design that takes these factors into account.

Box 2 goes into extensive detail on how supervisors could use scenario analysis to understand potential protection gaps within the context of systemic risk, even though protection gaps should not be considered first in relation to systemic and financial stability risk. Within the realm of climate scenario analysis, many of the outcomes discussed in Box 2 must be considered 3rd-order (climate risk making insurance unavailable/unaffordable, lowering mortgage values, increasing bank credit risk) or even 4th-order (climate risk lowering insurers ability to issue new business, increasing protection gaps, causing government to step in as insurers of last resort, increasing sovereign credit risk) effects of climate risk, rather than the typical 1st-order (physical risk) or 2nd-order (transition risk) effects. Given the modelling challenges and assumption uncertainties for just these 1st- and 2nd-order climate risk effects, scenario analysis should not be assumed to be useful or reliable for assessing these 3rd- and 4th-order effects. As noted in our response to question #1, supervisors must exercise caution about conclusions they may draw and certainly should not consider public disclosures or interventions either at a macro or micro level based solely on the learnings from an exploratory climate scenario exercise.

To the extent the suggested addition may also imply that climate-related financial risk is a systemic risk to the insurance sector, GFIA would disagree. Indeed, at present there is not sufficient evidence that climate-financial risk currently threatens the solvency of property-casualty insurers. Further, climate-financial risk is not consistent with common notions of systemic risk in which major concerns may develop quickly and have cascading impacts.

10. Comments on section 4.2 Supervisory response (ICP 24.4)

Throughout this AP, but especially in the 2nd sub-paragraph of Paragraph 46 c. “Scenario analysis to inform further scenario exercises”, there is an emphasis only on quantification. While GFIA does not deny the importance of quantitative information, GFIA believes that there is also a risk in overconfidence in quantitative information obtained by a particular model. As Paragraph 63 refers to qualitative information, GFIA suggests that the usefulness and complementarity of qualitative information be added in Paragraph 46.

Where there are common issues identified across a number of insurers within a jurisdiction, it is useful to share best practices in and out of the jurisdiction regarding individual insurers' issues.

Section 4.2.b ought to distinguish between disclosures from insurers to supervisors, disclosures from supervisors to other stakeholders, and disclosures from insurers to other stakeholders. Further, it should be recognised that certain types of disclosure, including those related to climate scenario analysis, may affect the assumptions and methods used and ultimately undermine the effectiveness of scenario analysis as a climate risk management tool.

Section 4.2.c, on scenario analysis informing further scenario analysis, seemingly assumes that scenario analysis is always a beneficial climate risk assessment tool, and that further scenario analysis can fix the limitations in earlier scenario analysis exercises. This should not be assumed and should be balanced with the recognition that scenario analysis could inform the conclusion that no further scenario analysis is needed (e.g. if immaterial for a certain risk) or that a different risk assessment tool is needed (e.g. if modelling or data challenges make the scenario conclusion unusable).

11. Comments on section 4.3 Transparency (ICP 24.5)

While disclosing the results of scenario analysis is useful for the purpose of increasing transparency, in terms of disclosures, there are issues such as the uncertainty inherent in scenario analysis and the limited data available. In addition, consistency among insurers may be compromised if insurers use different data sets or different models, or if scenario analysis involves management decisions. Confidentiality of information, such as company information that could represent trade secrets or board decisions, should be considered when discussing transparency. Therefore, a cautious approach is required regarding disclosures. In order to ensure scenario analysis that contributes to meaningful disclosures, what the IAIS's AP deals within terms of scenario development and risk assessment should be limited to what IAIGs are effectively required to do. Furthermore, while it is necessary to ensure a certain degree of consistency and comparability of measurement results among insurers within each jurisdiction, each firm should also be free to develop their own according to their exposures, risk profiles.

With regard to the best practices referred to in Paragraph 51, it has not yet been determined what practices are considered best; best practices vary depending on the purpose. While GFIA believes that sharing examples is beneficial in itself, it may have the adverse effect of undermining diversity in underwriting behaviour if the actions of insurance companies are standardised into a particular set of best practices.

12. Comments on section 5 Scenario analysis to inform assessment of insurers' risk management and governance (ICP 16)

N/A

13. Comments on section 5.1 ERM framework review (ICP 16.16)

Although climate risk is an important risk to consider in the ORSA and enterprise risk management (ERM), how and to what extent scenario analysis exercises are reflected in the ORSA and ERM should be carefully considered in view of the complexity and uncertainty inherent in these exercises and the workload involved. In addition, since time horizons for climate risk scenario analysis are very different from the ones for usual ORSA and ERM, it will be necessary to consider whether existing frameworks can handle this issue.

Firms should be allowed to conduct the ORSA assessment of climate-related risks in a way that the outcome is most meaningful for them to understand the risks they face. The extent to which firms perform long- or short-term assessments or use quantitative and/or qualitative methods should be a result of a materiality assessment for the business under consideration as well as the nature of the risks. Where firms' assessment goes beyond the usual 3-5 years business planning time horizon for the ORSA, a more qualitative and contextual nature of the long-term analysis should be acknowledged, as well as the inherent uncertainties and potential limitations due to data quality.

14. Comments on section 5.2 Investment policies (ICP 16.6)

GFIA recommends better contextualising paragraph 58.a through the lens of materiality and how climate scenario analysis may be useful for that specific purpose. For instance, the statement "Insurers should also consider engaging with investee companies (through proxy voting or sector collaboration as appropriate) to help positively shape the corporate behaviour of investee companies" is not closely related to climate scenario analysis and should be removed or revised. If revised, GFIA recommends the following: "Insurers may also consider engaging with investee companies to understand their transition plans which may inform insurer climate scenario analysis."

15. Comments on section 5.3 Underwriting policies (ICP 16.7)

Property/casualty insurance is primarily an historical, experience-based model, with risks measured on experience, and profitability based predominantly on appropriate contract pricing. To place additional emphasis on climate change versus all other risk factors may create new problems – actuarial science requires being able to price according to the appropriate weight for the applicable factors for the risk (taking into account many considerations, including but not limited to the line of business, nature of the risk, and the duration of the policy).

16. Comments on section 5.4 Insurer ORSAs (16.12) (16.14)

For some insurers, climate change risks as well as other important risks should be considered in the ORSA. Technical difficulties, such as evaluation with longer time horizons and analysis of more diverse risks (physical risks, transition risks, and litigation risks), are expected in incorporating scenario analysis in the ORSA. It should be highlighted that life and health insurance (re)insurers and property and casualty (re)insurers have very different exposures to climate-related risks. In particular, the nature, scale and complexity of the underlying physical risks related to climate change are different. These should be fully taken into account and can limit the usefulness of climate scenarios, especially as uncertainty increases with the extension of time horizons. As such, climate scenarios may not necessarily be the best tool for assessing climate risk in light of the solvency-oriented objectives of the ORSA. Further, as climate risk affects other risks that insurers manage and monitor, consideration should be given as to whether climate scenario analysis would be duplicative to the assessments of material risks already included in the ORSA. For instance, if the risk of deterioration in new sales or an increase in lapses is already assessed in the ORSA, assessing how an insurer's climate-related reputation could affect sales and lapses would be costly, duplicative, and ultimately unnecessary (not to mention challenging and assumption-laden). Instead of specific recommendations, a more principles-based approach ought to be reflected in this section.

Regarding paragraph 63, GFIA recalls that litigation risks are very hard to assess.

Paragraph 65:

- While the 1st bullet of Paragraph 65 states “should...also consider how hotter climates may impact life and health insurance liabilities”, it is possible that, for some insurers, the related impact or importance are not significant enough to be included in the ORSA. Therefore, GFIA suggests adding “when material” or changing “should” “or “could also consider”.
- In addition, a 1–1000-year scenario is far too extreme and inexact to provide meaningful information.
- Regarding the 3rd bullet in Paragraph 65, as mentioned in Paragraph 15, the likelihood of occurrence and impact of litigation risks vary greatly depending on the legal system of each jurisdiction. In

addition, as the analysis would lack feasibility in jurisdictions where there are no past cases, conditions such as "where appropriate" or "where possible" should be added.

17. Comments on section 5.5 Integrating scenario analysis into risk policies (ICP 16.5, 16.6 & 16.7)

While it is useful to understand the impact of climate change risk on the interconnectedness of asset management risk and underwriting risk, as well as on assets and liabilities in asset liability management (ALM), scenario analysis is expected to involve complexity and technical difficulties. There needs to be a strict focus and is heavily reliant on materiality of such risks to the firm and uncertain assumptions. Therefore, consideration should be given to its feasibility and whether scenario analysis can practically inform investment and ALM policies.

Consideration should also be given to the distinctiveness of climate risk relative to other risks when it comes to risk policies. For instance, the correlation of VA minimum guarantees to general account returns, discussed in Box 5, is not unique to climate risk factors, and it's not clear why climate transition risk would then need to be separately addressed in that context.

Rather than specific recommendations, a more principles-based approach ought to be outlined in this section for how climate scenario analysis could be implemented into risk policies.

Paragraph 70:

- It refers to an example of sectoral investment limits, leaving an impression that divestment is encouraged. For this AP to prevent the inducement of ill-considered divestment and to promote awareness of the importance of engagement to encourage the decarbonisation of the investee, GFIA suggests making reference to transition finance.

Paragraph 71:

- It also refers to investee engagement, restricted lists, and divestment lists as examples of mitigation strategies prompted by scenario analysis. However, it lacks elements of engagement to encourage transition of hard-to-abate sectors.

18. Comments on section 5.6 Risk appetite statement (ICP 16.4)

The complexity, uncertainty, and technical difficulties involved in scenario analysis limit the use of the analysis results to inform business decisions. When using the results of scenario analysis to determine breaches to the risk appetite statement, these limitations should be carefully considered.

Since risks attributable to climate change have a longer-term impact than other risks, even when a risk appetite statement deals with the same risk categories, it is expected that the description will be more complex. It should also be noted that risk appetite is determined by considering various risks in the overall business portfolio, and it is not always feasible to use the results of climate risk scenario analysis for assessment in a risk appetite statement.

19. Comments on section 5.7 Board accountability (ICP 16.11)

It is important for the board of directors to be well informed and to understand the impact of climate change risks on the individual insurer. If insurers use scenario analysis, the methodology for scenario analysis, the content to be reported, and the items to be discussed should be based on the insurer's risk profile, complexity of its operations, as well as the nature, scope, and size of its business. In this section, climate risk ought to be contextualised as a risk that is affecting other risks that are already monitored and managed by the insurer and positioned for board accountability in terms of materiality and complexity in relation to those other risks. For instance, if climate risk is less material for an insurer than other risks or is captured within other, non-climate-specific scenario analysis, it may be an imprudent use of time, oversight, and resources for the board to receive a separate "set of scenarios aimed at assessing climate risk in a forward-looking manner". Rather, a more principles-based approach for board accountability as it relates to scenario-based analysis ought to be outlined in this section.

Paragraph 78:

- The expectations regarding the Board are rather prescriptive. The time spent by the Board on scenario analysis should be commensurate to the meaningfulness and decision-usefulness of the scenario design and the results.
- As for the 2nd sentence of the 3rd bullet of Paragraph 78 ("Management actions should be concrete, applicable within a short timeframe and tailored to the specific risk profile of the insurer"), management actions can vary depending on the time horizon and the assumptions of scenario analysis. What measures can be implemented in a short timeframe can also vary according to market conditions. Therefore, there may well be cases where management actions have to be similar to a high-level direction or something like a decision tree.

20. Does the draft application paper provide sufficient detail to be a useful tool for supervisors and insurers?

Box 2 describes scenario analysis and protection gaps. While GFIA agrees with this intention, there are many variables regarding protection gaps, such as consumer and reinsurer behaviours, making them difficult to handle in scenario analysis. In addition, while scenario analysis conducted by an insurer is a bottom-up analysis of the individual company's businesses, protection gaps are a macro matter. Since the scopes of the two are different, GFIA does not believe that the former can provide a meaningful analysis of the latter. It is possible to use macro scenario analysis conducted by the authorities, but even in that case, protection gaps will ultimately depend on the underwriting behaviour of individual insurance companies and the purchasing behaviour of consumers. Therefore, the results are likely to differ significantly depending on the assumptions and hypotheses made.

21. Are the different dimensions of climate risk for insurers namely (i) transition (ii) physical and (iii) climate-related litigation risks effectively covered in the application paper to both sides of insurer balance sheets?

As for (iii), while it can be understood as a reference to litigation risks in the investee (asset side) and underwriting such as D&O (liability side), there may be differences in exposures and risk quantities for climate-related litigation risks due to differences in jurisdictional legal systems. This makes it difficult to examine whether climate-related litigation risks are effectively covered in the AP for both sides of insurer balance sheets.

22. Are there concepts or approaches which should be added to the application paper?

The suggested addition of climate-related risk implies that it is an example of stand-alone risk. This is not the case. If climate-related risk is going to be included, consider framing it in the context of how climate-related risks may manifest themselves as a material financial risk for purposes of solvency regulation or in other areas. Such an approach of putting into context may be more consistent with the importance of being focused on insurance fundamentals (through a direct link to solvency). Further, it should also be focused on where such risk is material. Additionally, it should also incorporate flexibility (where property-casualty insurer risks can manage shorter tail risks over time) while respecting any data challenges.

23. Does the application paper cover all relevant issues for scenario analysis from a macroprudential perspective (see section 4)?

GFIA suggests that the IAIS not limit climate scenario analysis to quantitative analysis. Qualitative analysis can be useful in (1) providing insights on the interconnectedness of climate risk with other risks (e.g. geopolitical

risks) As well as (2) in filling gaps in areas that are less understood or challenging to models (such as tipping point and feedback loops).

24. Does the application paper cover all relevant issues for scenario analysis related to Enterprise Risk Management and governance (see section 5)?

N/A

25. Is there any additional work the IAIS should be undertaking in the area of climate-related scenario analysis?

N/A

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 42 member associations and 2 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.