

A2ii-IAIS Supervisory Dialogue: Climate-related Risks in the Insurance Sector

8 July 2021

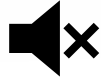


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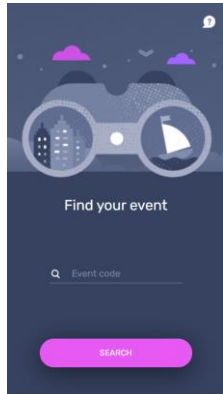
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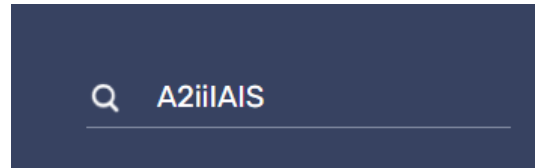
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Speakers



Moderator: Hanne van Voorden

Senior Policy Advisor, International Association of Insurance Supervisors (IAIS)



Peter Kohlhagen

Co-chair of the SIF/IAIS drafting team;
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A2ii/IAIS Climate-Related Risks in the Insurance Sector - Supervisory Dialogue

SIF/IAIS Presentation - 8 July 2021 (10:00 – 11:00 CEST)

**Presentation by
Peter Kohlhagen**

Co-chair of the SIF/IAIS drafting
team

General Manager, Advice &
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Regulation Authority (APRA)



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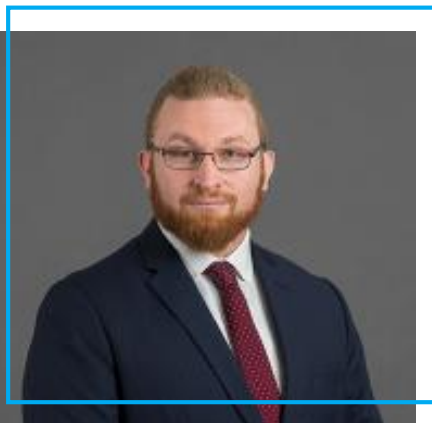


Introduction



IAIS

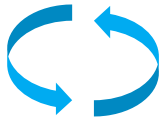
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PETER KOHLHAGEN

Co-chair of the SIF/IAIS drafting team;
Member of the IAIS Policy Development
Committee, and Audit and Risk Committee;
General Manager, Advice & Approvals,
Australian Prudential Regulation Authority
(APRA)

Insurers driving climate resilience



Risk transfer



Reduce vulnerability and support community resilience



Investment



Responsible and sustainable investment; green investment options



Risk intelligence



Power in knowledge and understanding of risks; build capacity more broadly

Introduction to the SIF/IAIS

About the SIF

- The UN-convened Sustainable Insurance Forum (SIF) is a leadership group of insurance supervisors and regulators working together to strengthen their understanding of and responses to sustainability issues facing the insurance sector. The long-term vision of the SIF is a global insurance system where sustainability factors are effectively integrated into the regulation and supervision of insurance companies. The UN Development Programme (UNDP) serves as the Secretariat for the UN-convened SIF. The SIF works closely with the International Association of Insurance Supervisors (IAIS), delivering collaborative projects and research on climate change issues. As of June 2021, the SIF has 31 jurisdictions as members.

About the IAIS

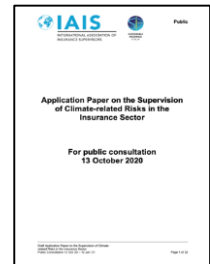
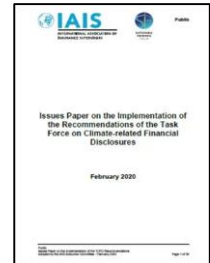
- The IAIS is the global standard-setting body for insurance supervision, with the objectives to promote effective and globally consistent supervision of the insurance industry to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to the maintenance of global financial stability. Its membership includes insurance supervisors from more than 200 jurisdictions.

Introduction to the SIF/IAIS work on climate risk

- ❑ The IAIS and SIF recognised early the importance of tackling climate risk and sustainability and have been developing a robust toolkit over the past few years.

- ❑ In previous years, the IAIS and SIF produced the following Issues Papers:
 - ❑ Issues Paper on Climate Change Risks to the Insurance Sector (2018)
 - ❑ Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (2020)

- ❑ Application Paper on the Supervision of Climate-related Risks in the Insurance Sector:
 - ❑ Public consultation between mid-October 2020 – mid-Jan 2021
 - ❑ Received almost [500 comments](#) from 25 different stakeholders
 - ❑ Final version of the document was [published](#) on 25 May





SIF/IAIS Application Paper on climate-related risks

Objective

- ❑ The Application Paper provides recommendations and examples of good practice for insurance supervisors to manage the challenges arising from climate change, thereby describing how the Insurance Core Principles (ICPs) can be used.

Scope

- ❑ Supervisory review and reporting (ICP 9)
- ❑ Corporate governance, risk management and internal controls (ICP 7 & 8)
- ❑ Enterprise risk management for solvency purposes (ICP 16)
- ❑ Investments (ICP 15)
- ❑ Disclosures (ICP 20)

Supervisory review and reporting

- ❑ When integrating a climate perspective into the insurance supervision, a useful starting point for the supervisor is, to assess:
 - ❑ the external environment and how this may impact the effectiveness of any supervisory initiatives
 - ❑ whether sufficient resources and training opportunities for supervisory staff is available
 - ❑ how climate-related risks may impact the financial system and insurance sector in its jurisdiction

- ❑ Recommends assessing the relevance of climate-related risks to their supervisory objectives.
- ❑ Recommends collecting quantitative and qualitative information on the insurance sector's exposure to, and management of, physical, transition and liability risks of climate change.
- ❑ Provides examples of relevant indicators and sources of information that supervisors may consider when assessing the risk of climate change on insurers.



Corporate governance, risk management & internal controls

- ❑ ICP 7 sets expectations for insurers to establish and implement a corporate governance framework;
- ❑ ICP 8 sets out supervisory expectations on how insurers establish effective systems of risk management and internal controls.
- ❑ When addressing climate-related risks, it is expected that insurers integrate these risks into their overall corporate governance framework.
- ❑ Practical examples:
 - ❑ Appointment of a chief climate risk officer in the Board
 - ❑ Inclusion of climate risk considerations in fit and proper assessments

ERM for solvency purposes

- ❑ ICP 16 sets out supervisory expectations on how insurers coordinate their risk management, strategic planning and capital management processes. The Paper focuses on underwriting policies and the ORSA

- ❑ Recommendations include:
 - ❑ Supervisors should expect insurers to identify the relevant physical, transition and liability risks inherent in their business portfolios, assess the implications for their underwriting strategy, and develop policies and procedures to integrate the management of these risk into their ERM.
 - ❑ Climate-related risks have the potential to impact all insurers; therefore, these risks should be considered for inclusion in the ORSA. Likewise, it is expected that insurers adopt the appropriate risk management actions to mitigate any identified risks.

Investments

- ❑ ICP 15 and ICP 16 include Standards for supervisors to require insurers to:
 - ❑ Construct their investment portfolio so that it is adequately diversified and allows for the payments to policyholders and creditors as they are due
 - ❑ Invest in a manner that is appropriate to the nature and duration of its liabilities
 - ❑ Invest in assets where it can properly assess and manage the risks
 - ❑ Include in their ERM framework an explicit investment policy
 - ❑ Include an ALM policy in their ERM framework

- ❑ When supervisors consider the risk in insurers' investment portfolios (including ALM), it is important to assess whether insurers incorporate the potential impacts of climate risk into investment decisions. Both transition and physical risk may negatively impact the portfolio.

- ❑ The Paper recommends that insurers assess the impact from physical and transition risks on their investment portfolio, as well as on their ALM. A forward-looking view, including the use of scenarios, may help insurers gain a better understanding of the risks.

Public disclosure

- ❑ ICP 20 includes Standards for supervisors to require insurers to disclose information on their:
 - ❑ Corporate Profile, including external environment in which it operates
 - ❑ Corporate Governance Framework
 - ❑ Insurance Risk Exposure
 - ❑ Investment Risk Exposure
 - ❑ Financial Investments and Other Investments

- ❑ Material risks associated with climate change should be disclosed by insurers; this is important for policyholders and market participants to have a full understanding of the financial condition of an insurer.

- ❑ Supervisors may use the FSB TCFD framework when designing best practices or as input for setting their own supervisory objectives. Insurers should incorporate in their disclosure the extent to which their risk profile exposes them to the impacts of climate-related risks, as well as any metrics or targets developed by the insurer.

- ❑ Provides examples of current and developing disclosure practices of supervisors.

What's next for SIF & IAIS

SIF Work Programme

- ❑ Scoping Study on Nature-Related Risks in the Insurance Sector
- ❑ Impacts of climate-related risk on the insurability of assets - access and affordability
 - ❑ FSI Tutorial based on Application Paper
 - ❑ SIF/IAIS/A2ii Case Study based on Application Paper
- ❑ Work with IAA on Climate Risks in Actuarial Processes
 - ❑ SIF/IAA Webinar on Climate-Related Scenarios Applied to Insurers and Other Financial Institutions

IAIS Work Programme

- ❑ In the coming months, the IAIS will publish a Global Insurance Market Report (GIMAR) featuring, as a special topic, an analysis of the investment exposures of insurers to climate change.
- ❑ The Executive Committee met on 22 June to decide the next steps in the IAIS climate work programme.



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Questions





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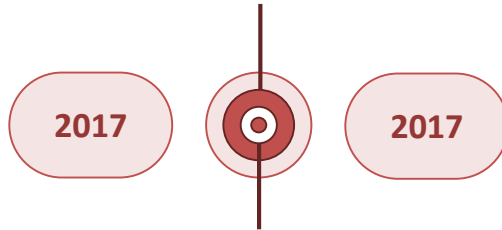
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Principles for Sustainable Insurance (PSI) - UNEP

The Moroccan insurance sector have committed to adopt the Principles for Sustainable Insurance (UNEP PSI).

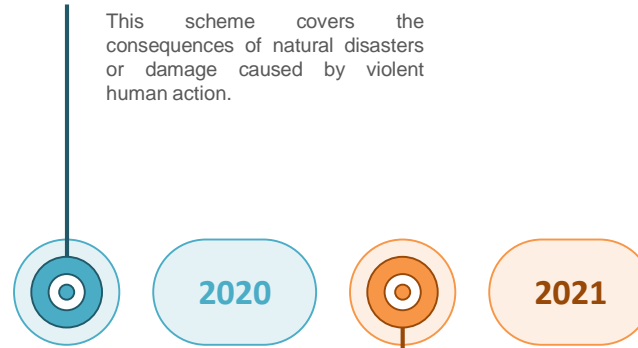


Partnership agreement with the state secretariat for the environment

This agreement aims to strengthen collaboration to promote investment in the field of the environment and sustainable development.

Introduction of the Catastrophic Events Scheme

This scheme covers the consequences of natural disasters or damage caused by violent human action.



Regulatory framework for environmental and climate risk management

The Authority is working on a regulatory framework to encourage insurers to integrate climate-related risks into risk management.

Assessment of achievements

- To identify initiatives taken by insurance and reinsurance companies in terms of sustainable development. **e.g.** Corporate Social Responsibility initiatives (on a voluntary basis) and investment in assets that are part of sustainable development area.

Identifying the barriers

- **e.g.** : Barriers faced in investing in green assets: mainly related to the lack of labels defining the criteria of a green asset (this work is currently being undertaken by the ministerial department in charge of the environment).

Creation of a task force

- Made up of representatives of the Authority and the insurance sector, this task force is discussing the actions to be undertaken in the field of sustainable development.

Implementing the regulatory framework

- The implementation of the regulatory framework will be done in consultation with the insurance sector through working meetings, etc.

Governance

Establishing good governance practices around climate change financial risks:

- Definition of roles and responsibilities : Board of Directors, senior management, control functions ;
- Integration of climate risk issues into business objectives and strategy ;
- Development of a climate change and environmental financial risk management policy, etc.

Risk management and internal control

- Integrate climate change financial risks into the insurers' existing risk management framework, in line with the Board approved risk appetite ;
- Identify, measure, monitor, manage and report on climate risk exposures in a manner consistent with business activities ;
- Development/upgrading of tools to collect reliable quantitative and qualitative data, monitor and measure climate-related risks (Indicators, limit system, stress test scenarios ...) ;
- Integration of climate risk in ORSA ;
- Consideration of climate-related risks by control functions (Risk Management, Internal Audit, Actuarial, Compliance); etc.

Disclosure

- Publish environment-related financial risk management practices ;
- Report to ACAPS on a regular basis on the management of financial risks related to climate change and the Environment.

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Prudential Authority Update

Climate-related work and
initiatives



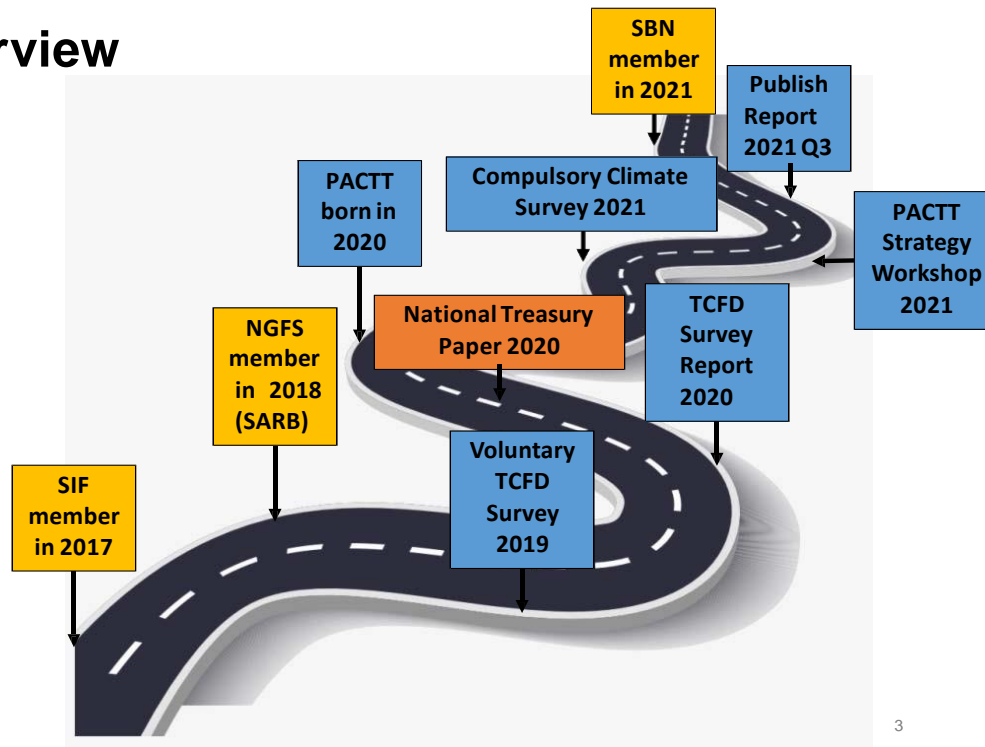
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Overview

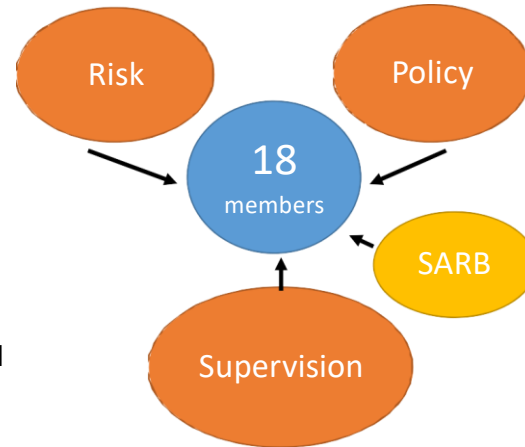


PACTT (Prudential Authority Climate Think Tank)



“Leading the PA’s response to climate change to create a more sustainable financial sector”

...**promote, develop and coordinate** the PA’s **regulatory and supervisory response** to climate risks that will impact entities regulated and supervised by the PA and to drive these interventions in a **coordinated and collaborative way within the PA, the SARB** and with **other relevant stakeholders**.



PACTT (Prudential Authority Climate Think Tank)

Knowledge Building

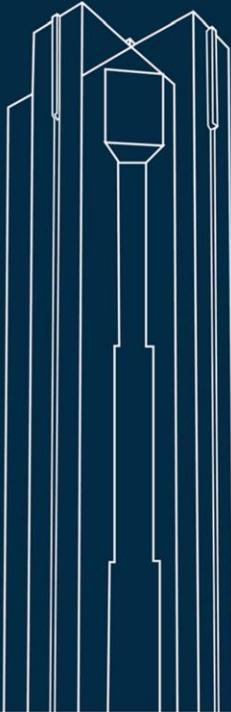
Enhance Regulatory Framework

Enhance Supervisory Framework

Coordination & Collaboration

Communication





Way Forward

- Approval of PACTT roadmap
- Publish climate survey report
- Prioritise and kick off various initiatives





THANK YOU



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Q&A Session

Thank you.

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