

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

8 July 2021

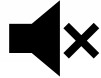


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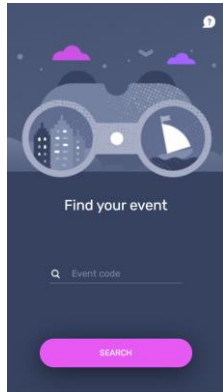
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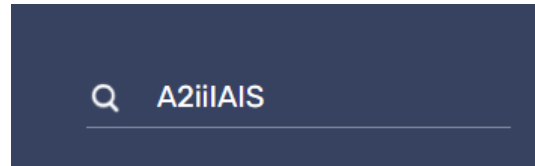
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Speakers



Moderator: Jay Muska

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



Emmanuel Rocher

Co-chair of the SIF/IAIS drafting team
Director, International Affairs, Autorité de contrôle prudentiel et de résolution (ACPR)



Carolina Flores

Coordinadora Grupo de Trabajo de Cambio Climático, CMF, Chile/Coordinator - Climate Change Working Group, CMF Chile



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A2ii/IAIS Climate-Related Risks in the Insurance Sector - Supervisory Dialogue

SIF/IAIS Presentation - 8 July 2021 (16:00 – 17:00 CEST)

**Presentation by
Emmanuel Rocher**

Co-chair of the SIF/IAIS drafting
team

Director, International Affairs,
Autorité de contrôle prudentiel et
de résolution (ACPR)



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Introduction



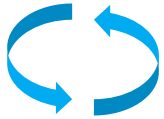
EMMANUEL ROCHER

Co-chair of the SIF/IAIS drafting team;

Member of the IAIS Macroprudential
Committee;

Director, International Affairs, Autorité de
contrôle prudentiel et de résolution (ACPR)

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

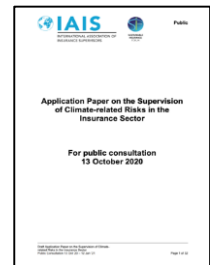
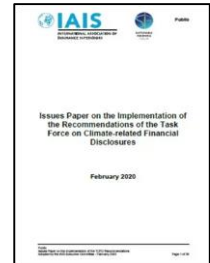
- The UN-convened Sustainable Insurance Forum (SIF) is a leadership group of insurance supervisors and regulators working together to strengthen their understanding of and responses to sustainability issues facing the insurance sector. The long-term vision of the SIF is a global insurance system where 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 initiative
 - ❑ whether sufficient resources and training opportunities for supervisory staff are 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

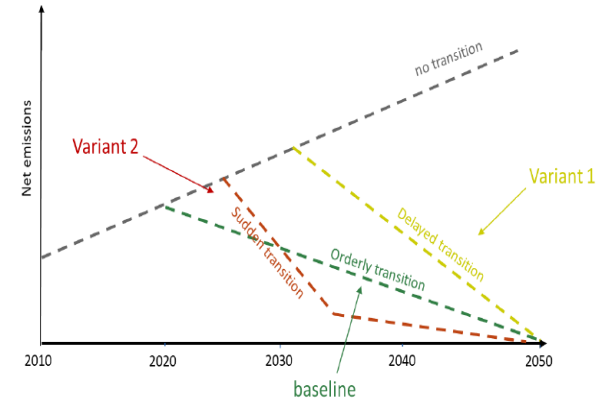
ERM for solvency purposes

- ❑ 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.

2020-2021 ACPR Climate Exercise

- This pilot exercise was based on a 30-year time horizon;
- With a geographic approach (France, EU, US and Rest of the World) and granular sectoral approach (55 sectors);
- Combined static (2020-2025) and dynamic balance-sheet assumptions (2025-2050)
- Assessing NGFS high level scenarios including both transition and physical risks:
 - 3 transition scenarios : orderly transition, delayed transition and sudden transition
 - CAT NAT perils (RCP 8.5): flood, sea surge, drought and tropical storms
 - Health perils (AON scenarios): air pollution and vector-borne pandemics
- Main results:
 - Small ex-ante exposures to most affected sectors resulted in limited use of asset-side management actions
 - Non-life claims increases ranged from 130% to 200% over the 30-year period (3-4% per year) in the RCP 8.5 scenario; insurers' vision mostly consisted of passing on this risk to policyholders through higher premiums
 - For health perils, results show increasing claims in medium-sized cities, slight tolerance to bear risk (rise in loss ratios)



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 impact 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 on the next steps in the IAIS climate work programme.



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Questions





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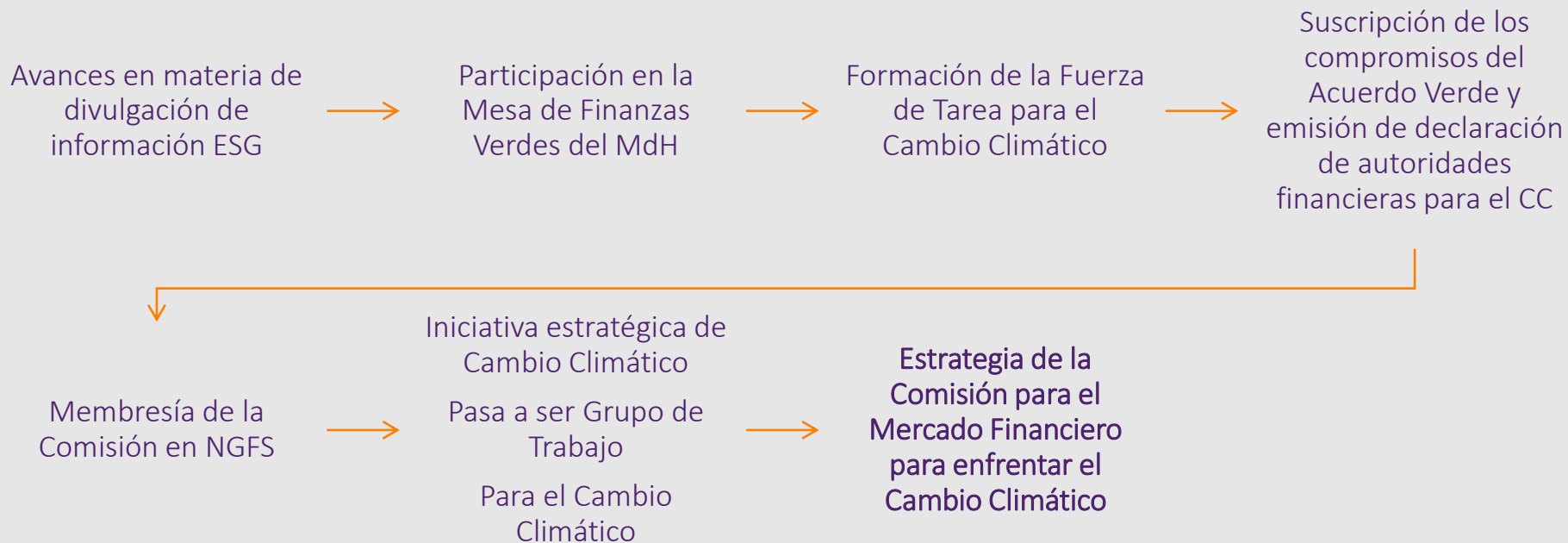
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Estrategia para enfrentar el Cambio Climático de la CMF

Grupo de Trabajo
de Cambio Climático
Carolina Flores

Julio 2021

Hitos de la Comisión en materia de cambio climático



La Comisión para el Mercado Financiero y el cambio climático

“Velar por el correcto funcionamiento, desarrollo y estabilidad del mercado financiero”

**Mandato
Legal**

Estabilidad Financiera

Conducta de Mercado

Desarrollo de Mercado

El Consejo de la Comisión reconoce que los riesgos asociados al CC son un potencial riesgo financiero, y por tanto la Comisión no puede dejar de actuar en respuesta a ellos bajo el mandato legal que la rige.

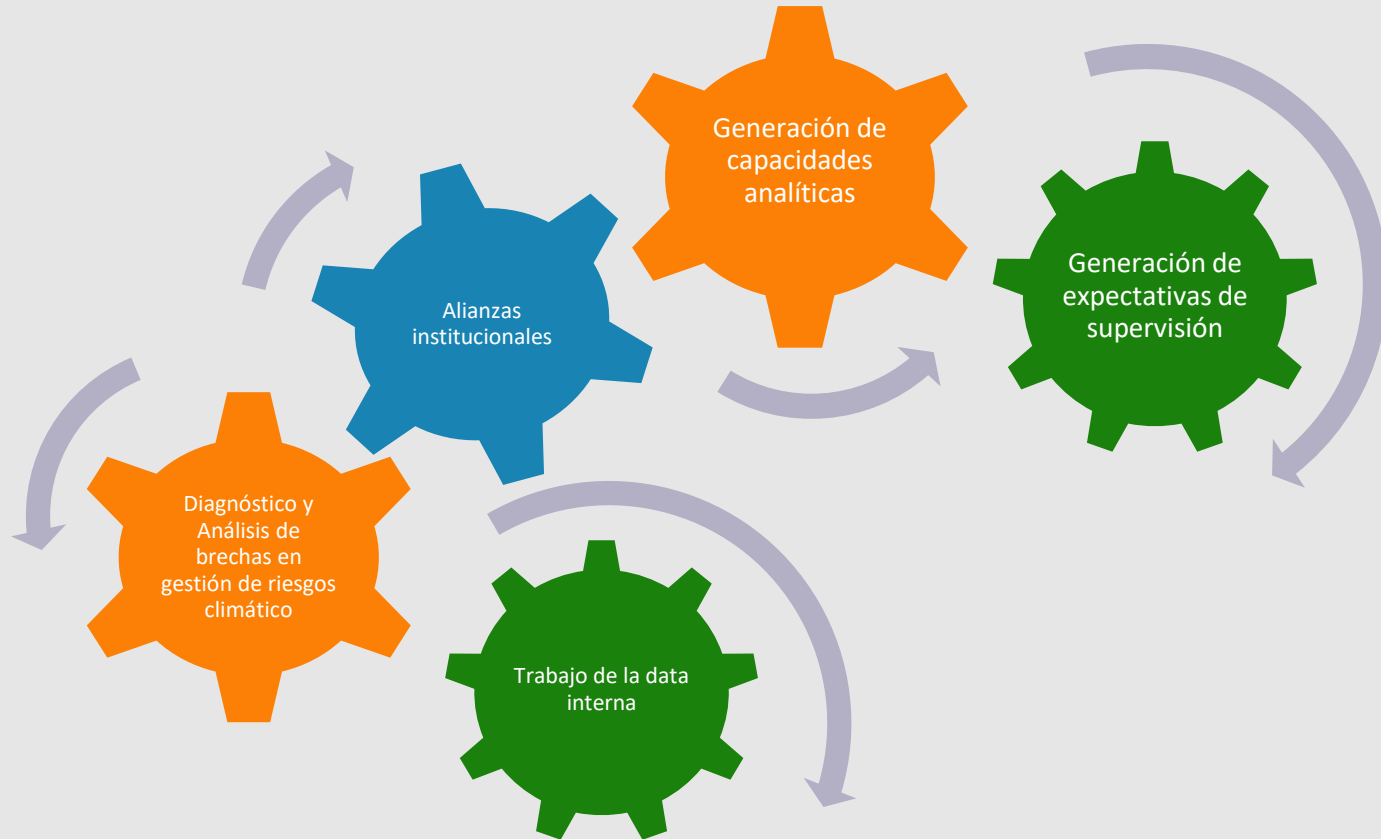
Visión y objetivos de la Comisión en materia de cambio climático



Plan de trabajo de la Comisión para enfrentar el CC

- Iniciativa Estratégica de Cambio Climático
- Colaboración Nacional e Internacional
- Plan para impulsar la divulgación de riesgos asociados al CC
- Plan para promover el desarrollo de un mercado financiero verde
- Plan para integrar los riesgos climáticos a la supervisión prudencial

Hoja de ruta



Consideraciones finales

- La Comisión le ha dado un **rango estratégico** a los efectos del cambio climático en el sistema financiero
- La Comisión formó un **Grupo de Trabajo para el Cambio Climático** a través del cual se ejecutará la Estrategia
- El GTCC se encuentra trabajando para crear **capacidad** y generar el **conocimiento** necesarios para lograr los objetivos aquí planteados
- La Comisión está trabajando para asegurarse de que las **instituciones financieras administren los riesgos** de forma adecuada
- La Comisión persigue la **estabilidad del mercado financiero** con el fin de que éste cumpla con las funciones económicas que le son propias al servicio de la sociedad





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Q&A Session

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