

Climate Change Risks to the Insurance Sector

A2ii – IAIS Consultation Call Report



The Consultation Calls are organised as a partnership between the Access to Insurance Initiative (A2ii) and the International Association of Insurance Supervisors (IAIS) to provide supervisors with a platform to exchange experiences and lessons learnt in expanding access to insurance.

Introduction

Globally, there is an increasing understanding and awareness of the potential impacts of climate change on the financial system, including the insurance sector. A rapidly evolving global agenda has placed climate risks central to policy action on sustainable finance at both the country and global level. In order to understand and address the potential impacts of climate change on safety, soundness, stability of firms and markets, climate risks therefore continues to be an emerging supervisory priority.

This call was based on the joint IAIS and Sustainable Insurance Forum (SIF) issues paper on climate change risks to the insurance sector.

In order to avoid duplicating the material of the issues paper on which this call was based, we would encourage readers to read the report directly:

- “Climate Change Risks to the Insurance Sector” by the SIF and IAIS [here](#).

The secretariat of the Sustainable Insurance Forum (SIF) represented by Jeremy Mcdaniels gave an overview of the SIF and IAIS issues paper. Special thanks for this call goes to Jesus Cisneros of the EIOPA who delivered the content of the expert presentation in the French-language call and to Gustavo Caldas of SUSEP who delivered the expert input in the Spanish call and also gave a presentation about SUSEP’s experience on the topic.



A brief overview of the Issues Paper

The issues paper outlines two main categories of risks affecting insurance firms; physical risks arising from climate trends and shocks, and transitional risks associated with the transition to a low-carbon economy. A third emerging category of risk is the liability risk.

For insurance firms, these risks pose a range of material risks for firms across underwriting activities and investment activities.

In terms of relevance for supervisors, a majority of insurance supervisors are looking at the implications of climate change on their core objectives and their core mandates. The issues paper outlines these core objectives in three main categories:

- Solvency and stability of insurance firms
- Market conduct, consumer protection, access and affordability, compliance
- Macroprudential stability

In the framework of the Insurance Core Principles (ICPs) and its applicability to addressing climate change risks, the issues paper lists six ICPs¹ that intend to serve as a guidance for supervisors to address climate risks in the insurance sector. The ICPs play a significant role in providing a basis for supervisors to understand and respond to emerging risks such those posed by climate change.

In terms of supervisory approaches to climate risks, the issues paper draws from observed practices in addressing climate risks. It categorises approaches into three main sets of action; assessing climate change as an emerging risk, Responding to Climate Change risks through Supervisory Practice and collaboration and Cooperation. The SIF is also developing a question bank for insurance supervisors – a tool that is intended to promote a shared understanding of supervisory approaches in addressing climate risks.

The issues paper outlines a number of case studies², however, in this consultation call, Jeremy Mcdaniels, on behalf of the Bank of England Prudential Regulation Authority, highlighted the UK case study.

1 These ICPs include ICP 7 (Corporate Governance), ICP 8 (Risk Management and Internal Controls), ICP 15 (Investment), ICP 16 (Enterprise Risk Management for Solvency Purposes), ICP 19 (Conduct of Business) and ICP 20 (Public Disclosure)

2 Case studies in the issues paper include Australian Prudential Regulation Authority (APRA), Superintendência de Seguros Privados (SUSEP), Autorité de Contrôle Prudential et de Résolution (ACPR), Istituto per la Vigilanza Sulle Assicurazioni (IVASS), De Nederlandsche Bank (DNB), Finansinspektionen (FI), Bank of England Prudential Regulation Authority (PRA), National Association of Insurance Commissioners (NAIC), California: California Department of Insurance (CDI), Washington State: Office of the Insurance Commissioner (OIC)

Brief Summary of the UK: Bank of England Prudential Regulation Authority Case Study

In 2013, the UK Climate change act created provisions for a government department, DEPRRA, to invite different authorities to prepare climate change adaptation reports to draw on what different institutions were doing to address climate change issues. In this context the PRA was invited to produce such report.

The PRA has conducted follow-up activities to assess climate change risks to the insurance sector:

- From a physical risk perspective, the PRA conducted in 2017, a stress testing on the General Insurance industry to test resilience to climate change. The results revealed that the pace of climate change impacts has been so rapid that the scenario regime of the 2017 stress test on the general insurance industry was consistent with the occurrence of natural disasters in that year. Hence, although a stress test aims to test what would happen only in the face of climate change, from the revelations it is evident that the speed of climate change is extremely rapid therefore; scenarios that should be considered for climate change risks should in essence be much more extreme than previously expected.
- From a transition risk perspective, the PRA has invited the work of a third party to assess carbon exposure of UK's insurers and their alignment with the 2-degree warming scenario. Activities involved include having firms report information on their investment portfolio, the development of a 2-degree warming future and its implications on the energy and transport sectors and an alignment mapping of the assets of firms within these scenarios to determine whether firms are over or underexposed to high carbon assets.

Most recently, the PRA has now started to integrate these physical and transition risks into its core-supervision.

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For any questions about SIF and IAIS issues paper on climate change risks to the insurance sector, or for more information on the work of the SIF please contact jeremy.mcdaniels@un.org
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Brazil Case Study

The Brazilian case study was presented by Gustavo Caldas from Superintendência de Seguros Privados (SUSEP).

In order to achieve a broad-ranging understanding of the maturity level of Brazil's insurance market on the issue of sustainability, the Superintendence of Private Insurance (SUSEP) conducted a survey on the perceptions of this industry through a questionnaire sent out for voluntary completion to insurance companies in November 2016.

Responses were received from 75% of the companies on this market. The questions addressed the issue of how they viewed environmental matters not associated with governance, and how the companies had internalized this.

In general, the response was very positive, as companies indicated that this concern exists. However, from the practical standpoint, it showed only actions related to issues such as energy saving and minor aspects of environmental sustainability that are not closely connected to climate risks, as reported. It seems as though the vast majority of these companies are not yet prepared to deal with the challenges inherent to environmental issues.

As might well be expected, natural disasters are rated as the most important climate-related issues. Furthermore, a considerable upsurge was noted in consumer expectations.

A close correlation was noted, together with a higher percentage of participation among the signatories of the Principles of Sustainable Insurance (PSI) who were concerned about this issue, reflecting it in their missions, visions and values, with its influence also apparent in their strategic planning. Nevertheless, this proportion was not mirrored in questions exploring risk management of these institutions, as the replies were similar to those from non-signatories.

In contrast to insurance companies, the reinsurance segment has accepted a wider commitment with better perceptions of this issue, in terms of the inclusion of environmental issues in effective risk management.

This leads to the conclusion that there is indeed for an awareness of climate risks, although very superficial and not transposed effectively into actions or any effective quest for an action plan focused specifically on this topic. This clearly indicates that more work is required in releasing reports and supporting the insurance industry in order to ensure a better knowledge of action related to sustainability.

After this study, the Brazilian Insurance Companies Confederation (CNSeg) signed the Declaration of Rio, through which its members agreed to seek out ways of complying with the recommendations established by the Sustainable Insurance Forum (SIF), par-

ticularly through analyzing, including and publicly showcasing climate risks and their impacts. Another practical outcome of this study is the intention of SUSEP to use the SIF FAQ database to organize the next step in assessing conditions on the Brazilian market.

In this context, it is important to make it very clear that the SIF FAQ database is not a source for responding to the oversight authorities. Instead, these are questions directed to the market that the supervisory authority may use for drawing up a questionnaire to be sent out to its market, in order to gather related information.

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For any questions or more information on the SUSEP case study
please contact gustavo.caldas@susep.gov.br

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Questions from the audience

› **What is the role of the SIF with respect to IAIS and how do supervisors become members?**

IAIS is a member of SIF. In its new strategic plan, the IAIS plans to work more on climate change issues and thus the work with SIF is likely to expand.

To become a member of the SIF, interested parties can contact the SIF Secretariat (Jeremy McDaniels, jeremy.mcdaniels@un.org). The SIF is an informal platform and there are no obligations and no fees requirements to join.

› **Does the issues paper exist in other languages, including French?**

Currently the issues paper is only available in English, but at last meeting of SIF, there was a call for volunteers to translate the documents. A volunteer offered to translate it into Portuguese, but currently no volunteer for French yet.

› **What is the question bank that the SIF is preparing? Will it be circulated to IAIS members?**

The SIF question bank will be finalized shortly. The question bank is a useful document that will be promoted. Currently, the SIF is working with its members to implement the Question Bank with the expectation that implementation will not be the same across jurisdictions since members have different strategies and focus areas. Experience from different jurisdictions will be gathered to form a basis of what could be considered best practice.

The basis of the SIF Question bank is to provide a resource that could help supervisors to tackle complex climate risk issues. Institutions seen as leaders in the climate risk agenda have only been active in this space for a few years or at their initial stages, hence there are no institutions that completely understand what needs to be done and how.

Within the SIF therefore, questions have arisen on how the SIF can summarize these discussions and develop a tool that supervisory analysts could use in their day-to-day activities. The question bank is comprised of different types of questions that supervisors can use to explore and engage with firms on the topic of climate change to help build a coherent and comparable suite of responses across different supervisory activities. It is organized in nine different sections relating to insurance businesses, underwriting, investment, governance, disclosure and other activities. In addition, the SIF also evaluated template responses that could be received on these questions.

› **Can institutions such as the Africa Risk Capacity (ARC), Caribbean Catastrophe Risk Insurance Facility (CCRIF) become members of the SIF?**

Normally, supervisory authorities are members the SIF. However, the SIF is also keen on encouraging supervisors to build their connectivity with such institutions and would also welcome these institutions to participate in SIF meetings as observers. In this specific case, please contact the SIF Secretariat (jeremy.mcdaniels@un.org).

› **What is needed in order to join the Sustainable Insurance Forum?**

For membership matters, please contact Jeremy McDaniels (Jeremy.Mcdaniels@un.org) at the SIF Secretariat, stating which authority you represent.

› **How can additional material on best practices be accessed?**

The Issues Paper is available on the IAIS website ([link](#)) under Supervisory Material, or may be requested from Jeremy McDaniels. There is a brief report on the IAIS website on what has been done so far, and the starting point. However, there is no recommendation on best practices, but only a preliminary study. Indeed, this is one of the goals for the coming year: through the FAQ database and an analysis of the replies obtained through the document on this issue, it should be possible to begin constructing a solid dataset that will underpin a recommendation on the best practices, together with suggestions for solutions.

› **A reform process is under way in Costa Rica for solvency aspects, especially on the issue of hydro-meteorological risks. Nevertheless, accessing the data has proved a complex task, with a lack of information from reinsurance companies servicing the market. Along these lines, what steps are rated as prudent for addressing this matter? In addition, the issue of ensuring that solvency aspects related to hydro-meteorological matters are also evenly balanced and will not eliminate coverage, but rather underpin the solvency of the entities?**

Solvency issues are complex matters. However, there is still much uncertainty about how to address this matter; there is no confidence on how to express the risks in figures. So what SUSEP is doing in Brazil on a preliminary basis is encouraging insurance companies to draw up their own risk assessment methods. However, it is not attempting to tell them how to do so, at the moment.

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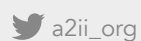


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