

IAIS public consultation on proposed changes to reflect climate risk in selected ICP guidance and supporting material

ICP 15 (Investments) guidance material

1. General comments on the proposed changes to reflect climate risk in ICP 15 (Investments) guidance material.

GFIA welcomes the opportunity to engage with the IAIS on the topic of the supervision of climate risks in the insurance sector. The global industry is inherently aware of the financial risks posed by climate change as it goes to the heart of insurers' activities.

In its response to the IAIS consultation on the supervision of climate risks, GFIA would like to raise concerns regarding the proposed changes to the ICP guidance and the supervisory material, especially on the excessive focus on climate risk in corporate governance, remuneration, risk management against the spectrum of investment risks that insurers and supervisors must consider.

While many of the proposed changes made are merely amendments to the climate-related comments in the current ICP guidance, GFIA is concerned that the emphasis on climate-related changes may place disproportionate focus on climate risks, potentially overshadowing other critical investment, operational, and underwriting risks that can prove to be more dominant solvency concerns. This focus could potentially overshadow more material/dominant risks drivers that insurers face.

Looking at climate change in isolation ignores other important factors that can have a larger impact over such a long-time horizon, such as economic development including increased asset values in exposed areas, socio-economic factors such as urbanisation or population growth.

Members of GFIA are aware that climate risk is a financial risk that needs to be properly assessed and managed. However, the attention paid to climate risk should be proportionate to its potential severity. While the IAIS states that the potential effects of climate change should be considered through traditional risk categories, it puts a lot of emphasis on climate-related risks, as if it is a specific separate risk category.

With regard to external credit ratings, GFIA agrees that continued consideration should be given as to whether to adjust them for internal management purposes. On the other hand, the method of reflecting climate-related risks in credit risk ratings comes with difficulty, and in practice it is very challenging for insurers, which have limited information to analyse, "*the extent to which various external risks (such as climate change) have been*

factored into the ratings". Therefore, GFIA believes that rating agencies should disclose the results of their analysis.

In addition, it is appropriate to use such results to adjust investment decisions rather than to adjust the ratings.

2. Comments on proposed changes to ICP guidance 15.2.3

15.2.3 refers to insurers adjusting external credit risk ratings. Insurers can't change the ratings of a third party. They can consider the impact of the included and excluded risk factors in their own use of the credit risk ratings and analysis thereof.

GFIA also notes that credit rating providers should already be factoring transition risk into their ratings to the extent it is relevant. Insurers can't "adjust" ratings, therefore the new guidance should say, "*adjustments to its use of the ratings where necessary.*"

3. Comments on new ICP guidance 15.2.6

The proposed language for new guidance 15.2.6 raises some concerns. First, it introduces the "double materiality" concept. Double materiality falls outside the typical remit of insurance supervisors which generally focuses on financial risks to the firm. Also, some jurisdictions have not embraced the concept. It should also be noted that reputational risks vary by jurisdiction. The guidance also suggests engaging with investees and asset divestment, which typically fall outside the remit of insurance supervisors. Finally, as noted in the first sentence, because climate change risk is reflected in traditional risk categories, this proposed new guidance does not make a positive contribution to the ICPs and should not be added. Therefore, GFIA recommends deleting any implicit reference to double materiality throughout the document and for the IAIS to focus on financially material climate-related risks instead.

GFIA also raises concerns about the description focusing specifically and only on climate-related risks. The description is considered too detailed. Therefore, the additional description should be deleted here, but included in the supporting material.

15.2.6 notes "*Investment decisions, especially at a large scale, **could** in turn also negatively impact climate change, potentially leading to financial impacts on insurers' investments through the aforementioned traditional risk categories. Taking these risks into account, insurers **could decide to take appropriate steps**, such as engage with investees, divest of certain assets, or change their investment strategy. This could also help insurers address potential reputational risks following from negative views of policyholders and market participants on their investment activities.*"

GFIA would like to emphasise the excessive prescriptiveness of such wording. It is also open to interpretation what can be considered as investment at a large scale.

4. Comments on proposed changes to ICP guidance 15.3.1

The proposed change to 15.3.1 advises insurers to consider how climate-related risks may, “*change conditions for asset-liability management.*” It should be highlighted that investee business models have capacity of adaptation and flexibility to changing market dynamics. Therefore, this new language does not seem useful.

15.3.1 notes, “*For example, the insurer should consider how climate-related risks may change conditions for asset-liability management, especially, but not only, when the liabilities have a long duration.*”

The focus is mostly on climate-related risks, as if it is a specific separate risk category – while earlier in the ICP guidance it is specified that, “*Insurers should consider the potential effects of climate change in their investments through traditional risk categories*”.

In addition, if liabilities already consider climate risks, including as pertains to timing/amount/currency of cash flows, the matching of assets to those climate-assessed liabilities already inherently includes climate considerations.

GFIA recommends substituting the beginning of the following sentence [insurers], “should consider how climate-related risks may change” by, “**should consider if and how** climate-related risks may change”.

Moreover, GFIA highlights that unlike interest rates and foreign exchange risks, which affect balance sheet lending and borrowing in opposite directions, climate-related risks may affect lending and borrowing in the same direction. Since the manifestation of climate-related risks contributes to lower prices on the asset side and leads to higher insurance payments on the liability side, the impact on assets and liabilities may not offset each other, resulting in losses on both sides.

5. Comments on proposed changes to ICP guidance 15.4.1

15.4.1 notes, “*For certain investments where there are information gaps (for example, a lack of historical or readily available market data related to climate-related risks), the use of quantitative or qualitative scenario analysis could be useful in managing such risks.*”

As mentioned earlier for the comment on ICP 15.3.1, GFIA raises concerns on the exclusive focus on climate-related risks as the stated example.

The proposed change suggests the use of climate scenario analysis for risk management purposes. GFIA would like to emphasise that climate scenario analysis are mostly prospective tools that can be used to better understand the exposure of insurers to climate risks over different time horizons with a view to inform their strategy and test the longer-term viability of their business model. Supervisors must exercise caution about

conclusions they may draw or ask firms to draw,) with regard to climate scenario analysis¹. Therefore, explicit mention in the ICP Guidance seems premature. This change should be removed. Also, GFIA believes the IAIS did not have time to fully consider and reflect industry feedback from its recent consultation to the draft application paper on climate scenario analysis for it to be incorporated into ICP guidance.

The guidance does not only emphasise quantification, but the importance of quantitative or qualitative scenario analysis. GFIA agrees with this point. On the other hand, while GFIA does not deny the importance of quantitative information, GFIA believes that there may be a risk of overconfidence in quantitative information obtained by such forward-looking assessment tools. There are challenges with the accuracy of data on climate change. Therefore, such information should be treated as one of a range of different information elements.

GFIA suggests adding the term, "...*material*..." to information gaps. In the event such gaps exist, only material information gaps warrant any – not necessarily scenario analyses – further action.

6. Comments on proposed changes to ICP guidance 15.4.2

N/A

ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material

7. General comments on the proposed changes to reflect climate risk in ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material.

N/A

8. Comments on proposed changes to ICP guidance 16.1.1

N/A

9. Comments on proposed changes to ICP guidance 16.1.3

N/A

10. Comments on proposed changes to ICP guidance 16.1.6

The proposed change to 16.1.9 adds climate-related risk to "other risks" within the scope of risk identification (i.e. the insurer's ERM risk taxonomy). This, however, is in conflict with the notion that climate-related risk influences existing risk categories. In addition, the proposed change conflates specific forms of operational risk with emerging risks, which are described in 16.1.11. Therefore, the proposed change to 16.1.11 should be sufficient to capture climate-related risk, and the proposed change to 16.1.9 should be removed.

¹ See GFIA's response to IAIS *consultation on scenario analysis in the insurance sector*:

As worded at the end of the sentence, “*and other emerging risks*” might suggest that legal risk, political risk, reputational risk, strategic risk, and group risk are emerging risks. GFIA would like to highlight that as there may be new aspects emerging from them, these risks are not new. Therefore, the sentence should be reworded.

GFIA suggests adding the term, “*reasonably foreseeable*” to 16.1.11 as this term exists in 16.1 and so should be clearly aligned with the actions contemplated in 16.1.11 to add clarity.

11. Comments on proposed changes to ICP guidance 16.2.2

The proposed change to 16.2.10 suggests scenario analysis as a tool to assess, “*to what extent the insurer is at risk and whether the insurer is able to absorb possible shocks.*” For climate risk, supervisors must exercise caution on drawing conclusions on climate scenario analysis for capital management, as they are mostly prospective tools that are future possibilities and not predictions of the future. This has been underlined in the **IAIS draft application paper on climate scenario analysis**²: “*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 (paragraph 34d).*” This proposed change should be eliminated.

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 developed 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.

Moreover, 16.2.10 refers to using scenario analysis to, “**measure**, *in a forward looking manner to what extent the insurer is at risk and whether the insurer is able to absorb possible shocks.*”

GFIA believes that the usage of the word “measure” by the IAIS in this section goes too far as it implies a quantification that is not necessarily given. GFIA would suggest replacing it with “assess”. Scenario analyses do not measure, but are rather used for evaluation. GFIA suggests the sentence be reworded to, “**evaluate**, *in a forward looking manner to what extent the insurer is **potentially** at risk and whether the insurer is able to absorb possible shocks **without changes in its operations.***”

GFIA would like the IAIS to refine what cases are assumed in the following wording, “*relatively simple calculations may be appropriate*”.

² IAIS, *Draft application on climate scenario analysis in the insurance sector*, p.16, §34d

12. Comments on proposed changes to ICP guidance 16.2.16

GFIA agrees that in the context of climate-related risks, qualitative assessments should also be used when risks cannot be easily quantified.

13. Comments on proposed changes to ICP guidance 16.2.19

In 16.2.19, it notes, “*or the impact of climate-related risk changes over varying time horizons (short, medium and long-term).*”

It seems to put the emphasis on climate-related risks by adding a very specific example only in relation to climate risks, as other risks are not mentioned. In addition, it is very difficult to determine the frequency of assessing the impact of changes in climate-related risks. GFIA recognises that this is a matter for each company to determine.

Mandatory scenario analysis for these time horizons may suggest an unrealistic level of precision, especially considering that the guidance documents only recommend stress testing and scenario analysis as examples for studying the impact of climate-related risk changes over variable time horizons (short, medium and long term).

With regard to the use of climate scenario analysis to inform decision making for non-life insurers, one difficulty is that the assessment period needs to align with the effective duration of the underlying insurance liabilities to inform concrete business decisions today. But the impact of climate change is for some parts slow, moving while weather-related exposures can be flexibly managed and steered through limited duration of re/insurance contracts, typically one-year contracts for property insurance, as well as active portfolio steering. For the same reasons, such forward-looking analysis is not adequate to inform prudential requirements, e.g., capital requirements, which are also set for a short time horizon.

Non-life insurers want and need to provide financial protection within their capacities and strategies for people and businesses against natural hazards that are foreseeably becoming more severe and frequent. This means that property/casualty insurers in particular consider climate change and assess its consequences for their business model. Although much research has been done on the effects of climate change on natural hazards for many years, data on specific changes in hazards are subject to great uncertainty. This means that, scenario analyses largely correspond to a what-if analysis. Consequently, the assessment of impacts should not be viewed as a probable or expected outcome. In addition, changes in other general conditions may occur apart from the changes in the actual natural hazards. Loss prevention through reformed building laws, climate-smart construction, and climate-adapted infrastructure plays a key role in minimising the damage of climate change. It should also not be ignored that property/casualty insurers have many short-term adjustment options, such as with premiums, the scope of coverage and their underwriting strategy.

14. Comments on proposed changes to ICP guidance 16.6.6

The proposed new language for 16.6.6 has three issues:

- First, it singles out climate-related risk above other risks for special treatment. It is not appropriate to specifically add a note focusing only on climate-related risks.
- Second, it implicitly introduces the “double materiality” concept (“the impact of their investments on the climate”). Double materiality falls outside of the typical remit of insurance supervisors which usually focus on financial risks to the firm. Also, some jurisdictions have not embraced the concept.
- Third, it indicates that the insurer’s investment strategy should accommodate customers’, “*known preferences in relation to sustainability considerations*” which would suggest that customers would influence the insurer’s investments. The language should be revised simply to recommend consideration of longer term political or social trends as being among the factors “*that may shape the insurer’s investment strategy.*”

Consequently, regarding the wording, while “may” is used for concentration risk, ALM, and liquidity, it is problematic that the added text is overly normative. Therefore, the additional information should be deleted and a revised sentence with less normative wording should be included in the supporting material.

Considering, the last sentence of paragraph 16.6.6, the supervisor should only require the insurer to consider climate-related risks in its investment strategy, if climate-related risks are of particular importance to the insurer in question.

Reference to, “*their customers’ known preferences in relation to sustainability considerations*” is included in the last sentence as a factor to be considered by insurers. Customers’ preferences vary among markets and there will be jurisdictions where such preferences in relation to sustainability considerations do not exist. Therefore, GFIA suggests not including this part in the supporting material. However, if the sentence is to remain in the supporting material or the guidance material, GFIA suggests revising the last part by, for example, beginning it with “If climate-related risks are material, insurers...” or replacing “should” with “may”.

It would be desirable to make the description more limited, for example, by adding “where relevant, **such as cases when insurers are entrusted with investment management by their customers**” because it is difficult to imagine who the “customers” of “customers’ known preferences in relation to sustainability considerations” are.

15. Comments on proposed changes to ICP guidance 16.12.1

16.12.9 Insurers include climate exposure considerations subject to their materiality over the relevant time period in the ORSA. Where an insurer’s 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 being fit-for-purpose, as well as the inherent uncertainties and potential limitations due to data quality.

In addition, there are various external factors to be considered in ORSA, and GFIA believes that they should be considered according to the risk characteristics and materiality to the insurer. However, even as an example, it is too prescriptive to describe, only for climate-related risks, a consideration of the insurer's exposure for different time horizons.

16. Comments on proposed changes to ICP guidance 16.16.9

The proposed new language for 16.16.9 indicates that supervisory stress testing or scenario analysis can be used to assess risks that include, "abrupt policy changes that can increase transition risk." It seems unclear why these exercises could be used to assess the effects of policy changes relevant to climate transition, but not policy changes other than climate transition. Consequently, this phrasing could be changed to refer simply to, "*political policy changes*."

ICP 7 (Corporate Governance) supporting material

17. General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 7 (Corporate Governance)

N/A

18. Comments on proposed changes to section 3.3 (The role of the Board)

Sections 3.3 (the role of the board) and 3.5 (remuneration) effectively promote a high degree of attentiveness to climate-related risk. As the capacity of the board and management is not limitless, a narrow focus on a single risk dynamic could increase the insurer's overall vulnerability. Consideration should be given to removing these sections or to include language that ensures that climate-related risk is appropriately balanced with broader sustainability topics and other risks and business considerations.

While paragraph 32 deals with the capability of directors and the board of directors, GFIA would suggest the IAIS clarifies its intention with regard to the term "demonstrate". It is very difficult to "demonstrate" and if a scientific basis is sought after, it would be extremely difficult to implement. From the perspective of insurer burden, GFIA would like to confirm that they are not required to take new measures.

With regard to the role of the board, IAIS should consider a reference to overall risk exposures, not just climate. Boards should be responsible for overseeing material, identified risks to the insurer. It should be the decision of the board to determine what constitutes "adequate" competence and experience to oversee any given risk, including climate. Therefore, the reference to "...*climate-related expertise*..." is too prescriptive particularly given 'expertise' is a subjective term.

19. Comments on proposed changes to section 3.5 (Duties related to remuneration)

Non-financial criteria are more difficult to measure than financial criteria, and there is concern that variable remuneration may be administered in an arbitrary manner.

The revisions to section 3.5 about remuneration, blur risk management (the risks assumed by the insurer in the normal course of business) and sustainability considerations are premised on the insurer's broader social responsibility. Paragraphs 35, 37, the first half of paragraph 38, and paragraph 39 focus on risk management, while paragraph 36 and the second half of paragraph 38 focus on sustainability considerations. If section 3.5 is retained, consideration should be given to separating these topics. Remuneration should not be aligned with climate specifically. It should be aligned with the management of all material risks. This section places climate above all other risks. GFIA underlines that the proposed changes are an inappropriate focus on one risk. 3.5, as previously drafted, was acceptable.

GFIA would caution the IAIS against promoting explicit inclusion of climate-related references in remuneration, particularly given that climate is one of many risks being managed/overseen and is difficult to measure, in particular as is referenced in paragraph 37.

In paragraph 35, GFIA believes that the IAIS should keep the words "*as appropriate*" in at the end of the paragraph as it will continue to allow flexibility and keep a balance between climate risks and other risks.

With regard to paragraph 36, while GFIA agrees that remuneration should be aligned with prudent risk taking including climate-related risks, the new paragraph 36 comes across as an expectation for linking variable remuneration exclusively to the management of climate-related risks. The IAIS should be cautious from creating the impression that climate risks deserve preferential attention compared to other risk drivers. GFIA is particularly concerned that the IAIS considers variable remuneration as a helpful tool for reaching climate-related or broader sustainability goals. It is not within the mandate of insurance supervisors to promote the transformation to a climate-neutral environment. In addition, the supposed emphasis on climate-related goals may expose senior management and the board to conflicts of interest.

Paragraph 37 ties remuneration to the, "*measurable effect on the mitigation of climate-related risks.*" That may be a goal, but the role of insurers is to manage risks to ensure their respective solvency and ability to pay covered claims.

With regard to paragraph 39, since climate-related risks are considered only one element of remuneration arrangements, GFIA suggests replacing "should" with "*can*".

ICP 8 (Risk Management and Internal Controls) supporting material

20. General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 8 (Risk Management and Internal Controls)

The final sentence in the proposed revisions to paragraph 41 introduces the concept of double materiality into a discussion on risk management and internal controls. Double materiality falls outside of the remit of insurance supervisors which usually focus on financial risks to the firm. This sentence should be removed.

21. Comments on proposed changes to section 4.1 (Integrating climate-related risks into the scope of the risk management system)

Since an integrated approach has not been established for climate-related risks, GFIA believes that examining the impact of investment strategies and business models on assets and liabilities is fraught with difficulties.

The revisions to paragraph 44 recommend that insurers develop forward-looking assessments under different time horizons. This discussion should also recognise the limitations of climate scenario assessments. For example, to inform concrete business and risk management decisions today, due to inherent uncertainties of such forward-looking assessments and potential misalignment of assessment horizon with risk duration of underlying liability.

While this paragraph notes that, "...insurers should develop tools to collect reliable quantitative and qualitative data", it is difficult for each insurer to develop its own tools. In addition, it is desirable to ensure a certain degree of consistency and comparability of analytical results among insurers. To this extent, GFIA recommends that the IAIS promotes the exchange of best practices for jurisdictions/companies that are interested.

GFIA would like to emphasise the following points regarding the wording of paragraph 44:

- The original wording of the third sentence in red starting with, "*Therefore, insurers should consider...*" should either be deleted completely or reworded to, "*Therefore insurers should consider adopting a more integrated approach, where feasible, given the complexity and uncertainty of climate-related risks.*" The original is too prescriptive as scenario analysis is not necessarily the correct tool to inform risk modelling and risk management.
- After, "*risk assessment and management system*", the language, "*as appropriate to the insurer's business model*" should be inserted.

With regard to paragraph 49, "forward-looking assessments", specific methods should be presented.

ICP 14 (Valuation) supporting material

22. General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 14 (Valuation)

The recommendation set out in ICP 14 that supervisors review insurers' valuation methodologies to ensure the impacts of climate risk on their investments are being considered, raises concerns. It could be perceived that the potential effects of climate change are not sufficiently taken into account. GFIA would like to highlight that insurers are making a large effort to appropriately assess the effects of climate change and manage respective risks subject to the materiality to the insurer.

Market valuations reflect the market's current opinion about the future effects of climate change, as so impairment assessments of assets valued at amortized cost. The supervisor's responsibility here is to make sure that insurers are appropriately taking potential climate change effects into account.

This recommendation does not take sufficiently into account how investment teams take climate risk into consideration as a transversal risk across what may be considered more "traditional" categories of investment risk. Requiring investment teams to isolate climate risk in their processes can tilt decisions towards one risk driver.

Similarly, on the liability side, GFIA would suggest this recommendation keeps a better balance between climate risks and other risks.

23. Comments on section on Valuation of assets

While GFIA does not dispute that climate risk *"has the potential"* to affect the valuation of assets, GFIA believes that quantitative impact analysis is needed to consider climate risk in investment behaviour and business models. Until that is in place, it is difficult to offer a sufficient response.

While paragraph 3 notes that, *"As the ICPs address risks more broadly, ICP 14 does not directly discuss how climate risk specifically could impact the drivers of valuation and how insurers should consider the impact on those drivers in valuation"*, GFIA recalls that the tools to assess climate risk are still emerging and data availability are still an issue. The IAIS should be mindful of that.

24. Comments on section on Impacts on types of valuations

The "reliable" valuation described in this section has not been established at this time. GFIA would like to confirm that the IAIS agrees to this.

Paragraph 11: GFIA suggests adding *"financially material"* in front of *"impacts"*, and adding, *"when reliable and estimable"* at the end of the sentence.

Paragraph 12: GFIA supports adding "*financially material*" in front of "*reduction*."

Paragraph 14: GFIA supports adding "*financially material*" ahead of "*impacts*" in the first sentence.

25. Comments on section on Time horizons of the investment

For insurers with long-term liabilities, having assets with long durations is preferable from an ALM perspective. While climate-related risks, which are difficult to assess, are hard to consider over a long-term time horizon due to inherent uncertainties. Also, other risk drivers might be more dominant over a long-time horizon.

Paragraph 16: GFIA believes that the IAIS should delete the final sentence of the paragraph.

26. Comments on section on Valuation of liabilities

Paragraph 19 seems to combine consideration of short-term liabilities with considerations used to set future premiums. Future effects of climate change do not affect current liabilities for events that have already occurred (as noted in paragraph 23).

GFIA strongly agrees with paragraph 20's suggestion that non-life insurers should use inputs, such as catastrophe modelling, in setting rates and work to increase risk mitigation and resilience. Insurers have been involved in these efforts for many years.

Paragraph 22: GFIA recommends adding "*material and*" ahead of "*reliably estimable*" in the first sentence. As for "*Regarding the latter, economic scenario generators should be calibrated to current market prices*", there would be approaches without using economic scenario generators. Therefore, GFIA suggests revising the sentence as follows:

"Regarding the latter, predictions based on economic scenarios should be calibrated to current market prices."

Paragraph 26: GFIA suggests deleting "*Supervisors should consider if data used in these processes reflect current climate risk exposure*."

ICP 15 (Investments) supporting material

27. General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 15 (Investments)

GFIA would like to raise concerns on the degree of the prescriptiveness of this part. Some part of this guidance seems out of the supervisor's remit and of the IAIS's mission to, "*promote effective and globally consistent supervision of the insurance industry*".

28. Comments on section on Climate change factor for investment requirements

The material related to ICP 15.1 should be revised to ensure that investment risk considerations are two-sided, not one-sided. In other words, an excessive focus on climate risks in insurers' investments could possibly lead to risk concentrations or lost investment opportunities, thus reducing policyholder protection.

The phrase, "*and take necessary action*" should be deleted from the second sentence in paragraph 3. It is not appropriate for the supervisor to direct an insurer to take action based on the supervisor's view of climate risk. Given that compared to financial risks, the likelihood of climate-related risks materialising is considered more uncertain., climate-related risks are one part of the investment decision process, in the overall investment strategy.

With regard to paragraph 3 (the last sentence), GFIA would suggest that the IAIS provides examples of specific methods for, "*monitoring...the financial risks arising from climate change*". While GFIA has no objection to this sentence in principle, GFIA suggests noting that for assets managed by third-party managers, monitoring and responding to climate-related risks may be difficult or limited due to restrictions of available information, requests from insurers (investors) to change their portfolio composition, etc.

GFIA would like the IAIS to confirm that "*responding to the transition to a climate-resilient economy*" means, "*responding to risks related to transition to a climate-resilient economy*".

29. Comments on section on Investment of assets for the portfolio as a whole

The material related to ICP 15.2 seems to fall outside the remit of insurance supervisors. Insurance supervisors are not responsible for requiring insurers to consider the impact of their investments on the climate, to engage with investees, or to require divestment of certain assets deemed non-sustainable. This section should be removed or rewritten.

Moreover, the material related to 15.2 also builds too little capacity for risk-appropriate insurer decisions to support the transition economy.

While it is undeniable that stakeholder preferences may affect an insurer's financial risks, it is difficult to consider it as equal to credit and market risks. In addition, insurers should consider the extent to which climate-related risks have been factored into the rating and over what time horizon, as far as this information is publicly available.

Rather, GFIA believes that carrying out plausibility checks on such investments in light of their own investment appetite is the right response.

In paragraph 5, a description about transition finance should be added, as transition finance can influence the activities of investees.

30. Comments on section on Asset liability management

The material related to ICP 15.3, particularly paragraph 8, indicates that transition risk can impact the matching of assets and liabilities due to the “significant” impairment of individual firms (i.e., investees). This assertion fails to recognise that (i) the viability of investees businesses is constantly impacted by many dynamics, not just climate change, and (ii) investees may potentially benefit from these dynamics, because their business models may be adaptable. Paragraph 8 should reflect a more thorough assessment of market dynamics and potential business model changes and their adaptability. A similar assertion is within the material related to section 16.5. Thus, this material should be removed.

For insurers with long-term liabilities, having assets with long durations is preferable from an ALM perspective. However, climate-related risks, which are difficult to assess, are hard to consider over a long-term time horizon due to inherent uncertainties. Also, other risk drivers might be more dominant over a long-time horizon.

31. Comments on section on Risk assessment and management of investments

It is important to note that enforcing climate-related risk management in a situation where sufficient information about climate-related risks in investments is still difficult to obtain, may give rise to arbitrary decisions which in turn, may create an undesirable situation for supervisors and insurers.

ICP 16 (Enterprise Risk Management for Solvency Purposes) supporting material

32. General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 16 (Enterprise Risk Management for Solvency Purposes)

With regard to ICP 16 proposals, GFIA appreciates the statement that risk policies include a description of how climate risk is monitored and managed. However, for life insurers and based on our current knowledge, GFIA finds the suggestion that risk policies contemplate the impact of climate change on risk tolerance levels and limits not relevant.

Generally, for ERM purposes, the focus should centre on materials risks to companies and reflected in the section.

In paragraph 1, GFIA supports adding "material" between "insurer's" and "risks."

In paragraph 2, in the first sentence, GFIA recommends adding "potentially" before "material", and substituting "sector" for "system."

33. Comments on section on Risk identification and measurement

Paragraph 4 describes, "Climate-related risks present unique challenges and require a strategic approach to financial risk management. Climate-related risks are [...] Uncertain but foreseeable". However, it is difficult to

foresee climate-related risks as stated in "Dependent on short-term actions", although it is to some extent possible to foresee major climate-related trends such as an increase in GHG concentrations leading to global warming. Therefore, GFIA suggests replacing, "but foreseeable" with "but inevitable". In addition, GFIA supports substituting "no longer fit for purpose" for "may have to be reconsidered".

In paragraph 5, GFIA suggests adding "and materiality" between "potential impact" and "of climate related risks" in the top sentence. Additionally, in the "Pricing and underwriting risk" section, the IAIS should add "financially material" ahead of "impacts of climate change on their underwriting activities..." in the first sentence. GFIA also suggests that the IAIS delete the third sentence in that same paragraph, "However, pricing models may not properly reflect climate-related physical risks...". There is no need to price for potential future risks in current contracts for short-term liabilities.

34. Comments on section on Risk concentrations

The material related to ICP 16.2, Risk Concentrations, observes that, "insurers with significant investment exposures to assets that are vulnerable to climate-related risks are potentially more exposed to systemic risk." It is unclear why this is characterised as "systemic risk", rather than a potential firm specific risk driver. Moreover, it would seem appropriate for insurance supervisors to be equally cautious about concentrations in "green" investments.

35. Comments on section on corporate strategy and time horizons

GFIA agrees with the statements in paragraph 9 that a non-life insurer's time horizon is relatively short (1-5 years).

36. Comments on section on Risk appetite and limits

Since risks attributable to climate change have a longer-term duration 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 or appropriate to use the results of climate risk scenario analysis for assessment in a risk appetite statement. GFIA would like to confirm that the bullet points following "such as" are intended to illustrate elements that could be considered, rather than to clarify elements that should be captured.

While it is important to assess as part of asset management, the potential impact of climate risk on existing risk categories, the relevant methodology is still under development. While it is useful to understand impact through scenario analysis, in reality there are aspects that can be offset by opportunities due to the progress of investee companies' initiatives, such as technological innovation, decarbonisation management plans, etc., making it impractical to make decisions solely based on the results of scenario analysis. In addition, given the differences in initiatives among individual companies within a sector, it is unlikely that investment restrictions

or investment decisions in a particular sector can be made based on the results of scenario analysis. Rather, such decisions are made taking into account different factors in an integrated manner. GFIA would like to confirm that the proposed supporting material indicates consideration of these points when examining risk policy.

GFIA would suggest rephrasing along the lines that due to limitations of climate scenario analysis, it is not a suitable tool to inform concrete risk management decisions. This is partly due to inherent uncertainties and perhaps more importantly, because the assessment period needs to align with the effective duration of the underlying insurance liabilities to inform concrete business decisions today. But the impact of climate change is for some parts slow moving, while weather-related exposures can be flexibly managed and steered through limited duration of re/insurance contracts (typically one-year contracts for property insurance) as well as active portfolio steering. For the same reasons, such forward-looking analysis is not adequate to inform prudential requirements, e.g., capital requirements, which are also set for a shorter time horizon. The IAIS should be mindful not to promote overreliance on risk assessment tools for purposes they are not suited to.

Therefore, GFIA suggests the following wording for the paragraph 11, “The policy should include the insurer’s risk tolerance levels and limits for financial risks, and consider, where relevant, factors beyond market conditions, regulatory changes and technological advancements such as:[.]”.

37. Comments on section on Asset liability management

The material related to ICP 16.5, Asset-Liability Management, describes how climate change can negatively affect the matching of assets and liabilities. This assertion fails to recognise that (i) the viability of investees businesses is constantly impacted by many dynamics, not just climate change, and (ii) investees may potentially benefit from these dynamics, because their business models may be adaptable. A similar assertion is within the material related to section 15.3. This material should be removed.

For insurers with long-term liabilities, having assets with long durations is preferable from an ALM perspective. However, climate-related risks, which are difficult to assess, are hard to consider in a long-term time horizon particularly due to inherent uncertainties. Also, other risk drivers might be more dominant over a long-time horizon.

38. Comments on section on Investment policy

Given that, compared to financial risks, the likelihood of climate-related risks materialising is considered more uncertain, climate related risks is one part of the investment decision process, in the overall investment strategy.

39. Comments on section on ORSAs

Climate change related risks should be considered in the Own Risk Solvency Assessment (ORSA), where material to the insurer. Technical difficulties, such as evaluation with longer time horizons may be a challenge

when incorporating climate scenario analysis in the ORSA. These should be taken into account. Where the 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 being fit-for-purpose, as well as the inherent uncertainties and potential limitations due to data quality. From this perspective, GFIA agrees with the last sentence of paragraph 17 ("Insurers may consider...").

In paragraph 19, the first bullet point notes, "1-1000 year events" which should be deleted. That time horizon is beyond the ability of any current model to provide useful information.

With regard to the third bullet point in paragraph 19, GFIA would like clarity that it is intended to be only "illustrative" at this point, as the likelihood and impact of liability risks vary greatly depending on the legal system of each jurisdiction, and the feasibility of the analysis is not sufficient in jurisdictions where past cases do not exist. The phrase, "increasing pressure on boards to manage their companies in a responsible manner" improperly assumes that boards are now not managing their companies in a responsible manner. That phrase should be replaced by "potential litigation".

The continuity analysis is typically consistent with a 3–5 year business plan, while climate-related financial risks would be expected to manifest over decades. Accordingly, unless regulatory or other changes are imminent, it is difficult to understand how climate-related effects could be reliably and meaningfully incorporated in an ORSA continuity analysis. This material should be removed.

Contacts

Christian Pierotti, Chair, Climate Risks WG (c.pierotti@franceassureurs.fr)

GFIA secretariat (secretariat@gfiainsurance.org)

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 69 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.