

## **GFIA response to IAIS consultation on draft Issues Paper on the Implementation of the TCFD Recommendations**

### **Responses to questions from the paper**

#### **Q3: Comment on Section 1.1 Context**

The Global Federation of Insurance Associations (GFIA) welcomes the opportunity to work with IAIS on its focus on climate change and its endorsement of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) voluntary disclosure initiative. The global insurance industry is inherently aware of, and well-positioned to address, the financial risks posed by climate change and extreme weather since the measurement of climate-related physical risks goes to the heart of many insurers' business models.

#### **Q4: Comment on Paragraph 1**

Insurers have long identified and responded effectively to changing risks, including climate risk. They call on governments to focus on mitigation and adaptation and to support insurers' efforts in those areas. Therefore, the context should include a statement that: "Insurers do have a role to play especially in pricing and underwriting for climate risk. Yet climate change is a cross-sectorial and global problem. Successfully addressing climate risks will thus require action by many other sectors and by all levels of government to prevent, mitigate and adapt to climate change."

#### **Q6: Comment on Paragraph 3**

It is vital that insurers are able to communicate climate impact to their policyholders in a flexible manner to ensure customers are engaged. An overly prescriptive approach in this regard could lead to a lack of interest and disengagement with disclosures. Similarly, disclosures to regulators, investors and other relevant market experts need to be flexible to reflect the different interests of the audience and are likely to be much more detailed and technical compared to relevant engagement with customers.

#### **Q8: Comment on Paragraph 4**

Given that industry and supervisory collaboration will be fundamental in order to better understand and address climate risk, it would be highly beneficial if the Sustainable Insurance Forum (SIF) were to open itself up to at least the same stakeholder engagement and industry feedback as the IAIS. GFIA understands, for example, that consumer groups can currently attend SIF meetings but that industry groups cannot. At the same time it should be an IAIS goal to increase SIF jurisdictional membership or ideally for the SIF workstream to be eventually subsumed into a standard IAIS working group (i.e. participation from all jurisdictions). In addition, it would be helpful for SIF to engage in a structured discussion with GFIA in association with IAIS and GFIA's jointly-timed assemblies. This would allow for topics of mutual interest to be raised and discussed.

#### **Q9: Comment on Paragraph 5**

It would be relevant to mention the work of the Network for Greening the Financial System already at this stage of the paper.

**Q11: Comment on Paragraph 6**

On the last sentence of the paragraph, GFIA would like to highlight that the TCFD recommendations already contain specific guidance for asset owners and insurance companies. As pointed out by the IAIS, it is not clear whether quality data to accomplish the proposed disclosures is available. The IAIS should better recognise the implications of limited data quality and availability throughout the Issues Paper. It is unclear whether the timeline for expectations of insurers' disclosure requirements will align with expectations of corporates, as well as asset managers.

**Q14: Comment on Paragraph 8**

If further material is developed, it should not overlap nor add further measures to existing supervisory tools on climate. GFIA wishes to highlight the wide variety of existing practices and tools across jurisdictions. Some regulators and supervisors have significant tools to review and analyse insurer understanding and preparation for climate risk. Different levels of climate disclosure obligation can be noticed around globe.

**Q20: Comment on Paragraph 11**

GFIA suggests adding in this paragraph a sentence highlighting the actions already undertaken by insurers. GFIA suggests adding as follows "Over the past years, the insurance industry across the globe has had a proactive approach in addressing climate change. Insurers are already starting to take into account climate criteria in their investment strategies".

**Q21: Comment on Section 2.1 Climate risks and responses in the insurance sector**

GFIA recognises the IAIS plans to develop an Application Paper for supervisors on climate risks (covering ERM, investments, governance and disclosures) in 2020. This will facilitate supervisory coordination across jurisdictions and constructive engagement with the stakeholders, which will avoid duplicative or contradictory standards between jurisdictions and will also facilitate insurers assessment of material climate risks.

**Q31: Comment on Paragraph 18**

GFIA notes the Question Bank process to be an example of how supervisors and regulators can collaboratively work together, using existing regulatory tools and structures, to understand insurer exposures to climate risk.

**Q32: Comment on Paragraph 19**

It would be helpful to have an opportunity to comment on the NGFS Guide before it is finalised to help assure the effectiveness of the Guide

**Q33: Comment on Paragraph 20**

GFIA would be grateful to be able to participate in a detailed stakeholder discussion session with IAIS before an Application Paper is drafted and approved for consultation

**Q35: Comment on Paragraph 22**

In relation to the Financial Stability Institute's (FSI) and SIF Insights paper on stress testing, GFIA supports the use of scenario analysis as a useful way to measure climate risks. GFIA would however note that initially scenario analysis is likely to be more qualitative than quantitative.

**Q41: Comment on Paragraph 27**

GFIA acknowledges that TCFD voluntary disclosure is appropriate under ICP 20 when the climate risk is material. This may thus vary according to insurers' activities. In addition, the IAIS should better recognise the implications of limited data quality and availability on emissions throughout the Issues Paper. It is vital for the IAIS to engage with stakeholders to discuss the feasibility of the disclosures on their investments and underwriting in terms of expected quality and data. In fact, it is unclear not only whether the timeline for expectations of insurers' disclosure requirements will align with expectations of corporates, as well as asset managers, but also how comparability of information will be affected.

**Q54: Comment on Paragraph 36**

The differences in disclosure also reflect the fact that not all risks are material to all insurers. A company is in the best position to understand its most material risks.

**Q55: Comment on Paragraph 37**

In GFIA's view, supplementary guidance for insurance companies may need to be refined not only in order to better meet the specifics of the insurance business, but also in order to take into account the business-sensitivity of some Key Performance Indicators contained in the guidance.

**Q63: Comment on Paragraph 44**

On the point raised by the paper of strengthening climate risk assessment capacities, GFIA is of the view that insurers are in the best position to identify, analyse and assess their risk. They should remain free to do so through their own models or through working with third-party services providers. The TCFD process and format is an appropriate discussion point between supervisors and insurers, when appropriate, to provide examples of other analytical risk frameworks that insurers could consider in their risk analysis and evaluation.

**Q66: Comment on Section 4 The role of supervisors**

Insurers are fully aware of their responsibility for the sustainable development of the society and the economy. Hence, supervisors should use guiding principles to allow this responsibility to be fulfilled in a company-specific manner. To this end, it is important that a) freedom in the choice on the methods depending on individual business models is ensured, b) materiality is considered as a starting point.

- a) An entity should be free to decide whether to implement a voluntary standard or not. Such a decision is entity-specific and depends on whether the TCFD recommendations can be useful and meaningfully applied to the specific business activity.
- b) Small entities might be less exposed to some specific climate risks. GFIA therefore considers it particularly important to continue to ensure that only risks that are material and relevant to the insurer and its operations need to be taken into account in risk management. Both, regarding the supervisory authority's and the entities' perspective, the effort required to consider climate risks should correspond to their actual risk content/profile.

**Q67: Comment on Paragraph 46**

This language should be qualified in order for IAIS to reflect the diversity of supervisory views. Just as some supervisors and governments have expressed that climate risk disclosure may need to become mandatory, others continue to develop a position on the matter or disagree with mandatory disclosure due to onerous reporting

burdens it may place on companies. As such, GFIA suggests qualifying this sentence to read as follows: “Over the course of 2019, certain supervisors and governments have expressed that climate risk disclosure may need to become mandatory in order for climate-related risks to be effectively priced within the financial system, and broader real economy. Other supervisors and governments either continue to develop a position on the matter or oppose mandatory disclosure due to the onerous reporting burdens it would place on regulated entities. This balanced language is well reflected in the first sentence of paragraph 56.

**Q75: Comment on Paragraph 50**

As of now, GFIA suggests guidance regarding voluntary TCFD disclosure could be helpful to support consistent and comparable reporting based on -and proportional to – specific features of each entity.

**Q77: Comment on Paragraph 51**

GFIA sees merit in further research on the timeliness of reporting for both voluntary and mandatory frameworks. Releasing at the same time climate risk-related information and broader financial information might be challenging for insurers and place unnecessary pressures on insurers for the purposes of climate risk-related disclosure.

**Q82: Comment on Paragraph 54**

GFIA would like to point out that a one size fits all scenarios may not be relevant to all companies. In addition, GFIA is of the view that it is too soon to state that scenarios analysis results could influence product pricing and availability. It is essential that the scenarios and the associated impacts are based on robust scientific evidence and analyse the associated impact, yet the results should be analysed very carefully before drawing any conclusion on the impact of the tests.

**Q86: Comment on Paragraph 57**

GFIA supports non-mandatory approach to disclosures and application of the TCFD work. GFIA takes the view that a progressive and phased approach is very important whether supervisors want to foster greater voluntary disclosure or to make climate risk reporting mandatory. It will indeed be crucial to assess carefully specific insurance guidance to support consistent and comparable disclosure.

**Q89: Comment on Section 5 Conclusion**

GFIA encourages the IAIS to consider that life and property and casualty insurers are very different, have different business models and their risk profiles are fundamentally different. Accordingly, GFIA is of the view that standardised reporting could limit the adequacy of the necessary analyses and the robustness of material disclosures of these distinct types of insurers.

**Q92: Comment on Paragraph 61**

The fact that there is a wide dispersion on climate-related disclosure between insurers does not mean that a purely voluntary pathway towards adoption of TCFD Recommendations is problematic. GFIA takes the view that, “a purely voluntary pathway towards adoption of TCFD Recommendations” should yield the necessary disclosures of the required quality and scope. Methodologies designed to respond to climate change are yet to be established. GFIA is of the view that it is important to start to share practices and to make considerations in a step-by-step manner.

**Q94: Comment on Paragraph 63**

Generally, as risks increase, insurers will seek to achieve risk appropriate premium levels for current time period risks. Such risk adequate premiums will send important signals about risk and encourage risk reduction. Longer term scenarios can further demonstrate the benefits of different types of risk reduction measures. They can thus be a profitable tool to improve mitigation strategies and push for prevention actions. However long-term scenarios should not be used at this stage to draw conclusions on capital requirements.

**Q95: Comment on Paragraph 64**

The insurance industry would like to be associated to SIF – IAIS work on an Application Paper in the Insurance Sector in order to bring in its expertise where relevant. GFIA would urge consideration of these additional matters for future work:

1. How can TCFD be applied proportionately?
2. What is the role of risk-based pricing and underwriting in addressing climate change issues and why should supervisors not restrict risk-based pricing and underwriting?
3. What pre-conditions should be met for a green investment to meet insurance supervisory solvency standards?
4. What can insurance supervisors do in their interactions with other agencies of government, for example sharing aggregate insurance data, to achieve actions that will reduce climate risk?

**Q96: Comment on Annex 1 – The role of supervisors: Case studies**

This is a very useful summary. However, with regard to the US, it should be noted that the comments of California and Washington do not necessarily reflect the views of all US regulators

**Q97: Comment on Annex 2 – TCFD thematic areas with links to ICPs**

On disclosure requirements, GFIA sees merit in further exploring the incorporation of financial risks from climate change into ICP 7 (corporate governance), including Board oversight and broader management's role in assessing and managing climate-related risks and opportunities. GFIA also sees merit in exploring the incorporation of financial risks from climate change into ICPs 8 (Risk Management and Internal Controls), 9 (Supervisory Review) and 16 (ERM and Solvency). However, as noted above, GFIA is not endorsing supervisory mandates. The use of the TCFD by an insurer should be one acceptable way, but not necessarily the only way, to address any climate risk considerations under the ICPs. Due recognition should also be provided to confidentiality protections in connection with supervisory material relating to disclosures.

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**About GFIA**

Through its 40 member associations and 1 observer association, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 64 countries. These companies account for around 89% of total insurance premiums worldwide. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.