GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

January 2021

Response to IAIS consultation on draft application paper on the supervision of climate-related risks in the insurance sector

General comments on the draft application paper

The Global Federation of Insurance Associations (GFIA) welcomes the opportunity to work with the IAIS on the topic of the supervision of climate-related risks in the insurance sector. The global insurance industry is inherently aware of, and well positioned to participate in addressing, 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.

GFIA believes that this paper will facilitate supervisory coordination across jurisdictions and constructive engagement with stakeholders, which will avoid duplicative or contradictory standards between jurisdictions and will also facilitate proportional regulation and insurers' assessment of material climate risks.

GFIA acknowledges the intention to ensure that insurers exercise prudence regarding climate risks. However, we believe the application paper frequently takes a rigid approach in describing the role of boards, board committees, and different aspects of management in implementing and managing ESG activities. GFIA takes the view that the best approach would be to ensure that both supervisors and insurers are aware of climate risks and of the need to evaluate such risks in an appropriate management and control structure while outlining supervisory expectations where such risks are material to the applicable insurer entity.

Comments on Section 1.1 Context and objective

- **Comment on paragraph 1**

As rightly pointed out in the paper, climate change is a global threat and thus needs a global response. GFIA believes it is essential to stress that collective efforts involving all economic stakeholders and cooperation between policymakers and market players are needed. Thus, GFIA suggests adding the following sentence: "To this extent, making a successful transition to a sustainable economy is the collective responsibility of all humanity and requires enhanced cooperation between the public and private sector. "

- **Comment on paragraph 2**

GFIA takes the view that supervisors of the financial sector other than insurance should also undertake similar approaches with respect to climate-related risks.

- **Comments on paragraph 3**

Insurers also play an essential role as an assessor of risk. GFIA suggests adding "as an assessor of risk" in the second sentence.

In addition, policymakers, businesses and consumers must understand the scope and scale of the impact of climate change on various risks. The most significant contribution that regulators and (re)insurers can make is through risk-based pricing to provide incentives, disincentives and other economic signals regarding climate-influenced risks. GFIA strongly calls for regulators to support risk-based pricing. It therefore suggests adding the following sentence to the paragraph: "The insurance industry plays a critical role in the management of climate-related risks in its capacity as a risk manager, risk carrier and investor, and is uniquely qualified to understand the pricing of risks.

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Notably, through risk-based pricing, insurers provide critical economic signals regarding the changing risk environment."

■ Comments on paragraph 4

The emerging and evolving nature of climate-related risks warrants more than supervisors' efforts to integrate climate risk into the supervision of the insurance sector. It requires supervisors' active engagement and cooperation with policymakers to develop an environment that helps all sectors contribute in full to the transition to a more sustainable economy. There are several challenges that cannot be solved by insurers alone and need policy actions. Supervisors have a key role to play in this respect. GFIA thus welcomes the intent of the paper, which is to provide guidance to supervisors in order to avoid duplicative or contradictory standards between jurisdictions and to facilitate the assessment of material climate risks, which is still at an early stage of development.

In GFIA's view, the paper should also facilitate a broader exchange of experiences between supervisors. One possibility would be to include for each ICP a dedicated section highlighting "dos and don'ts". While the paper pays a lot of attention to the supervisory "dos", it could benefit from more emphasis on the "don'ts". This is key, as the paper will be useful material for both supervisors and insurers to share their experiences and inform the sound development of appropriate supervisory practices, which is particularly important when dealing with fast emerging and evolving risks.

Finally, GFIA would caution against overly prescriptive recommendations on underwriting and investment activities. In fact, insurers' investment and underwriting actions must be taken independently in order to comply with legislations against unfair business practices. Competition, antitrust and boycott laws in various jurisdictions limit the ability of insurers to act collectively.

Comments on Section 1.3 Proportionality

■ Comments on paragraph 6

GFIA welcomes the importance attributed to the principle of proportionality. It should be fully reflected in the supervision of climate risk: the type and maturity of the undertakings' obligations, the risk level connected to those obligations, as well as the nature and the geography of the insured risks are all elements to be considered.

Proportionality is particularly important to avoid an excessive burden on insurers with low risk exposures to climate change. A number of tools can be used to apply the principle of proportionality and avoid unnecessary, burdensome requirements. For example, in the case of stress-testing and scenario analysis, the industry believes that maximum flexibility should be given to insurers to assess financially material climate risk in their processes, either in a quantitative or qualitative way.

Comments on Section 1.4 Terminology

■ Comments on paragraph 7

In Table 1, GFIA suggests adding a definition of sustainability as the term is frequently used in different ways in public debate. It should be clarified that environmental risks are a subset of sustainability risks.

In addition, GFIA suggests clarifying the definition of "transition risk", as in the "climate risk" column it is used interchangeably with "liability risk" yet two rows down in the table it is used to refer to the risks that arise as asset values change in transitioning to a low carbon economy.

Comments on Section 1.5 Scope

■ Comments on paragraph 10

GFIA welcomes the exclusion of ICPs 14 and 17 from the scope of the paper. In particular, GFIA believes that ICP 17 is not suitable for the purposes of the paper. As climate risk management, scenario analysis and stress-testing are in their infancy, they should not be used to assess the solvency of (re)insurers, as this might result in ill-informed market signals, inconsistent with a stable transition to greater financial sustainability. Furthermore, these tools are useful to make informed predictions of future conditions but do not constitute facts, and therefore should not be used as a solvency assessment tool, but only to focus on climate risks. Given this, GFIA believes it would be premature to assume that ICP 17 on capital requirements is appropriate for assessing and mitigating climate-related risks.

GFIA suggests adding the following sentence at the end of the paragraph: "In addition, as many climate-risk assessment tools are still at early development stage, it would be premature to use ICP 17 to assess climate-related risk."

In addition, GFIA supports excluding ICP19. However, it will be important for supervisors not to confuse the fair treatment of customers under ICP 19 with any mandates to prevent (re)insurers from applying risk-based pricing.

- **Comments on paragraph 11**

GFIA sees merit in exploring new forms of public-private partnership in order to improve the availability and affordability of insurance. However, while well intended, such partnerships are designed to reduce or eliminate the economic signals about risk sent by risk-based pricing and may encourage undesirable outcomes. To cope with increasing severe weather events and natural catastrophes, GFIA believes that policymakers should invest in broad mitigation strategies. Ideally, public-private partnerships should be predicated on mitigation/risk reduction measures being taken by public entities. Public-private partnerships involving some form of insurance schemes may only be a stopgap rather than a real solution to the issue.

In addition, GFIA highlights that to stop offering insurance is the last action considered by insurers. Other actions could be taken to reduce insurance exposure to climate-related risks. GFIA thus suggests adding the following sentence: "An insurer may also apply a higher excess, exclude cover for specific perils, and/or require risk mitigation to be undertaken by policyholders."

Finally, while GFIA acknowledges that access to insurance is not in the scope of this paper, it would like to stress that this is an important topic that will require cooperation between governments and the private sector, in part by supporting mitigation and adaptation and competitive, financially strong and innovative insurance markets.

Comments on Section 2 Role of the Supervisor

- **Comments on paragraph 12**

As previously stated, climate-risk assessment tools are still at an early stage of development and may suffer from predictive bias. Given these uncertainties and limitations, supervisors should avoid rigid, prescriptive approaches. They should be flexible and understand insurers' approaches to climate risks. GFIA therefore suggests adding the following sentence: "Supervisors should be flexible and support insurers in managing climate risks and in facilitating a smooth and stable transition".

Comments on Section 2.1 Preconditions and resources

- **Comments on paragraph 13**

GFIA agrees that an effective system of insurance supervision requires a number of preconditions to be in place and welcomes the commitment from the supervisory community to consider such preconditions. While it is true that some are not directly under the influence of the supervisor, it is worth noting that the supervisor often has the ability to influence them precisely because such preconditions affect supervisory practices. In this regard we suggest the following amendment:

- "Although not directly under the influence of the supervisor, such preconditions can be taken into account..."

In addition, a sound financial framework that allows insurers to invest in sustainable products is a key precondition to the development of supervisory practices related to climate risks. GFIA thus suggests adding the following bullet points:

1. Sustainable government decision-making frameworks, eg the extent to which long-term land-use planning development includes climate-related risks.

2. Development of sufficient investment grade sustainable products.

Furthermore, sound sustainability/ESG ratings should be acknowledged as a key precondition alongside other examples in this paragraph. Sustainability/ESG ratings will unavoidably affect the market value of assets insurers invest in. Therefore, a regulatory framework should ensure that sustainability ratings, which are provided by independent assessors, are comparable, reliable for investors, but also available freely or at an adequate price. As the coverage of ESG rating agencies expands, the large majority of insurers risk being dependent on external, third-party data providers for their sustainability assessment as well as for their sustainability risk assessment. This is increasingly likely when ESG ratings and data providers develop into oligopolistic structures, which lead to an increase in the costs of accessing ESG ratings and data. Existing issues with the availability and reliability of ESG data should not force market participants to rely on third-party providers to obtain them (see comment on paragraph 38).

Finally, GFIA suggests the following amendment:

- After the last sentence: "The supervisor can have a voice in suggesting to its government what changes are required to achieve an effective system of insurance supervision."

When supervisors do not have the means to overcome the challenges related to the lack of adequate preconditions to guarantee an effective supervisory system, it is paramount that supervisors adequately deal with such challenges without setting expectations that insurers solve such challenges. For example, if data availability at asset level is considered a challenge, the supervisor should not expect insurers to be able to disclose granular information about the sustainability of their portfolio.

- **Comment on paragraph 14**

If supervisors do decide to use external resources, including materials produced by external organisations or through external cooperation with NGOs, then they should be transparent about their collaboration and publicly disclose what methodologies are used for the assessment of climate risks.

- **Comment on paragraph 16**

GFIA takes the view that maintaining regular dialogue and consultation with stakeholders on these new issues is key to understanding the challenges and approaches on both sides. For instance, in France, the Autorité de Contrôle Prudentiel et de Résolution (ACPR) created a working group with French insurers in order to develop its proposal for a climate scenario analysis pilot exercise. It also set up a consultative committee on climate and sustainable finance not just with representatives of insurance companies but also with academics and climate finance experts. GFIA thus suggests adding the following sentence: "Generally speaking, close collaboration and regular communication between regulators and the industry is vital to better understand the challenges and approaches of both sides with regards to supporting the transition."

Comments on Section 2.2.1 Information gathering

- **Comment on paragraph 19**

GFIA welcomes the fact that the paper acknowledges the possibility that relevant data is available in the public domain in various forms. It is important that supervisors encourage the availability of reliable public data, which insurers can use to evaluate exposure to physical and transition risk, as well as the sustainability of their portfolios. This will also reduce the burden for insurers.

- **Comments on paragraph 20**

GFIA wants to highlight that the lack of available and reliable ESG data is one of the major limitations to long-term sustainable investment.

This issue of limited data quality and availability should be better acknowledged throughout the paper. The paper should point out that solutions to this issue depend on collaboration between regulators and the public and private sectors.

In addition, GFIA would recommend that if supervisors decide to collect supplementary information from insurers through surveys or targeted requests, they should ensure that:

- they are not duplicating requests for information insurers have already provided to rating agencies or other supervisors; and,
- they do not already have access to equivalent information from other sources.

If the supplementary information is already being provided by insurers through other public forums, insurers should be allowed to substitute existing responses such as the CDP to respond to such a request.

- **Comment on paragraph 21**

GFIA welcomes the position of supervisors and believes that where an insurer is subject to group-wide supervision, information requests and other assessments should be conducted by the applicable supervisor on a group-wide basis to avoid multiple, overlapping procedures which would add burden to insurers.

Comments on Section 2.2.2 Supervisory feedback and follow-up

- **Comment on paragraph 22**

GFIA fully supports a clear, two-way communication between supervisors and insurers. Close collaboration and communication with the industry at both global and local levels is vital to better understand the challenges and approaches of both parties. Communication is notably pivotal to avoid reporting requirements that place undue reliance on uncertain information, particularly about long-term climate risks. GFIA suggests adding a sentence on the importance of supervisors understanding the approaches taken by insurers with regards climate risks: “Such communication is also essential for supervisors to better understand and acknowledge the challenges faced by insurers and the approaches taken with regards to climate risks.”

Comments on Section 3 Corporate Governance

Corporate governance depends greatly on company profile, structure and size. GFIA is therefore against any overly detailed and prescriptive approach by supervisors that would result in an undue burden for insurers and that would be difficult to implement. GFIA believes that the IAIS should limit itself to recommending voluntary guidance by national supervisors in this regard.

Comments on Section 3.1 Appropriate allocation of oversight and management responsibilities

- **Comments on paragraph 25**

Materiality of climate risks differs between entities and may change over time. Insurance companies that do not identify significant climate risks in their risk profile should not be forced to establish a dedicated committee. Rigid approaches to the most appropriate governance to manage climate risks should be avoided. Supervisors may want to provide voluntary guidance on climate risk governance but should not prescribe one approach over another. GFIA therefore suggests the following change in the last sentence of the paragraph: “Supervisors could provide voluntary guidance on how to establish such a committee or other suitable structures with appropriate expertise, if they do not have one already.”

Comments on Section 3.2 Business objectives and strategies of the insurer

- **Comments on paragraph 27**

GFIA takes the view that insurance companies are best positioned to identify significant climate risks in their risk profile. As a result, GFIA believes that insurers should have the flexibility to rely on the tools they consider most appropriate for managing climate risks. It thus suggests replacing “insurers should” with “insurers are encouraged to”.

In addition, regarding the impact of liability risks on non-life products, GFIA notes that there have been very few cases of direct litigation against insurers.

Comments on Section 3.3 The role of the Board

GFIA believes that the role of the board highly depends on a company profile and structure. In any case, we acknowledge that the role of the board is important. However, instead of imposing a governance model the IAIS should encourage supervisors to provide voluntary guidance on best practices regarding governance of climate risks.

- **Comment on paragraph 29**

GFIA believes that the approach adopted in the paragraph may not suit all entities profiles. Status and composition of Board committees differ from company to company. GFIA thus suggests adding “where appropriate” before the reference to board committees.

Comment on Section 3.4 Duties of Senior Management

GFIA believes that the duties of senior management depend greatly on a company's profile and organisation. Climate risks may not be material in some situations and thus there should not be an overly prescriptive recommendation on how to incorporate climate risks into operational and business policies. The IAIS should instead encourage voluntary guidance on best practices in this regard.

Comments on Section 3.5 Duties related to remuneration

In principle, GFIA agrees that remuneration could be used as an incentive to integrate climate-related risks in the risk management framework. However, it is important to avoid putting excessive focus on climate-related risks at the expense of other risks. It is equally important that integration of climate-related risks does not jeopardise the existing functions of remuneration.

The paper should note that particular reference to climate-related risks in remuneration policies should not be understood to suggest that other risk areas are less important for remuneration purposes.

Finally, GFIA takes the view that, in practice, it will be difficult to assess and factually prove a manager's good or bad behaviour in terms of climate risks when discussing remuneration.

- **Comments on paragraph 33**

GFIA agrees with the fact that remuneration could be used as an incentive to integrate climate-related risks in the risk management framework. However, this kind of decision should remain up to companies. In addition, the example provided in the last sentence may work for sustainability in general but is not necessarily directly related to climate issues.

This is why it suggests the following changes: "As part of this, the attribution of variable remuneration could, **for instance**, be linked to embedding climate-related risk management within the insurer (eg through staff training or asset categorisation and performance). Also, the evolution of the non-financial performance of investee companies **might, in some cases**, be a relevant indicator for variable remuneration.

Comments on Section 4 Risk Management and Internal Controls

- **Comment on paragraph 34**

GFIA recognises that explicit references in tools such as guidelines should help integrate sustainability risks consistently and more efficiently in the risk management function. This is particularly appreciated given the importance of this subject and its relevance in the years to come.

Comments on Section 4.1 Integrating climate-related risks into the scope of the risk management system

- **Comments on paragraph 37**

GFIA welcomes the suggestion to consider climate risks within existing categories of risks. As climate risks are not material to all companies, depending on their size, activity and risk profile, GFIA suggests adding "when relevant" in the first sentence.

In addition, if insurers should consider climate risks in their risk management policies, it is essential that the assessment of sustainability risks considers materiality and allows sufficient flexibility for undertakings to deal with their risk exposure within their organisational structure.

- **Comments on paragraph 38**

GFIA wishes to stress that the solution to the issue of data cannot rely solely on insurers and other financial market players. Even with strong processes and tools at their disposal, collecting reliable ESG data will remain an issue for insurers. For example, with respect to physical risks, while the localisation of assets can enable insurers to assess physical risks, such information is not known and not disclosed by companies when investing in corporate bond or equities. Insurers might play a role in collaboration with other industry players in addressing the well-documented issues around data — for instance, clearly articulating what data is needed to inform appropriate decision-making in order to influence data provision.

GFIA thus believes that this paragraph would put undue pressure on the collection process of insurers and suggests removing it. At a minimum, supervisors should acknowledge that data availability is a larger issue, not the responsibility of insurers.

Comments on Section 4.2 Consideration of climate-related risks by the Control Functions

GFIA would like to stress that insurers are already doing many of the things outlined in this section — and in the paper — as a function of good underwriting and effective risk management. Climate change is not something new that they are yet to confront. The incidence and impact of climate change are on the rise, and insurers regularly deal with its material risks.

GFIA therefore takes the view that companies are in the best position to assess climate risks in a way suited to their own circumstances. GFIA believes that this section should offer general perspectives, as in paragraph 40, without entering into detailed considerations on the key functions, whose specific duties and functioning are up to each company to decide, depending on its risk profile.

■ Comments on paragraph 42

GFIA notes that the current sparseness of ESG data represents an obstacle in monitoring exposures from a sustainability viewpoint and to the extensive use of qualitative methodologies. Equally importantly, GFIA wishes to emphasise the need for proportionality with respect to information requirements associated with the integration of climate-related risks. An excessive additional burden on small insurers with respect to any new information requirements should be avoided. GFIA thus suggests adding: "**relevant and appropriate**" range of quantitative (…)".

In addition, the paragraph states that the risk management function should ensure consistency within the insurer. In this respect, GFIA notes that using the same tools and criteria within a group in a centralised manner is not always desirable, as it is necessary to use approaches that consider the specific characteristics of each region. In addition, there may be cases where national supervisors already impose regulations such as ones regarding quantitative metrics. In such cases, developing uniform regulations for insurance groups on top of them could place an undue burden on insurers. Therefore, GFIA suggests replacing "ensure" with "take into account".

Regarding the alignment of criteria on underwriting and investment functions, GFIA would like to point out that the data available is not the same on the two sides. Therefore, the criteria cannot be the same at this stage due to the issue of data availability. At the very least, GFIA suggests raising again the issue of lack of data in the paragraph by adding at the beginning of the last sentence "If consistent data is available".

■ Comment on paragraph 43

GFIA would see merit in exploring such methods in appropriate situations. In order to clarify that these suggested methods are not mandates, it recommends adding a last sentence stating: "These suggested methods are not prescriptive mandates and are neither required, nor recommended for all situations."

Comments on Section 4.3 Fitness and propriety of Control Functions on climate-related issues

■ Comment on paragraph 48

It should be made clear that assessment of fitness and propriety should take into account the respective duties allocated. While the proportionality principle is highlighted in the introduction section, the last sentence highlighting insurance policies and associated investments can be misleading. It should be amended to read as follows:

"Insurers should ensure that individuals who perform Control Functions have relevant experience in understanding the climate risk **<u>that is appropriate to the duties allocated</u>** ~~in insurance policies they underwrite and associated investments~~."

Comments on Section 5.1 Underwriting policy

GFIA believes that when discussing underwriting policies, supervisors should keep a strong focus on relevance and materiality. Climate aspects are not relevant or material to all underwriting situations and taking them into account might result in additional costs. Furthermore, in practice, it may be difficult to make individual underwriting decisions that take into account climate change aspects for each case.

In addition, we believe that the paper should note that mechanisms for understanding the impacts of climate change on underwriting are significantly more mature for property and casualty insurers than for life and health insurers.

Comments on Section 5.1.1 Consideration of climate-related risks in the underwriting policy

- **Comments on paragraph 54**

As previously stated, insurers should be able to incorporate climate risk considerations by including references to climate-related risks in risk management policies other than underwriting policies.

In addition, GFIA warns against prescribing simplified information in the risk policies and suggests leaving insurers flexibility in how to integrate climate risk in their policies. For example, the description of economic sectors assessed to have higher climate-related risks might be strongly dependent on individual companies and their transition plans. Similarly, transition risks can manifest themselves abruptly, eg due to technological breakthroughs or unexpected legislation. Therefore, this information might not be necessary in such policies.

Comments on Section 5.1.2 Consideration of climate-related risks in the underwriting assessment

GFIA acknowledges the importance of considering climate-related risks where relevant and material to reduce insurers' exposure and uphold financial stability. Nevertheless, GFIA stresses that these considerations should remain balanced as, in some cases, they could result in undesired outcomes in terms of overall financial stability. As pointed out in a recent Financial Stability Board (FSB) report focusing on climate risks and financial stability, if a large number of insurers significantly increase premiums or withdraw their coverage to reduce their exposure to climate risks, this might leave firms and certain segments of the economy uncovered, which would amplify the risks to financial stability.

- **Comments on paragraph 56**

The assessment of climate-related risks in not necessarily material to all types of risks covered. The IAIS should consider adding this nuance to avoid any misunderstanding that could lead to an undue burden on insurers.

In addition, the IAIS should clarify that the examples listed under footnotes 16 and 17 are hypothetical and do not currently exist.

Furthermore, with regards to the last bullet point, GFIA stresses that an increasing number of insurers have publicly stated their voluntary decision not to underwrite new carbon-intensive coal risks. Nevertheless, GFIA believes that underwriting strategies should be defined solely by insurers and aimed at assessing risks rather than imposing specific behaviours on policyholders.

If this recommendation is intended to focus on potential policy obligations arising from physical or liability risks associated with climate change, it should be reworded to make that clear.

- **Comments on paragraph 57**

With regards to the use of ratings, GFIA thinks that the IAIS should clarify why using such external ratings is needed and how they should be used.

In addition, with regard to the recommendation on transactions that are assessed as involving higher climate-related risks, GFIA believes that additional due diligence might be encouraged only for policy obligations arising from physical or liability risks associated with climate change. This should be clarified in the paragraph.

Comments on Section 5.1.3 Monitoring of underwriting exposure to climate-related risks

- **Comment on paragraph 59**

The paper should acknowledge the dynamic relationship between underwriting and reserving. The need for this clarification is even more relevant for the liabilities of non-life insurers, with the effects of climate change possibly becoming more evident over time. If time-series trends in the technical provisions show an increase in expected claims, insurers will normally react by means of premium adjustments — possibly because of the short-term nature of insurance contracts — or by adjusting their reinsurance programmes.

Comments on Section 5.2 Own Risk and Solvency Assessment (ORSA)

- **Comments on paragraph 60**

GFIA cautions against prescription in the ORSA processes. The ORSA should continue to represent the insurer's own view of its risk profile, and the capital and other means needed to address those risks. The insurer should decide for itself how to perform this assessment based on the nature, scale and complexity of the risks in its business. Therefore, each insurer should be able to choose appropriate scenarios and time horizons for material risks. The IAIS should acknowledge the need for flexibility in this section.

It is therefore vital that insurers have the maximum flexibility in applying the most appropriate tools and assumptions to their own risk management frameworks. GFIA suggests removing the last sentence of the paragraph.

- **Comments on paragraph 61**

GFIA believes that the relevance of risk identification and quantification scenarios should be determined by the insurer in its risk management processes. Both short-term and long-term climate change risks may be relevant to an insurer's ORSA. The emphasis on the long-term risks should not overshadow the importance of the short-term management of climate risks in the ORSA. While the effects of climate risks are probably more severe in the long-term, the risks should be addressed in the short term first.

GFIA thus believes that the ORSA's time horizon should be kept to three to five years.

Comments on Section 5.2.1 Stress and scenario testing of climate-related risks

- **Comments on paragraph 62**

Climate change scenario analysis should be included in the ORSA only if the insurer considers climate risks material. It is key that scenarios remain relevant for each company's risk profile. Undertakings need to have full flexibility to reflect differences in time horizons and company specificities (the measurement and quantification of these risks is necessary only when these effects are financially material for the insurer, which depends on their company-specific strategy). The main aim of the ORSA is to reflect the company's own risk analysis, so being overly prescriptive goes against its very essence.

Supervisors could provide voluntary guidance on what the ORSA should include but leave the final decision to companies. GFIA suggests changing the wording of the sentence "**Supervisors could provide voluntary guidance to help insurers to better** ~~this process should~~ incorporate an assessment of physical, transition and liability risks".

In addition, while the paper acknowledges the benefit of scenario analysis, it should also acknowledge its limitations. Specifically, the paper should highlight that the results of climate scenario analyses are not fit for the solvency assessment because there are many uncertainties relating to climate change itself, its impact on the environment and its complex interactions with economic and social systems. There is a risk that climate scenario analyses result in ill-informed market signals.

- **Comment on paragraph 63**

GFIA warns about standardisation and suggests putting more emphasis on the relevance aspect. While a standardised set of scenarios might be useful guidance, there should not be a requirement to include them in the ORSA, especially as there are disagreements among experts about the choice of scenarios and their evolution over time. Modelling work by regulators is welcome provided such models are not mandatory and do not conflict with the individual nature of the ORSA.

Comments on Section 6.1 Asset liability management

GFIA highlights that diversification is a key risk management strategy for dealing with any kind of risk. A well-diversified portfolio with different kinds of assets in terms of geography, sector and other considerations will, on average, have a lower risk than concentrated portfolios. Any part of the portfolio that has a higher degree of concentration, eg sovereign bonds or real estate, may require a more in-depth risk analysis. A global investment strategy is the best and most efficient way to support the sustainability transition and deal with climate-related risks.

In addition, ALM within insurers is essentially a market interest rate risk management issue.

GFIA would therefore suggest a more cautious approach in this sub-section; encouraging insurers to take action rather than prescribing it.

- **Comment on paragraph 70**

GFIA believes that the concept of the materiality of transition risk on longer-term bonds is not sufficiently elaborated and therefore invites the IAIS to better elaborate on this concept, taking into account other transmission factors and mitigation actions that the insurer might take to minimise such risks.

Comments on Section 6.2 Risk assessment of investments

- **Comment on paragraph 72**

As previously stated, access to data has been flagged by many insurers as one of the barriers that exists in terms of conducting scenario analysis for their investment portfolios.

- **Comment on paragraph 73**

The paragraph suggests that insurers are responsible for rating methodologies. However, such elements are rather subject to the disclosure policies of external rating agencies. Insurers cannot control such methodologies. GFIA suggests keeping the first sentence and deleting the rest of the paragraph.

Comments on Section 6.3 Stewardship

Stewardship seems a rather vague term and the discussion of it in a separate section might wrongly imply that it is an issue or goal that is in addition to other climate-related issues and goals. For this reason, GFIA suggests moving paragraph 74 to 76 under Box 4 and considering also other investment strategies, especially when more relevant from a prudential perspective. A good description of common practices, also used by insurers to include sustainability risks in insurers' investment decisions, is provided by Eurosif (a European association for the promotion and advancement of sustainable and responsible investment across Europe) and includes best-in-class investment selection, exclusion of holdings, norms-based screening, engagement and voting on sustainability matters, etc.

Should this section be kept at the same level as other sections, then the paper should also acknowledge the limitation of "stewardship": the impact of investment decisions on sustainability factors (eg via engagement) can be very costly and its effectiveness can be questionable depending on the types of portfolio (eg equity versus bonds) and the size of the investing undertaking.

It should be noted that insurers face challenges in measuring the impact of investment decisions on sustainability factors (eg via engagement). At this stage, the financial sector does not have a commonly accepted approach to how to capture the effects of investments on sustainability factors. In addition, some financial players do not have the resources to adequately build up the necessary tools (for small insurers coordination with other investors may be the only viable means of achieving effective stewardship).

When promoting engagement strategies and stewardship activities, it should also be avoided that stewardship serves as implicit investment restrictions and limitations, which would conflict with insurers' freedom of investment and potentially undermine solvency or competition.

Comments on Section 7 Public Disclosure

It is critical that any disclosure mandate avoids information duplication and overload for businesses and consumers and respects the principles of confidentiality, proportionality and materiality. It is important that:

- Insurers have flexibility in disclosures while respecting consistency and comparability; and
- Insurers have access to good quality sustainability-related information at the asset level based on a globally coordinated approach to general company ESG data reporting.

GFIA thus welcomes the IAIS facilitating a coordinated approach between jurisdictions while also highlighting that a voluntary step-by-step method to promote disclosure is needed to avoid a one-size-fits-all approach. Sharing best practices and promoting transparency between jurisdictions will avoid duplicative or contradictory standards, while also reducing requests for information.

We thus recommend replacing every "should" with "may" or "could' in this section.

- **Comment on paragraph 77**

GFIA strongly supports the need to carefully take into consideration business confidentiality in disclosure requirements.

- **Comments on paragraph 79**

GFIA would like to bring to supervisors' attention the fact that disclosure is also important for fostering policyholders' engagement. It is therefore vital that insurers are able to communicate climate impact to their policyholders in a flexible manner to ensure customers are engaged. An overly rigid approach could lead to a lack of interest and disengagement with disclosures. Similarly, disclosures to regulators, investors and other market experts need to be flexible to reflect the different interests of the audience and are likely to be much more detailed and technical than engagement with customers, while respecting the principles of confidentiality, materiality and proportionality.

In addition, it is key to consider the flow of information for insurers. In fact, insurers' disclosure will have to depend on information disclosed by other entities, particularly invested companies and asset managers for investment-related information. The IAIS should better recognise the implications of limited data quality and availability of sustainability-related information. The lack of quality data creates significant obstacles to the preparation of consistent public disclosures by insurers. For example, this is clear with investment-related information, where it is vital that insurers' disclosure requirements are aligned as much as possible with asset-level disclosures from corporates and public entities.

- **Comments on paragraph 80**

GFIA would like to point out that the TCFD Recommendations were originally developed to help investors, and other users of disclosed information, to understand climate-related risks and opportunities rather than to serve supervisory objectives.

All in all, GFIA acknowledges that TCFD voluntary disclosure is appropriate under ICP 20 when the climate risk is material. Using such a framework may be beneficial to allow for consistency in terms of disclosures by insurers, as well as consistency in what multinational insurers would need to disclose in different jurisdictions.

However supervisors should consider that the resources for preparing the disclosure are limited and take into account the business-sensitivity of some Key Performance Indicators contained in the TCFD guidance, such as aggregated risk exposure to weather-related catastrophes of property business (ie, annual aggregated expected losses from weather-related catastrophes). GFIA suggests adding the following sentence: "However, as stated previously, supervisors should carefully assess the business-sensitivity of some Key Performance Indicators contained in the TCFD guidance in order to avoid undermining the competitive position of an insurer."

Comments on Section 7.1 General disclosure requirements

Promoting the convergence of non-financial reporting standards will be key to facilitating the transition of all sectors while also accounting for global linkages of financial markets and avoiding competitive disadvantages for globally operating companies.

In addition, policy actions that avoid overlaps between financial and sustainability reporting should be encouraged.

However, at this stage, as non-financial frameworks are still under development, non-financial disclosure should remain voluntary. In any case, any new mandate should respect the principles of confidentiality, proportionality and materiality.

- **Comment on paragraph 82**

GFIA believes that the approach taken in the paragraph is overly prescriptive for an evolving issue. GFIA recommends replacing "insurers should" with "insurers may be encouraged to".

- **Comments on paragraph 83**

GFIA is concerned the recommendation in the paragraph may disrupt competitive positioning and suggests deleting or amending it to provide confidentiality to protect this.

A simple approach to revising the paragraph would be to replace "insurers should" with "insurers are encouraged to".

Comments on Section 7.2 Company profile

- **Comment on paragraph 84**

As previously stated, GFIA believes that such a recommendation is not relevant for all insurers and suggests adding “when material” at the beginning of the paragraph.

- **Comments on paragraph 85**

GFIA is concerned with the list provided, as it may contain sensitive competitive information. GFIA would thus suggest deleting this paragraph or amending it to take confidentiality into account.

In addition, it should be clarified that the list of information to provide is illustrative and depends on the materiality to each entity.

- **Comment on paragraph 86**

GFIA acknowledges that the inside-out approach mentioned in the paragraph is increasingly considered in many jurisdictions. However, this approach seems to fall outside the scope of ICP 20 and would seem an excessive requirement especially for small companies. GFIA suggests replacing “insurers should” with “insurers may be encouraged to” .

Comments on Section 7.4 Insurance risk exposures

- **Comments on paragraph 88**

GFIA would like to emphasise that adopting a flexible approach rather than a prescriptive one will ensure that disclosure requirements do not add a burden to companies where this is not relevant. It thus suggests replacing “insurers should” with “could be encouraged to”.

In addition, with regards to the recommendation to provide written evidence and model analysis, GFIA believes that this is a discussion of public disclosure and should not embed new supervisory requirements for written documentation or model evaluation and utilisation.

Comments on Section 7.5 Financial investments and other investments

- **Comment on paragraph 89**

GFIA believes it is difficult to disclose matters regarding investment strategies, as they are directly related to the investment activities of each company. Therefore, it suggests revising "investment strategies" to "investment policy".

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About GFIA
Through its 41 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.