28 October 2024

GFIA response to IAIS consultation on draft Application Paper on public disclosure and supervisory reporting of climate risk

1 General comments draft Application Paper on public disclosure and supervisory reporting of climate risk

GFIA appreciates the IAIS's focus on limiting public disclosure to what is material and relevant to policyholders and market participants (see 1.1, 2.1, 2.4, 3.1) and on avoiding unnecessary disclosure (2.3.1, 6.3.1) and taking cost/benefit into consideration (2.3.3, 3.3). The paper focuses on climate change as a source of financial risk that can negatively affect the safety and soundness of insurers and is relevant to the users of the entity's financial reports, rather than a wider stakeholder audience (2.3.1).

However, GFIA is concerned that the paper does not clearly state that materiality should be determined by insurers, similar to other materiality assessments made for other disclosure topics. The IAIS suggests supervisors to increase data collection and framework standardisation, but that would likely require insurers submitting sets of data that may not actually be material to all insurers.

Material risks deemed immaterial due to adaptation should not be part of mandatory disclosures and GFIA invites the IAIS to clarify this point. In addition to recognising the challenges, it would be valuable if the paper could also offer tools and solutions on how these burdens can be mitigated.

Furthermore, several of the IAIS's suggestions are already being implemented by certain supervisory authorities. GFIA notes as potentially problematic that a clear distinction is needed between prudential regulatory and non-financial public ESG reports, as otherwise there is a risk that similar data will be required, but the data specifications and underlying definitions will differ.

2 General comments on section 1 Introduction

N/A

3 Comments on section 1.1 Context and objective

N/A

4 Comments on section 1.2 Scope and paper structure

GFIA suggests deleting the word "issued" in Paragraph 6, 4th line.

5 Comments on section 1.3 Related work by the IAIS

N/A

6 Comments on section 1.4 Proportionality

GFIA agrees that supervisors must keep proportionality in mind when developing climate risk disclosure standards.

7 General comments on section 2 Developing a disclosure regime

N/A

Global Federation of Insurance Associations (GFIA)
Secretariat: rue Montoyer 51, 1000 Brussels, Belgium
Tel: +32 2 894 30 81 E-mail: grant@GFIAinsurance.org
www.GFIAinsurance.org

© Reproduction in whole or in part of the content of this document and the communication thereof are made with the consent of GFIA, must be clearly attributed to GFIA and must include the date of the GFIA document.

8 Comments on section 2.1 Climate-related risk financial disclosures: materiality and relevance

In Paragraph 12, GFIA suggests adding the following sentence to describe insurers' roles as providers of insurance products: "Preparers of climate-related disclosures as entities influenced by climate change, which are required to disclose climate-related risks and the way they manage such risks. For example, insurers face increased property insurance claim payments due to the intensification of disasters caused by global warming."

Because of the importance of assessing risks' impacts, the concept of materiality to inform decision-making matters greatly. In this context, insurers' businesses vary, as it is well-known by regulators or financial exam staff. Therefore, materiality is company-specific and should be considered in the context of an insurers' assessment of its risk and solvency (such as through ORSA). Among concerns with materiality are concerns that some data (and time horizons) may not be ready/reliable to be used for the purposes of making determinations of materiality. For example, in some cases, data sets may not be robust (eg coming from a small subset of data points that does not deliver a complete picture or reflecting a short time period that may not provide a full view into a trend).

The questions must be materiality directed and take into account the size and scope of an insurer's business as well as relevant risks to that insurer.

9 Comments on section 2.2 Link to international standards

N/A

10 Comments on section 2.3 Fundamental principles of a climate-related risk disclosure framework

GFIA agrees with section 2.3.1's caution against excessive disclosure requirements that "may obscure useful information."

GFIA underlines that for insurers, in the context of hurricane exposures, for instance in the East and Gulf Coasts of the United States, factors such as rising materials costs, increasing real estate values, and demographic shifts towards catastrophe-prone areas are also responsible of the increase of hurricane-related losses. They add on to the climate-related factors, estimated by climate modelers which suggest a 1% annual increase in climate-related losses.

While Paragraph 18 indicates that disclosures should be made over short-, medium- and long-term horizons, GFIA understands that the IAIS does not intend to set concrete standards. It is understood that existing international and jurisdictional standards (such as the ISSB standards explained in Box 2) and the IAIS standards (ICP standards) should be aligned, and that at the same time, insurers are expected to follow jurisdictional reporting requirements.

As Paragraph 19 describes, when preparing and disclosing information with a high degree of inherent estimation uncertainty, it is necessary to balance the interests of reliability against those of relevance or usefulness. GFIA strongly agrees that this is particularly relevant for climate-related disclosures.

The paragraph explains that regarding concentration risk (for which supervisors will need to balance overriding principles of proportionality against several other considerations), "where small insurers have concentrated exposures to certain climate perils either due to geographical or economic sector concentrations, which would be considered material by users, they will need to be disclosed". However, this information is hard to corroborate, and it is still difficult to ensure reliability and usability. Therefore, it is inappropriate to include it as a specific example.

In section 2.3.3, Paragraph 19, GFIA strongly agrees with much of the discussion about proportionality, the need to avoid a one-size-fits-all approach, and the caution about inappropriate use of disclosure items with higher levels of measurement or outcome uncertainty and more complex and less familiar disclosure concepts. GFIA objects, however, to the inclusion in Box 3 of the US SEC rules on climate-related disclosures. While the SEC's definition of materiality was appropriate, GFIA notes that the breadth of the SEC's rule may be seriously jeopardised by recent US Supreme Court decisions and application of the rule has been stayed by the SEC pending developments in the current lawsuits contesting the rule's legality. A far more appropriate US reference here would be to the National Association of Insurance Supervisors' (NAIC) Climate Risk Disclosure Survey, which has been conducted for a decade, incorporates TCFD guidance, and applies to over 80% of the US insurance industry.

11 Comments on section 2.4 Recommendations

In line with the intent of the application paper (described in Paragraph 11), GFIA suggests rephrasing Paragraph 20 as follows: “Consistent with ICP 20, internationally agreed climate disclosure frameworks, and frameworks developed by jurisdictional standard setters, supervisors should require that climate-related risks are effectively captured in public disclosure requirements where material.”

In Paragraph 21, integrating climate-related financial disclosures and financial statements may not be possible in some jurisdictions, where insurance supervisors have no jurisdiction over general purpose financial statements.

12 General comments on section 3 Public disclosure of decision useful climate information

N/A

13 Comments on section 3.1 Climate information

GFIA would like to note that some of the key indicators listed as examples of transition risk indicators are not possible amenable to quantification. Legal and regulatory risks can only be considered qualitatively.

Regarding "Including climate data and indicators in disclosures" (Paragraph 24), GFIA would appreciate clarification whether or not it is assumed that only climate data and indicators material to the insurer in question should be disclosed. Similarly, while Paragraph 26 describes that "supervisors should expect climate-related risks to become increasingly reported and accounted for by insurers", GFIA would appreciate clarification that this expectation applies to climate-related risks that are material to the insurer concerned.

GFIA suggests adding "to the extent necessary" to the end of the second sentence of the Paragraph 25.

While Paragraph 26 explains "Table 2 sets out examples of how climate risk can be integrated into the disclosures", GFIA is concerned that Table 2 includes overly prescriptive statements and suggest revising them.

Box 4:

- Regarding the examples in the Asset and underwriting risks section of Box 4, there are concerns about the public disclosure of indicators that aim to “evaluate the potential impact of physical climate-related events”, particularly concerning metrics that are not well defined or cannot be interpreted consistently. This is especially the case for PML and AAL data. This information should not be disclosed publicly. Modelled outcomes can have significant variation around the mean, are often based on many assumptions, and reality is certain not to directly reflect these outcomes. Consequently, the potential for drawing incorrect conclusions from this data is high and it is not responsible to knowingly publish data that is likely to mislead. Publishing public disclosures of subjective metrics will likely result in unintended consequences, particularly for publicly traded companies. The premature prescription of such metrics, without thorough testing and understanding, may result in confusion and misinterpretation by various stakeholders. A more prudent approach would involve regulators collecting and interpreting this information, and potentially presenting aggregated findings if deemed beneficial to the public.
- While Box 4 explains that "Climate-related risk indicators enable insurers to demonstrate their ability to mitigate climate-related financial risks and maintain the resilience of their business models", climate-related risk indicators can be used to understand current conditions, assess progress in risk mitigation efforts, and estimate future impacts, but do not necessarily demonstrate the ability to mitigate risks or maintain resilience. Therefore, GFIA suggests revising the sentence, for example, as follows: “Climate-related risk indicators may enable insurers...”.
- While the examples of transition risk in Box 4 indicators include "CO2e emissions footprints or intensity of investments" as asset risks, discussions are needed to determine which Scope(s) should be subject to supervision and disclosure. In particular, Scope 3 requires careful consideration because, as described in Paragraph 71, there may be cases where the reliability of investee companies’ GHG emissions measurement results cannot be ensured.
- Additionally, it is difficult for insurers to accurately estimate Scope 3 GHG emissions derived from their managed assets, which are heavily influenced by share prices in the market and the availability of emissions

data for each issuer. Therefore, GFIA suggests adding the following phrase to the end of the first bullet point of 'Asset risks': " ,on the premise that the fluctuations in relevant parameters (e.g., financial market fluctuations or issuer GHG data availability) affect the emissions attributable to the portfolio".

14 Comments on section 3.2 Disclosure of scenario analysis results

Information needed to determine the listed asset-related indicators (Paragraph 28) is not available or only approximatively available. Therefore, disclosure should not be mandatory on this granular level.

It should be considered carefully which of the indicators can be used for supervisory reporting and which for public disclosures. Some information is very sensitive, disclosure of these indicator should be avoided for reasons of competition law.

GFIA does not think that insurers should be required to disclose the results of all of the scenario analyses they conduct. Such a requirement could discourage the use of scenario analysis in situations where it is needed.

GFIA seconds the importance of the following sentence of Paragraph 29: "Due to confidentiality concerns, supervisory reporting may be more appropriate for quantitative outputs, method specifications, outcomes and decision-making derived from scenario analysis, with only a high-level summary required for public disclosures." In a first step, it should be considered very carefully which information needs to be publicly disclosed at all. In a second step, it should be evaluated which of the information really must be disclosed in a quantitative manner. These perspectives should be noted when establishing disclosure requirements for scenario analysis.

15 Comments on section 3.3 Key criteria to improve the decision usefulness of indicators.

GFIA is concerned by the broadness of the scope of the data illustrated in Paragraph 32 regarding transparency and by the prescriptiveness of the statement "Disclosures should extend to the key components of data". It should be noted that, as stated in section 3.2, information related to scenario analysis is not suitable for public disclosure from the perspectives of confidentiality and competition, and that supervisory reporting may be appropriate.

For example, the cost-benefit considerations bullet could be edited to say "Cost-benefit considerations: Decision usefulness should encompass an element of cost-benefit assessment consistent with the ICP principles on proportionality so as to account for the cost and accessibility of data, as well as if the data already is collected by the supervisor for a different purpose."

16 Comments on section 3.4 Climate adaptation

While Paragraph 33 describes that "Insurers can require that repairs carried out in response to a claim, for instance for flooding, be designed to reduce exposure from future perils", requirements for coverage beyond the ordinary scope (for example, "building back better") would be difficult to establish in general, since most insurance products generally pay claims for flood damage based on the percentage of damage incurred. It would be beneficial to provide examples of insurance products where this approach is currently implemented. In addition, while the paragraph explains that "Insurers should clarify whether the information presented takes into account adaptation measures, especially where this results in a material difference to risk exposure", even if a product is developed based on climate adaptation, it would be extremely difficult to accurately predict the impact on risk exposure and thus to identify whether or not there would be a material difference.

17 Comments on section 3.5 Recommendations

In line with the intent of the application paper (described in Paragraph 11), GFIA suggests revising Paragraph 34 as follows:

"Integrating climate considerations into disclosure regimes: supervisors should consider revising expectations or providing guidance to clarify how material climate-related risk exposures should be disclosed to meet the ICP 20 requirements, as for any other material risk, taking into account internationally agreed climate disclosure frameworks as well as frameworks developed by jurisdictional standard setters."

GFIA agrees with the statement in Paragraph 35 "supervisors should encourage the development and adoption of standardised indicators and disclosure formats for climate-related risk, which will need to recognise different business models". While standard indicators and disclosure formats improve comparability, they may also require a uniform response from all insurers. In considering standard indicators and disclosure formats, it is important to follow the proportionality principle (as explained in Paragraph 19). GFIA suggests adding an explanation about the necessity of considering the proportionality principle in Paragraph 35. Additionally, it could be added that if standard indicators and disclosure formats are developed and adopted, they should be fully coordinated with other jurisdictions from the perspective of global comparability.

18 General comments on section 4 Considerations for supervisory reporting of climate-related risks

N/A

19 Comments on section 4.1 Understanding different climate-related risks

The last three sentences of Paragraph 43 could be read to imply that supervisors should have the power to keep insurers from withdrawing from markets. GFIA would oppose such a restriction. Keeping insurers in markets from which they need to withdraw in order to protect their other policyholders will jeopardise those companies' solvency, as well as discourage other companies from moving into those markets, fearing they could be trapped if things go wrong.

20 Comments on section 4.2 Supervisory reporting examples

N/A

21 Comments on section 4.3 Supervisor-level data issues

While Table 3 explains that "Reported information on climate-related risks often lacks the required granularity..." and illustrates examples of solutions, if additional information is required to be reported by insurers, due consideration should be given to a balance between the usefulness of the information and whether it would be an undue burden on insurers.

Table 3 (first item, left side column): As the draft could lead to the misunderstanding that many insurers' disclosures are not appropriate, GFIA suggests revising the sentence as follows:

"Lack of granularity of exposures: In some cases, reported information on climate-related risks lacks the required granularity to translate the reported data into risks as set out in ICP 9.1.6 to understand the insurer's risk profile."

22 Comments on section 4.4 Group versus entity level reporting

N/A

23 Comments on section 4.5 Supervisory actions in response to information received.

While Paragraph 48 includes an example of engaging with insurers that have material exposure to carbon-intensive industries, the expected content of such engagement should be clarified. In engaging with insurers, consideration should be given not only to the reduction of exposure to carbon-intensive industries, but also to the transition support provided by insurers.

24 Comments on section 4.6 Recommendations

GFIA supports Paragraph 53: "Supervisors should undertake a gap analysis of the information available to understand insurers' impact of physical and transition climate-related risk will vary by jurisdiction. Supervisors should consider whether existing disclosure, supervisory reporting or other mechanisms such as Own Risk and Solvency Assessments (ORSAs) or ad hoc scenario analysis exercises are providing them with the information they need to assess climate-related risks."

Thus, in Europe, supervisors should take into account the upcoming sustainability statements in accordance with the Corporate Sustainability Reporting Directive (CSRD statement) and, if applicable, supplemented by the IFRS Sustainability Disclosure Standards (ISSB SDS). The CSRD requires all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they see as the risks and opportunities arising from social and environmental issues (financial materiality), and on the impact of their activities on people and the environment (impact materiality). The CSRD also requires assurance on the sustainability information that companies report and will provide for the digital taxonomy of sustainability information. In GFIA's view, such a CSRD statement may improve the availability of relevant information over time, and could support the supervisors in their assessment of satisfying any additional information requirements it may have to assess climate-related risks. Furthermore, supervisors around the world should take into account that their countries might have already endorsed or might consider endorsing the IFRS Sustainability Disclosure Standards (ISSB SDS) for certain types of companies. Depending on the endorsement, the ISSB reports will be subject to assurance and a digital taxonomy, too. These ISSB reports are as well a valuable source for the gap analysis that is suggest in Paragraph 53 in the draft.

25 General comments on section 5 Governance for climate-related risk disclosure

N/A

26 Comments on section 5.1 Setting regulatory governance expectations and exploring governance structures.

Table 4: As a role of "Legal and compliance", GFIA suggests adding "responding to lawsuits associated with disclosures".

27 General comments on section 6 Data issues and limitations in climate-related risk disclosures

In addition to the focus on materiality to policyholders and market participants, avoiding excessive disclosure and a cost/benefit analysis in setting disclosure requirements, the IAIS acknowledges the data issues and limitations with climate-related risk disclosures (section 6) and the litigation risks that these disclosures present (section 6.3.3). It also notes the use of safe harbour provisions by some disclosure regulators and states that Supervisors should consider whether those provisions exist in their jurisdiction to encourage climate-related disclosures (section 6.5). It also notes the benefit of interoperability or alignment between jurisdictional and international climate-related disclosure and IAIS standards to avoid an excessive reporting burden, especially for insurers operating across multiple jurisdictions (section 6.3.4), and leveraging existing regulation (section 6.5, Paragraph 86).

Together, that would suggest that the IAIS should explicitly recommend that Supervisors leverage existing public disclosure requirements for climate-related risks (where they exist in their jurisdiction) before imposing additional or different ones. For example, the securities regulators in North America already impose requirements to disclose material information (including on climate-related risks) and public issuers in those jurisdictions actively do so. In addition, the Canadian Securities regulators are actively considering adding more climate-specific disclosures and (as the IAIS paper acknowledges) the SEC recently did so in the United States. Although not all insurers are subject to these requirements, given the alignment of the securities law rules with the objectives of the public disclosure reporting called for in the paper, and the issues pointed out by the IAIS with excessive disclosure, data quality and litigation risk, it would be sensible for the IAIS to address this. Specifically, the IAIS should recommend that Supervisors do not establish free-standing disclosure requirements that go beyond what is required of public issuers in their jurisdictions, where the securities law regulators have occupied the field and are actively engaged in regulating these types of disclosures.

28 Comments on section 6.1 Data issues in climate-related risks

N/A

29 Comments on section 6.2 Insurer-level data issues

N/A

30 Comments on section 6.3 Disclosure constraints

GFIA appreciates the recognition here of disclosure constraints. Volume of disclosures, the need to protect commercially sensitive information, and litigation risk must be considered by supervisors.

31 Comments on section 6.4 Possible actions from supervisors to address data issues

32 Comments on section 6.5 Possible actions from supervisors to address disclosure constraints

32 Comments on section 6.6 Assurance of climate-related risk disclosures

While GFIA agrees that assurance improves the reliability of disclosures, verification of reporting and disclosure content should be done in a manner that takes into account costs and benefits and should not be premised on third-party assurance.

33 Comments on section 6.7 Recommendations

N/A

Contacts

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

Marianne Willaert, 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 1 observer association the interests of insurers and reinsurers in 68 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.