

Public consultation on climate risk supervisory guidance

Public background session

27 August 2024

Purpose of this public background session



Purpose

1. Introduce this consultation, covering:
 - The IAIS' work on climate risk
 - What is an application paper and supporting material
 - Timelines and process
2. Present the contents of the:
 - Draft Application Paper on public disclosure and supervisory reporting of climate risk
 - Draft supporting material on macroprudential and group supervisory issues and climate risk
3. Answer your questions

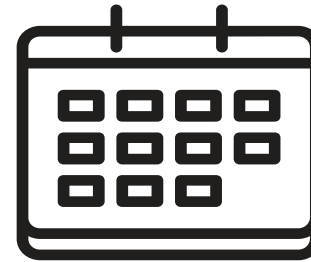
ICPs and Application Papers

- The Insurance Core Principles (ICPs) form the **globally accepted framework for insurance supervision**. The ICPs seeks to encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions.
- **Application Papers** provide supporting material related to supervisory material. Supporting material aids IAIS members to put the ICPs into practice.
- Application Papers **do not include new requirements**, but provide further advice, illustrations, recommendations or examples of good practice to supervisors on how supervisory material may be implemented.
- The **proportionality principle** applies to the content of Application Papers.

IAIS work on climate risk

An adequate response from supervisors to climate-related risks will **support the objectives of insurance supervision of protecting policyholders, contributing to financial stability and promoting the maintenance of a fair, safe and stable insurance market.**

IAIS has conducted a series of **four public consultations** on proposed changes to guidance in various Insurance Core Principles (ICPs) and on new supporting material to better incorporate climate risk.



Consultation extended to **28 October** given significant interest in this work

Climate risk consultation outlines

Timing	Content
Package 1 Consultation: Mar-May '23	<ul style="list-style-type: none">• Amendments to ICP Introduction; Questions on supporting material for ICP 7 (Corporate Governance) and ICP 8 (Risk Management and Internal Controls); Questions seeking initial stakeholder feedback on the overall package of climate-related work
Package 2 Consultation: Nov '23-Feb '24	<ul style="list-style-type: none">• Supporting material covering issues on market conduct supervision (related to ICP 19 (Conduct of Business) and ICP 21 (Countering Fraud in Insurance)) and climate scenario considerations (related to ICP 16 (ERM for Solvency Purposes) and ICP 24 (Macroprudential Supervision))
Package 3 Consultation: Mar-Jun '24	<ul style="list-style-type: none">• Climate-related additions to the guidance in ICP 15 (Investments) and ICP 16 (ERM for Solvency Purposes)• Changes to material covering corporate governance, risk management and internal controls to reflect comments received on Package 1• Supporting material covering valuation, investments, enterprise risk management (ERM) for solvency purposes.
Package 4 Current consultation until 28 October	<ul style="list-style-type: none">• Supporting material on issues related to supervisory review and reporting, public disclosure, macroprudential supervision and supervisory cooperation.

Draft Application Paper on public disclosure and supervisory reporting of climate risk



- Developing a disclosure regime
- Public disclosure of decision-useful climate information
- Considerations for supervisory reporting of climate-related risks
- Governance for climate-related risk disclosure
- Data issues and limitations in climate-related risk disclosures

Climate-related disclosures

Provides supervisors with advice on considerations related to the development of **supervisory reporting** and **public disclosure** regimes

Important for supervisors to consider holistically that adequate information is shared with policyholders, market participants and supervisors.

This Application Paper helps supervisors consider how approaches to addressing these matters may be tailored to the individual needs of their respective jurisdictions.

Sector-specific disclosure regime

Supervisors should explicitly consider whether they need to supplement general existing **disclosure requirements on climate risk (if any) with sector-specific measures**, where:

General disclosure regimes **do not adequately capture** climate-related risk or are too generic to adequately meet the needs of users of insurers' disclosures under ICP 20;

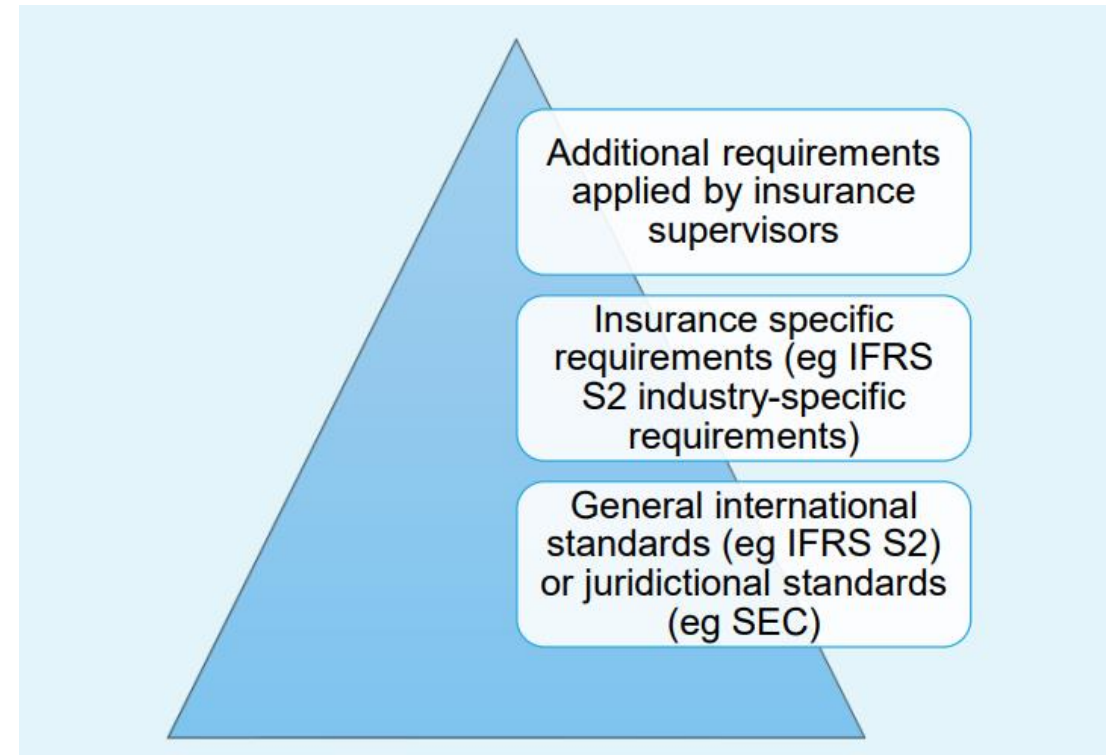
Regimes with **sectoral requirements fall short** of meeting the requirements set out in ICP 20 to some extent and can be augmented by the supervisor; or

Insurers are not making sufficient clear disclosures such that they are consistent with ICP 20 and/or where users are unclear about the points being disclosed by insurers.

Global baseline

The International Sustainability Standards Board has developed a global baseline that provides a **good basis for a framework consistent with the ICP 20.0.2**

Supervisory framework could include the following elements:



Public disclosure of decision-useful climate information

- **Integrate climate considerations** into disclosure regimes.
- A more **standardised set of indicators** will help users to better understand insurers' disclosures and enhance the comparability of information.
- Supervisors should guide insurers to be **transparent and consistent** in their use of data sources and methods to calculate climate indicators.
- Supervisors should encourage the use of **forward-looking indicators** to capture reasonably foreseeable and material risks.
- **Review and update** processes for climate-related indicators.

Considerations for supervisory reporting of climate-related risks

- Clearly communicate the **supervisory reporting strategy**. Climate-related risk should be fully integrated into supervisory reporting where material.
- Supervisors should **undertake a gap analysis** of the information available to understand insurers' exposure to climate-related risk.
- Supervisory reporting requirements for climate-related risk are **expected to evolve over time**.
- Tools and training to help supervisors understand how to **interpret and challenge assumptions** presented in the reporting of climate-related risks

Governance for climate-related risk disclosure

- Assess the essential climate governance elements that necessitate public disclosure and the level of detail and granularity of the disclosures.
- Supervisors should consider that the market may benefit from **further details on the governance processes of insurers** for identifying, measuring, monitoring and controlling climate-related risks.

Draft supporting material on
macroprudential and group
supervisory issues and climate risk

ICP 24 related supporting material

- The proposed ICP 24 climate related supporting material covers limited additional climate related material to complement the existing [Application Paper on Macroprudential Supervision](#), discussing:
 - data collection;
 - analysis and;
 - supervisory responses
- The draft text is closely aligned with the text of the existing Application Paper on Macroprudential Supervision, and in many cases uses the same text of the existing material.
- As a reminder, the Application Paper on Climate Scenario Analysis (Package 2), already covered:
 - how supervisors could integrate climate-related scenario analysis into supervisory processes to assess the potential systemic importance of individual insurers and the insurance sector (ICP 24.3);
 - using climate-related scenario analysis to inform supervisory responses (ICP 24.4), and
 - publication of relevant data and statistics on the insurance sector from climate-related scenario analysis exercises (ICP 24.5).

ICP 25 related supporting material

- The proposed ICP 25 climate related is a short section highlighting that:
 - the supervisory college should include in its agenda and its supervisory plan a discussion on climate related risks, and how it may impact:
 - group-wide corporate governance framework;
 - enterprise risk management; main risks; financial position; and
 - regulatory capital adequacy and compliance with supervisory requirements
 - when defining climate-related data collection requests, supervisors should consider coordinating with other involved supervisors and regional or global insurance standard-setters.



Timelines and process of this consultation

- The consultation period is 25 June to 28 October 2024.
- Feedback is sought – both general comments and comments per section/box of the paper.
- Submit your feedback via the consultation tool accessed via the [consultation page](#).
- A final version of the application paper, informed by consultation feedback, is anticipated in H1 2025.



Questions?