ICMIF comments on the IAIS/SIF Issues Paper on Climate Change Risks to the Insurance Sector

Q1 General comment on the draft Issues Paper

Answer ICMIF welcomes the opportunity to share some general comments on the joint SIF/ IAIS Issues Paper on Climate Change Risks to the Insurance Sector. We agree with the objectives of the Paper, i.e. to raise awareness for insurers and supervisors of the challenges presented by climate change, including current and contemplated supervisory approaches for addressing these risks. That said the last paragraph of the paper, starting with 243 is a cause for concern for our members, in particular regarding the IAIS' possible new mandate in addressing climate risk. We appreciate that regulation is not the only, and most probably not the most adequate response to the issue of climate change. As a start we would suggest assessing new prudential and regulatory proposals against measures already taken by jurisdictions to tackle climate risk policy objectives. Then, as for the post-crisis regulatory reforms, we would call for an evaluation of the potential unintended consequences on insurers' products and investment capabilities. We fear that any increase in the current cost of regulation and supervision, even for such noble causes as the protection of the people and the planet, would have dire consequences for a large segment of the insurance sector, in particular the small and medium sized insurers. We therefore invite the IAIS to consider sustainability in its full breadth, i.e. the environmental criteria (including but not limited to climate change criteria), the social and the governance criteria. It may be useful to remember that, just as an ecosystem benefits from diversity, so the financial sector is better off with diverse and numerous corporate forms, from both a financial stability and consumer protection angle. We thus ask that any new rules imposed on SME insurers be weighed against a comprehensive sustainability criterion.

Q2 Comment on the List of Acronyms

Answer We suggest adding the following organisations: UNDP (United Nations Development Programme) for its work on disaster risk insurance; IDF (Insurance Development Forum) and ICLE (Local Governments for Sustainability), the main global network of more than 1,500 cities, towns and regions committed to building a sustainable future.

Q3 General comment on Section 1

Answer In our opinion, this section provides a good historical perspective of the milestones achieved since 2015.

Q6 Comment on Paragraph 3
Answer We welcome the cooperation agreement signed by the IAIS and UNEP within the Sustainable Insurance Forum for Supervisors and hope this platform will uphold the essential role of insurance in increasing the resilience of individuals and societies with international policymakers.

Q18 General comment on Section 3
Answer We would have liked to see a reference to the insurance penetration rate which overall remains low, even in developed markets. We also suggest recalling the essential role of prevention and the need to invest in it for the viability of an insurance product. The UNDP estimates every dollar spent reducing people's vulnerability to disasters saves around seven dollars in economic losses. So spending on prevention not only increases the resilience of countries to future disasters, but also protects economic growth. (Putting Resilience at the Heart of Development, Investing in Prevention and Resilient Recovery,
2012).

Q23 Comment on Paragraph 15
Answer We find the statement that 'many (climate factors) are already proving to be material for firms' dubious, without substantial evidence, and at odds with the use of 'may' or 'could' in the following part.

Q30 Comment on Paragraph 20
Answer To remedy the low penetration of agricultural insurance we suggest the creation of regional agricultural risk management associations, on a mutual, i.e. non-profit maximising basis.

Q33 General comment on Section 3.1.2
Answer Insurers' strategic decisions concerning investments is not and should never be in the remit of supervisors. As stated in the opening remarks, the sustainability criteria should cover all sustainability issues: environmental (including but not limited to climate change criteria), social and governance criteria. It is relevant for insurers to consider ad hoc material sustainability factors. We believe an insurer needs to tailor its investment decision-making process to its specific needs; sustainability cannot in itself be a sole criterion for investment in the case of an insurance company. The duties of care, loyalty and prudence towards policyholders are key elements of any prudential regime. Some prudential regulations stipulate that insurers have the obligation to invest in the best interest of all policyholders and beneficiaries. Concretely, this means that sustainability will be one of the many criteria that insurers identify as appropriate in their investment strategies and asset allocations, in order to meet their obligations under the prudent person principle. In addition, the prudent person principle requires that all assets are invested in a manner that ensures security, quality, liquidity and profitability of the portfolio, and in line with the nature and duration of insurance liabilities. There are therefore many elements that impact both the strategic and the tactical investment decisions, and investment decision-making cannot be reduced to a binary relationship between sustainability vs returns. The complexity of the subject thus requires that simplistic approaches that would not consider wider and interrelated factors be avoided. In particular, there is still a great deal of uncertainty as to what can be considered 'green', and it will take years to develop a widely accepted taxonomy. What is perceived as 'green'

today may very well prove to be problematic tomorrow because of its negative externalities (e.g. biofuels considered a panacea for the climate and yet detrimental to food security hence threatening the SDGs, making evident that a life-cycle approach is needed when assessing an issue. The same applies to electric cars and their batteries, for example). Consequently supervisors should be cautious before taking any hasty regulatory measures. There is however an aspect which regulators and supervisors could urgently tackle, that is short termism. We believe it can be curbed with adequate prudential and accounting rules for long term investments.

Q36 Comment on Paragraph 24
Answer The feedback from our members is at odds with the assertions made in this paragraph implying that insurers are not conscious of the risks posed by climate change to their portfolios. Keeping this in mind, the challenges posed by climate change are difficult to fully grasp given that many risks may not materialise in the coming years, or materialise gradually. In addition to that, the short-term focus of some legislation such as Solvency II in Europe imposes constraints on insurers' ability to invest over the long-term.

Q37 General comment on Section 4
Answer It is unclear to us why climate risks require a specific compliance mechanism

Q38 Comment on Paragraph 25
Answer We agree that the complex challenges presented by climate risks require a strategic response at a higher level, which we understand as the supra-national level. At national level, we think that it is important to encourage all stakeholders, from the public administrations to the private sector, to start assessing their exposure/vulnerability. In most cases, this could be helped by having insurance. In fact, studies show that sound policy decisions are very helpful in increasing the protection against extreme weather risks but also in enhancing incentives to invest in climate adaptation measures.
A special word has to be said about cities. They are essential to ensure global sustainability. According to ECLEI figures, cities represent 1.2% of the Earth´s surface, +50% of the global population, 75% of energy consumption & CO2-emissions; finally, 100 of the biggest cities have 30% of global GDP. .It is urgent that a constructive dialogue between the insurance sector and cities take place. Yet, according to ECLEI, more cooperation needs to take place between the insurance sector and the cities to overcome the challenges created by cities' inadequate use of insurance as a mechanism for risk management.
We should like to illustrate the value of Public Private Partnerships involving a wide range of stakeholders, with the project called Derris. It is the first European project that unites public administration, companies and the insurance industry, in this case the Unipol Group. Its aim is to reduce the risks caused by extraordinary climatic events, in particular to provide SMEs with the necessary instruments to assess and reduce their own risks, with a set of specific actions and objectives: http://www.derris.eu/en/climate-change/

Q41 Comment on Paragraph 28
Answer We would argue against any new reporting requirements. However, criteria adapted to the existing legislative environment to facilitate investors' performance of sustainability risk assessments could be useful. The criteria included in the TCFD's (Task Force on Climate-related Financial Disclosures) recommendations, PRI and UN Global Compact are clear and

could be the basis rather than developing new uniform criteria at global level. We see a risk that such a development may result in a “one size does not fit all” solution, which may have an adverse effect on sustainable investment which is often innovative and still developing. We do however support the development of a common taxonomy of sustainable factors that is likely to help companies in their disclosures and will help investors to materialize sustainability for all assets, with the caveat that it should be flexible enough so as to avoid stifling innovation.

Q53 General comment on Section 6
Answer We do not believe that the conditions are met at global level to amend the ICPs in light of the risks posed by climate change. The initiatives already taken by the jurisdictions that are documented in this paper are in early stages and all concur on the challenges created by the availability of data. We think the IAIS will play an important role as coordinator between the jurisdictions and disseminator of best practices. It seems to us that the relatively limited number of responses to the survey tends to point to the need for the IAIS to become instrumental in facilitating the exchange of information between advanced to less advanced and emerging markets.

Q124 General comment on Section 8
Answer Climate change is ‘a truly global issue that requires a global response’ (p.43 Swedish case study). A holistic approach to adaptation involving national, regional and local governments is a pre-requiste to enable the transfer of risk to the insurance sector. We thus feel strongly about the need for the IAIS to enhance its facilitating role with regard to the transfer of knowledge from advanced to less advanced markets in the field of resilience to climate-related risks.
In this respect, we would like to see this chapter needs fleshed out to include a wider range of jurisdictions, in particular in emerging countries. This should ensure some useful cross fertilisation in knowledge, experience and challenges from the grass root level.

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