

Insurance Europe response to IAIS third public consultation on climate risk supervisory guidance

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| Related documents: | | | |
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Introduction

Insurance Europe welcomes the opportunity to respond to the IAIS, 'Public consultation on climate risk supervisory guidance – ICP guidance and supporting material.'

While the paper states that the potential effects of climate change should be considered through traditional risk categories, it puts a lot of emphasis on climate related risks, as if it is a specific, separate risk category.

Comments on new ICP guidance 15.2.6

The following is added "Investment decisions, especially at a large scale, **[could]** in turn also negatively impact climate change, potentially leading to financial impacts on insurers' investments through the aforementioned traditional risk categories. Taking these risks into account, insurers **[could decide to take appropriate steps]**, such as engage with investees, divest of certain assets or change their investment strategy. This **[could]** also help insurers address potential reputational risks following from negative views of policyholders and market participants on their investment activities."

This wording seems to be very prescriptive

Comments on proposed changes to ICP guidance 15.3.1

The following is added: "For example, the insurer should consider how climate related risks may change conditions for asset-liability management, especially, but not only, when the liabilities have a long duration."

The focus is mostly on climate related risks, as if it is a specific separate risk category - while earlier in the ICP guidance it is specified that "Insurers should consider the potential effects of climate change in their investments through traditional risk categories"

Comments on proposed changes to ICP guidance 15.4.1

Insurance Europe is supportive of encouraging the usage of climate scenario analysis that includes both quantitative and qualitative information for assessing climate-related risks over different time horizons. The IAIS should however clearly state the limitations of such tools particularly as an instrument to inform concrete decision making and be mindful not to overpromote such tools for something they are not suited for.

The following is added: *"For certain investments where there are information gaps (for example, a lack of historical or readily available market data related to climate-related risks), the use of quantitative or qualitative scenario analysis could be useful in [replace:managing "by "assessing"] such risks."*

Similar comment as for 15.3.1 - The focus is only on climate related risks as the stated example.

ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material

Comments on proposed changes to ICP guidance 16.1.6

The proposed change to **16.1.9** adds climate-related risk to "other risks" within the scope of risk identification. This, however, is in conflict with the notion that climate-related risk influences existing risk categories.

Comments on proposed changes to ICP guidance 16.2.19

The following is added: *"or the impact of climate-related risk changes over varying time horizons (short, medium and long-term)."*

Seems to put the emphasis on climate related risks by adding a very specific example only in relation to climate risks, as other risks are not mentioned.

ICP 7 (Corporate Governance) supporting material

Comments on proposed changes to section 3.5 (Duties related to remuneration)

While Insurance Europe agrees that remuneration should be aligned with prudent risk-taking including climate-related risks, the new paragraph 36 comes across as an expectation for linking variable remuneration exclusively to the management of climate-related risks. The IAIS should refrain from creating the inappropriate impression that climate risks deserve preferential attention compared to other risk types. Insurance Europe is particularly concerned that the IAIS considers variable remuneration as a helpful tool for reaching climate-related or broader sustainability goals. It is not within the mandate of insurance supervisors to promote the transformation to a climate-neutral environment. In addition, the supposed emphasis on climate-related goals may expose senior management and the board to conflicts of interest.

ICP 15 (Investments) supporting material

General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 15 (Investments)

The proposed material appears to be quite prescriptive.

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