

IAA Comment Template

Draft Statement of Intent (SOI) for ISAP [8] IFRS S2 Climate-Related Disclosures

1. Do you agree that an International Standard of Actuarial Practice (ISAP) is needed on IFRS S2 Climate-Related Disclosures?

Yes

No

2. Are any of the proposed topics inappropriate for inclusion in ISAP [8]?

Yes

No

If yes, please explain why the particular topic should not be included.

3. What other topics should be included in ISAP [8]?

Please cover why you wish guidance in this area and if appropriate provide an example to illustrate the issue. Please note that the ISAP is not intended to address unique, country-specific issues. Member associations and local actuarial standard setting organizations could address such issues by providing additional guidance to their members as the ISAP is adopted, or adding such additional guidance within the local adaptation of the ISAP.

3.1. Provide more acquisition channels of climate data and clarify the review criteria for data quality.

Various non-traditional actuarial areas are covered in IFRS S2 requirements. However, the relevant data of climate change is limited. Assumptions and corresponding estimations are strongly relied on data adequacy and reliability when performing quantitative risk analysis. Therefore, we suggest that ISAP [8] provides more acquisition channels for the climate data and clarify the review criteria for data quality.

3.2. Include summaries on how climate risks can affect risks of insurance institutions.

With the climate change been evolving and intensifying, insurance industry has not developed mature understanding and valuation method of climate risks. For example, there is still no clear quantitative analysis methods for insurance companies to connect their financial performance and cash flows with climate data. We suggest that ISAP [8] clarify the connection between climate-related risks (including physical risks and transition risks) and insurance institution risks (such as market risk, credit risk, insurance risk, etc.), which will be the foundation for actuarial modelling and subsequent analysis

Example 1: In the industry-based guidance section, the IFRS S2 requires insurance institutions to disclose multiple metrics of climate-related insurance products and physical risks (such as “Net premiums written related to energy efficiency and low carbon technology” and “Problem Maximum Loss (PML) of insured products from weather-related natural catastrophes”). Although actuaries already have basis for calculating the required metrics through construction and analysis of catastrophe models, more support and guidance are still needed to form complete computational logic and mature methodology.

Example 2: For insurance institutions, the calculation of financed emissions is complex as it involves multiple assets, industries and geographics. It requires professionals with data modelling skills, such as actuaries, to participate in the relevant quantitative work. Compared to the banking industry, insurance industry has limited guidance on the financed emissions calculation. It is recommended that ISAP [8] can provide principle-based guidance on methodology and implementation paths for financed emissions considered in asset allocation process of insurance institutions.

3.3. Provide baseline scenarios and interpretation methods for different businesses.

The IFRS S2 requires insurance companies to perform climate-related scenario analysis with appropriate methodologies. However, actuaries have limited experience and knowledge for non-traditional actuarial fields at current stage. We suggest that, for different business types of insurance companies (such as insurance business, investment business, etc.), ISAP [8] provides corresponding baseline scenarios including how to set assumptions based on companies' business characteristics. This will provide a guidance for insurance companies to conduct scenario analysis according to their own situations.

Example 1: According to IFRS S2 paragraphs B8, B14, B15, companies should determine appropriate approaches for climate-related scenario analysis. So it is suggested to provide specific guidance on how to determine the quantitative, qualitative and combined scenario analysis method for different insurance business types in the SOI subsection 3.2.a Development of climate-related scenario analysis

Example 2: It is suggested to provide guidance in SOI subsection 3.2.a Development of climate-related scenario analysis on impact analysis methods (both quantitative and qualitative) for the macro assumptions under climate-related risk scenarios, which affect both insurance business and investment assets of insurance companies. For example, how the climate change and related macroeconomic scenarios can affect the incident rate of property insurance, life insurance and health insurance. And the effects on returns and defaults of various investment assets, such as the fixed income, the equity and the real estate.

3.4. Provide an instructional template for related disclosure.

We suggest that, for the climate-related disclosure, ISAP [8] provides corresponding instructional templates, including provisions and guidance for the implementation rules of quantitative and qualitative disclosure. This will increase the comparability between different insurance companies.

Example 1: The IFRS S2 indicates that an entity does not need to provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if the entity lacks the relevant skills, there are significant uncertainties in the assessment process or those effects are not separately identifiable (see paragraphs 19-21). These descriptions involve many judgements and can have a substantial impact on the disclosure, it is suggested that further guidance on the principle of “do not provide quantitative information judgement” can be provided by the SOI.

Example 2: Suggested to clarify the relationship between climate-related disclosure metrics and key actuarial/financial metrics, such as capital measurement, margin of risk and risk discount rate. And consider the relationship between IFRS S2 and other technical standards, such as IFRS 9 and IFRS 17 (such as how to consider ESG risks in the judgement of credit risk events in IFRS 9, and risk adjustment in IFRS 17).

4. Please use this space for any additional comments not covered above.

Some specific references for the IFRS S2 in the SOI changed in the official draft which was published on June 2023. Attentions should be paid to the possible impact of these changes on the SOI.

5. Please provide the name of the person completing the consultation response, association and email address for further clarifications (if needed).

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Type of response	<input type="checkbox"/> Personal <input checked="" type="checkbox"/> Organization

IMPORTANT:

Please check if the relevant check boxes are ticked appropriately and save the file renamed with the organization's or individual's name

(e.g., SOI_CommentTemplate_[NAME].Doc).

E-mail the file as an attachment to SOI.ISAP8.comments@actuaries.org, with "ISAP[8]" in the e-mail header. **Please respond by Wednesday, 23 August 2023.**