Climate Risk Initiative

Presented at the Members Forum of the IAA in Tokyo

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Proposed Climate Risk Initiative
Agenda – Proposed Climate Risk Initiative

- Background
- Why this kind of IAA activity
- What the IAA has done so far
- What is being done outside of the IAA
- Statement of Intent
- Next Steps
Background

• Climate-related risks have the potential to seriously affect the entire world
• The effects of climate-related risks are now actively being considered by governments, regulators, the insurance and reinsurance industries, pension plans and other entities around the world
• Supranational organizations have approached the IAA for input and meaningful engagement, including
  • IAIS
  • ISSA and ILO
  • OECD
Why this kind of IAA activity

• Base risks already addressed by actuaries (e.g. flood, health)
• Need to understand how base risk may evolve
• Actuaries are experts in risk management
• Part of IAA’s mission and vision is to help actuaries to be globally recognized leading experts in risk management, thus contributing to the well-being of society as a whole
What the IAA has done so far

• Climate Change and Mortality (Resource and Environment WG (REWG), Nov 2017)

• Decarbonisation: A Briefing Paper for Actuaries (REWG, Sept 2018)

• Flood Risk (REWG, Jun 2019)

• Climate Change, Insurance and Vulnerable Populations (Micro Insurance WG and REWG, Oct 2019)
What the IAA has done so far

In process:

- Risk Book chapter on Climate Change (Insurance Regulation (IRC) and REWG)
- Survey of Climate Change work across jurisdictions (IRC)
- Briefing papers:
  - Climate Change Adaptation - REWG,
  - Environment Risk Disclosures for Pension Plan – PBEC and REWG,
  - Water Quality - REWG
What is being done by FMAs - examples

• Actuarial Institute (Australia)
  • Development of standards for scenario analysis
  • The Australian Actuaries’ Climate Index
• Casualty Actuarial Society
  • The Actuaries’ Climate Index (ACI) and the Actuaries’ Climate Risk Index (ACRI), jointly with the AAA, CIA and SoA
• Canadian Institute of Actuaries
  • Public statement on environment provided to the Canadian Government
  • Practice area handbooks in process
• Institute and Faculty of Actuaries
  • Practical guides for actuaries in Pension, General, Life and Investments.
  • Raising the awareness of actuaries by various means
• Society of Actuaries
  • Catastrophe and Climate Strategic Research Program – topics such as flood, discount rate, health
Statement of Intent

Task force created by the EC to work out a Statement of Intent (SOI) for future work – for discussion amongst our FMAs

- Emphasis on communication and coordination

- Topics to be covered by year-end 2020
  - Role of the actuary and actuarial approaches to climate-related financial risk management
  - International developments in disclosure obligations
  - Analysis and selection of scenarios
  - Application of scenarios to insurance and pension liabilities
    - Identification of gaps in data availability
    - Assessment of methodologies and process capabilities
Statement of Intent

• Topics to be covered for 2021-2024
  • Application of scenarios to asset portfolio, encouraging consistency between asset and liability modeling
  • Advise supranational organizations on climate-related financial risk management, reporting and disclosure
  • Potential effects of transition and adaptation steps for the private and public insurance and pension sectors
  • Application of scenarios to social security
Next Steps

• SOI sent to Council October 21, 2019 for consultation
• Comment deadline - December 31, 2019

• Revision of the SOI to take into account comments received
• Council vote
Questions & Comments