

IAIS Consultation

Print view of your comments on "Issues Paper on the Implementation of the TCFD Recommendations" - Date: 04.02.2020, Time: 18:36

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Treat my comments as confidential	No

Question	
	Q1 General Comments on Issues Paper on Implementation of TCFD Recommendations
Answer	<p>As the worldwide organization of actuarial associations, the IAA is supportive of this IAIS initiative regarding climate related issues and is pleased to provide input to this Issues Paper. Throughout this IAA response the use of the word "insurer" is intended to include reinsurer as well.</p> <p>The IAA notes that the consideration of meaningful financial disclosure information by insurers in relation to climate risk is a very important aspect of sound governance and risk management. Greater awareness of climate related issues and their potential impact on insurers is an important step forward. The IAA cautions that proper consideration of climate risk for insurers remains a very complex task requiring careful implementation and close coordination among all industry and climate risk stakeholders. The IAA looks forward to being of assistance to the IAIS (and SIF) on this very important topic.</p> <p>While there is research and modelling available for the potential impact of climate change on aspects such as changes to global temperatures and sea levels, it remains challenging for insurers to connect those high-level assumptions with the specifics of their own businesses. This is due to the time horizon involved (both in terms of the climate projection periods and insurance policy coverage periods), interaction with other trends that may have faster impacts for some lines (e.g., self-driving cars and driver assistance technology for motor insurers), and the inherent uncertainty in the model projections. Nonetheless, actuaries are closely monitoring the observable trends. Given their experience with financial condition and catastrophe risk modelling, actuaries can be of assistance in building the tools/processes necessary for insurers to evaluate climate risk.</p> <p>Further complicating the consideration of climate change/risks are other global and regional changes to our atmosphere (i.e., beyond temperature and CO2 levels), our oceans (i.e., beyond their level), resource availability (e.g., key minerals and fuels), arable land usage, fresh-water availability, etc., to name but a few being studied by scientists. In addition, while climate risks are a global issue, their impact will vary considerably by geography due to local conditions including resource availability and ability or willingness to adapt.</p> <p>A challenge in assessing and communicating the impact of climate risks is that climate risk scenarios typically require years or even decades to evolve, yet stakeholders deserve to be informed today of the possible impact of those risks and the resilience of the insurer to withstand or benefit from them. Actuaries have long been central to this type of work through their roles within insurers and specifically the actuarial function. Traditionally, actuaries could use experience studies and trend analysis to help inform the actuary's selection of future assumption for economic, mortality, morbidity and lapsation variables. The climate risk scenarios being considered by scientists and regulators today may well result in noticeable changes in our economies, migration patterns, health, investments etc. However, the nature and extent of these changes is difficult to predict because they depend on the actions taken in the near term by societies to mitigate climate risk. Despite the additional challenge, actuaries can be of assistance in helping to make financial sense of future climate risk scenarios due to their roles in, and expertise with, insurers.</p>

The IAA notes that prudent governance and strategic management of climate risks by insurers may result in changes to their products, product design, product pricing, target markets, investments, risk management etc. Importantly, insurers may need to change their business models in order to meet the needs of their stakeholders. Supervisory notice of such changes may be just as important as the disclosure of current balance sheet sensitivity to climate risks.

As a closing introductory remark, the IAA notes that despite the role of insurers as a pillar in the provision economic financial security, governments remain exposed to financial loss as a result of disasters of all kinds. While insurers may provide some level of protection to policyholders, not all citizens may have purchased such coverage. Residual losses (e.g., resulting from a significant natural disaster or epidemic) from both partially covered policyholders and non-insured citizens may have a follow-on effect on the underlying economy, the financial outcomes of insurers and ultimately governments. Actuaries can be of assistance in advising both supervisors and governments on these ripple effects.

Q2 Comment on Section 1 Introduction

Answer

Q3 Comment on Section 1.1 Context

Answer

Q4 Comment on Paragraph 1

Answer

Q5 Comment on Paragraph 2

Answer

Q6 Comment on Paragraph 3

Answer

Q7 Comment on Section 1.2 SIF/IAIS action on climate risk

Answer

Q8 Comment on Paragraph 4

Answer

Q9 Comment on Paragraph 5

Answer

Q10 Comment on Section 1.3 Evolving supervisory interest in TCFD

Answer

Q11 Comment on Paragraph 6

Answer

Q12 Comment on Paragraph 7

Answer

Q13 Comment on Section 1.4 Objectives of this paper

Answer	
	Q14 Comment on Paragraph 8
Answer	
	Q15 Comment on Section 1.5 Inputs for this paper
Answer	
	Q16 Comment on Paragraph 9
Answer	
	Q17 Comment on Section 1.6 Structure of this paper
Answer	
	Q18 Comment on Paragraph 10
Answer	
	Q19 Comment on Section 2 Climate risk and insurance supervision: relevance of the TCFD Framework
Answer	
	Q20 Comment on Paragraph 11
Answer	
	Q21 Comment on Section 2.1 Climate risks and responses in the insurance sector
Answer	
	Q22 Comment on Section 2.1.1 Recent developments in climate science
Answer	
	Q23 Comment on Paragraph 12
Answer	
	Q24 Comment on Paragraph 13
Answer	
	Q25 Comment on Section 2.1.2 Industry responses
Answer	
	Q26 Comment on Paragraph 14
Answer	<p>The IAA welcomes the reference to the actuarial function and its important role in the insurance sector. As noted in the Issues Paper, "Through its core actuarial function, the insurance sector is perhaps the most well-versed part of the financial sector in understanding the pricing of climate risks". However, as noted by the Issues Paper significant differences in awareness of TCFD exist in the insurance sector.</p> <p>One of the most important missions of the IAA is to provide advice useful to supranational organizations such as the IAIS that helps such stakeholders in their well-informed and well-founded decision making. The IAA is planning its engagement in various climate risk related activities in 2020 and beyond including giving advice stemming from such activities</p>

to relevant stakeholders on a global level, including the IAIS. Through these initiatives, the IAA expects to contribute to the global efforts to further identify, measure and manage climate risks. . A key issue affecting financial institutions, including insurers, is the need to identify, develop and reach consensus with key stakeholders regarding relevant climate scenarios to be used for governance and risk management purposes. In turn the high-level assumptions of such scenarios (e.g., temperatures, rainfall patterns, sea levels etc.) require translation into both business model and financial impacts on the balance sheet. Some efforts to support this issue have been undertaken (such as the work being conducted by the North American and Australian actuarial associations in the development of their Actuaries Climate Indices), but far more is needed. The IAA believes that contributions in this field are one way in which the actuarial profession can assist both the IAIS (through the SIF) and the TCFD by enabling companies to effectively respond to the demands of the TCFD reporting methodology.

Q27 Comment on Paragraph 15

Answer

The statement that "Climate-driven events have been a factor in some insurer insolvencies" has only one incident cited to support the statement. It is important to understand the underlying causes of this insolvency. Some believe that the incident cited was more the result of poor risk management on the part of the insurer, and decades of mismanagement on the part of the local utility. For this reason, it would be beneficial to be able to cite the underlying causes for this failure as well as additional incidents to support the quoted statement.

Q28 Comment on Section 2.2 Recent supervisory developments

Answer

Q29 Comment on Paragraph 16

Answer

Q30 Comment on Paragraph 17

Answer

Q31 Comment on Paragraph 18

Answer

The IAA welcomes the development of this Question Bank on climate risks as this would be a direct tool to be used by supervisors in order to evaluate the resilience of the industry under their jurisdiction.

Q32 Comment on Paragraph 19

Answer

The IAA would welcome an opportunity to provide input to the development of the NGFS Supervisory Guide scheduled for an April 2020 release.

Q33 Comment on Paragraph 20

Answer

Q34 Comment on Paragraph 21

Answer

Q35 Comment on Paragraph 22

Answer

Q36 Comment on Section 2.3 Relevance of the TCFD to IAIS supervisory material

Answer

The IAA is supportive of the direction taken in Section 2.3. The IAA can be of assistance by identifying relevant actuarial aspects of TCFD that require consideration within the ICP's. Already underway within the IAA and in cooperation with our Full Member Associations is a review of actuarial practices involved in incorporating climate risk in an ORSA report.

Part of the challenge in identifying relevant actuarial aspects of TCFD relates to the difficulties in translating high level global climate change scenarios spanning decades into more detailed actionable ones that can be used by insurers in their risk management processes (e.g., including ORSA). Such translation may include the mapping of global environmental change to the location of the insurance risks (e.g., especially important for non-life risks if they are located in flood, drought, fire prone areas). Climate change may well impact geographies differently and those geographies may have different capacities for resilience. Another translation challenge may relate to the need to distinguish between the scenario projection period (i.e., global climate scenarios tend to encompass a few decades) and the impacts to be recognized within the typically much shorter forecast periods typical of financial condition testing such as ORSA.

Q37 Comment on Paragraph 23

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Q38 Comment on Paragraph 24

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Q39 Comment on Paragraph 25

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Q40 Comment on Paragraph 26

Answer

Q41 Comment on Paragraph 27

Answer

Q42 Comment on Section 3 Assessing TCFD implementation and climate risk disclosure within the insurance industry

Answer

Q43 Comment on Paragraph 28

Answer

Q44 Comment on Paragraph 29

Answer

Q45 Comment on Paragraph 30

Answer

Q46 Comment on Section 3.1 Results of the SIF Survey on TCFD Implementation

Answer

Q47 Comment on Paragraph 31

Answer

Q48 Comment on Section 3.1.1 Understanding climate change

Answer

Q49 Comment on Paragraph 32

Answer

The reported survey results appear to be mostly focused on broad global trends. More useful analysis would point out which jurisdictions and/or products had the greatest expected impact, and which had the least. Knowing the characteristics that lead to greater impact would be more useful than relying on broad averages. The IAA could be of assistance in fine tuning future surveys to deliver greater value and understanding of the risk dynamics.

Q50 Comment on Paragraph 33

Answer

Q51 Comment on Paragraph 34

Answer

The IAA notes with concern the last sentence of this paragraph which states, "Insurers that report they do not expect to be affected by climate change in any respect are predominately life insurers." While this may be due to insufficient awareness of climate risks (as noted by the Survey), the IAA expects that life insurers would be subject to the same categories of climate risk as were noted in paragraphs 32 and 33. However, an individual insurer's exposure to such categories of risk will vary based on factors such as the nature of the products sold (e.g., life vs non-life), the nature of the assets held and the time horizon being considered. While climate risks may be seen to have a greater impact on a non-life insurer's potential claims or business model, life insurers may experience noticeable impacts to their investment portfolio and potentially even their future claim costs, depending on the specifics of the climate risk scenario.

Q52 Comment on Section 3.1.2 TCFD awareness and implementation

Answer

The IAA notes the various impediments to TCFD awareness and implementation noted in this section of the Issues Paper. The IAA believes it can be of assistance in gathering jurisdictional best practices on actuarial aspects of TCFD disclosure to support the development of international actuarial principles and frameworks for climate risk disclosure as well as providing a forum for actuarial discussion of these disclosures. Given the importance of climate risk generally and TCFD specifically, the IAA expects there to be rapid growth and experimentation in TCFD disclosures in the coming years.

Q53 Comment on Paragraph 35

Answer

Q54 Comment on Paragraph 36

Answer

Q55 Comment on Paragraph 37

Answer

Q56 Comment on Paragraph 38

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Q57 Comment on Paragraph 39

Answer	
	Q58 Comment on Paragraph 40
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	Q59 Comment on Paragraph 41
Answer	
	Q60 Comment on Paragraph 42
Answer	
	Q61 Comment on Section 3.2 Identifying good practices
Answer	
	Q62 Comment on Paragraph 43
Answer	
	Q63 Comment on Paragraph 44
Answer	
	Q64 Comment on Section 3.3 Findings of the TCFD secretariat report
Answer	
	Q65 Comment on Paragraph 45
Answer	
	Q66 Comment on Section 4 The role of supervisors
Answer	
	Q67 Comment on Paragraph 46
Answer	
	Q68 Comment on Section 4.1 Options based on current and contemplated practices
Answer	
	Q69 Comment on Paragraph 47
Answer	
	Q70 Comment on Section 4.1.1 Ensuring climate risks are considered by all insurers
Answer	
	Q71 Comment on Paragraph 48

Answer	<p>The IAA concurs with the IAIS on the importance of including all insurers (including captives) within the scope of the proposed TCFD disclosures. As noted earlier in our response, despite the role of insurers as a pillar in the provision economic financial security, governments remain exposed to financial loss as a result of disasters of all kinds. While insurers may provide some level of protection to policyholders, not all citizens may have purchased such coverage. Residual losses (e.g., resulting from a significant natural disaster or epidemic) from both partially covered policyholders and non-insured citizens may have a follow-on effect on the underlying economy, the financial outcomes of insurers and ultimately governments. Actuaries can be of assistance in advising both supervisors and governments on these ripple effects.</p>
Q72 Comment on Section 4.1.2 Clarifying the relevance of TCFD to supervisory expectations	
Answer	
Q73 Comment on Paragraph 49	
Answer	
Q74 Comment on Section 4.1.3 Setting expectations to encourage TCFD-relevant practices	
Answer	
Q75 Comment on Paragraph 50	
Answer	
Q76 Comment on Section 4.1.4 Checking for coherence with other disclosure requirements	
Answer	
Q77 Comment on Paragraph 51	
Answer	
Q78 Comment on Section 4.1.5 Assessing coherence in climate risk disclosures within groups	
Answer	
Q79 Comment on Paragraph 52	
Answer	
Q80 Comment on Section 4.1.6 Providing standardised guidance to support TCFD-related activities	
Answer	
Q81 Comment on Paragraph 53	
Answer	<p>As noted in paragraph 53, the IAA can be of assistance to “provide guidance on how appropriate scenarios can be developed along with the associated impacts to an insurer’s business under those scenarios”. This is due to the pivotal roles of actuaries in insurer scenario testing, valuation, actuarial function and risk and capital management.</p> <p>The IAA notes the importance of considering in climate risk scenarios (among other things) the role played by other earth system processes (access to fresh water, availability of mineral resources, source of energy, ability and willingness to mitigate pollution etc.). These may be important to consider given their potential to non-linearly affect the climate risk scenario outcomes.</p>

Q82 Comment on Paragraph 54

Answer

The IAA believes it is premature for the IAIS to focus on the development of common climate risk scenarios. The IAA does support the development of greater awareness of TCFD (and climate risk more generally) and the various processes, assumptions etc necessary to support useful TCFD disclosures.

Q83 Comment on Section 4.1.7 Referencing TCFD as a component of mandatory climate risk disclosures

Answer

Q84 Comment on Paragraph 55

Answer

Q85 Comment on Paragraph 56

Answer

Q86 Comment on Paragraph 57

Answer

Q87 Comment on Section 4.1.8 Exploring new engagement models to support voluntary practice development

Answer

Q88 Comment on Paragraph 58

Answer

Q89 Comment on Section 5 Conclusion

Answer

Q90 Comment on Paragraph 59

Answer

Q91 Comment on Paragraph 60

Answer

Q92 Comment on Paragraph 61

Answer

Q93 Comment on Paragraph 62

Answer

Q94 Comment on Paragraph 63

Answer

Q95 Comment on Paragraph 64

Answer Due to the importance of the actuarial function as noted in paragraph 14, the IAA believes it can be of significant assistance to the IAIS/SIF in the development of the proposed Application Paper on Climate Risk in the Insurance Sector.

Q96 Comment on Annex 1: The role of supervisors: Case studies

Answer

Q97 Comment on Annex 2 – TCFD thematic areas with links to ICPs

Answer