

Public consultation on draft application paper on climate risk market conduct issues in the insurance sector

Survey response 1

Please provide your information:

Name: - Amali Seneviratne

E-mail address: - amali.seneviratne@actuaries.org

Name of jurisdiction: - International

Name of organisation: - International Actuarial Association (IAA)

Do you agree with your responses being made public on the IAIS website?

Yes

General comments on draft application paper

General comments on draft application paper on climate risk market conduct issues in the insurance sector:

Regulations of climate risk market conduct issues are not the independent regulation scheme, but basically in the scope of the existing regulation. It would be better to make this clearer.

The climate change risks, and their measurement, mitigations and adaptations are moving fast. In addition, the climate change impacts of each region show much different figures, which must be considered in treating regional project related financial products. Considering these to decide one standard now might discourage various new, good products and actions against climate change. The IAA will continue to cooperate with the IAIS and stand ready to provide technical support on the climate change area as required.

Section 1 Introduction

General comments on section 1 Introduction

Comments on section 1.1 Context and objective

Comments on section 1.2 Related work by the IAIS

Comments on section 1.3 Proportionality

Comments on section 1.4 Scope

Section 2 Greenwashing considerations

Comments on section 2 Greenwashing considerations

Comments on section 2.1 Introduction on greenwashing

In para 10. a minor comment but it is suggested that “englobe” is replaced with “encompass”.

In para 13 “to positively impact sustainability factors” could be changed to “to ensure sustainability”

Comments on section 2.2 Clear and robust sustainability-related definitions and criteria

The IAA agrees that it is important to consider the target market sustainability preferences and objectives when offering a product. However, it will also be important for supervisors to work with insurers to educate the target market in these topics to enable them to be in a better position to form their preferences and objectives and so make more informed decisions.

Given the ongoing development of sustainability criteria, for example by fund managers, the market conduct requirements should take into account the uncertainty associated with current fund/investment ratings. The natural/technical/social developments around climate change and local variation of climate change figure should also be considered.

The example given in Para 22 does not seem to be an example of either greenwashing or being misleading.

For Para.24, the second example “advertising that the business processes are sustainable.” would be better if changed to “... sustainable with no supporting information.”

In Para 26, given the definition of greenwashing earlier in the paper, it does not seem necessary to look at other jurisdictions.

Comments on section 2.3 Offering products with sustainable features that meet certain policyholder requirements

Para 37 requires insurers to consider whether a product will meet, over its lifetime, the identified sustainability-related objectives when testing an insurance product. Given ongoing developments, the IAA does not think this is feasible with any certainty so it might be better to say “...may meet... “ rather than “will”.

Comments on section 2.4 Insurers promoting their own sustainability profile to attract clients

Comments on section 2.5 Substantiation of sustainability representations presented to policyholders

Section 3 Natural catastrophes considerations

Comments on section 3 Natural catastrophes considerations

Comments on section 3.1 Introduction on NatCat considerations

As in the comments on Section 2.2, it will also be important for supervisors to work with insurers to educate the target markets on NatCat related insurance matters. Many of the examples in Par.60 would be addressed through consumer education.

Comments on section 3.2 Provide easy to understand products, using plain language

To completely delete words like “similar event” would be practically impossible. The IAA believes that completeness and understandability are a trade-off.

Comments on section 3.3 Test the understanding of exclusions and promote transparent advice

Comments on section 3.4 Affordability

The IAA believes the term “non-discriminatory” needs to be explained further as the nature of underwriting means that some policyholders will inevitably pay higher premiums than others or may be declined cover.

It also often the case that NatCat models are not developed solely by actuaries, so the need to reflect “actuarial models” might be better replaced with, say, “adequate technical models”

Para 80 says “Such pricing techniques may lead to an unjustified increase in the price for NatCat and household insurance, resulting in consumers cancelling or not buying the policy.” It seems that, unless this happens across a market, one company losing business is not a problem, rather the concern is for the consumers who renew on the unjustifiably increased premiums.

Para 81 suggests public intervention may be required. The IAA believes that any public intervention should be transparent, and principle/rules-based (and not ad hoc).

Comments on section 3.5 Access

Any initiatives to aid consumers in purchasing insurance should also consider relevant government initiatives and/or government-industry relationships in this area – for example government subsidies/initiatives which could make insurance cover more affordable.

Comments on section 3.6 Timely and fair claims handling

Section 6 Additional questions

Does the draft application paper provide sufficient detail to be a useful tool for supervisors and insurers?

Is there any additional work the IAIS should be undertaking in the area of climate risk market conduct issues in the insurance sector?