

Public consultation on climate risk supervisory guidance – ICP guidance and supporting material

Survey response 1

Please provide your information:
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Do you agree with your responses being made public on the IAIS website?
Yes

ICP 15 (Investments) guidance material

General comments on the proposed changes to reflect climate risk in ICP 15 (Investments) guidance material
<p>Overall, the documents focus more on the down (negative) side of the risk stemming from climate change and omit entirely the up (positive) side of such risks, i.e. the potential opportunities stemming from climate change. In some of the ICPs this is understandable, however, in some others, such as ICP 7 (Corporate Governance), ICP 8 (Risk Management and Internal Controls), ICP 14 (Valuation) and ICP 16 (Enterprise Risk Management for Solvency Purposes, especially in relation to the ORSA process) considering the opportunities realistically (and, similarly to the down side of the risk, along appropriate scenarios) would be an important role of insurers and hence their supervisors. For example, when the Supporting material paper talks about the valuation of assets, it writes "On the asset side, climate risk has the potential to diminish the value of investments through both transition and physical risk." However, for certain assets an upside risk of increasing the value of the asset exists and for valuation purposes such change should also be considered.</p> <p>Also, insurers should consider (and supervisors should assess) potential future actions in motivating their clients, and the companies in which they are invested, to take adaptive measures against the expected or potential impacts of climate change.</p> <p>Finally, it could be that talking about 'climate change' with no further elaboration might lead to a rather restricted interpretation of the impacts of climate change. Perhaps using a phrase such as 'risks related to climate change' would more clearly include all such risks (like physical, transition, legal, reputational risks). For example, it is important to highlight the role of transition (and other) risk and not just physical risks.</p>
Comments on proposed changes to ICP guidance 15.2.3
Comments on new ICP guidance 15.2.6
Comments on proposed changes to ICP guidance 15.3.1
Comments on proposed changes to ICP guidance 15.4.1
<p>In paragraph 15.4.1 the IAA suggests changing the word "could" to "might" where it currently reads "the use of quantitative or qualitative scenario analysis could be useful in managing such risks." The word "could" implies that it would be useful and the insurer has the option of whether to use such scenario analysis. The word "might" allows for the possibility that the scenario analysis might not be useful (which is probably more accurate).</p>
Comments on proposed changes to ICP guidance 15.4.2

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

General comments on the proposed changes to reflect climate risk in ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material
<p>In Solvency II the term “sustainability risks” is used whereas in this ICP the term “climate-related risks” is used. The IAA prefers “sustainability risks” because of the broader scope.</p> <p>A good definition of emerging risks is often missing, and as emerging risk management becomes more and more important given the increasing speed of development. The IAA suggests that a definition needs to be added in the IAIS Glossary on emerging risks. . The IAA believes that the ICPs need more clarity with regard to this term.</p> <p>In the recent changes to the delegated acts under Solvency II, Article 269 has been amended into “identifying and assessing emerging risks and sustainability risks”, suggesting that sustainability risks, including climate-related risk can always be separated from emerging risks. The IAA does believe that most sustainability risks have already been transferred to the traditional risk types and some sustainability risks still can have an emerging nature.</p> <p>Article 16.1.9 of this ICP speaks of climate-related risk and other emerging risks suggesting that climate-related risks are always emerging in nature, which is not necessarily the case.</p>
Comments on proposed changes to ICP guidance 16.1.1
<p>Comments on proposed changes to ICP guidance 16.1.9</p> <p>The proposed wording implies that all the risks in the last sentence of this section are “emerging risks”. This is not always the case, as legal risks for certain products would not be considered “emerging”, nor would “group risk” in many contexts be considered “emerging”. Recommend deleting the words after “group risk”.</p>
Comments on proposed changes to ICP guidance 16.1.3
<p>Comments on proposed changes to ICP guidance 16.1.11</p> <p>The IAA suggests including:</p> <p>In its strategic ERM approach, the insurer should take into account risks that relate to remaining a “going concern” over a longer period of time than the time horizon of their detailed business plan and consider risks (such as climate related risks) that may have a serious impact of its market presence in relation to its strategically covered lines of business.</p>
Comments on proposed changes to ICP guidance 16.1.6
<p>Comments on proposed changes to ICP guidance 16.1.14</p> <p>The IAA suggests amending the first sentence to: “Sources of risks may include natural or other catastrophes, downgrades from rating agencies or other events that may have an adverse impact on the insurer’s financial condition and reputation such as deteriorating conditions due to crystallizing chronic climate risks.”</p>
Comments on proposed changes to ICP guidance 16.2.2
Comments on proposed changes to ICP guidance 16.2.16
Comments on proposed changes to ICP guidance 16.2.19
Comments on proposed changes to ICP guidance 16.6.6
<p>The parenthetical part of the guidance states “(although within the maturity profile of their investment portfolio)”. However, when considering the risks, the insurer should not be limited to the insurer’s current investment portfolio’s maturity profile if the liability profile is longer (i.e. they should consider the reinvestment risk where relevant).</p>
Comments on proposed changes to ICP guidance 16.12.1
Comments on proposed changes to ICP guidance 16.16.9

ICP 7 (Corporate Governance) supporting material

General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 7 (Corporate Governance)

Comments on proposed changes to section 3.3 (The role of the Board)

It should be noted that expertise within the Board (or, even if delegated, within the insurer management) is likely to be constrained in relation to the scientific bases of climate-related risks and the insurer may need to use external information such as climate scenarios. In relation to such information there are some key considerations and requirements such as the appropriateness, completeness, relevance and reliability of the information used for decision making.

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

ICP 8 (Risk Management and Internal Controls) supporting material

General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 8 (Risk Management and Internal Controls)

Point 41
The IAA suggests adding “When addressing climate-related risks, insurers should be aware of, and consider, the extent to which these risks could affect the longer-term strategy of the insurer (such as its continued market presence beyond the maturities of their current assets and liabilities), their current assets and liabilities through different channels (including physical, transition and reputational/liability risks).”

Point 42
The IAA suggest adding text on health insurance and the potential for (up or down) changes in morbidity rates, pandemics and the interrelationships between private and public health insurance where relevant.

Comments on proposed changes to section 4.1 (Integrating climate-related risks into the scope of the risk management system)

Comment on Point 52
It appears that the list of examples considers acute risks and disregards chronic risks.

ICP 14 (Valuation) supporting material

General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 14 (Valuation)

Comments on section on Valuation of assets

Comments on section on Impacts on types of valuations

Comments on section on Time horizons of the investment

Comments on section on Valuation of liabilities

The paper does not seem to address some of the specific issues related to how climate-related risks could impact valuation of future claims liabilities.

In addition, firstly, there is so much uncertainty about the future that future outcomes may not be reliably estimated. For many other assumptions, more or less reliable estimates can be given; however, it is not the case for the assumptions that are related to climate change. Scenarios do not help if no reliable probability can be associated with each scenario. Guidance should be provided to insurers which aspect they should give more emphasis in the valuation: prudence or absence of bias.

Secondly, given it is likely that a reliable central estimate is unavailable, to what extent should insurers consider the uncertainty related to climate in the central estimate or in the margin over it?

Thirdly, it could be noted that insurers should consider the impact of mitigation and adaptation where relevant.

ICP 15 (Investments) supporting material

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

Comments on section on Climate change factor for investment requirements

Comments on section on Investment of assets for the portfolio as a whole

Comments on section on Asset liability management

Comments on section on Risk assessment and management of investments

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

General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 16 (Enterprise Risk Management for Solvency Purposes)

Comments on section on Risk identification and measurement

Comments on section on Risk concentrations

Comments on section on Corporate strategy and time horizons

It should be noted that in its strategic ERM approach, the insurer should take into account risks that relate to being a going concern over a longer period of time than the time horizon of their detailed business plan. They should also consider risks (such as climate related risks) that may have a serious impact of its market presence in relation to its strategically covered lines of business. Consequently, the time horizon for the strategy perspective may need to be much longer than the business planning of the insurer, i.e. it may need to have regard to a long-term strategic goal of the insurer for each major line of business.

Comments on section on Risk appetite and limits

Comments on section on Asset liability management

Comments on section on Investment policy

Comments on section on ORSAs

Similarly to Comments on section on Corporate strategy and time horizons, the time horizon for the ORSA may need to have regard to the long-term strategic goal of the insurer for each major line of business. Although the ORSA should be conducted over the business planning horizon, it also may need to have regard to the long-term strategic goals of the insurer. In addition, it would be important to consider the level of reliability of the applied scenarios and disclose such information in the ORSA report.