



Consultation on the draft “Issues Paper” produced by the SIF and IAIS on TCFD implementation in the insurance industry

14 January 2020

A global webinar by UN Environment Programme’s (UNEP) Principles for Sustainable Insurance Initiative (PSI) and Sustainable Insurance Forum (SIF) in partnership with the International Association of Insurance Supervisors (IAIS)

1st Webinar: 9:00 to 10:30 am Central European Time

2nd Webinar: 3:00 to 4:30 pm Central European Time



Speakers



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UNEP's Principles for Sustainable Insurance Initiative (PSI)



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UNEP's Sustainable Insurance Forum (SIF)



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Head of Implementation

International Association of Insurance Supervisors (IAIS)

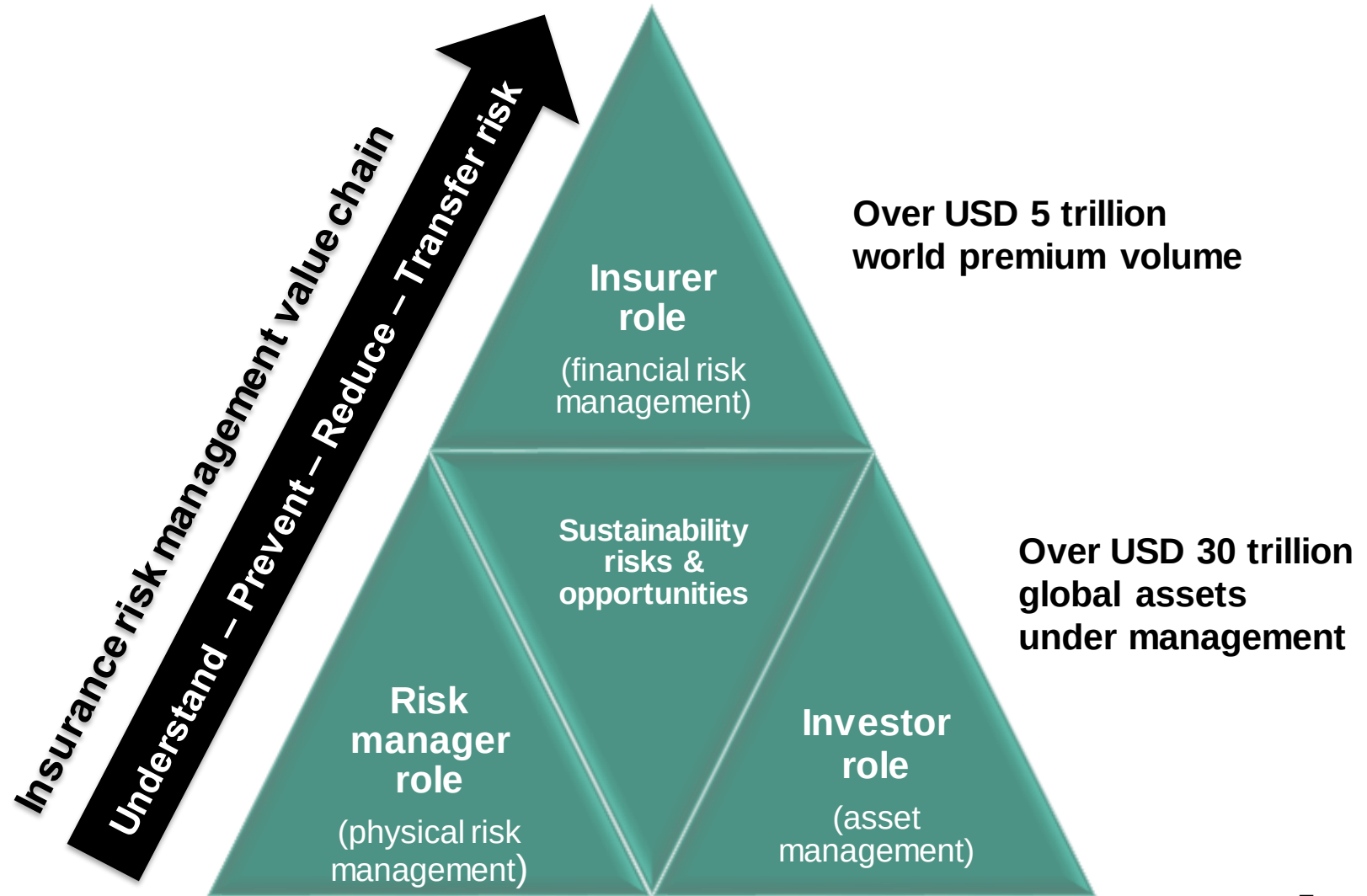


Agenda (total time: 90 minutes)

- **Welcome**
- **Climate risks and the TCFD from a PSI perspective**
- **Introduction of the SIF**
- **Presentation of IAIS work on climate risks to date**
- **Overview of SIF/IAIS Issues Paper: Key findings & consultation process**
- **Concluding remarks**

Climate risks and the TCFD from a PSI perspective

The triple role of the insurance industry in addressing sustainability risks & opportunities



The Principles for Sustainable Insurance: A global roadmap to drive systemic change



PSI

Principles for Sustainable Insurance

Principle 3:

We will **work together with governments, regulators and other key stakeholders** to promote widespread action across society on environmental, social and governance issues.

Principle 1:

We will **embed in our decision-making** environmental, social and governance issues relevant to our insurance business.

Public

**Governments,
regulators &
other key
stakeholders**

**Clients &
business
partners**

Clients, suppliers,
agents, brokers,
insurers, reinsurers

Core business

Company strategy
Risk management
Insurance underwriting
Product development
Claims management
Sales & marketing
Investment management

Principle 4:

We will **demonstrate accountability and transparency** in regularly disclosing publicly our progress in implementing the Principles.

Principle 2:

We will **work together with our clients and business partners** to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

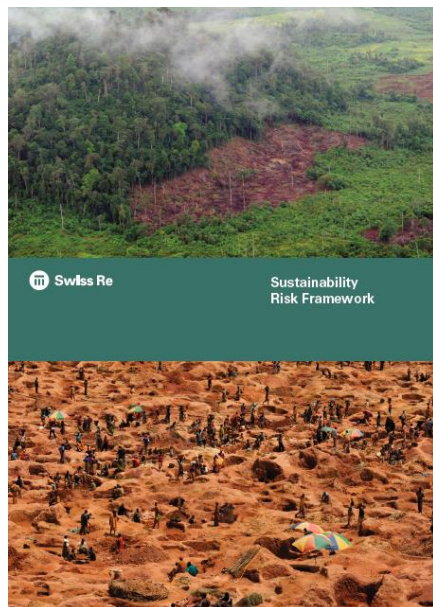
Implementing the Principles: Examples

A company commitment



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Principles for Sustainable Insurance



Swiss Re's Sustainability Risk Framework

Umbrella policies

- Human rights & environmental protection

Guidelines

- Animal testing
- Dams
- Defence sector
- Forestry, pulp & paper, palm oil
- Mining
- Nuclear non-proliferation
- Oil & gas
- Thermal coal

Swiss Re among first in insurance industry to integrate environmental, social & governance (ESG) benchmarks into investment decisions (Jul 2017)

- Swiss Re publication explains why ESG integration makes economic sense for long-term investors
- Swiss Re selected benchmarks based on the MSCI ESG methodology for its equities and fixed income portfolios

Environmental, social and governance aspects

Environmental aspects	Social aspects	Governance aspects
Pollution	Political environment and public perception	Responsible and careful planning and assessment
Natural resources and biodiversity	Working conditions	
	Health and safety for the community	Compliance
	Resettlement of people	Consultation and transparency
	Cultural heritage	

Munich Re's processes, guidelines and tools to assess ESG issues in insurance underwriting and investment

Allianz's ESG framework for insurance and investment transactions

SCOR's scoring grid to help insurance and reinsurance underwriters assess ESG practices in sensitive sectors and lines of business

Implementing the Principles: Examples

A company commitment



Principles for Sustainable Insurance

2015 Climate Finance Day



“The debate is no longer about whether, it’s about when. As an insurer, I have personally witnessed many times humanity’s capacity for resilience. This gives me hope that we will learn from the errors of the past and set ourselves on a path towards a more sustainable future, beginning here today and resulting in a comprehensive, fair and ambitious agreement this December. In any case, we have no choice: a 2°C world might be insurable, a 4°C world certainly would not be.”

Henri de Castries, Chairman & CEO, AXA Group, 22 May 2015, Climate Finance Day, Paris

2019 AXA-PSI Climate Impact Day



Various PSI members have made commitments to disengage from coal-intensive business through their investments and/or insurance underwriting, to increase green investments, and/or align investments with science-based targets and the goals of the Paris Climate Change Agreement

- Target “warming potential” of AXA’s investments to below 1.5°C by 2050 + Join UN Net-Zero Asset Owner Alliance
- Green investment target doubled to EUR 24 billion by 2023
- Investment in new asset class: Transition bonds
- Total coal exit (2030 → OECD + EU / 2040 → rest of world)
- FastCat: Parametric assistance service



Examples of climate & sustainability disclosure frameworks and initiatives over the years relevant to the insurance industry



CDP (formerly the Carbon Disclosure Project)



Climate Disclosure Standards Board



ClimateWise Principles



Global Reporting Initiative



International Integrated Reporting Council



Principles for Responsible Investment



Principles for Sustainable Insurance



Sustainability Accounting Standards Board



US National Association of Insurance Commissioners (NAIC) Insurer Climate Risk Disclosure Survey

Figure 7

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

UNEP FI's TCFD main focus across banking, insurance and investment



Why scenario analysis?

The timing, magnitude and nature of climate change impacts on companies' business models, strategies and financial performance are uncertain.

To appropriately incorporate these potential impacts in strategic decisions, banks, insurers and investors need to analyse the potential risks and opportunities under various possible states of the world, exploring a wide variety of sensitivities.

UNEP FI and its investor project to pilot TCFD recommendations

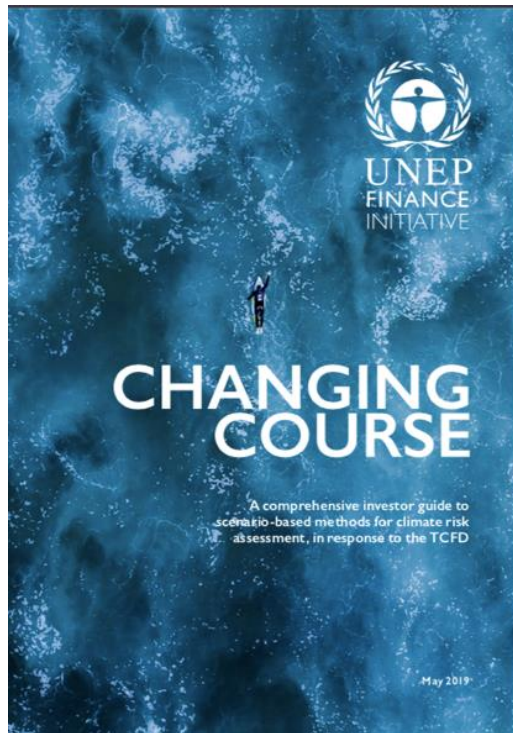


UNEP FI worked with 20 of the world's largest investors (including insurers) from 11 countries between 2018-2019, with the support of consultancy firm Carbon Delta, to analyse and apply state-of-the-art methodologies for assessing the impact of climate change on investors' portfolios

The UNEP FI investor TCFD pilot project's “Changing Course” report

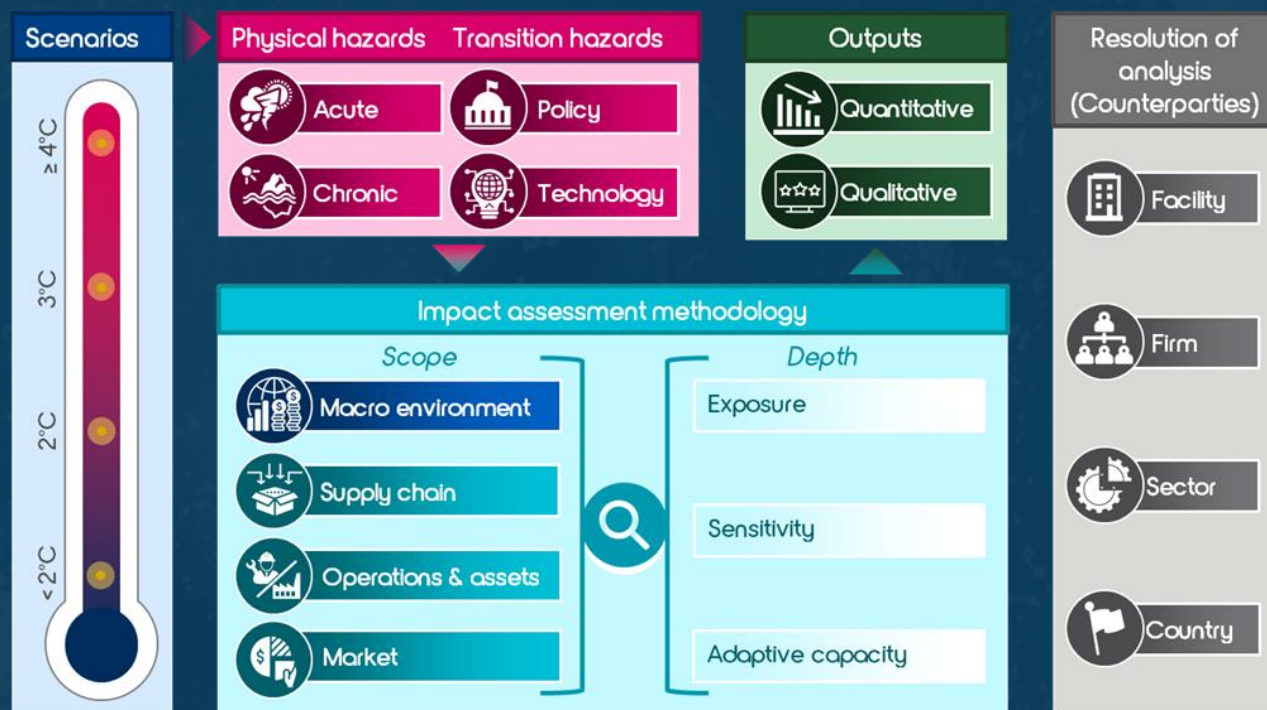


May 2019



- A comprehensive mapping
- Step-by-step detail on the piloted methodology
- Real investor experiences
- www.unepfi.org/investment/tcfd

Advancing understanding of TCFD recommendations: Analytical elements of a scenario-based impact assessment

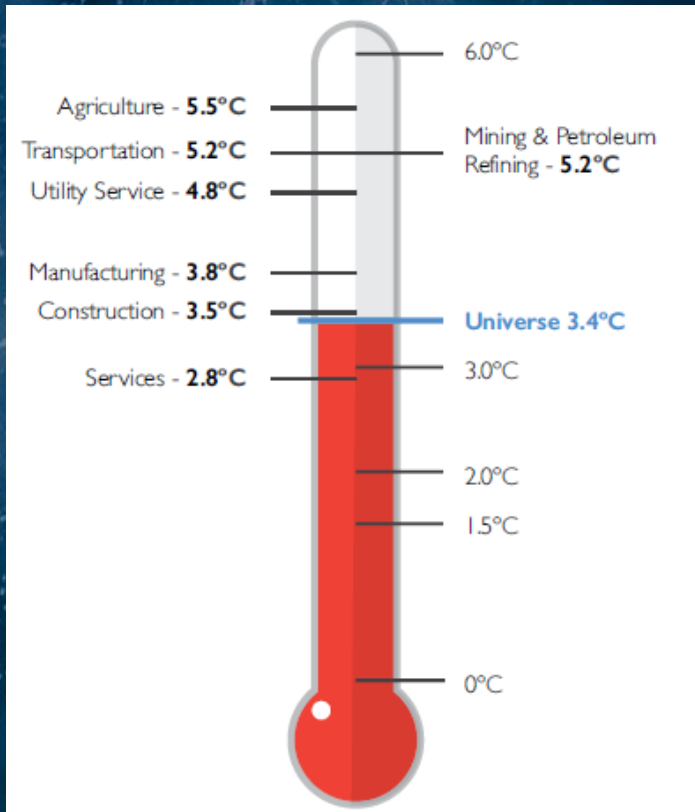


Physical and transition impacts are then translated into financial values through financial modelling against various resolution levels

Putting risk in context: Examples of initial findings from the analysis

- -13.16% policy risk → Investors face as much as 13.16% of risk from the required transition to a low-carbon economy
- USD 1.2 trillion → Investors face increased risk if governments act late
- 6x revenues → Green revenues in a 1.5°C world are six times that of a 3°C world

The UNEP FI investor TCFD pilot project's “Changing Course” report



**The next frontier:
From risk assessment
to aligning portfolios**

Insurers and other investors aligning their investment portfolios with 1.5°C target of Paris Agreement



Net-Zero Asset Owner Alliance launched at UN Secretary-General's 2019 Climate Summit

The Alliance Commitment (currently representing over USD 2 trillion in assets under management):

- Transition investment portfolios to net-zero GHG emissions by 2050 consistent with 1.5°C target
- Take into account best available scientific knowledge including IPCC findings
- Regularly report on progress, establish intermediate targets every 5 years in line with Paris Agreement
- Commitment embedded in holistic ESG approach, incorporating climate change, and emphasize GHG emissions reduction outcomes in real economy
- Advocate for and engage in corporate and industry action, as well as public policies, for low-carbon transition of economic sectors in line with science, and considering social impacts
- Commitment made with expectation that governments will follow through on their own commitments to ensure objectives of Paris Agreement are met

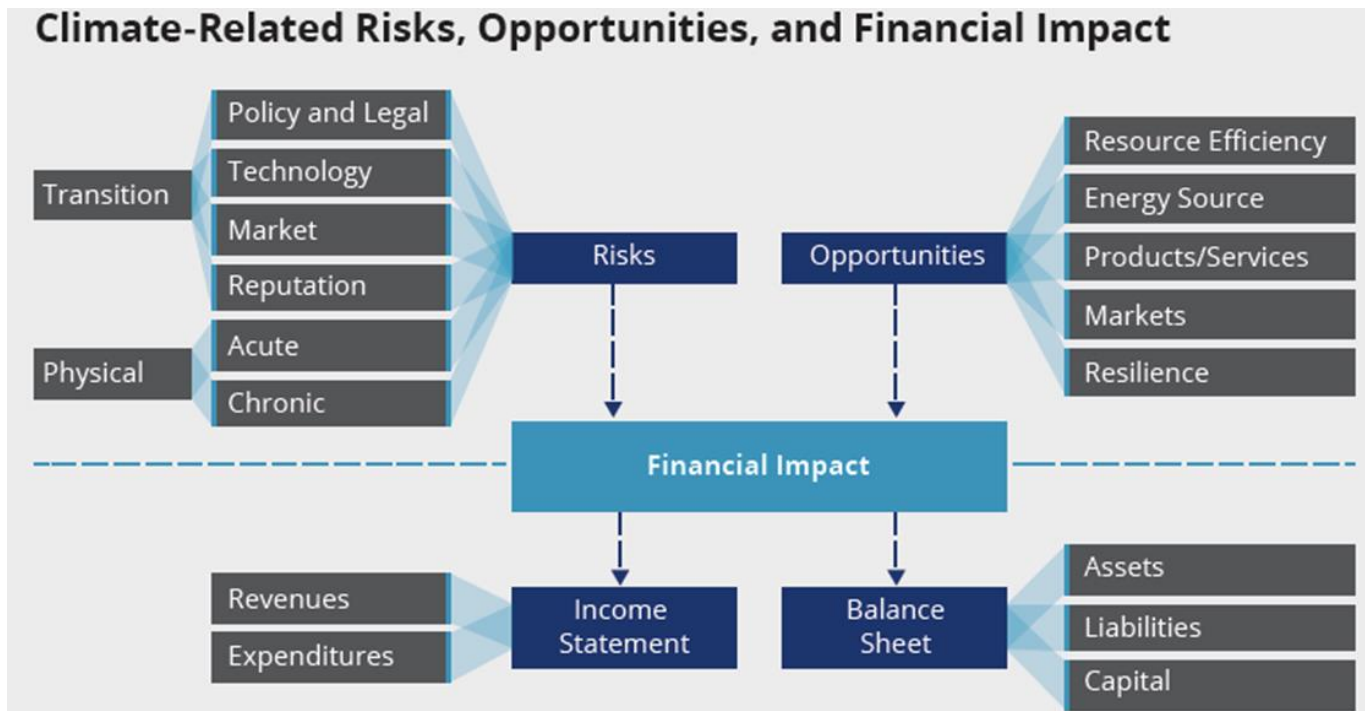
TCFD implementation is also PSI implementation

Principle 1: We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.

Principle 2: We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

Principle 3: We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

Principle 4: We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.



PSI insurer project to pilot TCFD recommendations



23 leading insurers: > 10% of world premium & USD 6 trillion assets



Will develop new generation of tools to assess climate-related physical, transition and liability risks



Aims of PSI insurer TCFD pilot project

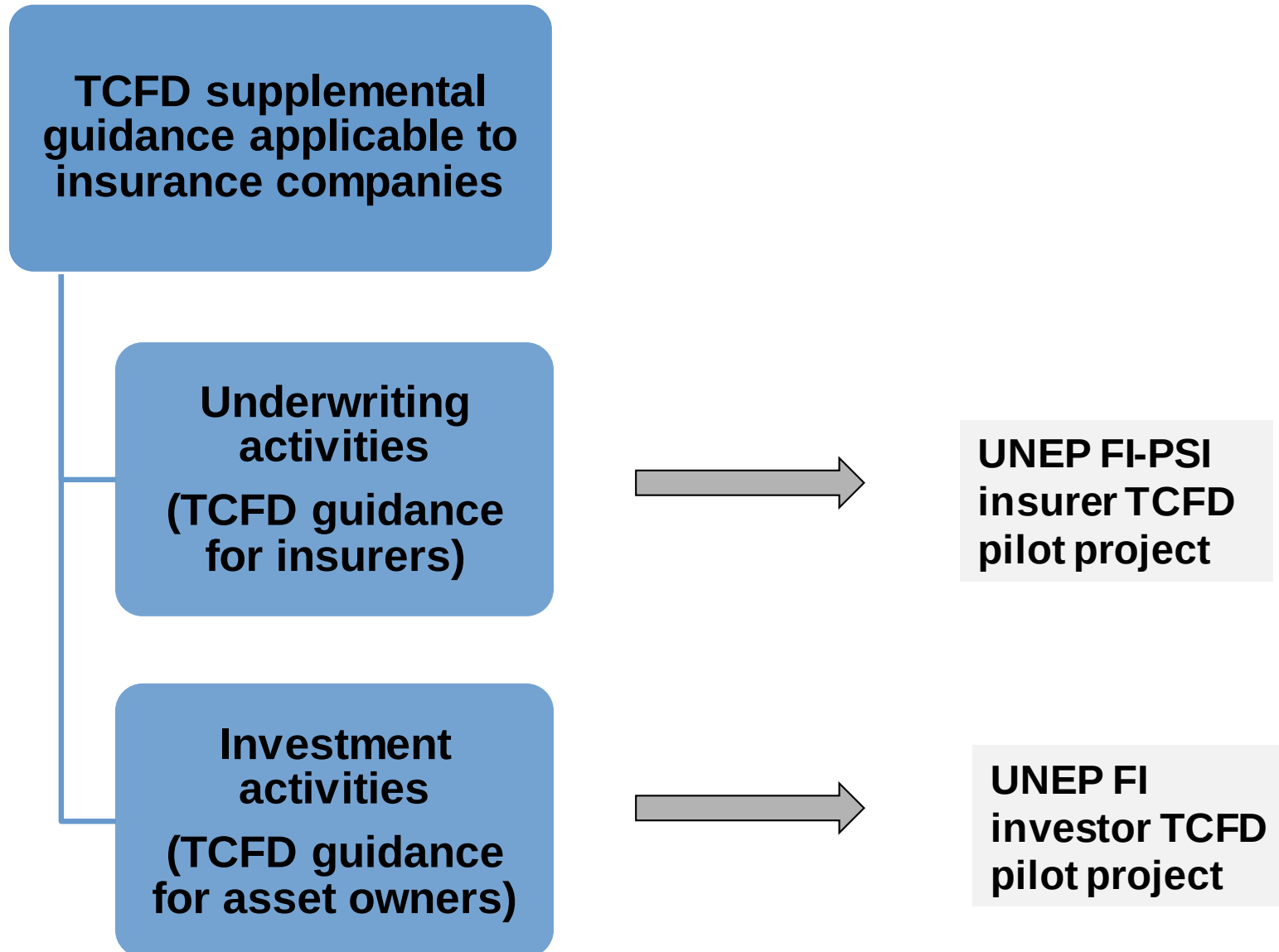


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- **Proactively support** PSI pilot group member insurers to assess and disclose climate-related risks and opportunities in way that is aligned with the TCFD recommendations
- **Contribute to the emergence of a harmonised approach** to TCFD disclosure by insurers, and provide guidance to the wider insurance industry
- **Publicly signal** insurer support and determination on the Financial Stability Board's push for climate risk transparency through the TCFD recommendations

Scope of PSI insurer TCFD pilot project



**PSI**

Principles for Sustainable Insurance

Which TCFD recommendations?

Figure 7

Recommendations and Supporting Recommended Disclosures

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Which risks?



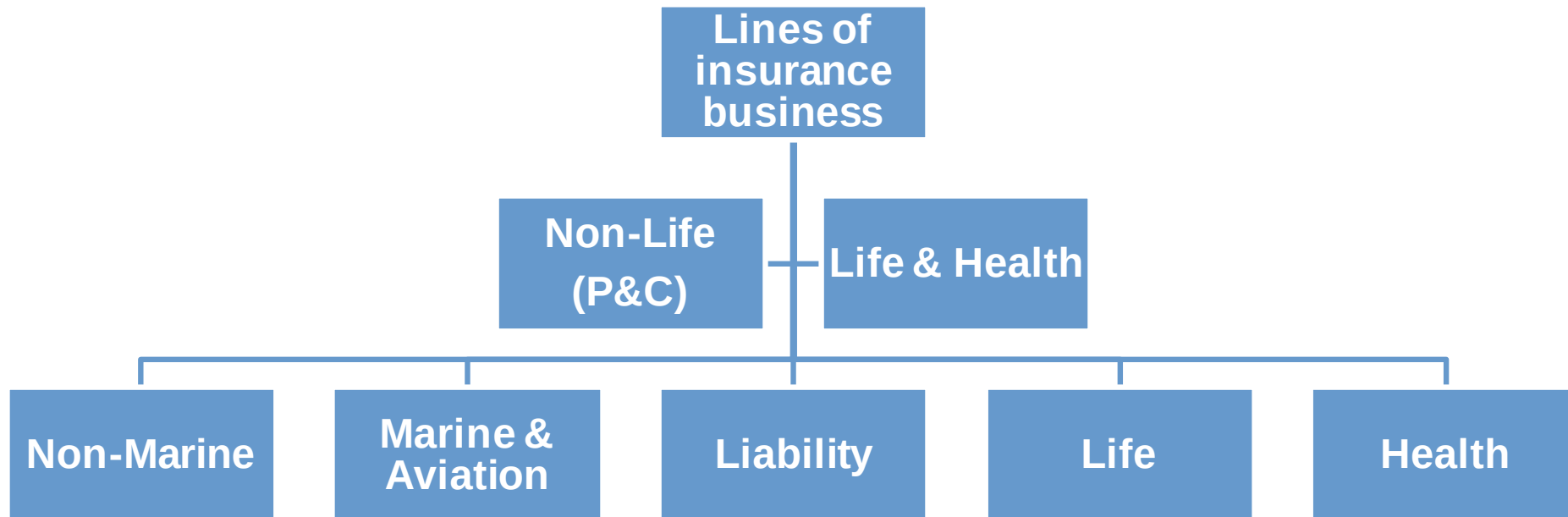
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Transition	Physical
• Policies for reduction of carbon emissions	Direct: • Temperature change • Change in wind patterns • Change in precipitation patterns
• Policies for adaptation	
• Technology innovation/break-throughs	Indirect: • Drought • Flood • Rising sea levels • Changes in ecosystems
• Changing consumer preferences	



Which lines of insurance business?



Which industry sectors?



Energy

- Oil and Gas
- Utilities including renewables



Transport

- Infra-structure
- Vehicle manufacturers
- Vehicle Operators



Agriculture

- timber
- Crop production
- Animal farming



Metals and Mining

- Coal mining
- Other extraction and processing of minerals



Real Estate

- Commercial
- Mortgages



Which temperature increase scenarios?

Green scenario

Brown scenario

Scenario	Rapid Energy Transition	Two-degree	Business as usual
Corrective transition response	Radical and swift	Strong, beyond current commitments	Current trajectory, based on efforts already under way
Change in temperature vs. pre-industrial era (2100)	1.5°C	2°C	4°C
Emission peak	2020	2020	2040
% fossil fuel in energy mix (2050)	<40%	<50%	80%



More Transition Risk

- Controlled yet aggressive change
 - Major short term impact but reduced long-term impact
 - Lowest economic damage

More Physical Climate Risk



- Uncontrolled change
 - Limited short-term impact but major long-term impact
 - Economic damages increase

PSI insurer TCFD pilot project: 2020 timeline

January to July 2020

- Research and development of scenarios, metrics and methodologies with external experts
- Heat maps
- Case studies
- Impact pathways
- Interim report

July to November 2020

- Road-testing
- Software tools
- Final report

Examples of other PSI collaborative initiatives relevant to climate risks and the TCFD

Brazil becomes first insurance market in the world to commit to climate risk transparency (May 2018)



Latin America's largest insurance market declares support for promoting dialogue on practical and effective ways to meet recommendations of Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD)

"Rio Declaration on Climate Risk Transparency by the Brazilian Insurance Industry" signed by Brazilian insurance association (CNseg) and Brazilian insurance regulator (SUSEP)

- Brazil insurance industry **fully supports aims of Paris Agreement on Climate Change** and insurance industry has important role to play as **risk managers, underwriters and investors**
- Managing risk is core business of insurance industry → includes **understanding and reducing climate-related physical, transition and liability risks** associated with **underwriting and investment activities**
- Brazilian insurance industry believes **climate risk transparency essential to better managing impact of climate-related risks on the insurance industry**, and to **promoting sustainable insurance markets**
- Brazilian insurance industry **supports dialogue on practical and effective ways to meet TCFD recommendations** → should consider **particularities of local insurance and financial markets and materiality of climate-related risks across lines of insurance business and asset classes**

First global guide to manage ESG risks in non-life insurance business

(Feb 2019 → public consultation version)



PSI

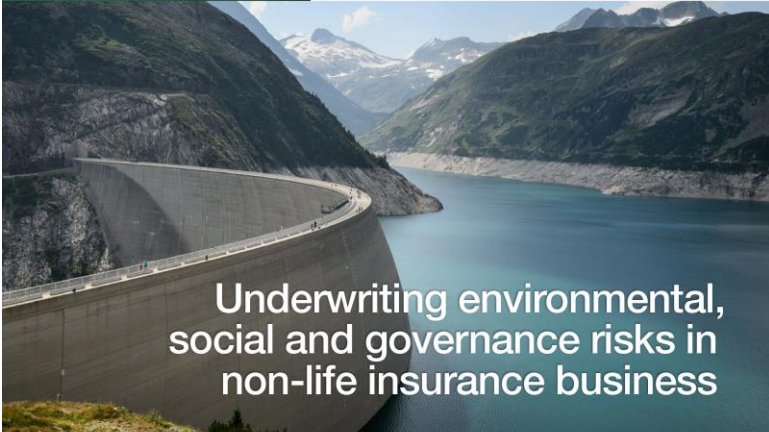
Principles for Sustainable Insurance

Working draft for
public consultation:

27 February to 30 June 2019



PSI
Principles
for Sustainable
Insurance



Underwriting environmental,
social and governance risks in
non-life insurance business

The first ESG guide for the global
insurance industry developed by
UN Environment's Principles for
Sustainable Insurance Initiative

This PSI project was co-sponsored by:



PSI working paper
February 2019

Objectives of the guide:

- Provide guidance to insurance industry participants in developing **approaches to assess ESG risks in non-life insurance, particularly industrial & commercial insurance**
- **Support clients, intermediaries and other stakeholders in facilitating ESG-related info** which might be required during ESG due diligence of transactions
- **Highlight materiality of ESG risks to various lines of business and economic sectors**, including characteristics which might affect ability to assess and mitigate such risks
- **Address growing concerns by stakeholders (e.g. NGOs, investors, governments) on ESG risks and articulate peculiarities of insurance business**
- Demonstrate valuable role insurance industry plays in global economy and society, and **strengthen industry's contribution to sustainable development**

Using the guide



PSI
Principles for Sustainable Insurance



ESG heat maps across economic sectors and lines of business



PSI
Principles for Sustainable Insurance

CRITERIA	THEME	RISK CRITERIA	RISK MITIGATION EXAMPLES & GOOD PRACTICES	ECONOMIC SECTORS																				Principles								
				Agriculture / Livestock	Agriculture / Fishing	Agriculture / Paper & Forestry	Chemicals	Defense	Electronics / Technology	Energy Operation	Construction / Coal	Construction / Hydropower Dams	Construction / Nuclear	Exploration & Construction / Oil & Gas	Production / Refining / Distribution / Oil & Gas	Finance (depending on client and/or transaction)	Gambling	Healthcare / Pharmaceutical / Biotech / Life Science	Infrastructure / Construction	Food / Beverage / Manufacturing	Garment / Manufacturing	Real Estate	Utilities (Waste & Water)	Mining	Transport / Shipping	SDG 4	UN 15 C	PSI	PRU			
Environment	Climate change	Air pollution, greenhouse gas emissions, and transition risks	Disclosure of climate-related emissions in operations and/or products (e.g. CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆) Breakdown of full material carbon intensity mix relevant to the client or transaction (e.g. power generating mix or by economic sector intensity) Environmental & social impact assessment (ESIA) covering negative health impacts, mitigation and decommissioning where relevant Decarbonisation transition plan/targets																						13	8	4	6				
		Physical risks (e.g. heat, wildfire, extreme precipitation, flood, windstorm, tropical cyclones, sea level rise, water stress)	Nature-based solutions (e.g. sustainable food or coastal defence management, broader climate resilience strategies (dams))																							7	13	1, 2, 3	3			
		Exposure to unconventional mining practices (e.g. mountain top removal, effluent tailings dumping, deep sea mining)	Engagement in initiatives: Extractive Industries Transparency Initiative, International Council on Mining & Metals, Kimberly Process (diamonds)																							3	15	1, 2, 3	1, 5			
	Environmental degradation	Deforestation or controversial site clearance (e.g. palm oil on peatlands or fragile slopes, illegal fire clearance/logging, biodiversity loss, dam construction)	Certification for palm oil, paper, etc. - from construction standards: IHA Hydropower Sustainability Assessment Protocol, UNEP Dams & Development, Equator Principles																							12	15	7, 8	1, 2	4, 5, 6		
		Soil pollution	ESIA covering possible negative health impacts, mitigation measures and decommissioning plans where relevant																								3	15	7, 8	1, 2, 3	1, 5	
		Water pollution	Water management practices (e.g. quality, scarcity, overconsumption), Effective ESIA process covering water pollution, External audit/certification																								6	15	7, 8	1, 2, 3	3, 6	
	Protected sites/species	Impacts on World Heritage Sites or other protected areas	ESIA that covers impacts on endangered species and sites including mitigation, Specialist lists: Ramsar, UNESCO World Heritage Sites																								11	15	7, 8	1, 2, 3	2, 5	
		Impacts on species on IUCN Red List of Threatened Species	ESIA that covers impacts on endangered species and sites including necessary mitigation measures																								14	15	7, 8	1, 2	2, 5	
	Unsustainable practices	Exposure to unconventional energy practices (e.g. Arctic oil, hydraulic fracturing, tar sands, deep sea drilling)	Various energy initiatives: IPECA, IFC EH&S Sublines, Energy & Biodiversity Initiative for Oil & Gas, Arctic Council, Oil Sands Leadership Initiative																								9	15	7, 8	1, 2, 3	4	
		Illegal fishing vessels, controversial fishing practices or aquaculture techniques	PSI Oceania guide on illegal, unreported & unregulated (IUU) fishing, IUU fishing lists, Aquaculture Stewardship Council certification																								12	14	17	7, 8	1, 2, 3	5, 6
	Animal welfare/testing	Live transport over 8 hours or poor conditions	Live transport over 8 hours must hold certificate including training on ventilation/temperature, Good conditions on food, water, spacing, lighting, etc.																								2	15	7, 8	1, 2, 3	2	
		Controversial living conditions or use of chemicals/medicines (e.g. cosmetics or antibiotics)	Relevant certification for farming or ethical animals treatment, strict clinical standards																								12	15	7, 8	1, 2, 3	2, 5	
		Lack of anaesthetic or distress reducing techniques	Compliance with Guiding Principles on Replacement, Reduction & Refinement																								12	15	7, 8	1, 2, 3	2, 5	
Social	Human rights	Use of wild subjects or Great Apes in testing																									12	14	15	7, 8	1, 2, 3	2, 5
		Child labour	Policy/statement on protecting and promoting human rights, prohibits child labour, shared with suppliers, regular audits and public findings																								4	12	15	1, 2	12	3, 5
		Human trafficking	Human rights policy that includes a statement on protecting and promoting human rights and prohibits human trafficking																								8	15	1, 4	1, 2	3, 2, 3	5
		Forced labour	Human rights policy that includes a statement on protecting and promoting human rights and prohibits forced labour																								8	15	1, 4	1, 2	3, 2, 3	5
		Forced resettlement (including land/water rights for native people, land grabbing)	Free, prior & informed consent (FPIC) achieved, Effective environmental & social impact assessment (ESIA) process covering consultation, resettlement, compensation aspects																								3	14	1, 2	1, 2, 3	6	
		Poor worker safety record (e.g. worse than sector average record on accidents)	Effective occupational health & safety policy that defines safety responsibilities and prevention measures to minimise fatalities, injuries and health impacts																								3	12	13	1, 2	1, 2, 3	5
		Violation of worker rights (e.g. discrimination, collective bargaining)	Code of conduct that outlines company's commitment to respect workers' rights																								10	16	1	4	1, 2	3, 2, 3
	Controversial weapons	Misconduct of security personnel (e.g. physical harm to people, human rights abuses)	Whistle-blower channel to report such violations																								3	16	1	1	1, 2, 3	6
		Controversial weapons exposure (e.g. UN conventions)	Anti-Personnel Mine Ban Convention, Convention on Cluster Munitions																								11	1	1	3, 3, 4	2, 3	
		Illicit and unethical payments	Code of conduct and anti-bribery training programme for all employees, Whistle-blower channel to report cases of bribery & corruption																								16	17	10	4	3, 4	
Governance	Poor corporate governance	Anti-competitive practices, violations of antitrust laws, unethical conduct	Code of conduct that outlines compliance laws																							10	16	17	10	4	2, 5	
	Poor product safety & quality	Unethical conduct or negative health impact on consumers																								3	16	17	1, 7	1, 2, 3	2, 5	

Legend

Not applicable

Potential risk

Potential elevated risk

Potential high or direct risk

Environmental issues



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Criteria	Theme	Risk criteria	Risk mitigation examples & good practice
Environmental	Climate change	Air pollution, greenhouse gas emissions, and transition risks	Disclosure of climate-related emissions in operations and/or products (e.g. CO₂, CH₄, N₂O, HFCs, PCFs, SF₆) Breakdown of fuel/material/carbon intensity mix relevant to the client or transaction (e.g. power generating mix or by economic sector intensity) Environmental & social impact assessment (ESIA) covering negative health impacts, mitigation and decommissioning where relevant Decarbonisation transition plan/targets
		Physical risks (e.g. heat, wildfire, extreme precipitation, flood, windstorm, tropical cyclones, sea level rise, water stress)	Nature-based solutions (e.g. sustainable flood or coastal defence management, broader climate resilience/adaptation plans)
	Environmental degradation	Exposure to unconventional mining practices (e.g. mountain top removal, riverine tailings dumping, deep sea mining)	Involvement in initiatives: Extractive Industries Transparency Initiative, International Council on Mining & Metals, Kimberley Process (diamonds)
		Deforestation or controversial site clearance (e.g. palm oil on peatlands or fragile slopes, illegal fire clearance/logging, biodiversity loss, dam construction)	Certification for palm oil, paper, etc. Dam construction standards: IHA Hydropower Sustainability Assessment Protocol, UNEP Dams & Development, Equator Principles
		Soil pollution	ESIA covering possible negative health impacts, mitigation measures and decommissioning plans where relevant
		Water pollution	Water management practices (e.g. quality, scarcity, overconsumption). Effective ESIA process covering water pollution. External audits/certification
	Protected sites/species	Impacts on World Heritage Sites or other protected areas	ESIA that covers impacts on endangered species and sites including mitigation. Specialist lists: Ramsar, UNESCO World Heritage Sites
		Impacts on species on IUCN Red List of Threatened Species	ESIA that covers impacts on endangered species and sites including necessary mitigation measures
	Unsustainable practices	Exposure to unconventional energy practices (e.g. Arctic oil, hydraulic fracturing, tar sands, deep sea drilling)	Various energy initiatives: IPIECA, IFC EH&S Guidelines, Energy & Biodiversity Initiative for Oil & Gas, Arctic Council, Oil Sands Leadership Initiative
		Illegal fishing vessels, controversial fishing practices or aquaculture techniques	PSI-Oceana guide on illegal, unreported & unregulated (IUU) fishing, IUU fishing lists, Aquaculture Stewardship Council certification
	Animal welfare/testing	Live transport over 8 hours or poor conditions	Live transport over 8 hours must hold certificate including training on ventilation/temperature. Good conditions on food, water, spacing, lighting, etc
		Controversial living conditions or use of chemicals/medicines (e.g. overuse of antibiotics)	Relevant certification for farming or ethical animals treatment during clinical treatments
		Lack of anaesthetic or distress reducing techniques	Compliance with Guiding Principles on Replacement, Reduction & Refinement
		Use of wild subjects or Great Apes in testing	

The Insurance Industry Development Goals for Cities developed by the PSI and ICLEI – Local Governments for Sustainability

A global action framework for the insurance industry to help make cities inclusive, safe, resilient and sustainable in line with UN Sustainable Development Goal 11

Key urban challenges and opportunities

- Goal 1: Build climate and disaster-resilient communities and economies**
- Goal 2: Promote healthy lifestyles and prevent pollution**
- Goal 3: Develop solutions for unserved people and enterprises**
- Goal 4: Protect natural and cultural heritage sites**
- Goal 5: Promote sustainable energy and resource efficiency**



Enabling factors

- Goal 6: Leverage data, risk analytics and technology**
- Goal 7: Promote risk management, insurance and financial literacy**
- Goal 8: Help develop climate and disaster risk management strategies and plans**
- Goal 9: Help develop sustainable insurance roadmaps for cities**
- Goal 10: Promote the Insurance Industry Development Goals for Cities**



Congrès mondial ICLEI
ICLEI World Congress 2018
19 au 22 juin • 19 - 22 June • Montréal, Canada

17 leading insurers and key stakeholders



Shaping the global agenda for the life & health insurance industry and sustainable development



Developing the PSI Life & Health Work Stream

PSI Life & Health Advisory Group

Life & health sessions at PSI events

1st PSI life & health event in 2019

Webinars on key topics for life & health business

Collaborative PSI activities on life & health business

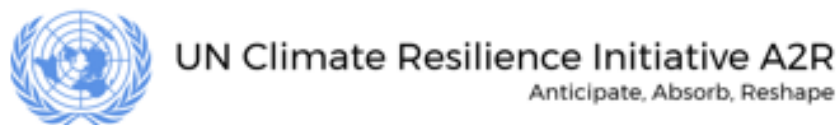
Examples of topics proposed:

- ESG guidance for life & health insurance business
- Climate change and mortality
- Primary prevention
- Tobacco
- Pollution
- Mental illness
- Integrating health issues into investment decisions
- Inclusive life & health insurance, and insurtech
- Urban planning for healthy lifestyles
- Reaching vulnerable populations and SMEs
- Changing demographics
- Social impact measurement and rating agencies
- Antibiotic resistance
- Behavioural economics and new lifestyles
- Disclosure and reporting in life & health insurance

Collaborating to close the insurance protection gap and build climate and disaster resilience



**V20 Sustainable Insurance
Facility**



**UNFCCC Clearing House for Risk
Transfer**

Developing sustainable insurance roadmaps spanning the industry's risk management, insurance & investment activities

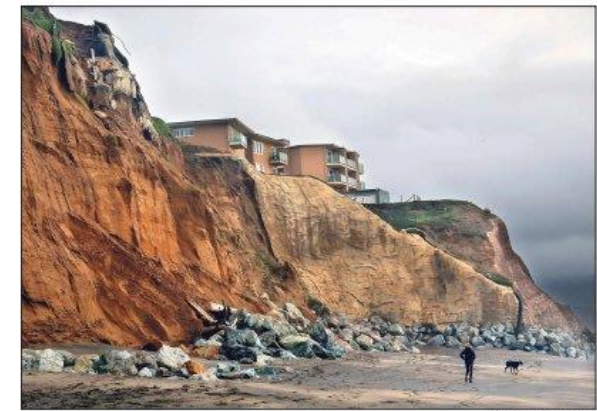


PSI

Principles for Sustainable Insurance

California to develop state sustainable insurance roadmap (Jul 2019)

- Strong focus to tackle the growing risks of climate change
- California: Largest insurance market in the US, and one of the largest in the world
- In 2018, California experienced the deadliest and most destructive wildfires in the state's history, resulting in more than USD 12 billion in insured losses, making it the world's costliest disaster
- Roadmap envisioned to pave way for innovative risk management, insurance & investment solutions that reduce climate risks and protect natural ecosystems



WHAT'S LEFT of an apartment building hangs over a cliff in Pacific, Calif. The state and the U.N. are expected to work with insurers, researchers and risk management experts to address climate change issues such as wildfires, sea level rise and coastal erosion.

Getting the state covered

California, U.N. join forces on 'sustainable insurance,' climate change

By JENNIFER BERNIA

California regulators are teaming up with the United Nations to develop "sustainable insurance" guidelines that would help address climate-change-related disasters such as coastal flooding and larger wildfires — the first such partnership of its kind between the international organization and a U.S. state, officials announced Tuesday.

After a roundtable discussion at UCLA with lawmakers, state Insurance Commissioner Ricardo Lara announced that his agency would work with officials from the U.N. Principles for Sustainable Insurance Initiative over the next year to develop a plan to confront California's climate risks, which are manifold.

Scientists contend that climate change is helping to fuel larger and more destructive wildfires, although they cannot say global



THE CAMP FIRE in Paradise last year, shown, and other wildfires have led to insurance cancellations for many Californians.

warming to be the cause of any specific blaze. Similarly, researchers say a warming planet may cause sea levels to surge more than 3 feet by the end of this century.

"We have a historic opportunity to utilize insurance markets to protect Californians from the threat of climate change, including rising sea levels, extreme heat and wildfires," Lara said in a statement. "Working with the United Nations, we can keep California at the forefront of reducing risks while promoting sustainable investments."

The Camp fire in Northern California was the costliest single natural disaster in the world for insurers last year, resulting in \$2.4 billion in covered losses, and was the most destructive wildfire ever according to the German reinsurance firm Munich Re. It was also the deadliest, killing 85 people.

In the wake of the last two years of wildfires, Californians have seen insurance companies flee the wild-

LAPD spying report will be public

As critics decry use of political informant, chief tries to put move into context.

By JAMES O'NEAL

Days after a Times report revealed that the LAPD ordered an informant to spy on members of a political group planning protests against President Trump in 2017 in Los Angeles, Chief Michel Moore said Tuesday that his agency would soon publish findings of an investigation into the matter.

Moore told the city's Civilian Police Commission that the Office of Constitutional Policing and Policy would finish its review of the LAPD's decision to place an informant inside the group Refuse Fascism in as little as two weeks, and promised to make those findings public. But as members of the group and other community activists stood up to criticize the use of the informant during Tuesday's meeting, Moore also suggested the group had been linked to violent actions in the past in other cities, including arson and assault.

For four weeks in October 2017 the LAPD's Major Crime Division used the informant to secretly record audio of Refuse Fascism's meetings, which were held inside an Echo Park church, as the group planned demonstrations to mark the one-year anniversary of President Trump's election. Civil rights advocates and experts who monitor the political fringe have said the LAPD's tactics needlessly disrupted the group's 1st Amendment rights, since the Refuse Fascism has rarely been linked to violence. In testimony about the informant's presence at Refuse Fascism's meetings became public as part of an ongoing criminal case against several members of the group who were arrested

PSI events across markets: Shaping the global sustainable insurance agenda



PSI
Principles for Sustainable Insurance

The US



The UK



Luxembourg



France



Germany



Morocco



China



Switzerland



Costa Rica



Brazil



Nigeria



The Philippines



Chile



Colombia



South Africa



Egypt



Australia

Questions?

ABOUT THE SUSTAINABLE INSURANCE FORUM



**SUSTAINABLE
INSURANCE**
FORUM

What is it?

- Global network of insurance supervisors and regulators working together to strengthen responses to sustainability challenges facing the insurance sector

What does it do?

- Platform for international collaboration among supervisors, facilitating knowledge sharing, dialogue, and uptake of policy innovations
- Convenes supervisors, makes consensus statements on sustainability optics, expert input on sustainability topics, produces research outputs

How does it work?

- Convened by UN Environment's division working on policy and regulatory aspects of sustainable finance (following from Inquiry Project 2015-2018)

Engagement with IAIS?

- Works collaboratively with IAIS Secretariat, meetings alongside IAIS events, produces research outputs with the IAIS (Issues paper)



Insurance 2030 Report:

Suggests establishment of intl. forum for regulators on sustainability issues

UK: Bank of England PRA confirms support for a new forum as part of its climate review

Budapest, June 2016: SIF Planning Meeting alongside IAIS Global Seminar

San Francisco: SIF Inaugural Meeting, co-hosted by California Department of Insurance

October 2017: Third SIF Meeting, Kuala Lumpur

July 2017: Second SIF Meeting, Windsor, UK

COP 21 Paris Climate Agreement: finance flows consistent with low-C, climate-resilient development

Financial Stability Board: TCFD Recommendations for climate-related financial disclosures, with supplemental guidance for insurers

- **Global network:** Insurance supervisors and regulators working together to strengthen their response to sustainability challenges.
- **Launch:** December 2016, San Francisco, USA – Brazil, California, France, Ghana, Jamaica, Morocco, Netherlands, Singapore, the UK, and IAIS.
- **Objective:** platform for international collaboration among supervisors, facilitating knowledge sharing, research, and uptake of policy innovations.

Six areas of interest identified, as basis for work programme:

- i. Disclosure
- ii. Access & Affordability
- iii. Sustainable Insurance Roadmaps
- iv. Climate Risks to Investments
- v. Disaster Risk Reduction
- vi. Capacity Building for Supervisors

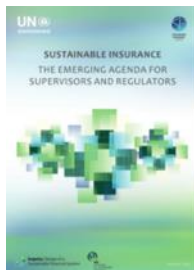


KEY ACTIVITIES IN 2017

- **SIF2:** July 2017 (Windsor, UK), Participants and observers from 17 jurisdictions.
- Developed joint statement in response to FSB TCFD, Knowledge sharing on climate risk.
- Requested development of guidance document & capacity building tools on climate risks.



- **SIF3:** October 2017 (Kuala Lumpur, Malaysia)
Two-day working meeting focused on content development.
- Agreement to develop joint Issues Paper on climate risks with IAIS Secretariat.
- Three pillar work programme agreed for 2018.



- **SIF4:** May 2018 (Rio de Janeiro, Brazil), held alongside two events on sustainable insurance.
- Finalizing Issues Paper and outreach strategy, presentation of draft Question Bank.



- **IAIS Global Seminar:** July 2018 (Moscow, Russia)
Joint SIF/IAIS Issues Paper on Climate Change Risks **approved and published.**



- **G20 Insurance Forum:** September 2018 (Argentina)
SIF representation at first meeting linking insurance to the G20 Agenda.

- **SIF5:** November 2018 (Luxembourg): Finalization of SIF Question Bank, focus on efforts to mainstream climate risks into supervisory practices, setting agenda on TCFD & disclosure for 2019.



- **Q1-Q2 2019:** Implementation of SIF/IAIS Survey on TCFD Implementation in 15 member jurisdictions, engagement with NGFS Secretariat, FSI 20th Anniv. Conf.
- **SIF6:** June 2019 (Buenos Aires, Argentina)
Analysis of Survey results, development of TCFD Issues Paper, new research on stress testing and scenario analysis (w/ FSI), review of QB practices.
- **SIF7:** November 2019 (Abu Dhabi, UAE)
Planning 2020 Work programme & Strategy, including global guidance materials.



28 MEMBER SUPERVISORS



IAIS WORK ON CLIMATE

Conor Donaldson, Head of Implementation

Introduction to the IAIS

International standard setting body

- Voluntary membership organisation of insurance supervisors and regulators established in 1994.
- The IAIS has more than 200 Members from 130+ jurisdictions
- Our mission:
 - Promote **effective and globally consistent** supervision of the insurance industry in order to **develop and maintain** fair, safe and stable insurance markets **for the benefit and protection of policyholders**; and to
 - Contribute to **global financial stability**.

Introduction to the IAIS

Strategic Plan 2020 - 2024

- Finalise the IAIS part of the post-crisis reform agenda
- Pivot from policy development to increased support for good supervisory practices and implementation of standards
- Increase the focus on a range of emerging(ed) issues that present opportunities, challenges and risks relevant to the IAIS mission such as:
 - Technological innovation
 - Cyber resilience
 - Climate risk
 - Conduct and culture
 - Financial inclusion and sustainable economic development

Introduction to the IAIS

Work related to climate and sustainability

2017	• Start of partnership with SIF
2018	• Release of joint SIF / IAIS Issues Paper on Climate Change Risks to the Insurance Sector
2019	• July: became observer member of the NGFS • December: launched joint SIF / IAIS Issues Paper on Implementation of the TCFD Recommendations (for consultation)
2020 and onwards	• Development of an Application Paper on climate risk in the insurance sector • 5 and 6 November: IAIS Annual Conference – thematic focus on sustainability (Santiago de Chile)

Questions?

SIF/IAIS ISSUES PAPER ON TCFD IMPLEMENTATION



**SUSTAINABLE
INSURANCE
FORUM**

- Provide background on particular topics, describe current practices, actual examples or case studies pertaining to a particular topic and/or identify related regulatory and supervisory issues and challenges
- Primarily descriptive and not meant to create expectations on how supervisors should implement supervisory material
- May contain recommendations for future work by the IAIS

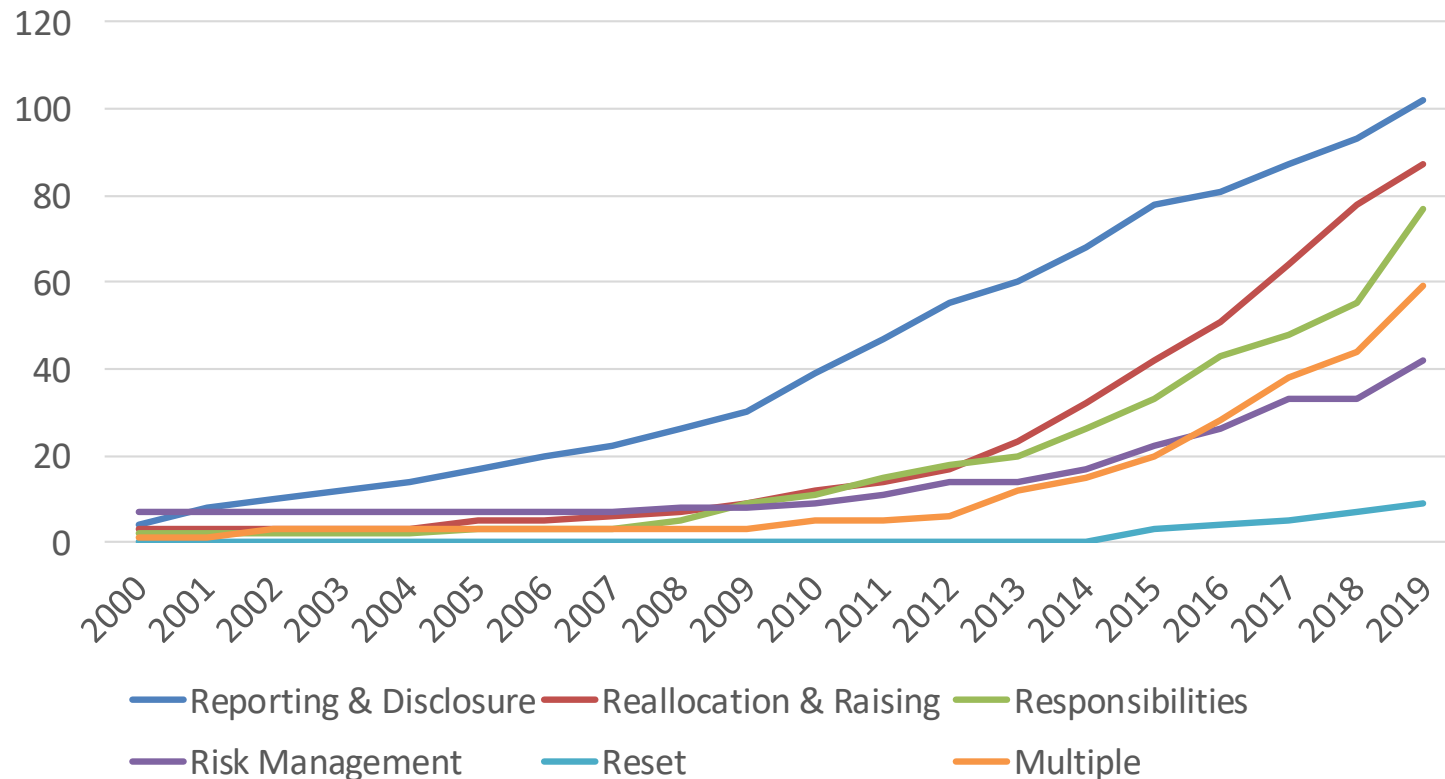
All Issues Papers can be found on the IAIS Website:

<https://www.iaisweb.org/page/supervisory-material/issues-papers>

- **The draft Issues Paper:**
 - Assesses the level of TCFD awareness and implementation within the insurance sector;
 - Sets out a range of supervisory approaches;
 - Discusses the relevance of the TCFD Framework to IAIS supervisory material; and
 - Provides suggestions for next steps.
- **Key inputs:**
 - Data from global supervisory survey on TCFD Implementation
 - Case studies from SIF member supervisors
 - Inputs from industry stakeholder workshop
- **Structure of Paper:** Organized into five main sections, one Annex
 1. Introduction
 2. Climate Risk and Insurance Supervision: Relevance of the TCFD Framework
 3. Assessing TCFD Implementation and Climate Risk Disclosure in the insurance industry
 4. The Role of Supervisors
 5. Conclusion
 6. Annex: The Role of Supervisors: Case studies

Disclosure a core component of sustainable finance policy landscape: 25% of policy and regulatory measures on sustainable finance are disclosure-related

The Five 'Rs' of Green Finance



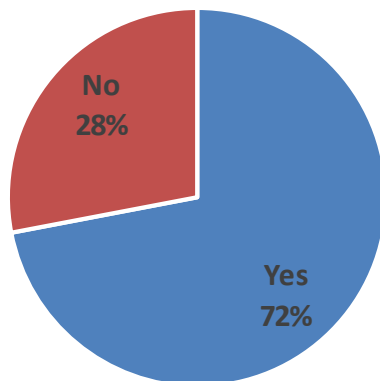
Relevance to IAIS Supervisory Material: Focus on ICP 20 (Public Disclosure)

- ICP 20 requires insurers to “provide information on all material risks faced by the company, such as insurance and investment risks, and their management. This includes climate-related risks, if material.”
- Relevance and reliability: key for insurers when considering what information on climate risk should be disclosed, and whether the disclosures should be quantitative or qualitative in nature.
- “Supervisors may refer to the more general, but comprehensive, requirements on public disclosures in ICP 20 to encourage insurers to make climate risk disclosures. As ICP 20 allows supervisors to meet the standard through public general purpose financial reports, supervisors may want to consider encouraging insurers to augment those disclosures.”

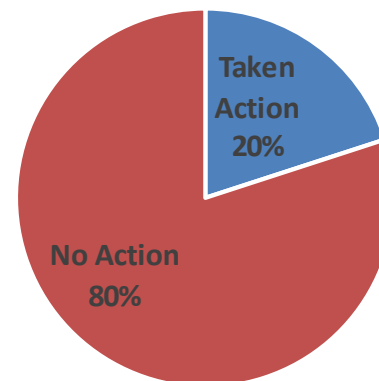
While awareness of climate change as a risk to the insurance sector is fairly high, the transition from awareness to action – taking the TCFD as a proxy – is limited.

- Nearly three-quarter of insurers that responded to the survey (73%) expect that climate change will affect their business.
- 76% reported that they already disclose information relevant to climate change impacts (significant differences across jurisdictions).
- Between 15-20% of insurers have made plans to, or are already taking steps to, implement the TCFD Recommendations and to deliver TCFD aligned disclosures.

Expectation of climate change impact



Current & Planned TCFD Implementation



“TCFD Framework provides an important foundation on which supervisory approaches for insurer disclosures can be developed.”

- 1. Ensuring climate risks are considered by all insurers:** In most jurisdictions, supervisors have tools in place to enable oversight over ‘all material risks’, and there is now broad recognition that climate change may pose material risks. Therefore, existing tools are “relevant and appropriate”.
- 2. Clarifying the relevance of TCFD to supervisory expectations:** clarifying how the TCFD Framework can support new expectations for market practice, including through reference in statements & market signalling.
- 3. Setting expectations to encourage TCFD-relevant practices:** Supervisors can consider “setting expectations to influence how insurers develop strategic responses to climate risks, taking the TCFD Framework as an example.”
- 4. Checking for coherence with other disclosure requirements:** Supervisors can consider “any potential conflicts that may arise from disclosure of climate risk information with broader public disclosure rules, including requirements on timely release of information.”

- 5. Assessing coherence in climate risk disclosures within groups:** consider “ways to integrate climate risks more routinely into group supervisory processes, including supervisory colleges.”
- 6. Providing standardised guidance to support TCFD-related activities:** Supervisors may want to work with experts, both within and outside the industry, to provide guidance (e.g. on developing appropriate scenarios) – however, mixed views within supervisory community & industry
- 7. Referencing TCFD as component of mandatory climate risk disclosures:** “Supervisors can consider a range of options to support mandatory climate risk reporting, including phased compliance periods, a step-by-step approach to ratcheting up the quality of disclosures, and providing clear expectations on desired focus areas (eg governance, strategy, risk management or scenario analysis).”
- 8. Explore new engagement models to support voluntary practice development:** Supervisors can “establish new platforms to engage with industry on climate risk disclosure (...) to raise awareness & encourage development of voluntary practices.”

Purely voluntary pathway unlikely to deliver – creating challenges for supervisors, who will have to evaluate trade-offs, and raising strategic questions for the IAIS

- Voluntary efforts of insurers to strengthen disclosure of climate-related risks and opportunities should be welcomed.
- However, stock-taking of sector progress indicates that a purely voluntary pathway is **“unlikely to yield disclosures of the quality and scope necessary to inform decisions by insurers”** (as users), nor lead to disclosures by insurers (as producers) that are of the **“quality necessary to enable market participants and other users to make decisions about how insurers are taking action on climate risks and opportunities”**.
- Supervisors considering different approaches to strengthen TCFD implementation will have to evaluate trade-offs – between consistency, quality, comparability, & reliability.
- As certain supervisory authorities move towards mandatory (climate risk) disclosure requirements, **“standard setting bodies – including the IAIS – may seek to reflect on how to best encourage coherence across jurisdictions and industries**, including the provision of guidance on how to advance towards (...) mandatory implementation.”

Supervisors likely to be faced with broader issues stemming from increased climate risk, creating imperative for continued action by individual entities and within the IAIS.

- **Potential for increasing climate risk to affect insurance pricing for vulnerable consumers:** supervisors could consider how to use TCFD-aligned disclosures as a springboard to explore how insurance sector climate risk intelligence can be used to strengthen consumer awareness, incentivise mitigation actions & reduce exposures;
- **Implications of climate risks for long-term business model resilience:** strengthening climate risk transparency, including forward-looking scenario analysis, could illuminate the ways in which climate risks may impact insurance business model viability over the long term – e.g. exploring impacts of increasing attritional losses;
- **Interactions between micro- and macroprudential objectives:** Strengthening climate risk transparency may have implications for a range of institutional objectives. Linking firm-level disclosures to system-level assessment, could help strengthen understanding of impacts of developments within the insurance sector on climate risk resilience in the financial system and broader economy.

- **Consultation Portal:** <https://www.iaisweb.org/page/consultations/current-consultations/draft-issues-paper-on-the-implementation-of-the-tcfd-recommendations>
- Consultation Period: Feedback on this material is invited by **5 February 2020** at 24:00 CET (Basel time).
- **Expected finalisation** of the Issues Paper: **March 2020**
 - Publication of the final Paper (to be approved by the IAIS Executive Committee)
 - Publication of resolution of consultation comments
 - Public discussion teleconference to present the outcome of the consultation

Questions?



Thank you

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