

The Geneva Association (GA) is the leading international think tank of the Insurance industry, whose members are Group CEOs of the largest insurance and reinsurance companies (life and non-life) around the world (North America, Europe, South America, and Asia). GA members' companies collectively have nearly USD 15Tri of AuM and over one-third of global insurance premiums. For more information about the GA, please see: www.genevaassociation.org.

The GA, through its Climate Change and Emerging Environmental Topics Work Stream and Public Policy and Regulations Work Stream, has established an international "Task Force on Climate Risk Assessment for the Insurance Industry", and is working diligently on a major international initiative, entitled, "Assessing climate change risk to insurers' balance sheet." We believe that the results of this initiative once released, will be highly relevant to the mandate of the Climate-Related Market Risk Subcommittee, under the Market Risk Advisory Committee.

Background:

For the private and public sectors, climate change is now a key consideration for business and socio-economic development, investment, job creation, trade and more. This has been driven by:

- **Recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosure (FSB-TCFD).**

While the TCFD provided general and sector specific recommendations, industry specific methodological details and approaches need to be further developed and tested.

- **Sustainable Finance initiatives**

- These aim to pave the way to mobilize capital for sustainable growth and the transition to a resilient low-carbon economy (e.g. EU action plan on Sustainable Finance, Canadian Task Force on Sustainable Finance, Australia Sustainable Finance)
- Under the framework of sustainable finance, science-based taxonomy to direct private capital towards long-term environmentally sustainable activities and for transitioning are emerging (e.g., EU, Canada, etc.)

- **Emerging climate change-related initiatives and requirements for financial and insurance regulators (international, regional and national):**

- Disclosure and quantification of climate risks are gaining strong momentum indifferent regions among regulators as well as financial and insurance sector
- Scenario analysis is developed to assess the resilience of a company or the industry under a range of climate change paths, with a forward-looking approach:
 - Qualitative basis, with a clear scenario narrative or storyline defined
 - Quantitative information to illustrate potential pathways and outcomes
- Financial and insurance regulators are working with the industry and climate experts to develop and test climate risk assessment methodologies for transition and physical risk (e.g., UK BOE/PRA, France, Singapore, NAIC, EIOPA, IAIS/SIF, SEC). Mandatory disclosure could become a reality in some jurisdictions over the next 1-3 years.
- Network for Greening the Financial System (NGFS), a global network of central banks and supervisory authorities in April 2019, presented its first comprehensive report, recognizing climate change as a source of financial risk and is working to develop scenarios.

- Climate change stress tests are becoming a key consideration for regulators (in particular on transition risks); important to distinguish between the banking and insurance business models
- **Efforts by rating agencies**

International rating agencies are increasingly including climate risk in their company, municipal and sovereign credit rating practices. At the same time, sustainability rating agencies are closer aligned with standard rating agencies.
- **Insurance industry**
 - Increasingly companies in the insurance industry are adopting TCFD recommendations not only for disclosure and reporting, but to integrate climate risks and opportunities in all aspects of their decision-making.
 - The degree of adoption differs by jurisdiction, sector, line of business (LoB) and size.
 - Many companies are experiencing a steep learning curve as they are engaging in this process.
 - Some of challenges climate risk presents – for both asset and liability sides of the business – are:
 - The absence of universally agreed taxonomies for climate-related investing,
 - Relevant time horizons, by LoB (life and non-life insurers), and by types of decisions (short, medium and long-term) (e.g., 2021-2023, 2025-2030, 2040-2050, etc.)
 - Varying perspectives on how to integrate climate risk into enterprise risk management and asset-liability management practices,
 - Varying perspectives on how to define and execute climate-related sensitivity analysis.

In these regards, the re/insurers’ – and financial services sector more broadly – approach to physical and transition climate risk assessments needs to be further developed with consideration for both sides of the balance sheet.

The 2019 Geneva Association Climate Change Forum brought together leading stakeholders,¹ including enabling coordinated efforts to identify gaps, needs, challenges and issues with different approaches to assessing climate change risks assessment for the insurance industry, for both sides of the balance sheet (<https://www.genevaassociation.org/climate-change-forum-2019>).

Subsequently, the GA Task Force has been established to explore, evaluate and provide insurance industry’s perspectives on the following issues.

Key questions addressed:

- 1. Mapping the decision landscape and identifying key considerations for designing climate risk assessments for re/insurance companies? Do they differ across the industry? If so, how?**

This segmentation will be based on a developing a robust structure related to insurance industry business-decision-making for different LoB (Life and Non-life) taking into consideration both sides of the

¹ Representatives of the insurance and asset management industries; regulators and rating agencies; members of the United Nations Environment Programme-Financial Initiative (UNEP-FI), the Financial Stability Board’s Task Force on Climate Related Financial Disclosure (TCFD), the EU Technical Expert Group on Sustainable Finance and the Sustainable Insurance Forum Secretariat; climate scientists and risk modelling practitioners; and the co-chair of an Inter-governmental Panel on Climate Change (IPCC) working group

balance sheet. This will also include a discussion of how does the re/insurance companies approach compare to or differ from other segments of the financial sector (e.g., banking)?

2. **What are key considerations for designing climate risk assessments for the insurance regulators?**

3. **A deeper technical dive into meaningful approaches to conducting climate change risk assessments for re/insurance companies?**

This will include a deep dive to key elements of scenario analysis and stress testing for climate-related risks (physical and transition risks) with particular focus on the insurance industry.

Outputs

The results of this initiative along with recommendations will be published in a series of reports from **November 2020 to April 2021**.

Contact:

Dr. Maryam Golnaraghi
Director – Climate Change and Emerging Environmental Topics
The Geneva Association
maryam_golnaraghi@genevaassociation.org
Cell: +1 (604) 376.1886
www.genevaassociation.org