

THE SUSTAINABLE INSURANCE FORUM

Leading Insurance Supervisors Support Adoption of Climate Disclosure Recommendations

July 2017

The Sustainable Insurance Forum (SIF) welcomes the recommendations and guidance of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD). The SIF is a network of insurance supervisors and regulators working together to share experience on sustainability challenges such as climate change. This statement represents the consensus view of the SIF, recognizing the diversity of perspectives among members and participants.

Climate change is one of the most serious long-term challenges for the insurance sector and the wider financial system. In its role as risk manager, risk carrier and investor, the insurance sector plays a cornerstone role in the management of climate-related risks and opportunities. Clear, comparable and consistent climate-related financial disclosure enable insurance firms to improve their management of physical and transition risks in their underwriting operations, as well as strengthen the consideration of climate-related factors in their investment decision-making. Effective climate disclosure by insurance firms is also important to enable investors, consumers and supervisors to have an informed view of the firm's performance and prospects.

The impact of climate change on households, communities, enterprises and financial institutions is expected to intensify. This will pose a new set of challenges for insurance supervisors across different dimensions of core mandates, including prudential risk management, financial conduct, customer protection and financial inclusion. Enhanced climate-related disclosure by insurance firms will support insurance supervisors in their efforts to ensure the protection of policyholders, the safety and soundness of insurance firms and the stability of the insurance sector as a whole.

As a result, a growing number of insurance supervisors are now taking action to respond to climate-related risks to the sector, with disclosure being a core focus. Disclosure not only has benefits for market transparency, but can also yield important insights for supervisory oversight, regulation and policy-making.

The TCFD market-led process has delivered a set of voluntary recommendations that provide a comprehensive new framework for disclosing climate-related financial risks and opportunities. Most importantly, it provides a practical way for translating climate change factors into decision-useful information that identifies the material financial impacts for corporate and financial sectors. The TCFD's overarching framework focusing on governance, strategy, risk management and metrics builds on existing practice. The specific guidance for insurance firms as underwriters and asset owners will help drive convergence in reporting, enabling comparison across the sector. The SIF appreciates the forward-looking orientation of the TCFD recommendations, and specific guidance on scenario analysis. Scenario analysis is a critical tool to understand how the insurance sector could be impacted by both physical climate impacts as well as the transition to a low-carbon and climate resilient economy.

Implementation of the recommendations is now key. This will require considerable capacity building in the insurance sector, particularly in developing countries. The SIF believes that insurance supervisors can play an important role in promoting widespread adoption of the recommendations, consistent with their individual

mandates and policies. The SIF has identified four areas where supervisors can play an important role to encourage uptake and thereby strengthen the functioning of insurance markets:

- i. By raising awareness of the TCFD recommendations among regulated firms.
- ii. By working with market actors to build capacity and share tools, including for the development of scenarios and metrics.
- iii. By incorporating relevant insights from climate disclosures into routine supervisory activities.
- iv. Finally, by supporting the Task Force recommendations, or appropriate aspects of it, as a best practice to be considered by insurers in their financial disclosures.

While the Task Force's expectation is that implementation is driven by the private sector, some SIF members have determined that market discipline and voluntary action alone are not likely to be sufficient to deliver satisfactory disclosure in a timeframe that is adequate to address rising climate-related risks. Supervisors from a number of jurisdictions have already introduced requirements for climate risk reporting from insurance companies. Certain jurisdictions may wish to make aspects of the TCFD recommendations mandatory for insurance firms, depending on their mandates and strategic objectives.

Looking ahead, the SIF looks forward to working with others, including the TCFD and the insurance sector, to make a reality of this important framework.

About the Sustainable Insurance Forum

The Sustainable Insurance Forum (SIF) is a network of insurance supervisors and regulators working together to strengthen their response to relevant sustainability challenges. The Forum is chaired by California's Insurance Commissioner, Dave Jones and convened by UN Environment, including its Inquiry into the Design of a Sustainable Financial System and its Principles for Sustainable Insurance (PSI).

The SIF has hosted two meetings in December 2016 and July 2017 to share experience among insurance supervisors. It has developed a six-track work programme, taking forward work on Disclosure, Access and affordability, Climate risks to investments, Sustainable insurance roadmaps, Disaster risk reduction and resilience, and Capacity building.

To date, SIF members and participants at its meetings include:

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| Australia | Australian Prudential Regulation Authority (APRA) |
| Brazil | Superintendência de Seguros Privados (SUSEP) |
| France | Autorité de Contrôle Prudenciel et de Résolution (ACPR) |
| Ghana | National Insurance Commission (NIC) |
| Jamaica | Financial Services Commission (FSC) |
| Mongolia | Financial Regulatory Commission (FRC) |
| Morocco | Autorité de Contrôle des Assurances et de la Prévoyance Sociale (ACAPS) |
| Netherlands | De Nederlandsche Bank (DNB) |
| Portugal | Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF) |
| Singapore | Monetary Authority of Singapore (MAS) |
| South Africa | Financial Services Board (FSB) |
| Sweden | Finansinspektionen (FI) |
| UAE | Insurance Authority (IA) |
| UK | Bank of England - Prudential Regulation Authority (PRA) |
| USA | California Department of Insurance (CDI) |
| USA | Washington State Office of the Insurance Commissioner (OIC) |

Other participants include:

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| IAIS | International Association of Insurance Supervisors (IAIS) |
| Japan | Financial Services Agency (FSA) |

For further information on the SIF, please visit www.unepinquiry.org/sif.

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