NOVEMBER 2021

Sustainable Insurance Forum

Hosted by UNDP

IMPLEMENTATION OF TCFD RECOMMENDATIONS BY INSURANCE SUPERVISORS AND REGULATORS

The global leadership group of insurance supervisors and regulators working together to strengthen understanding and responses to sustainability issues.

33
MEMBERS

US$5+
TRILLION GROSS INSURANCE PREMIUMS

92%
GLOBAL INSURANCE MARKET SHARE

SIF'S VISION

"a global insurance system where sustainability factors are effectively integrated into the regulation and supervision of insurance companies."

THE UNDP SUSTAINABLE INSURANCE FORUM (SIF)

Established by the United Nations with the support of the International Association of Insurance Supervisors (IAIS), the Sustainable Insurance Forum (SIF) is a global network of 33 insurance supervisors and regulators working together to strengthen responses to sustainability and climate change challenges facing the insurance sector. Launched in December 2016, the SIF provides a platform for international collaboration among supervisors, facilitating knowledge sharing, dialogue, and uptake of policy innovations. The SIF Secretariat, hosted by the UNDP, developed this guide with the support of SIF members. The development of this report was supported by a grant from Sustainable Finance Ireland. More information on the SIF is available at: **www.sustainableinsuranceforum.org** or from: Ms. Sarah Zaidi, SIF Coordination and Networking Manager **sarah.zaidi@undp.org.**

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INTRODUCTION

Sustainable insurance involves a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are conducted in a responsible and forward-looking manner. This is achieved by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance (ESG) issues. The global insurance sector has a pivotal role in the transition to a lower emissions, resilient and sustainable global economy, both in terms of the risks it covers and the investments it makes. The UNDP SIF is a global network of insurance supervisors and regulators working together on sustainability challenges facing the sector, including the importance of accurate, informative and timely disclosures.

The SIF, through its outlining of supervisory and regulatory practices in this paper, is supporting the UN Climate Change Conference (COP 26) **objectives for private finance reporting:** to improve the quantity, quality and comparability of climate-related disclosures by implementing a common framework built on the **Taskforce for Climate-related Financial Disclosures (TCFD) recommendations.**

The TCFD is a global industry-led initiative established in 2015 by the Financial Stability Board (FSB) to help identify the information needed by investors, lenders and insurance underwriters to appropriately assess and price climate-related risks and opportunities. The Task Force developed recommendations on climate-related financial disclosures, covering the core elements of governance, strategy, risk management, and metrics and targets. The recommendations apply voluntarily to all financial sector organizations, including banks, insurance companies, asset managers and asset owners.

RECOMMENDATIONS

FEATURES OF THE TCFD RECOMMENDATIONS:

ADOPTABLE
BY ALL ORGANIZATIONS.

APPROPRIATE FOR INCLUSION IN
FINANCIAL FILINGS.

DESIGNED TO SOLICIT DECISION-USEFUL,
FORWARD-LOOKING
INFORMATION ON FINANCIAL IMPACTS.

STRONG FOCUS ON
RISK AND OPPORTUNITIES
RELATED TO THE TRANSITION TO A LOWER EMISSIONS ECONOMY.

WORK OF THE SIF IN SUPPORT OF CLIMATE-RELATED DISCLOSURES

The SIF has recognized the TCFD recommendations as the preeminent disclosure framework for climate-related risks. The recommendations were noted in the SIF and International Association of Insurance Supervisors (IAIS) 2018 **Issues paper on climate change risks to the insurance sector.** In 2019, the SIF undertook a survey on the implementation of the TCFD recommendations and supplemental guidance. Data was collected from 1,170 individual insurers across 15 SIF member jurisdictions. Insights from the survey were published in the 2020 **SIF/IAIS Issues Paper on the implementation of the recommendations of the TCFD.** The paper highlighted that despite progress among the largest insurers, and the increased expectations that climate change will impact insurers' business operations, the implementation of TCFD-aligned disclosures among smaller insurers was low. Since this time, industry adoption of the TCFD recommendations has increased significantly alongside supervisory and regulatory encouragement of action to address climate risks. In the 2021 **SIF/IAIS Application paper on the supervision of climate-related risks in the insurance sector,** the TCFD recommendations were highlighted as a reference framework that supervisors may adopt or make reference to when implementing the supervisory obligations for insurers to disclose relevant and comprehensive information on a timely basis.

As more jurisdictions are mandating climate-related disclosures in line with TCFD recommendations, and a larger number of firms adopt the recommendations voluntarily across the world, the SIF will support the implementation of this framework from a regulatory and supervisory perspective.

THE SIF HAS RECOGNIZED THE IMPORTANCE OF THE TCFD RECOMMENDATIONS

IMPLEMENTATION OF TCFD RECOMMENDATIONS

As noted in the **TCFD Status Report 2021,** the Task Force has over 2,600 supporters globally, including 1,069 financial institutions, responsible for assets of US$ 194 trillion. TCFD supporters now span 89 countries and jurisdictions and nearly all sectors of the economy, with a company combined market capitalization of over US$25 trillion – a 90 percent increase since 2020. The TCFD's own assessment of global disclosures, as discussed in the Status Report, shows that the insurance industry in particular has significantly increased its average level of disclosure between 2019 and 2020.

More than 120 regulators and governmental entities officially support the TCFD, including Canada, Chile, Denmark, France, Japan, New Zealand, Norway, the Republic of Korea, the Republic of Ireland, Sweden, Switzerland and the United Kingdom of Great Britain and Northern Ireland. In addition, the **Network for Greening the Financial System (NGFS)** – a network of central banks and supervisors from across the globe – has encouraged companies issuing public debt or equity to disclose in line with the TCFD recommendations.

To support further promotion of climate-related disclosures by financial authorities, the FSB surveyed its members in the first half of 2021 and published results in the **FSB Report on Promoting Climate-Related Disclosures** in July 2021. The FSB report noted, among other things, that:

- there is a strong focus across the majority of jurisdictions on implementing climate-related disclosures, with a large majority of jurisdictions setting or planning to set requirements, guidance or expectations for both financial institutions and non-financial corporates;
- TCFD recommendations are the common basis for climate-related disclosures in most jurisdictions; and
- the development of financial authorities' approaches to climate disclosures is still ongoing in many jurisdictions, with approaches varying between mandatory and voluntary implementation of disclosure regimes.

The SIF also welcomes the work programme of the International Financial Reporting Standard (IFRS) Foundation, highlighted in Action 6 of the G20's **Sustainable Finance Working Group (SFWG) Sustainable Finance Roadmap,** which aims to promote actions to develop a set of internationally consistent, comparable and reliable baseline standards for disclosure of sustainability-related information on enterprise value creation. As set out in the September 2020 **IFRS Consultation paper on sustainability reporting,** this work will initially focus on standards for climate-related financial disclosures. Such internationally agreed minimum standards for disclosures will support the work of supervisors and regulators to develop requirements and guidance in this area.

Global momentum behind the Task Force's work has grown significantly over recent years. Multiple jurisdictions have proposed or finalized laws and regulations to require disclosure aligned with the TCFD recommendations – some coming into effect as early as 2022. The TCFD 2021 status report highlights some recent government and regulatory announcements:

- **IN SEPTEMBER 2021,** the Central Bank of **Brazil** **announced** mandatory TCFD-aligned disclosure requirements, which will initially focus on qualitative aspects related to governance, strategy, and climate-related risk management for regulated institutions, with a second phase incorporating quantitative aspects.
- **IN APRIL 2021,** the **European Commission** issued a **proposed** Corporate Sustainability Reporting Directive (CSRD) that would amend existing reporting requirements. It noted that the reporting standards should take into account existing standards and frameworks, including the TCFD framework, which would lead to TCFD-aligned reporting for nearly 50,000 large companies with presence in the European Union.
- **IN DECEMBER 2020, Hong Kong**'s Green and Sustainable Finance Cross-Agency Steering Group published a new Strategic Plan, **announcing** that TCFD-aligned disclosures will be mandatory across relevant financial sectors by 2025. The Steering Group pledged to "increase the coverage of mandatory disclosure as soon as practicable."
- **IN SEPTEMBER 2020, New Zealand** **announced** plans to mandate climate-related financial disclosures aligned with the TCFD recommendations for approximately 200 organizations, including licensed insurers with total assets under management of greater than NZD$1 billion or annual premium income greater than NZD$250 million, listed issuers, large registered banks, and managers of investment schemes. In April 2021, New Zealand **introduced** the Financial Sector (Climate-related Disclosure and Other Matters) Amendment Bill. If passed, legislation would enter into force within 12 months of receiving Royal assent.
- **IN DECEMBER 2020, Switzerland**'s Federal Council **indicated** the authorities should prepare the binding implementation of the recommendations of the TCFD for Swiss companies across all sectors. In July 2021, the Swiss Financial Market Supervisory Authority (FINMA) **amended** its circulars to include the disclosure of climate-related financial risks based on the TCFD recommendations. In August 2021, the Swiss Federal Council **instructed** the Federal Department of Finance to prepare a consultation draft for mandatory climate reporting based on the TCFD by summer 2022.

This paper condenses the learnings from a SIF survey focused on the current practices of SIF members in implementing the TCFD recommendations in their own jurisdictions, including using the information available in supervisory activities. Case studies from SIF members provide more detailed insights into the ways in which supervisors and regulators are encouraging voluntary TCFD-aligned disclosures and mandating requirements for such disclosures.

SIF CASE STUDY

1

JAPAN

In its strategy for sustainable development goals (SDGs) (2018), the Financial Service Agency in Japan (JFSA) declared its expectation on the use of the TCFD recommendations. Also, the JFSA has been actively encouraging constructive dialogue over ESG factors between institutional investors and investee companies through the responsibilities and requirements specified in Japan's stewardship code and corporate governance code. These efforts effectively led to the establishment of the **TCFD Consortium of Japan** in May 2019, a platform to facilitate constructive dialogue between investors and companies around climate-related financial disclosures aligned with the TCFD framework. The JFSA, together with the Ministry of Economy, Trade and Industry and the Ministry of Environment, forcefully supported its foundation in order to facilitate their spontaneous efforts by the business sector and the financial sector to improve climate-related disclosures aligned with the recommendations of the TCFD. In the end, it has resulted in more than 500 Japanese enterprises supporting the TCFD. The Consortium published several guides on TCFD-based disclosures both from an **enterprise perspective** and an **investor perspective.**

Furthermore, in December 2020, the JFSA established the Expert Panel on Sustainable Finance (EPSF) to explore ways to mobilize private capital for a smooth transition towards a decarbonized society. In June 2021, the EPSF published a **set of recommendations** for the JFSA, which highlighted the importance of active participation to the IFRS process and enhancement of the quality and quantity of climate-related disclosures in accordance with the TCFD recommendations. In parallel with these recommendations, in June 2021, Tokyo Stock Exchange revised the **Corporate Governance Code of Japan**, requiring prime market-listed companies to disclose TCFD-based information. Building on the recommendations from the Panel, the JFSA formulated its **annual strategy** in August 2021 where it reaffirms that it will enhance the quality and quantity of climate-related financial disclosures of listed companies based on the revised Code and will consider approaches to encourage listed companies to disclose their sustainability-related initiatives. To this end, the JFSA established a working group under the Financial System Council to discuss further with broad stakeholders on disclosure including sustainability, which contributes to constructive dialogue between listed companies and investors.

> The JFSA established the Expert Panel on Sustainable Finance (EPSF) for a smooth transition towards a decarbonized society.

MORE THAN
500
JAPANESE ENTERPRISES SUPPORTING TCFD

JAPAN

SIF CASE STUDY

2

SINGAPORE

Singapore Green Plan 2030 is a whole-of-nation movement to advance the national agenda on sustainable development.

In 2021, the Singapore government unveiled the **Singapore Green Plan 2030**, a whole-of-nation movement to advance the national agenda on sustainable development. The Green Plan charts ambitious and concrete targets over the next 10 years to achieve Singapore's aspirations for long-term net-zero emissions. As Singapore's central bank and integrated financial services regulator, the Monetary Authority of Singapore (MAS) is incorporating climate change and environmental sustainability considerations across all its functions in support of the Singapore Green Plan.

On the supervisory front, MAS has been focused on two key areas, (i) enhancing environmental risk management in our financial institutions (FIs); and (ii) promoting high-quality sustainability-related disclosures.

In December 2020, MAS issued **guidelines on environmental risk management** to all FIs, including insurers. As part of the guidelines, FIs are expected to disclose environmental risks in accordance with well-regarded international reporting frameworks such as the TCFD from June 2022. MAS will be further consulting the industry on transiting to a mandatory climate-related disclosure regime, against a single, internationally aligned standard in due course.

In August 2021, the Singapore Exchange (SGX) (which is regulated by the MAS in the performance of its role as a front-line regulator and operator of the securities and derivatives market) issued a **consultation on a roadmap for mandatory climate-related financial disclosures** by listed entities and for the climate-related financial disclosures to be made in line with TCFD recommendations. Listed entities are already subjected to annual sustainability reporting on a "comply or explain" basis, but without the need to follow any particular framework. The TCFD recommendations were selected given that it has gained broad acceptance internationally and will be the basis for the International Financial Reporting Standard (IFRS) Foundation's work on developing a common set of global sustainability standards.

The Green Finance Industry Taskforce, convened by MAS, has also issued a detailed **implementation guide for climate-related disclosures by financial institutions**. The guide sets out best practices that are aligned with the TCFD recommendations and serve as practical reference as FIs step up their efforts in the area of environmental disclosures.

In June 2021, MAS published its inaugural **Sustainability Report.** TCFD recommendations were considered as an internal frame of reference where applicable.

THE GREEN PLAN

CHARTS AMBITIOUS AND CONCRETE TARGETS OVER THE NEXT

10 YEARS

TO ACHIEVE LONG-TERM NET-ZERO EMISSIONS

SINGAPORE

SIF CASE STUDY

3

The United Kingdom has been closely involved with the TCFD since it was established by the FSB in 2015.

UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

The United Kingdom of Great Britain and Northern Ireland has been closely involved with the TCFD since it was established by the FSB in 2015, and was among the first jurisdictions to endorse publicly the TCFD recommendations, and major economies to commit in law a target to reach net zero greenhouse emissions by 2050.

As part of its 2019 Green Finance Strategy, the UK Government announced that it would make TCFD disclosures mandatory across the economy, with a new 'UK joint regulator and government TCFD Taskforce' created to deliver this commitment. The Taskforce includes representatives from across UK government departments and financial regulators, reflecting the collaborative nature of the implementation required to deliver the Green Finance Strategy.

The Taskforce has two primary forums: a senior, executive-level body to provide strategic input and approval of key milestones and publications; and a working-level group to exchange views on policy development and ensure alignment of approaches. This detailed policy discussion has proven particularly useful where organizations had overlapping remits such as the Financial Conduct Authority (FCA) and the Department for Business Energy and Industrial Strategy (BEIS), both of whom need to consider how listed companies should disclose.

Building on the Taskforce's 2020 **Interim Report** and **Roadmap,** the UK Government published in October 2021 its new **Sustainability Disclosure Requirements** (SDR) intended to apply to companies, asset managers and asset owners, including pension schemes, and investment products. It will require reporting for the first time on climate, alongside the financial risks and opportunities these pose to business.

Following consultation, the new requirements will bring together and streamline UK sustainability disclosure requirements, including the country's TCFD-aligned disclosure requirements. In time, the SDR will also include broader sustainability issues, including the impact businesses and investments have on the environment, utilizing definitions in the UK green taxonomy (currently under development). It will also incorporate considerations around adopting the global corporate sustainability reporting standard being developed by the IFRS Foundation's International Sustainability Standards Board (ISSB).

This builds on the Bank of England's Prudential Regulatory Authority (PRA) existing supervisory expectations set in 2019 (**Supervisory Statement 3/19**) for how insurers (and banks) should enhance their approaches to managing the financial risks from climate change. Among other elements, these expectations set out how firms should consider climate change in their disclosures, encouraging firms to engage with the TCFD Recommendations. The PRA set an expectation for firms to embed fully these expectations, including disclosure by the end of 2021 (**Dear CEO letter**). Insurers are already required to disclose material climate risks in their pillar 3 disclosures.

THE UK GOVERNMENT PUBLISHED IN OCTOBER 2021 ITS NEW
SUSTAINABILITY DISCLOSURE REQUIREMENTS (SDR)

UK

SIF
CASE STUDY

4

UNITED STATES OF AMERICA

The NAIC adopted an Insurer Climate Risk Disclosure Survey in 2010.

USA

In the United States, the National Association of Insurance Commissioners (NAIC) adopted an Insurer Climate Risk Disclosure Survey in 2010. The Survey's eight questions ask insurers to provide a description of how they incorporate climate risks into their mitigation, risk management, investment, and business plans and to identify steps taken to engage key constituencies and policyholders on the topic of climate change. Responses are collected annually by participating states from insurers with direct written premiums over US$ 100 million. Since 2010, the California Department of Insurance has administered the Survey and maintained **a website which publicly discloses insurers' responses**. For the past several years, the Survey has included all insurers writing in at least one of the six participating states, capturing approximately 70 percent of the US market. As of 2021, 15 states are participating in the Survey with nearly 80 percent of the market captured by direct written premium.

As insurers increasingly move toward climate risk disclosures that are consistent across financial institutions, and given the global shift towards adopting the TCFD guidelines, beginning in 2020 (for reporting year 2019), the states allowed insurers to submit a TCFD report in lieu of the Survey. For the reporting year 2019 Survey, eight groups and 12 individual companies that were not part of a group submitted TCFD reports. Reporting for the 2020 reporting year ended on 31st August 2021. As of 28th October 2021, at least triple the number of TCFD reports had been received for the second year TCFD reports were allowed in lieu of the Survey, by 28 groups and 12 individual companies that were not part of a group.

In July 2020, the NAIC created an Executive Climate and Resiliency Task Force and assigned a workstream to consider modifications to the Survey to align it with TCFD and to promote uniformity in reporting requirements. This workstream has done an initial assessment to understand how the NAIC and TCFD disclosure frameworks align. The results of the assessment are being used to redesign the Survey to enhance transparency regarding insurer management of climate risks and opportunities. The Survey will not only provide a supervisory tool to assess how climate-related risks may affect the insurance industry, it will also help identify good practices and vulnerabilities and promote insurer risk management through shared learning for continual improvement. Finally, because the results will be made public, the Survey will enable better-informed collaboration and engagement on climate-related issues among regulators and stakeholders more broadly.

At the federal level, as part of its efforts to implement Executive Order 14030, the U.S. Department of Treasury's Federal Insurance Office (FIO) issued, on 31st August 2021, a request for information (RFI) to solicit public comment on the insurance sector and climate-related financial risks. Among other things, the RFI responses will inform FIO's assessment of climate-related issues and any gaps in the regulation of insurers, including their effects on U.S. financial stability. It also will help FIO to better understand: (1) which data elements are necessary to accurately assess climate risk; (2) which data elements remain unavailable; and (3) how FIO could collect this data under its statutory data collection authorities and make it available to stakeholders as needed.

AS OF 2021

15 STATES

ARE PARTICIPATING IN THE SURVEY WITH NEARLY

80%

OF THE MARKET CAPTURED BY DIRECT WRITTEN PREMIUM

CONCLUSION

SIF members continue to take supervisory action to strengthen climate risk assessment, management and disclosure, including through internationally recognized frameworks such as the TCFD recommendations. Many SIF members are mandating climate-related disclosures, or working towards making such disclosures mandatory in their own jurisdiction. Other SIF members are taking steps to support and encourage voluntary adoption of disclosures. This is often achieved through methods such as engagement with insurers, explicitly referencing frameworks such as the TCFD in speeches and articles, providing guidance and supervisory expectations to the market, and conducting system-wide analyses of disclosure practices within the jurisdiction.

In addition, supervisors and regulators are beginning to make climate-related financial disclosures relating to their own operations. These disclosures can serve to provide information on the work of these authorities to reduce their own emissions, as well as provide an example of effective disclosures to the market and further raise the profile of frameworks such as the TCFD to support making such disclosures.

Many supervisors that have not yet mandated climate-related disclosure frameworks have indicated that the development of a common global baseline of international reporting standards on climate, in particular the ongoing work of the IFRS Foundation, will support their own supervisory objectives.

> The SIF will continue to support its members to encourage the adoption of TCFD-aligned disclosure regimes.

When insurers are making either voluntary or mandatory climate-related disclosures, supervisors are often featuring these disclosures in supervisory reviews and discussions with insurers, and climate-related disclosures form part of a suite of financial disclosures that supervisors may review as part of their regular activities. Few SIF members have indicated that climate-related disclosures are currently being incorporated into supervisory risk ratings of entities. However, as the quality and quantity of disclosures continue to increase, supervisors are likely to further utilize the information disclosed to inform supervisory practices.

Looking ahead, insurance supervisors and regulators have an important role in promoting the widespread adoption of TCFD-aligned climate-related disclosures. Supervisors can clarify the relevance of the TCFD framework for supervisory objectives, continue to set expectations that encourage TCFD-relevant practices and ensure climate risks are being considered by insurers. Voluntary guidance materials or mandatory disclosure regimes may explicitly reference or adapt the TCFD recommendations as appropriate.

The SIF will continue to support its members to encourage the adoption of TCFD-aligned disclosure regimes, and to support the capacity development of insurance supervisors and regulators to make use of disclosure material within supervisory activities. The SIF, alongside the IAIS, the NGFS and the Bank for International Settlements, has recently announced the establishment of the Climate Training Alliance. This collaboration will bring together authorities at the cutting edge of climate risk management to share experience and training resources with the rest of the central banking and supervisory community. Through this initiative and the ongoing commitment of SIF members and partners to share knowledge and experiences and help to resolve challenges, the SIF will support supervisory efforts to assess the impact of climate risks on the insurance sector, including the quality, quantity and comparability of public disclosures.

ANNEX – STRUCTURE OF THE SIF SURVEY

The SIF survey was circulated to all SIF members in October 2021 and received responses from 15 jurisdictions in addition to the four case studies included in this paper. The survey comprised the following questions:

- **Does your institution currently require insurance companies to make public disclosures relating to climate risk?**
  - If so, has your institution mandated that insurers make disclosures in line with the recommendations of the TCFD?
  - If so, how does your institution use climate risk disclosures in your supervisory work? Please include all that apply, and outline other uses in your jurisdiction:
    - Supervisors review climate risk disclosures to ensure compliance with minimum requirements
    - Climate risk disclosures feature in supervisory reviews/discussions with insurers
    - Climate risk disclosures are used when calculating supervisory risk ratings
    - Climate risk disclosures form part of a suite of financial disclosures that supervisors may review
    - Other: please outline how your institution uses climate risk disclosure
  - If not, does your institution have plans to mandate these recommendations in the future?
  - If not, what are the barriers to mandating such disclosures (e.g. no regulatory appetite, lack of sufficient detail within TCFD framework, waiting for global standards for climate risk disclosure such as those of the IFRS Foundation)?
  - If not, does your institution encourage voluntary disclosure of climate risks? Please outline the actions taken by your institution.

- **Does your institution make climate-related financial disclosure on its own operations?**
  - If so, are these disclosures based on the recommendations of the TCFD?
    - If not, what frameworks or tools does your institution use to make these disclosures?

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