

## **THE SUSTAINABLE INSURANCE FORUM**

### **Leading Insurance Supervisors Support Adoption of Climate Disclosure Recommendations**

The Sustainable Insurance Forum (SIF), a leadership group of insurance supervisors and regulators from several nations and jurisdictions working together to strengthen their response to sustainability challenges for the insurance sector, welcomes the recommendations and guidance of the FSB Task Force on Climate Related Financial Disclosures (TCFD).

Climate change is one of the most serious long-term threats to the financial system. Insurance is one of the financial sub-sectors most exposed to climate-related risks, being potentially exposed on both sides of its balance sheet. Better climate disclosure will enable insurance firms both to improve the underwriting of key risks and also strengthen the management of their investment assets. Better climate disclosure will also enhance the ability of insurance supervisors to ensure the soundness of insurance firms and contribute to the stability of the financial system as a whole. A growing number of insurance supervisors are taking action to respond to climate-related risks to the sector, with disclosure being a core focus.

As a result, the SIF strongly supports the recommendations and guidance set out by the TCFD, and appreciates the opportunity to provide feedback as part of the public consultation process. Furthermore, the SIF believes that insurance supervisors can play an important role in strengthening, operationalizing and promoting widespread adoption of the recommendations.

#### **The critical importance of climate disclosure for the insurance sector**

In its role as risk taker, risk carrier and investor, insurance plays a cornerstone role in the management of climate-related risks and opportunities in both corporate and financial sub-sectors. Insurance is the financial sector most experienced in managing different aspects of these challenges, notably with regard to the consideration of physical risks in underwriting. In addition, the insurance sector acts as a critical buffer against environmental risks, supporting broader financial system stability in the context of increasing natural hazards and climate shocks.

Overall, the TCFD's recommendations provide a comprehensive new standard for disclosing climate-related financial risks and opportunities. Effective disclosure not only has benefits for market transparency, but is also important for internal use within firms. The categorization of climate risks and identification of four thematic areas for disclosure, covering governance, strategy, risk management as well as metrics and targets, provide a practical and coherent framework. We underscore the importance of including climate-related information in mainstream financial filings, with a focus on proportionality. In this regard, the SIF supports the Task Force's caution to organizations against prematurely concluding that climate-related risks are not material based on a certain perception of their longer-term nature.

Insurance companies have a two-fold role to play in terms of disclosure. First, they are users of disclosures from other companies to enable informed investing and underwriting decisions – and rely on consistent reporting from across the economy to enable effective risk pricing. Second, they are also preparers of reports themselves. The SIF welcomes specific disclosure guidance for insurance firms in their roles as underwriters, asset owners and asset managers.

Insurance supervisors and regulators are also users of climate-related financial disclosures in order to support the safety and soundness of insurance firms, access to insurance and consumer protection, and

contribute to managing system-wide exposures to climate-related risks.

### **Enhancing disclosure of carbon risks and scenario analysis**

Based on the experience of a number of insurance supervisors, the Forum believes that the specific guidance on carbon risk disclosure should be extended. In the supplemental guidance for banks, it is recommended that banks should ‘describe significant concentrations of credit exposure to carbon-related assets’. Similar guidance should also be offered for insurance companies in their roles as asset owners and asset managers. Specifically, the guidance should be augmented to include disclosure by insurance companies of their exposure to sectors with heightened climate related risks, such as disclosure of investments in carbon related assets (including oil, gas and coal producers and utilities) and other sectors defined in p. 31 of the TCFD report. Furthermore, insurance companies – and investors more broadly – could be encouraged to disclose how they take into account climate-related issues in their overall investment policy.

The use of scenario analysis and stress testing is a critical component of supervisory practice and the Forum welcomes the TCFD’s recommendations, including the use by insurance companies of a 2C and greater than 2C scenario to account for the physical and transition risks of climate change over the short-, medium- and long-terms. Insurance firms may wish to consider applying at least a basic level of scenario analysis in their strategic planning and risk management and disclosing quantitative and qualitative results. As part of this, it is important to encourage the use of representative scenarios not only to ensure consistent reporting and comparability across firms, but also to reduce costs. The TCFD could consider ways to encourage this convergence. In addition, it may be challenging for many insurance companies to disclose accurate quantitative information on their scenarios, highlighting the need for significant capacity building to make these disclosures decision-useful.

### **Supporting Widespread Adoption: The Role of Insurance Supervisors**

We are encouraged by the endorsement of the TCFD recommendations by a number of major insurers. We recognize, however, that climate-related financial disclosure is still at an early stage for many firms, particularly in developing and emerging economies. For some firms, the recommended disclosures may seem to constitute commercially sensitive information. As part of its implementation pathway, the TCFD should consider ways of overcoming these and other potential barriers.

We believe that supervisors, consistent with their mandates and policies, can play a positive role in supporting the adoption of the recommendations within the insurance sector. Options to do this include:

- Promoting awareness of the TCFD recommendations among regulated firms.
- Working with market actors to build capacity and share tools for scenarios and metrics.
- Incorporating insights from climate disclosures in regular supervisory activities.
- Developing Sustainable Insurance Roadmaps, situating climate disclosure as a key component of broader efforts to leverage insurance for sustainable development objectives.
- Endorsing or authorizing the Task Force recommendations, or appropriate aspects of it, as a regime to be followed in insurers’ climate-related financial disclosures.

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 climate change related projections. 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, respecting differences in mandates, constraints, and strategic objectives. While noting the TCFD's voluntary mandate, some SIF members consider it to be important for the Task Force recommendations to express the existence of a mandatory course of action

Looking ahead, the SIF will work to identify practical ways that insurance supervisors and regulators can support the implementation of the TCFD's final recommendations. The SIF looks forward to the final report of the TCFD, and a continuing dialogue on how to best respond to the challenge posed by climate change to the insurance sector through market transparency.

(Signed – on behalf of the Sustainable Insurance Forum).

### **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 goal of the SIF is to strengthen insurance supervisors' and regulators' understanding of and responses to sustainability challenges for the business of insurance, focusing on environmental issues. The Forum is convened by the UN Environment, drawing on its policy and sector experience generated through the Inquiry into the Design of a Sustainable Financial System and the UN Principles for Sustainable Insurance (PSI).

The inaugural meeting of the Sustainable Insurance Forum (SIF) was held in December 2016 in San Francisco, USA, co-hosted by the California Department of Insurance and UN Environment. Participants at this meeting included representatives from insurance supervisors and regulators in Brazil, California (USA), France, Ghana, Jamaica, Morocco, the Netherlands, Singapore, and the UK, as well as representatives of the International Association of Insurance Supervisors (IAIS). Other member jurisdictions of the SIF include South Africa and Washington State. The SIF is advancing a six-track programme of work in 2017, focusing on disclosure, access & affordability, sustainable insurance roadmaps, climate risk to investments, disaster risk reduction, and capacity building.

For further information on the SIF, please contact Jeremy McDaniels, SIF Programme Manager, at [Jeremy.McDaniels@unep.org](mailto:Jeremy.McDaniels@unep.org) (alternate: [jeremymcdaniels@gmail.com](mailto:jeremymcdaniels@gmail.com)).

**The Sustainable Insurance Forum**  
**Response to FSB TCFD Recommendations Report Public Consultation**

**(Q1a) Please provide your information in the boxes below**

Title:

Name:

**Company Name: Sustainable Insurance Forum (SIF)**

Position/Role:

Country:

**(Q1b) Which of the following best describes your area of responsibility in your organization?  
Please select ONE only**

- Academic/industry expert
- Administration
- Board member
- Compliance
- Corporate reporting
- Corporate strategy
- Finance
- General management
- Government/regulatory affairs
- Investment/asset management
- Legal
- Risk
- Sustainability
- Technology
- ✓ **Other (please specify): International group of Insurance Supervisors and Regulators**

**(Q1c) Which of the following best describes your organization type?  
Please select ONE only**

- ✓ **Financial services sector, including asset owners**
- Non-financial sector
- Non-Governmental Organization (NGO)
- Academia
- Industry/Trade association (Financial)
- Industry/Trade association (Non-financial)
- Other (please specify)

**(Q1d) Please select your primary industry from the list below:  
Please select ONE only**

- Asset management
- Banking
- Credit rating agency
- ✓ **Insurance (underwriting)**
- Pension plans, endowments, foundations, and other asset owners
- Stock exchange
- Other (please specify)

**(Q2) Which of the following best describes your perspective on the TCFD recommendations?**  
*Please select ONE only*

- ✓ **User of climate-related financial disclosures**
- Preparer of climate-related financial disclosures
- Both a user and preparer
- Other (please specify)

### **Organizational Decision Making**

**(Q4a) If organizations disclose the recommended information (or information consistent with the Task Force’s recommendations), how useful will that information be to your organization in making decisions (e.g., investment, lending, and insurance underwriting decisions)?**  
*Please select ONE only*

- Very useful
- ✓ **Quite useful**
- Neither/nor
- Not very useful
- Not useful at all
- Don’t know

**(Q4b) Please provide more detail on your response in the box below**

The Sustainable Insurance Forum (SIF), a leadership group of insurance supervisors and regulators from several nations and jurisdictions working together to strengthen their response to sustainability challenges for the insurance sector, welcomes the recommendations and guidance of the FSB Task Force on Climate Related Financial Disclosures (TCFD).

The SIF welcomes the TCFD’s recommendations and supplementary guidance for corporate and financial sectors. The recommendations of the TCFD are an important first step towards mainstreaming of disclosure on climate-related risks and opportunities, and stimulate firms to take climate-related risk into account in their business model. As a group of insurance supervisors and regulators, the SIF has focused its comments on the insurance sector as users and producers of

disclosure on climate related risks and opportunities.

In its role as risk taker, risk carrier and investor, the insurance sector acts as a nexus point between policyholders, corporate sectors and the financial system with regard to climate-related risks and opportunities. Four key dimensions are key:

- **Risk Protection:** By pricing and sharing risk, the insurance system can be a particularly effective tool for managing interlinked climate-related risks to corporate sectors and public institutions (including governments).
- **Capital Allocation:** As a holder of long-term assets, the portfolios of the insurance sector need to generate long-term stable returns linked to underwriting liability timeframes, which can be linked to climate-related investment opportunities such as green infrastructure.
- **Macroeconomic Value:** The availability of insurance is a critical enabler of economic activity and sustainable growth necessarily to deliver resilience to climate-related threats, such as the economic resilience of households in the face of natural disasters.
- **Financial System Relevance:** The global insurance and reinsurance sectors are also central to the smooth functioning and resilience of the broader financial system.

Insurance is the financial sector most immediately exposed to climate-related risks – and also the most experienced in managing different aspects of these challenges, notably with regard to the consideration of physical risks in underwriting. Due to high degrees of interlinkage across the broader financial system, including with firms that may be exposed to a range of physical and transition risks (i.e. to loan and investment portfolios), the insurance sector acts as a critical buffer against environmental risks – supporting broader financial system stability in the context of rising natural hazards and climate shocks.

Overall, the TCFD’s recommendations provide a comprehensive new standard for disclosing climate-related financial risks and opportunities. Effective disclosure not only has benefits for market transparency, but is also important for internal use within firms.

The identification of four thematic areas for disclosure, covering governance, strategy, risk management as well as metrics and targets, provide a practical structure for disclosures. The division of climate-related risks into transition risks (Policy and Legal, Technology, Market and Reputation risks) and physical risks (Acute and Chronic risks) provides a coherent framework for insurance firms to assess risks. While physical risks are the central priority for insurance firms, other risks – including reputation risks (arising from the denial of coverage; non-renewal of policies; or issues stemming from underwriting or investing in ESG-sensitive or high-emissions sectors) – may also warrant consideration.

We underscore the importance of including climate-related information in mainstream financial filings, with a focus on proportionality. The SIF supports the Task Force’s caution to organizations against prematurely concluding that climate-related risks and opportunities are not material based on the perceptions of the longer-term nature of some climate related risks.

Insurance companies have a two-fold role to play in terms of disclosure. First, they are users of disclosures from other companies to enable informed investing and underwriting decisions – and rely on consistent reporting from across the economy to enable effective risk pricing, and inform investment decisions. Second, they are also producers of reports themselves.

The SIF welcomes specific disclosure guidance for insurance firms in their roles as underwriters, asset owners and asset managers. Regulators and supervisors have an important role to play as users of this information, which is critical in supporting efforts to:

- monitor the safety and soundness of insurance firms,
- support access to insurance for consumers and the protection of policyholders, and
- assess sector and system-level financial stability.

As a leadership group of insurance supervisors and regulators seeking to address sustainability issues for the business of insurance, the SIF highlights the importance of efforts by public institutions to drive enhanced disclosure through both voluntary and mandatory means. Several insurance regulators have taken steps to consider climate-related physical and transition risks within their supervisory approach. Other regulators have gone further by implementing new sector and system requirements for insurance firms to disclose risks posed by climate factors to investment portfolios.

We recognize that climate-related financial disclosure is still at an early stage and a lot of work is still to be done. Measuring and disclosing the impacts of climate change will be a major challenge for corporate and financial sectors, particularly considering the development of a common framework. Nevertheless, we believe the TCFD recommendation is an important step in the right direction.

### **Additional Disclosures**

**(Q5) What other climate-related financial disclosures would you find useful that are not currently included in the Task Force’s recommendations?**

The SIF welcomes the recommendations and supplementary guidance for corporate and financial sectors. The SIF proposes the following additional disclosures to be included in the Task Force’s recommendations:

#### **1. Carbon-Related Assets**

The SIF recommends that the Task Force deliver guidance on the disclosure of carbon-related assets held by insurance companies.

The SIF supports the Task Force noting that sectors with a significant exposure to energy

dependencies or significant GHG emissions may be particularly vulnerable to transition climate-related risks.<sup>1</sup> Carbon-related assets – assets or organizations with relatively high direct or indirect GHG emissions – may in turn pose transition risks to financial institutions.

Several insurance supervisors, regulators, and divisions of integrated central bank supervision agencies have acknowledged the importance of transition risks to insurance company investment portfolios. Some supervisors and regulators have responded to this challenge by seeking to assess exposure to carbon assets and economic sectors (i.e. Netherlands<sup>2</sup>), while others have implemented mandatory regulatory requirements on disclosure of investments in fossil fuels (i.e. California<sup>3</sup>).

Based on the experience of a number of insurance supervisors, the Forum believes that the specific guidance on carbon risk disclosure should be extended. In the supplemental guidance for banks, it is recommended that banks should ‘describe significant concentrations of credit exposure to carbon-related assets’<sup>4</sup>. Similar guidance should also be offered for insurance companies in their roles as asset owners and asset managers. Specifically, the guidance should be augmented to include disclosure by insurance companies of their exposure to sectors with heightened climate related risks, such as disclosure of investments in carbon related assets (including oil, gas and coal producers and utilities) and other sectors defined in p. 31 of the TCFD report. Furthermore, insurance companies – and investors more broadly – could be encouraged to disclose how they take into account climate-related issues in their overall investment policy.

## **2. Consideration of climate risks across lines of business**

In terms of Strategy and Risk Management dimensions, The Task Force provides supplementary guidance for insurance firms to describe the potential impacts of climate-related risks and opportunities, as well as provide supporting quantitative information where available, on their core businesses, products, and services, including across lines of business. However, supplemental guidance with respect to metrics and targets only focuses on aggregated risk exposure to weather related catastrophes on property businesses. The SIF recognizes that certain insurance firms – including major general insurers and global reinsurers – are inherently more exposed to climate-related risks due to higher underwriting liabilities associated with physical assets. The Task Force could explore guidance on a broader range of metrics for insurance firms to disclose climate risks across lines of business, including for instance for health and life insurers, which may be directly or indirectly exposed to climate-related risks.

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<sup>1</sup> (Recommendations of the Task Force on Climate-Related Financial Disclosures (“TCFD Recommendations Report”) p. 23).

<sup>2</sup> DNB (2016) Time for Transition: an exploratory study of the transition to a carbon-neutral economy.

<sup>3</sup> CDI (2016) Climate Risk Carbon Initiative. <http://www.insurance.ca.gov/0250-insurers/0300-insurers/0100-applications/ci/>.

<sup>4</sup> Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures Report (“Implementing Recommendations Report”), Supplemental Guidance for Banks, p. 20



## Scenario Analysis

**(Q6) The Task Force recommends organizations describe how their strategies are likely to perform under various climate-related scenarios, including a 2°C scenario (see page 16 of the TCFD report). How useful is a description of potential performance across a range of scenarios to understanding climate-related impacts on an organization’s businesses, strategy, and financial planning?**

***Please select ONE only***

- ✓ **Very useful**
- Quite useful
- Neither/nor
- Not very useful
- Not useful at all
- Don’t know

**(Q7) Please elaborate on your response above. If you selected “Not very useful” or “Not useful at all” please indicate what would be more useful.**

The use of scenario analysis and stress testing is a critical component of supervisory practice and the Forum welcomes the TCFD’s recommendations, including the use by insurance companies of a 2C and greater than 2C scenario to account for the physical risks of climate change over the short, medium and long-terms. An insurance company is in a position that calls for assessments of climate-related risks and opportunities and their financial impacts in its three different capacities:

1. As an insurance underwriter – conducting assessment exposures of potential policyholders to climate risks as part of the underwriting process across lines of business;
2. As asset owner/manager and investor – conducting assessment of climate risk exposures of target investment organizations (including long-term securities, like sovereign bonds);
3. As an enterprise – examining how climate risks may impact operations and physical capital.

Therefore, an insurance company has considerable financial incentive to develop methods, including scenario analyses, to assess climate related risks and opportunities and their impact on their finances.

The SIF stresses that scenario analysis and stress testing is critical component of supervisory practice in several jurisdictions, used to inform judgements about the safety and soundness of firms with respect to climate risks, their perspectives on these risks, and potential broader sector- and system-wide implications. Several insurance supervisors have taken steps to integrate climate factors into their supervisory approaches, including tools for engagement and evaluation of

insurance firm solvency, as well as sector-level stress testing<sup>5</sup>.

Insurance firms may wish to consider applying at least a basic level of scenario analysis in their strategic planning and risk management and disclosing quantitative and qualitative results. The SIF supports the Task Force's view that organizations guard against prematurely concluding that climate-related risks and opportunities are not material, based on the perceptions of the longer-term nature of some climate related risks. In this respect, the TCFD may seek to clarify definitions relating to temporal dimensions and horizons of scenario analysis (including what are understood as short, medium and long-term milestones). Gaps in emissions measurement methodologies, current lack of tools to quantify the potential impact of climate related risks and opportunities at the asset and/or project level, and high degree of uncertainty around the timing and magnitude of climate-related risks are not reasons for not considering climate-related disclosures.

**(Q8) The Task Force recognizes that there are challenges around disclosing sufficient information to allow a better understanding of the robustness of an organization's strategy and financial plans under different plausible climate-related scenarios. Some challenges may arise from unfamiliarity with scenario methodologies and metrics, insufficient practice standards or cost. What do you view as effective measures to address potential challenges around conducting scenario analysis and disclosing the recommended information?**

**Please rank your top three most effective factors that apply.**

- Further work by industry trade groups and disclosure users on critical elements to be disclosed is needed to help overcome concerns that some information may be commercially sensitive
- Reduce the cost of conducting and disclosing scenario analysis
- Additional methodologies and tools should be developed for use by organizations to enable more effective scenario analysis
- Allow a year or two to phase-in scenario analysis and related disclosures
- Establish better practice standards around conducting and disclosing scenario analyses so that there are clearer rules of the road
- We do not anticipate any difficulties
- **Other (please specify) (1)**
- Not applicable

**(Q9) Please provide more detail on your first choice in the box below**

The SIF commends the Task Force in stressing the importance of scenario analysis. However, the SIF recognizes that while the insurance sector has some experience in scenario analysis relating to

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<sup>5</sup> Further information on approaches taken by insurance supervisors and regulators can be found in the response to Question 19.

physical climate risks, scenario analysis relating to other climate factors – including transition risks – is still in a nascent stage in the financial system, and across corporate sectors. From the SIF’s perspectives, several key priorities emerge in relationship to scenario analysis:

- Ensuring consistency and coherence across scenarios and core assumptions applied in scenario analysis, in order to support comparability across firms
- Acknowledging the need for flexibility approaches in undertaking scenario analysis, while highlight the importance of a quantitative approach
- Ensuring that this results of scenario analysis are decision-relevant for supervisors and regulators

Uptake of the Task Force recommendations relating to scenario analysis may be constrained by a range of technical and methodological gaps, which may be compounded by a range of informational, organizational, or behavioral barriers within corporate and financial firms. The SIF recognizes that it may be challenging for insurance companies to disclose accurate quantitative information on their scenarios due the confidential nature of this information, highlighting the need for significant capacity building to make these disclosures useful and actionable by other stakeholders. The TCFD may seek to consider in what respects confidentiality issues may emerge as a barrier to disclosure, and deliver guidance to overcome these barriers.

The TCFD could consider elaborating further guidance support the uptake of scenario analysis by insurance firms. Inclusion in disclosures of gaps, limitations, assumptions, and similar considerations are vehicles that could address such issues. Furthermore, the TCFD could to encourage convergence use of representative scenarios not only to ensure consistent reporting and comparability across firms, but also to reduce costs.

More broadly, the Task Force could elaborate how supervisors and regulators – and public institutions more broadly – could support the mainstreaming of scenario analysis by corporate and financial sector actors. Further detail on these options is set out in the response to Question Nineteen.

## **Metrics and Targets**

**(Q10a) The Task Force is recommending that organizations disclose the metrics they use to assess climate-related risks and opportunities in line with their strategy and risk management process. For certain sectors, the report provides some illustrative examples of metrics to help organizations consider the types of metrics they might want to consider. How useful are the illustrative examples of metrics and targets?**

For illustrative examples see the following pages in the TCFD Annex

- Energy Group: pages 54-58
- Transportation Group: pages 66-70
- Materials and Buildings Group: pages 78-82
- Agriculture, Food, and Forest Products Group: pages 91-94

- Very useful
- **Quite useful**
- Neither/nor
- Not very useful
- Not useful at all
- Don't know

**(Q10b) Please provide more detail on your response in the box below**

GHG data will be increasingly useful as data become available. However, gaps exist that may prevent the provision of meaningful disclosures to and by insurance companies. As set out in Question Five, the SIF believes that reporting on carbon-related assets is a critical additional disclosure that should be integrated in the recommendations of the Task Force. Further detail on the proposed metrics associated with this disclosure are found in Question eleven.

**Carbon-related Assets in the Financial Sector**

**(Q11) Part of the Task Force's remit is to develop climate-related disclosures that would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector. Beyond the metrics included in the Task Force's guidance, and supplemental guidance, what other metrics could be used to measure carbon-related assets in the financial sector?**

As set out in the response to Question Five, the SIF recommends that Task Force deliver guidance on the disclosure of carbon-related assets held by insurance companies within investment portfolios. In the supplementary guidance for Banks, the Task Force recognizes that “the term carbon-related assets is not well-defined”, and suggests that banks define carbon-related assets as “those assets tied to the energy and utilities sectors under the Global Industry Classification Standard, excluding water utilities and independent power and renewable electricity producer industries.”<sup>6</sup> The SIF supports that the Task Force undertakes further work to clarify a consistent definition of carbon-related assets (including how it relates to the sectors identified on p. 31 of the report). This could draw upon the experience of insurance supervisors and regulators that have undertaken work to assess the exposure of regulated insurance firms to carbon assets (for further information, please refer to the response to Question Nineteen).

In order to support comprehensive and useful disclosure by corporate sectors, the SIF recommends that supplemental guidance for the Energy sector be amended to reflect the diversity of energy sources that electricity utilities may use in generating electricity, such as thermal coal, gas, oil, natural gas, or renewable sources.

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<sup>6</sup> Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures Report (“Implementing Recommendations Report”), Supplemental Guidance for Banks, p. 20

Climate-related data of private securities investments is important in order to have an accurate view of exposure to potential climate-related risks; however, obtaining this data is difficult due to their non-public nature. The Task Force should explore ways to obtain disclosure from this important sector.

**(Q12) The Task Force is recommending that organizations provide key metrics used to measure and manage climate-related risks and opportunities. For example, the Task Force recommends that asset owners (including insurance companies) and asset managers report normalized greenhouse gas emissions (GHG) associated with investments they hold (for each fund, product, and strategy) using available data (see Annex pages 35 and 41). Please describe your views on the feasibility of implementing the above recommendation.**

Challenges exist that are still to be overcome in order to accomplish consistent and reliable use of GHG Protocol for reporting purposes, such as uncertainty around scope 1 and 2 emissions and uncertainty around physical data. The SIF supports the Task Force's conclusion that there are "... challenges and limitations of reporting GHG emissions associated with investments, including that GHG emissions should not necessarily be interpreted as a risk metric."

Insurance regulators in collaboration with the insurance industry can play a role in helping to develop consistent and reliable measures of GHG emissions for reporting purposes.

The SIF considers that public disclosure of investments in sectors with heightened climate related risks (such as oil, gas, coal and utilities and other sectors listed in the TCFD report) is one option to support the identification and assessment of investments that could be vulnerable to climate-related transition risks.

### **Greenhouse Gas Emissions (GHG) Associated with Investments**

**(Q13a) How useful would the disclosure of GHG emissions associated with investments be for economic decision-making purposes (e.g., investing decisions)?**

*Please select ONE only*

- Very useful
- ✓ **Quite useful**
- Neither/nor
- Not very useful
- Not useful at all
- Don't know

**(Q13b) Please provide more detail on your response in the box below**

High GHG emission scores associated with a given investment are indicative that the investment is more subject to transition risks and therefore it is riskier in that respect than other investments.

This is a useful tool for decision-making of investors. Because cost of capital is also likely to reflect this risk, GHG profile impacts that balance sheet and income statement and are therefore useful decision-making tool for all organizations.

### **Remuneration**

**(Q14) Which types of organizations should describe how performance and remuneration take climate-related issues into consideration?**

***Please select ALL that apply***

- **The Energy Group as recommended by the Task Force**
- Other non-financial sector organizations (please specify)
- **Financial sector organizations (please specify)**
- None

### **Additional Feedback**

**(Q19) What additional feedback you would like to provide the Task Force on the recommendations?**

The SIF congratulates the Task Force for its important and meaningful work in preparing these recommendations on climate-related financial disclosure. We believe that “widespread adoption” of the recommendations will help ensure that climate-related financial issues are routinely considered in business and investment decisions and encourage an effective dialogue between companies and banks, insurers and investors, which will lead to smarter, more efficient allocation of capital, and speed the transition to a low-carbon economy.<sup>7</sup>

The SIF is encouraged by endorsement of the TCFD recommendations by a number of major insurers. We recognize, however, that climate-related financial disclosure is still at an early stage for many firms, particularly in developing and emerging economies. For some firms, the recommended disclosures may seem to constitute commercially sensitive information. As part of its implementation pathway, it will be important for the TCFD to consider ways of overcoming these and other concerns.

The SIF recognizes that market action alone may be insufficient to fully achieve implementation of the TCFD recommendations within an appropriate time-frame. Leading insurance supervisors and regulators are already taking action on climate-related risks and opportunities, with efforts to enhance disclosure a key focus:

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<sup>7</sup> December 14, 2016, Letter from Michael R. Bloomberg to Chairman Mark Carney presenting Task Force report setting out recommendations.

- **Brazil:** In late 2016, SUSEP launched a survey process on sustainability issues within Brazilian insurance companies, aiming to obtain data and information regarding on market practice, including environmental risk management. The survey gathered responses from 71% of Brazilian insurance firms, and found that while environmental issues are important to business strategy, a very low share of companies have policies in place to manage climate risks in underwriting, or take action to consider the impacts of climate change on investment portfolios. SUSEP is now taking forward activities to enhance disclosure frameworks for the Brazilian insurance market, and engaging with firms to promote the integration of environmental factors into risk management and broader strategy.
- **California:** The California Department of Insurance (CDI) launched the Climate Risk Carbon Initiative<sup>8</sup> (CRCI) in 2016. The CRCI includes new requirements of financial disclosures by insurers of their investments in fossil fuel (thermal coal, oil, gas, and utilities) enterprises through a survey or “data call”, which is applicable to California-licensed insurers. The new requirement was accompanied by a request that California-licensed insurance companies voluntarily divest from thermal coal enterprises.
- **France:** With Article 173 of the Energy transition law, the French Government set out an ambitious disclosure framework<sup>9</sup>. In this context, insurers are required to disclose information on their management of climate risks. They should publish how they take into account their environmental footprint in their investment policy. Institutions should notably describe how their investment policy has been affected by the outcome of the analysis process, and how investment policies support a two-degree warming trajectory.
- **Morocco:** At COP22 Morocco announced a strategic Roadmap for its financial system on sustainability issues, covering priorities of environmental risk governance, product development, regional cooperation, capacity building, and disclosure. ACAPS, the Moroccan Insurance Regulator, is now developing a Sustainable Insurance Roadmap to align insurance market development with sustainability goals.
- **Netherlands:** DNB, the Dutch central bank, first examined issues financial risks relating to climate change in 2014, in response to a request from Parliament. In 2016 it completed a deeper assessment of the macroeconomic implications of the energy transition in the Netherlands<sup>10</sup>. For the study, DNB undertook primary research based on survey data market participants to quantify the capital exposure of insurance firms to carbon-intensive sectors – looking across asset equity, debt, and other holdings. Parallel to this exercise, in mid 2016 a national platform for sustainable finance was created, with DNB in a convening role.
- **UK:** The Bank of England’s Prudential Regulation Authority published a prudential review of climate risks to the UK insurance sector in 2015<sup>11</sup>. The PRA examined the impacts of climate

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8 CDI (2016) Climate Risk Carbon Initiative. <http://www.insurance.ca.gov/0250-insurers/0300-insurers/0100-applications/>

9 <http://www.assemblee-nationale.fr/14/ta/ta0575.asp>

10 DNB (2016) Time for Transition: an exploratory study of the transition to a carbon-neutral economy.

11 Prudential Regulation Authority (2015) The Impact of Climate Change on the UK Insurance Sector.

change in line with its statutory objectives, and set out a range of next steps to follow up on the initial analysis. These next steps included giving further consideration to building climate factors into the existing Business Model Analysis framework for supervisory engagement, an initial review of Own-Risk Solvency Assessment (ORSA) filings from firms to assess whether climate change factors are being appropriately identified and assessed, and reviewing the consideration of climate factors within the PRA's own stress testing exercises for the insurance sector.

- **USA:** The National Association of Insurance Commissioners (NAIC) introduced the world's first climate risk disclosure survey for the insurance sector in 2009<sup>12</sup>. The survey contains eight questions to assess insurer strategy and preparedness with regard to investments, mitigation, financial solvency (risk management), carbon footprints and consumer engagement. The NAIC has sought to integrate climate change factors into national-level supervisory standards through revisions to Financial Condition Examiners Handbook in 2013<sup>13</sup>. The revisions provide guidance on supervisory questions to ask insurers regarding potential impacts of climate change on solvency.

We believe that supervisors, consistent with their mandates and policies, can play a positive role in supporting the adoption of the recommendations within the insurance sector. Options to do this include:

- Promoting awareness of the TCFD recommendations among regulated firms.
- Working with market actors to build capacity and share tools for scenarios and metrics.
- Incorporating insights from climate disclosures in regular supervisory activities.
- Developing Sustainable Insurance Roadmaps which can place climate disclosure in a broader context of support linking the insurance sector with sustainable development.
- Endorsing or authorizing the Task Force recommendations, or appropriate aspects of it, as a regime to be followed in insurers' climate-related financial disclosures.

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 climate change related projections. 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, respecting differences in mandates, constraints, and strategic objectives. While noting the TCFD's voluntary mandate, some SIF members consider it to be important for the Task Force recommendations to express the existence of a mandatory course of action

Looking ahead, the SIF will work to identify practical ways that insurance supervisors and

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<sup>12</sup> NAIC (2016) Climate Change and Risk Disclosure. [http://www.naic.org/cipr\\_topics/topic\\_climate\\_risk\\_disclosure.htm](http://www.naic.org/cipr_topics/topic_climate_risk_disclosure.htm)

<sup>13</sup> NAIC (2016) Climate Change and Risk Disclosure. [http://www.naic.org/cipr\\_topics/topic\\_climate\\_risk\\_disclosure.htm](http://www.naic.org/cipr_topics/topic_climate_risk_disclosure.htm)



regulators can support the implementation of the TCFD's final recommendations. The SIF looks forward to the final report of the TCFD and a continuing dialogue on how to best respond to the challenge of climate change in the insurance sector through market transparency.

Thank you for considering SIF's comments. We would welcome the opportunity to provide further input and support to the Task Force as it advances its mission.