

Questions for public consultation on proposed changes to reflect climate risk in selected ICP guidance and supporting material

Thank you for your interest in the public consultation on the proposed changes to reflect climate risk in selected ICP guidance material and supporting material. The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the [Consultation Tool](#) to enable those responses to be considered.

Consultation questions

ICP 15 (Investments) guidance material	
1	<p>General comments on the proposed changes to reflect climate risk in ICP 15 (Investments) guidance material</p> <p>The Prudential Regulation Committee of the American Academy of Actuaries encourages the IAIS to consider modifying the guidance material to ensure that investment risk considerations are two-sided. In other words, for an inadequate focus on climate risk, it is possible for investment decisions to be excessively focused on climate risk or geared toward a potential “green” transition, leading to risk concentrations or lost investment opportunities. Both under and over exposure to “green” investments are risks.</p>
2	Comments on proposed changes to ICP guidance 15.2.3
3	<p>Comments on new ICP guidance 15.2.6</p> <p>We suggest that the new ICP guidance 15.2.6 be removed. The new ICP guidance 15.2.6 introduces the “double materiality” concept (“Investment decisions, especially at a large scale, could in turn also negatively impact climate change, potentially leading to financial impacts on insurers’ investments...”). We believe that double materiality may be perceived as a policy choice influenced by politics and therefore would be inappropriate for codification as a supervisory standard. In addition, the guidance also has suggestions for engaging with investees and asset divestment, activities which also typically fall outside the purview of insurance supervisors.</p>
4	<p>Comments on proposed changes to ICP guidance 15.3.1</p> <p>The proposed change appears to be based on an unduly simplistic presumption that investee business models are inflexible and cannot adapt to changing market dynamics. Climate-related risks are unlikely to be the foremost (or even a highly impactful) driver for changing conditions for asset-liability management. Therefore, it does not seem appropriate to include climate-related risks in this section and to identify such risks as the specific example for insurers to consider.</p>
5	<p>Comments on proposed changes to ICP guidance 15.4.1</p> <p>We believe that climate scenario analysis is not yet proven to be sufficiently useful for risk management (i.e., it should be combined with other tools as well), and therefore emphasis on climate scenario analysis in the ICPs may be premature.</p> <p>Further, the scenario analysis as described in this section seems more limited to identifying or estimating risks where there are information gaps, rather than managing those risks. If included as an example in this guidance, the limitations of climate scenario analysis ought to be noted.</p>
6	Comments on proposed changes to ICP guidance 15.4.2

ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material	
7	<p>General comments on the proposed changes to reflect climate risk in ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material</p> <p>The response template does not provide a specific opportunity to respond to the proposed change to 16.1.9, which adds climate-related risk to “other risks” within the scope of risk identification (i.e. the insurer’s Enterprise Risk Management (ERM) risk taxonomy). This, however, conflicts with what we believe is a widely understood principle that climate-related risk influences existing risk categories and is not a distinct risk category.</p> <p>The response template does not provide a specific opportunity to respond to the proposed change to 16.2.10, which suggests scenario analysis as a tool to assess “to what extent the insurer is at risk and whether the insurer is able to absorb possible shocks.” We believe that climate scenario analysis is, at present, insufficiently mature to serve as a significant tool for risk assessment and risk management purposes and may not be the most appropriate example of scenario analysis to include in this section.</p>
8	Comments on proposed changes to ICP guidance 16.1.1
9	Comments on proposed changes to ICP guidance 16.1.3
10	Comments on proposed changes to ICP guidance 16.1.6
11	Comments on proposed changes to ICP guidance 16.2.2
12	Comments on proposed changes to ICP guidance 16.2.16
13	<p>Comments on proposed changes to ICP guidance 16.2.19</p> <p>Given the nascent state of climate scenario analysis, it is unclear how climate-related stress testing and scenario analysis techniques would complement the use of models for risks that are difficult to model. As climate scenario analysis was recently the focus of another IAIS application paper consultation, it seems more prudent to limit the discussion of the applicability and use cases of climate scenario analysis to that application paper at the present time.</p>
14	<p>Comments on proposed changes to ICP guidance 16.6.6</p> <p>We believe that the proposed changes inappropriately single out climate-related risk above other risks for special consideration. They also introduce the “double materiality” concept (“the impact of their investments on the climate”), which we already identified concerns within our response to #3 above. Finally, the language indicates that the insurer’s investment strategy should accommodate customers’ “known preferences in relation to sustainability considerations,” which suggests that customers would directly influence the insurer’s investment strategy. In our opinion, these two aspects (double materiality and customers’ known preferences) do not seem appropriate to include in the ICPs. We appreciate the importance of mitigating climate change risk, but addressing double materiality and customers’ known preferences seems to be beyond the role of insurance supervisors.</p>

15	<p>Comments on proposed changes to ICP guidance 16.12.1</p> <p>The proposed change appears to inappropriately single out climate-related risk above other risks for special consideration within the Own Risk and Solvency Assessment (ORSA), including unduly specifying in the ICPs a time horizon for considering the impacts of a risk driver in what is designed to be an insurer-driven risk assessment. We recommend reconsideration as this addition does not seem beneficial.</p>
16	Comments on proposed changes to ICP guidance 16.16.9
ICP 7 (Corporate Governance) supporting material	
17	General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 7 (Corporate Governance)
18	<p>Comments on proposed changes to section 3.3 (The role of the Board)</p> <p>Because the capacity of an insurer's board is not limitless, an overly narrow focus on a single risk dynamic (climate change) could increase the insurer's overall vulnerability to broader risk exposures. IAIS guidance should promote a balanced view of risks.</p>
19	Comments on proposed changes to section 3.5 (Duties related to remuneration)
ICP 8 (Risk Management and Internal Controls) supporting material	
20	<p>General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 8 (Risk Management and Internal Controls)</p> <p>The final sentence in the proposed revisions to paragraph 41 introduces the concept of double materiality into a discussion of risk management and internal controls. As previously noted in our response to Question #3, we do not believe it should be incorporated into the supporting material.</p>
21	<p>Comments on proposed changes to section 4.1 (Integrating climate-related risks into the scope of the risk management system)</p> <p>We recommend that the revisions to paragraph 44 acknowledge the limitations of and uncertainty around climate scenario assessments, particularly for longer time horizons.</p>
ICP 14 (Valuation) supporting material	
22	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 14 (Valuation)
23	Comments on section on Valuation of assets
24	Comments on section on Impacts on types of valuations
25	Comments on section on Time horizons of the investment
26	Comments on section on Valuation of liabilities

ICP 15 (Investments) supporting material	
27	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 15 (Investments)
28	Comments on section on Climate change factor for investment requirements See our response to item 1.
29	Comments on section on Investment of assets for the portfolio as a whole Insurance supervisors are not typically responsible for requiring insurers to consider the impact of their investments on the climate, to engage with investees, or to require divestment of certain assets deemed non-sustainable. We suggest removing this content from the supporting material.
30	Comments on section on Asset liability management This section appears unduly simplistic. The viability of investees businesses is constantly impacted by many dynamics, not just climate change. In addition, company business models are adaptable, and firms may benefit from market changes due to climate-related risk. We recommend that this section be more limited and balanced or removed entirely.
31	Comments on section on Risk assessment and management of investments
ICP 16 (Enterprise Risk Management for Solvency Purposes) supporting material	
32	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 16 (Enterprise Risk Management for Solvency Purposes)
33	Comments on section on Risk identification and measurement
34	Comments on section on Risk concentrations It is unclear why the risk is characterized as “systemic risk” rather than typical concentration-related solvency risk. We also suggest that insurance supervisors be equally cautious about concentrations in “green” investments.
35	Comments on section on Corporate strategy and time horizons
36	Comments on section on Risk appetite and limits
37	Comments on section on Asset liability management See our response to item 30.
38	Comments on section on Investment policy
39	Comments on section on ORSAs The ORSA continuity analysis is typically consistent with a 3 to 5-year business plan, while transition risk would be expected to manifest over decades. Accordingly, unless regulatory or other changes are imminent, it is difficult to understand how transition-related effects could be reliably and meaningfully incorporated in an ORSA continuity analysis.

