INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

Draft: 3/27/24

International Insurance Relations (G) Committee
Phoenix, Arizona
March 16, 2024

The International Insurance Relations (G) Committee met in Phoenix, AZ, March 16, 2024. The following Committee members participated: Gary D. Anderson, Chair (MA); Dean L. Cameron, Co-Vice Chair (ID); Eric Dunning, Co-Vice Chair (NE); Andrew N. Mais (CT); Michael Yaworsky represented by Kevin Jacobs (FL); John F. King (GA); Dana Popish Severinghaus (IL); Vicki Schmidt (KS); Anita G. Fox (MI); Glen Mulready (OK); and Carter Lawrence (TN).

1. <u>Adopted its Feb. 15, 2024, and 2023 Fall National Meeting Minutes</u>

The Committee met Feb. 15 and discussed NAIC comments on the International Association of Insurance Supervisors (IAIS) public consultations on climate risk supervisory guidance for both market conduct issues and risk scenario analysis.

Director Fox made a motion, seconded by Director Dunning, to adopt the Committee's Feb. 15, 2024 (Attachment One) and Dec. 1, 2023 (*see NAIC Proceedings – Fall 2023, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

2. <u>Heard an Update on International Activities on Insurer Investments</u>

Commissioner Anderson explained how the area of insurer investing has become an area of focus both internationally and domestically. He noted the topic as one of the macroprudential themes in the 2023 IAIS Global Insurance Market Report and that the NAIC has ongoing work on its *13 Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers*.

Peter Windsor (International Monetary Fund—IMF) presented to the group on an IMF Global Financial Stability Note (GFSN) released in December 2023 on *Private Equity and Life Insurers*. He outlined the key themes of the paper, including the growth of PE since the global financial crisis, private credit, the growth of PE-influenced reinsurers, and specific policy considerations for supervisors.

Director Dunning asked Windsor if there are certain policy considerations supervisors should prioritize amongst those listed in the IMF report. Windsor said the valuation of the assets is an issue that requires close consideration and could immediately be elevated for consideration by supervisors.

Ricardo Garcia (Bermuda Monetary Authority—BMA) provided a review of a recent paper released by the BMA, *Supervision and Regulation of Private Equity Insurers*, about the regulatory powers of the BMA and its interactions with supervisory colleges. In his remarks, Garcia highlighted six specific challenges that are normally associated with insurers and their activities in the PE space: 1) the structure of cross-border reinsurance transactions; 2) arms-length transactions and conflicts of interest; 3) illiquid assets and affiliated assets; 4) lapse risks and exposure to liquid assets; 5) evaluation of technical provisions; and 6) whether cross border insurance is being used to explore regulatory differences between jurisdictions. Garcia concluded his remarks by saying the Bermuda regime continues to provide an equivalent level of policyholder protection to the European and U.S. regimes.

Director Cameron asked Garcia about the reaction to the BMA's supervisory enhancements. Garcia said the reaction from the market and the supervisory community has been positive. Highlighting the robust consultation process, he noted the market understands the need to do enhancements, and one of the main reasons reinsurers set up in Bermuda is due to the longstanding credibility of its regime and its mutual recognition by regimes in Europe and the U.S. Likewise, there is understanding amongst the supervisory community due to consistent bilateral engagement carried out by the BMA. He also added there have been some negative reactions from industry players not willing to put the time and investment into complying with the new requirements and limited instances where companies may seek new jurisdictions instead.

Commissioner Anderson thanked Windsor and Garcia for their presentations and noted that the global insurance marketplace is made better because of the cooperation, understanding, and appreciation for the differences within respective markets.

3. Heard an Update on Activities of the IAIS

Commissioner Anderson gave an update on IAIS activities, beginning with a review of recent committee meetings that took place virtually in March.

Regarding the insurance capital standard (ICS) and the aggregation method (AM), the IAIS is continuing the comparability assessment that began in October 2023, and the ICS Task Force has met a few times to review and discuss the analysis of the IAIS Secretariat's assessment team. Commissioner Anderson thanked the assessment team for the work done thus far and noted an interim report was discussed during the virtual committee meetings, with a final decision on comparability to be made in the fourth quarter of 2024. He also voiced appreciation for the volunteer companies that provide data and the group-wide supervisors involved.

Next, Commissioner Anderson reported that the IAIS continues to work on a second targeted jurisdiction assessment (TJA) round involving new jurisdictions to gain a broader understanding of the implementation of the holistic framework. The second round involves six new jurisdictions, and the outcome will feed into further reporting to the Financial Stability Board (FSB) in 2025. He noted the U.S. was part of the first TJA, so it is not being assessed in this round; however, two state insurance regulators—Bob Wake (ME) and Dan Bumpus (VA)—will participate on the TJA assessment team.

Commissioner Anderson explained that the peer review of Insurance Core Principle (ICP) 16 (Enterprise Risk Management for Solvency Purposes) is underway. This voluntary assessment, part of the IAIS peer review process (PRP), is open to all IAIS members and gives jurisdictions an opportunity to see how they are observing particular standards. As with prior PRPs, a handful of states are participating to provide a sample of U.S. observance. The ICP 16 PRP team is in the process of drafting reports for the 67 IAIS member responses, which will be shared with those members for feedback. Following that, the team will turn to drafting an aggregate report, which will be published on the IAIS website once finalized at the end of this year.

Next, Commissioner Anderson reviewed IAIS work on climate risk. He noted the IAIS has organized the various work into a number of planned public consultations. Package 2 was published in the fourth quarter of 2023, which included supporting material covering greenwashing and other market conduct issues (related to ICPs 19 [Conduct of Business] and 21 [Countering Fraud in Insurance]) and climate scenario analysis considerations (related to ICPs 16 and 24 [Macroprudential Supervision]). That consultation closed Feb. 23, 2024, and the relevant IAIS groups have begun work to review the comments received. Commissioner Anderson said Package 3 is expected to be released for public consultation soon and covers climate-related additions to the guidance in ICPs 15 (Investments) and 16 and supporting material covering ICPs 7 (Corporate Governance), 8 (Risk Management and Internal Controls), 14 (Valuation), 15, and 16. Finally, Package 4, which covers public disclosure and supervisory reporting, is expected to be published for consultation later this summer.

Commissioner Birrane reviewed the work being carried out at the IAIS Supervisory Forum. She highlighted upcoming meetings, including one on June 21, 2024, in Basel, Switzerland, which will include education from the IAIS FinTech Forum and a discussion on the creation of the SupTech Subgroup.

4. Heard an Update on International Activities

   A. International Activities

Director Dunning reported on recent bilateral discussions held during the initial months of Commissioner Mais' time as NAIC President. These brief meetings focused on relationship building and reporting on the NAIC's 2024 regulatory priorities, including bilateral outreach with the following: Australia, Bermuda, Canada, Hong Kong, Japan, Singapore, Switzerland, Taiwan, Thailand, and the United Kingdom (UK). Planned outreach with China is currently being rescheduled.

Director Dunning reviewed the three workstreams of the EU-U.S. Insurance Dialogue Project: 1) Climate Risk and Financial Oversight; 2) Climate Risk and Resilience; and 3) Innovation and Technology. He said work continues on their respective mandates, and NAIC representatives continue to incorporate relevant work being carried out at the domestic level.

Director Dunning spotlighted the NAIC's International Fellows Program, noting the virtual spring 2024 program will be extended to two weeks. He reminded Committee members of their ability to participate in the fall 2024 program by hosting a fellow at their respective departments of insurance (DOIs).

Next, Director Dunning reported on NAIC participation in recent international events, including:

- The Eurofi High Level Seminar in Ghent, Belgium, Feb. 21–23, 2024. Commissioner Anderson participated in a panel titled "Challenges Facing Insurers" and provided a snapshot of the U.S. insurance sector, noting its strength during the challenging macroeconomic backdrop and how state insurance supervisors are responding to an evolving insurance industry. He also discussed ongoing work at the IAIS focused on the comparability assessment of the AM and ICS.
- The Bermuda Risk Summit in Bermuda March 13–15, 2024. Commissioner Mais and Director Dwyer spoke on a panel titled "Market View: Global Regulators." Additionally, Commissioner Lara spoke on a panel titled "Adapting to a Changing Landscape," and Commissioner Yaworsky spoke on a panel on Florida reforms.

   B. OECD

Director Cameron reported on recent activity at the Organisation for Economic Co-operation and Development (OECD). First, the Insurance and Private Pensions Committee (IPPC) met Dec. 6–8, 2023. During this meeting, Director Dunning participated in a roundtable and presented NAIC efforts to address protection gaps in the U.S., highlighting four key areas: 1) climate financial risk analysis; 2) the availability and affordability of insurance; 3) stakeholder risk awareness and engagement; and 4) advocacy for resiliency and mitigation efforts to reduce the risk of property loss. Second, on Dec. 14–15, 2023, Commissioner Ito participated in a roundtable organized jointly by the OECD and the Indonesian Financial Services Authority on leveraging technology for risk assessment and risk reduction in insurance. He discussed NAIC and state insurance supervisors' efforts related to addressing the use of artificial intelligence (AI), highlighting topics such as ongoing surveys on the use of AI, the recently approved NAIC *Model Bulletin on the Use of Algorithms, Predictive Models, and Artificial Intelligence Systems by Insurers*, development of privacy protection rules, and the use of suptech.

C. SIF

Director Cameron reported on the Sustainable Insurance Forum (SIF) and its work plan for 2024. Various SIF workstreams are being undertaken by its Transition Plans Working Group and its Capital and Supervisory Framework Working Group. He said the SIF is further exploring the topic of biodiversity and nature-related risk to build on the 2021 SIF Scoping Study: *Nature-related Risks in the Global Insurance Sector*. The SIF's next meeting is expected to take place in June.

Commissioner Lara suggested that the NAIC reach out to the OECD to consider working on wildfires, which is a topic of mutual interest.

5. Discussed Other Matters

Commissioner Anderson promoted the upcoming NAIC International Insurance Forum scheduled for May 16–17, 2024, in Washington, DC. Maurice Maloney (NAIC) provided an overview of featured speakers and panel discussions that are set to take place at the forum. He also noted that at the time of the meeting, registration had reached 70% capacity.

Finally, Director Dunning noted appreciation for Commissioner Anderson's years serving as the Committee's chair and wished him well with his upcoming new role as chief executive officer (CEO) of the NAIC.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 3/4/24

International Insurance Relations (G) Committee
Virtual Meeting
February 15, 2024

The International Insurance Relations (G) Committee met Feb. 15, 2024. The following Committee members participated: Gary D. Anderson, Chair (MA); Dean L. Cameron, Co-Vice Chair (ID); Eric Dunning, Co-Vice Chair (NE); Andrew N. Mais represented by William Arfanis (CT); Michael Yaworsky represented by Ray Spudeck (FL); John F. King represented by Martin Sullivan (GA); Dana Popish Severinghaus represented by Susan Berry (IL); Vicki Schmidt (KS); Anita G. Fox represented by Steve Mayhew (MI); Glen Mulready (OK); and Carter Lawrence (TN).

1. Discussed NAIC Comments on the IAIS Public Consultations on Climate Risk Supervisory Guidance

Commissioner Anderson explained that the International Association of Insurance Supervisors (IAIS) is conducting public consultations on climate risk-related supervisory guidance for both market conduct issues and risk scenario analysis. He noted that the two climate risk-focused documents are the first in a series of upcoming consultations on the topic that the IAIS plans to carry out this year. Regarding the draft application paper on climate risk market conduct issues in the insurance sector, Commissioner Anderson explained the IAIS aims to support supervisors in their efforts to identify instances of potential unfair treatment of consumers that can emerge concerning sustainability-focused products or natural catastrophe protection products. Next, on the draft application paper on climate risk scenario analysis, Commissioner Anderson said the focus is the use of climate-related scenario analysis by both supervisors and insurers to understand the risks to which the insurance sector is exposed at a micro- and macroprudential level.

Commissioner Anderson said the NAIC's initial draft comments are based on an internal review of the draft application papers and comments from members of various NAIC groups. For the market conduct paper, the groups involved were the Market Regulation and Consumer Affairs (D) Committee and the Climate and Resiliency (EX) Task Force. For the scenario analysis paper, the groups involved were the Financial Stability (E) Task Force, Macroprudential (E) Working Group, and Solvency Workstream of the Climate and Resiliency (EX) Task Force. Those initial comments were circulated for review in advance of the call. Input was received from an interested state insurance regulator and incorporated; otherwise, no additional input for consideration was received.

Ryan Workman (NAIC) provided an overview of the NAIC's comments on the two draft application papers, noting that some were minor and editorial. More substantive comments addressed areas where clarification or consistency would be helpful.

Commissioner Lawrence said he appreciated the clarification comments raised, specifically the definitions surrounding sustainability in the market conduct application paper, and asked for more detail on the IAIS consultation process. Workman explained the process, noting the relevant IAIS groups will review all public consultation comments received, and their points will be amplified by the representatives of those groups. Workman also noted that the IAIS is usually receptive to comments that help clarify and improve the text and that, in addition to the IAIS groups responsible for drafting the papers, these will make their way through the relevant IAIS parent committees before being formally adopted. This allows for NAIC involvement at many stages throughout the process.

Berry inquired as to the likelihood of points from these papers making it into standards under the IAIS Insurance Core Principles (ICPs). Workman noted that these are application papers that provide additional guidance to existing standards. He explained there are references to certain ICPs throughout the paper, so the idea is to look at existing standards in the context of climate risk. He said there is no intention to elevate the material to standards as the views expressed are more to illustrate good practices and not set requirements.

Dave Snyder (American Property Casualty Insurance Association—APCIA) commented that the NAIC's comments were consistent with those of the APCIA and Global Federation of Insurance Associations (GFIA). He said the market conduct paper's scope goes beyond greenwashing to all environmental, social, and governance considerations and that their comments will note other misleading areas that should be addressed.

Steve Broadie (APCIA) noted the scenario analysis paper is a useful primer for climate risk scenario analysis and the need to consider the cost and proportionality when conducting such analysis. He said using this type of scenario analysis would be unsuitable for capital charges. He said the paper is too prescriptive in certain areas, and the document might be used to impose public policy, which is out of scope for insurance supervisors. Additionally, Broadie said if there is any public disclosure, it should not be on an individual insurer basis. Broadie concluded by reiterating the APCIA's intention to submit comments to the IAIS as part of the public consultation process.

Director Fox made a motion, seconded by Director Cameron, to approve the submission of the NAIC comments (Attachment One-A and Attachment One-B). The motion passed unanimously.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Public consultation on draft application paper on climate risk market conduct issues in the insurance sector

Survey response 1

Please provide your information:
Name: - Nikhail Nigam E-mail address: - nnigam@naic.org Name of jurisdiction: - United States of America Name of organisation: - National Association of Insurance Commissioners (NAIC)

Do you agree with your responses being made public on the IAIS website?
Yes

General comments on draft application paper

General comments on draft application paper on climate risk market conduct issues in the insurance sector:
General comments on the application paper on climate risk market conduct issues in the insurance sector • Consider using flowcharts and infographics to break down complex ideas, especially to illustrate the different roles of insurers, intermediaries, and supervisors in tacking greenwashing. For example, a flowchart illustrating the different checkpoints needed to review the design, delivery, and performance monitoring of a product with sustainable features could be helpful in breaking down the recommendations in 2.3. • Consider including a glossary for technical terms and standardize these terms and where best to use them. For example, there are multiple terms that include the word sustainability: sustainability preferences and objectives, sustainability preferences, sustainability related objectives, sustainability goals, sustainability factors, sustainability features can be confusing as they are not defined, and some are used interchangeably and some are not. • Consider adding a summary or conclusion section that reiterates the key takeaways and proposed actions for insurance supervisors.

Section 1 Introduction

General comments on section 1 Introduction

Comments on section 1.1 Context and objective
• Paragraph 2: the third sentence seems somewhat overstated; suggest: If not adequately identified, monitored and mitigated, such reputational and legal risks could have a substantial impact beyond individual insurers and intermediaries, affecting the insurance sector as a whole.

Comments on section 1.2 Related work by the IAIS

Comments on section 1.3 Proportionality

Comments on section 1.4 Scope

Section 2 Greenwashing considerations

Comments on section 2 Greenwashing considerations

Comments on section 2.1 Introduction on greenwashing
• Para 10: last sentence, "englobe" is not the best wording and the rest of the paper refers to sustainability representations that are environmental or social, so for consistency, can remove governance; suggest: This paper uses the term "greenwashing" to cover all misleading sustainability representations (ie environmental and social). • Para 16: last sentence, suggest for clarity and consistency: It is also worth noting that the suggestions in this paper can apply to both supervisors that do and do not have specific sustainability-related mandates, as most jurisdictions have general requirements that insurers and intermediaries treat consumers in a fair, clear and not misleading manner, which would apply also to sustainability related representations. • Footnotes 3 and 6: these are identical – given the text in para 11 describes what ICP 19 says whereas the para 15 talks about what ICP addresses more broadly, suggest footnote 6 could be deleted. • Para 15: as subection 3.2 is on natcat issue, not greenwashing, assume the reference here should be to subsection 2.2 and suggest additional edits for clarification (in particular to avoid confusing principles in general with principles as in Insurance Core Principles): Sub-section 2.2 highlights potential conduct of business issues in the event of misleading information on the impact of a product, an insurer or an intermediary. It also includes recommendations on how supervisors, insurers and intermediaries could address such issues. In particular, it explores the relevance of existing concepts related to ICP 19 (Conduct of Business) and greenwashing. Greenwashing is not necessarily a new risk category but rather a new form of an existing category which may be addressed by of existing conduct concepts. Hence, jurisdictions should consider whether new tools, policies, or regulations are required to address greenwashing or whether existing requirements, such as providing fair and not misleading information or preventing mis-selling, are sufficient to tackle greenwashing in their market.

Comments on section 2.2 Clear and robust sustainability-related definitions and criteria
• Para 22: It is not clear whether the description of "misleading" meant to require intent or not; suggest clarifying. The way it's being used in paragraph 28 and 31 for example could suggest intent making it more related to ICP 21. Additionally, the last sentence example of misleading could be made clearer; suggest: One example is a failure to consider the target market's known sustainability preferences and objectives when offering a product being promoted as sustainable. • Para 23: The first sentence is confusing, as all insurance products benefit society as a public good. This is why insurance is a regulated industry. Suggest clarifying what this means in this context. • Para 25: the first sentence, suggest improving the readability: Greenwashing can occur at all stages of the life and non-life insurance an insurance product's life cycle.

Comments on section 2.3 Offering products with sustainable features that meet certain policyholder requirements
• Even though performance metrics, sustainability benchmarks start appearing in 2.5, this section would benefit from including them and how they could be considered throughout the product's life cycle. • Paragraph 35: The EU example in the text stands alone as all other examples from jurisdictions are found in the Annex. These examples are quite helpful in illustrating the context or recommendations being made. Rather than have all the examples separate in an Annex, recommend incorporating them throughout the paper in the relevant places by using the blue-boxes that other IAIS supporting material papers use. • Paragraph 35: suggest clarifying that the insurer should know policyholders' preferences if they are designing products specifically to meet them. Additionally, how insurers would go about such an assessment is not clear – for example what data or quantification is used to determine "sustainability preference"? Clarification or elaboration here would be useful. Insurers should consider policyholders' known sustainability preferences when developing and designing new products that will be promoted as sustainable, for example, by following industry best practices or by carrying out an assessment of the target market. • Paragraph 38: While preferences should be considered, a consumer may select or an intermediary may recommend a product due to other factors, such as cost, and/or financial strength or claims settlement practices of a company. Suggest deleting the last sentence: Intermediaries should consider a potential consumer's sustainability preferences when delivering the product. In doing so, if required under the jurisdiction's law or if consumers express having sustainability preferences, intermediaries should gather information on the consumer's sustainability preferences and advise on appropriate products.

Comments on section 2.4 Insurers promoting their own sustainability profile to attract clients

Comments on section 2.5 Substantiation of sustainability representations presented to policyholders
• Paragraph 50: It is not clear who is being encouraged to develop such methodologies as well as who would use them. The second sentence seems to go beyond the scope of an insurance supervisor's authority, for example, setting requirements for all securities issuers. Suggest clarifying or deleting.

Section 3 Natural catastrophes considerations

Comments on section 3 Natural catastrophes considerations

Comments on section 3.1 Introduction on NatCat considerations

Comments on section 3.2 Provide easy to understand products, using plain language

Comments on section 3.3 Test the understanding of exclusions and promote transparent advice
• Para 74: this recommendation seems somewhat overstated; suggest: Supervisors should consider the use of behavioural testing, that can help provide understanding of the profile of customers within a target market. If, for example, the testing indicates that coverage and exclusions are unclear, supervisors should require insurers to revise the contract and other relevant documentation.

Comments on section 3.4 Affordability
• Para 81: last sentence, it is not clear what "public interventions" refers to; suggest: It is important that consumers are fairly treated in light of their vulnerable condition, which, in some cases, may require broader public policy solutions in order to ensure sufficient coverage is available.

Comments on section 3.5 Access
• Para 88-90: We recommend removing the final two sentences of para. 88 and all of paragraphs 89 and 90 as they address adoption issues and not potential consumer access to NatCat coverage. o However, if the drafting group would prefer to retain that text, suggest the subheading be changed to: "3.5 Access, awareness, and understanding"

Comments on section 3.6 Timely and fair claims handling
• Para 105: suggest being broader and for consistency: It is important that insurers manage consumer expectations during the claims handling periods following NatCat events. • Para 108: suggest clarifying: Supervisors should also consider comparing claims handling experiences of extreme NatCat events to a business-as-usual period. • Para 109: suggest clarifying: Supervisors should consider whether insurers need flexibility following a NatCat event to temporarily reduce meeting certain regulatory requirements, if appropriate. Suggestions on the Annex: If the suggestion on para 35 to move the Annex examples into the text itself is not followed, there are editorial changes need in the Annex: • Header: Annex: List of Jurisdictional Examples • First para: The examples listed in the annex are provided for illustration purposes only and may support supervisors interested in learning more about existing supervisory practices. As this is a rapidly evolving area, however, these are not meant to be a comprehensive and up-to-date list of all examples across the global supervisory community. • Subheadings: use "Example of" rather than "Example about" or "Example" with no preposition. Regardless of location, there are some typos or consistency issues to fix: • Page 22: the IAIS does not use the term "corporates" – suggest using "corporations". • Page 24: European Union There are specific product oversight and governance requirements (POG) in place... • Page 24-27: introduce the acronym EIOPA the first time "European Insurance and Occupational Pensions Authority" is used to avoid spelling it out every time. • Page 25: Some states have also developed such tools, for example, the South Carolina Department of Insurance has created a webpage explaining the key elements of an insurance policy. • Page 25: it seems prior drafting was not deleted: In the European Union access to insurance products other than household (which often does not include NatCat coverage) and motor insurance remains low with less than 20% of consumers having such insurance products. • Page 26: CCIR has already been spelled out on page 24, can just use the acronym here.

Section 6 Additional questions

Does the draft application paper provide sufficient detail to be a useful tool for supervisors and insurers?
• The Draft Application Paper provides a comprehensive framework addressing climate risk and market conduct issues in the insurance sector. It is sufficiently detailed to be a useful tool for supervisors and insurers. However, for optimal usefulness, it could benefit from more concrete examples throughout the text as opposed to an Annex and clearer definitions. This would enhance its practicality for both supervisors and insurers in navigating these complex issues.

Is there any additional work the IAIS should be undertaking in the area of climate risk market conduct issues in the insurance sector?
• The IAIS could consider expanding capacity building and resources to supervisors, especially concerning implementation of the greenwashing recommendations related building a framework to help supervisors assess the design, delivery, and performance monitoring of a product with sustainable features. This can be an expansion of recommendations 33 and 34.

Public consultation on draft application paper on climate scenario analysis in the insurance sector

Survey response 1

Please provide your information:
Name: - Nikhail Nigam E-mail address: - nnigam@naic.org Name of jurisdiction: - United States of America Name of organisation: - National Association of Insurance Commissioners (NAIC)

Do you agree with your responses being made public on the IAIS website?
Yes

General comments on draft application paper

General comments on draft application paper on climate risk scenario analysis in the insurance sector:
• Para 1: for the last sentence, it may be more helpful for the IAIS to describe the other relevant work; otherwise this sentence is rather vague.

Section 1 Introduction

General comments on section 1 Introduction:
• Para 7: this paragraph does not seem necessary as the first sentence just restates what was said on the prior page and the second tees up para 8 and 9 – suggest deleting. • Para 10: last sentence, suggest rewording to clarify: As a result, supervisors need to consider the proportionality when undertaking these exercises.

Section 2 Scenario analysis versus stress testing

Comments on section 2 Scenario analysis versus stress testing:
• Paras 15 and 19: the IAIS does not use the term “corporates” – suggest using “companies” or “insurers” depending on the context. • Para 18, Table 3: In the third column of the “Non-life specific” row, recommend adding “than those” to the final sentence so it reads: “For instance, the move to electric vehicles will present different fire risks to vehicles than those powered by combustion engines.” • Para 20: IAIS material typically uses “jurisdictional” rather than “national” – suggest: Transition risks will be driven by a range of jurisdictional factors...

Comments on section 2.1 Identifying and applying climate change risk drivers:

Section 3 Scenario analysis objectives and scenario design (ICP 24 and 16)

Comments on section 3 Scenario analysis objectives and scenario design (ICP 24 and 16):

Comments on section 3.1 Objectives of climate-related scenario analysis exercise:
• 3.1 subheading: typo – should be "exercises" • Para 25: first sentence, for consistency should this refer to the supervisor rather than the jurisdiction? Last sentence suggest this would be an and/or: The supervisor should decide on the scope of insurers to include in a scenario analysis exercise after defining the objectives. It is desirable that when the aim is to analyse financial stability implications, such exercises cover at least all domestic systemically important insurers and/or locally headquartered internationally active insurance groups (IAIGs). • Table 4: last row/column, suggest swapping the sentences to start with what the design may look at and then note working together in a twin peaks model.

Comments on section 3.2 Scenario design:
• Para 28: last sentence suggest this would be an and/or: ...it is desirable that when the aim is to analyse financial stability implications, such exercises cover at least all domestic systemically important insurers and/or locally headquartered internationally active insurance groups (IAIGs). • Table 5: second row, suggest deleting "such as the Bank of England" and move to footnote 10: See Bank of England: [hyperlink] • Table 5: third row, if ICP 24.0.3 is being quoted, then the "ie" is not needed: (see ICP 24.0.3: "the risk of amplification and transmission of shocks to the financial system and real economy caused by (...) collective actions of a sufficiently large number of insurers undertaking similar activities and thus exposed to common risks").

Section 4 Macroprudential considerations for supervisors (ICP 24)

Comments on section 4 Macroprudential considerations for supervisors (ICP 24):

Comments on section 4.1 Assessing systemic importance (ICP 24.3):
• Para 36: for clarification, suggest quoting the ICP material: ICP 24.3 requires supervisors to have "an established process to assess the potential systemic importance of both individual insurers and the insurance sector" . In particular, guidance under ICP 24.3.3 states that, as part of their assessment under ICP 24.3, supervisors "should consider emerging developments that may affect the insurance sector's risk exposures". • 4.1.1 subheading: IAIS material typically uses "jurisdictional" rather than "national" – suggest: Challenges at a jurisdictional level • Para 39: a) For instance, this could be addressed by developing a cross- agency standing committee or a similar structure for information sharing and joint analyses. b) In this case, the two authorities could strive to share information and collaborate to discuss findings and formulate strategies. • Para 40: second sentence, suggest rewording as this is not something that currently exists: This is may be a useful exercise to the extent it reduces the number of overlapping requests that insurers receive... • Para 44: Comments on the second and forth bullets - Transition risk specific to: carbon-intensive assets concentrations (whether in fixed income or equity investment) and their associated credit quality. This has the potential to be both a micro and macroprudential risk; - Reinsurance: given ... (eg reducing coverage for certain primary insurers in specific jurisdictions, increasing prices). Scenario analysis should critically challenge assumptions to understand what impact climate change will have on different parts of the insurance sector. • Box 2: while the material in this box provides a good description of how scenario analysis may help with protection gaps, it is not clear why this is in a blue example box, which are typically used in IAIS material for jurisdictional examples, and examples that are much shorter. Also it's not clear how this necessarily relates to systemic importance which is the subject of this section. Suggest making this material a (sub)section of paper where most relevant and numbering the paragraphs which will help readability. • Box 2: Impact on policyholders: As climate change impacts physical risk in the form of increasing frequency and severity of losses from weather extremes, insurers could decide to reprice their products to reflect the change in risk. This could lead to a decline in the affordability of property catastrophe lines and reduced adoption as individuals and businesses are priced out of the market. A sufficiently material increase in physical risks could reduce insurers' risk appetite. Insurers may reduce their exposure to certain geographies or perils, which could lead to an exit or substantial reduction in the availability of catastrophe insurance cover. This may also apply to other lines of business. • Box 2: last subsection, first bullet – IAIS material typically uses "jurisdictional" rather than "national" – suggest: To create a jurisdictional climate peril map...

Comments on section 4.2 Supervisory response (ICP 24.4):
• Para 46: rather than one paragraph, suggest converting a,b,c,d into 4.2.1, 4.2.2, etc and number the paragraphs to be more consistent with the paper's formatting elsewhere and improve readability. • Para 46: a) third para, suggest splitting into two sentences for better readability: Further work may take a macroprudential perspective. For, instance, scenario analysis may highlight climate change risk concentrations across the sector and, therefore, could be a useful early indicator for the need to undertake further thematic supervisory activity. • Para 46: c) first para, in the phrase "volatile and changing nature" consider whether both 'volatile" and "changing" are necessary, as they may be somewhat redundant: ..., show the volatile nature of climate risks ... Second para, suggest using more open wording: Conducting follow-up scenario analysis exercises may allow supervisors to observe

Comments on section 4.3 Transparency (ICP 24.5)
• Para 50: the penultimate bullet is missing its bullet. It seems the sentence after the bullet list should be a separate paragraph as it is does not follow from or seem related to the rest of the paragraph. - Quantitative assumptions and caveats for the scenarios themselves; - Soundness of the insurance sector under different scenarios and time horizons (eg solvency impacts);

Section 5 Scenario analysis to inform assessment of insurers' risk management and governance(ICP 16)

Comments on section 5 Scenario analysis to inform assessment of insurers' risk management and governance (ICP 16)

Comments on section 5.1 ERM framework review (ICP 16.16)
• Para 53: The nature and materiality of relevant risks ... • Para 54: last sentence, it seems some words are missing – suggest: As such, the supervisor should assess whether the scenario analysis and modelling approaches used are commensurate with the insurer's vulnerability to climate risks, based on the insurer's risk profile. • Para 55: the second sentence seems somewhat overstated – suggest: The outcome of the scenario analysis, shall define the resilience of the insurer's business strategy, providing insights into material exposures and business risks as well as testing the robustness and adequacy of its solvency position. These insights should be taken into account when defining both short- and long-term strategy and determining the most appropriate management actions to properly react to occurring risks (eg a limit breach). may help define the resilience of the business strategy of the insurer... • Para 56: suggest clarifying what supervisors may take a proportionate approach to and strengthen to should given what ICP 16.16.5 says: In determining any requirements for insurers' ERM frameworks, supervisors should consider taking a proportionate approach... However, using only size as a criterion for inclusion will not capture smaller entities that may be materially exposed to climate change risks; or any potential change in climate risk concentrations of smaller entities. For this reason, a broader criterion for the scope might be more appropriate. • Para 57: "vs" should be spelled out as "versus"

Comments on section 5.2 Investment policies (ICP 16.6)
• Para 58: second sentence, IAIS supporting material does not use "must" – suggest: Where material, these risks should be taken into account regardless of whether the insurer invests directly... • Para 58: for formatting consistency, suggest using bullets rather than a and b. a) ...consider engaging with investee companies (through proxy voting or sector collaboration, as appropriate) to positively influence corporate behaviour. This engagement includes ...

Comments on section 5.3 Underwriting policies (ICP 16.7)

Comments on section 5.4 Insurer ORSAs (16.12) (16.14)
• Para 64: U.S. state insurance regulators agree that climate scenario analysis can be a valuable input to an insurer's ORSA process and expect insurers materially exposed to climate risk to include information on the results of scenario analysis in U.S. ORSA filings. In addition, we agree that it may be appropriate for insurers to extend the time horizon utilized for climate risk assessment to go beyond normal business planning cycles of three to five years, to take account of medium- and longer-term risks. However, we believe that any extension of the ORSA time horizon for climate (or other medium and longer-term risks) should be limited to risk assessment purposes and not for capital adequacy purposes. As such, suggest the following edit to clarify this expectation: Some climate related risks may take longer to fully materialise and, therefore, it would be expected that the ORSA also include appropriate scenarios that cover a more extended time horizon. When assessing the appropriateness of time horizons used by insurers, supervisors should consider the nature and types of business written by the insurer as well as for what the time horizons are used (for example, risk assessment purposes versus capital adequacy purposes). • Para 65: As part of the ORSA, an insurer is required to perform a continuity analysis to assess its ability to manage risks and meet capital requirements under a range of plausible adverse scenarios, with a forward- looking perspective. When material, this analysis should include the identification and assessment of the direct and indirect impacts of climate- related risks. For instance, including as part of the scenario analysis a (reverse) stress testing process. This would enable insurers to assess their resilience to financial losses with respect to climate change. This process should incorporate assessments of physical, transition and liability risks across the different risk categories, for example: o The assessment...(eg 1-in-100, 1-in-500 or 1-in-1000 year events),... o The assessment...to avoid any negative reputational impacts... o Assessments should cover litigation risk... • Para 67: The rationale for immateriality could be included in the documentation that summarises the risks that the insurer considered for incorporation in the ORSA and should be presented concisely.

Comments on section 5.5 Integrating scenario analysis into risk policies (ICP 16.5, 16.6 & 16.7)
• Para 72: for clarity, suggest quoting what is ICP 16.5: ICP 16.5 requires "the insurer's ERM frameworks to include an explicit asset- liability management (ALM) policy that specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management". • Para 72: Scenario analysis could help to identify correlation risks between assets and insurance liabilities that are not apparent For instance, it can reveal risks associated with retail mortgage backed assets in areas subject to significant climate risk , which are held as assets on an insurer's balance sheet while the insurer underwrites cover for residential property in the same area.

Comments on section 5.6 Risk appetite statement (ICP 16.4)
• Para 73: for clarity, suggest quoting what is ICP 16.4: ICP 16.4 requires "the insurer to have a risk appetite statement that: ... through a more granular risk limits structure".

Comments on section 5.7 Board accountability (ICP 16.11)

Additional questions

Does the draft application paper provide sufficient detail to be a useful tool for supervisors and insurers?

Are the different dimensions of climate risk for insurers namely (i) transition (ii) physical and (iii) climate-related litigation risks effectively covered in the application paper to both sides of insurer balance sheets?

Are there concepts or approaches which should be added to the application paper?

Does the application paper cover all relevant issues for scenario analysis from a macroprudential perspective (see section 4)?

Does the application paper cover all relevant issues for scenario analysis related to Enterprise Risk Management and governance (see section 5)?

Is there any additional work the IAIS should be undertaking in the area of climate-related scenario analysis?