

# **Draft Application Paper on climate risk market conduct issues in the insurance sector**

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# 1 Introduction

## 1.1 Context and objective

1. Over the past decade the number of initiatives aimed at ensuring the transition of economies towards a more sustainable path have increased. Particular attention has been paid to the financial sector in general and, more specifically, on large institutional investors – such as insurers – and the role they can play in supporting this transition. Demand is increasing for sustainable insurance products, which has led insurers and intermediaries to offer more sustainable products and also integrate sustainability practices in their operations. These efforts have been accompanied by a surge in related communications, disclosures and marketing materials.
2. Whilst these developments are welcome, they could lead to new risks. For example, risks may arise when claims made by insurers and intermediaries on their own sustainability and the sustainability of their products are either misleading or unsubstantiated, potentially leading to accusations of greenwashing. 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 and even the economy as a whole. In particular, if customers are misled into buying products with questionable sustainability features, their funds may not be invested in sustainable products, thereby not meeting the consumers' expectations. Furthermore, this type of practice could generate a general loss of confidence in the role the sector can play in financing the transition.
3. Beyond financing the transition, significant attention is given to ensuring that society is resilient against climate shocks, especially given the expected increase in intensity and severity of natural catastrophe (NatCat) events due to climate change. There is a risk that consumers may neither be able to access nor afford adequate protection against NatCat events, leading to an increase in the insurance protection gap. Furthermore, policyholders have been facing certain issues with existing NatCat insurance products that should be addressed, such as a lack of sufficient clarity in the terms and conditions (specifically, which events are covered), and delays in claims handling processes at times of extreme NatCat events, when there are large numbers of claims.
4. This application paper aims to support supervisors in their efforts to identify instances of potential unfair treatment of consumers that can emerge in relation to sustainability-focused products or NatCat protection products. By publishing this paper, the IAIS aims to promote a globally consistent approach to addressing these issues. Application papers do not establish new standards nor expectations, but instead provide additional guidance to assist implementation of existing standards (such as the Insurance Core Principles (ICPs)) and provide examples of good practice.
5. It is important to note that legal requirements as well as the supervisors' role, mandate and powers vary across jurisdictions. Section 3 on greenwashing is generally applicable to jurisdictions with pre-existing sustainability requirements for products and entities. However, in light of existing general requirements for insurers and intermediaries not to provide unfair and misleading information, this paper also applies to insurers or intermediaries that make voluntary sustainability claims about their entity or their products, even if there are no specific sustainability-related requirements in place in that jurisdiction. In relation to the Section 4 on NatCat insurance coverage, aspects relating to clarity of information are generally applicable,

whilst other aspects related to access and affordability may be applicable in jurisdictions where the supervisory mandate includes market development.

## 1.2 Related work by the IAIS

6. In November 2023, the IAIS released a report focused on the role of supervisors in addressing NatCat protection gaps. Some of the concepts introduced in the paper are also relevant to this Application Paper, including the role of supervisors in developing strategies to improve consumer risk awareness, and in setting requirements on insurers to provide clear information on risks and available coverage for NatCat risks.

## 1.3 Proportionality

7. Application papers should be read in the context of the proportionality principle, as described in the Introduction to the ICPs: “Supervisors have the flexibility to tailor their implementation of supervisory requirements and their application of insurance supervision to achieve the outcomes stipulated in the Principle Statements and Standards”.<sup>1</sup> When reading the advice, illustrations, recommendations and examples of good practice provided in this paper, it is important to keep proportionality in mind. Where appropriate, this paper provides practical examples of the application of the proportionality principle.

## 1.4 Scope

8. As this application paper focuses on those instances when sustainability-related risks and considerations can lead to the unfair treatment of consumers, ICP 19 (Conduct of Business) is most in scope. However, ICP 21 (Countering Fraud in Insurance) may also be applicable for greenwashing where facts in a specific case may indicate behaviour that goes beyond misconduct to fraud.

# 2 Greenwashing considerations

## 2.1 Introduction on greenwashing

9. An increase in consumer appetite for products with sustainability features – both in the life and non-life business – has been observed. To meet this increase in demand, insurers and intermediaries have adapted their offers to propose products with sustainability features and to portray themselves as having sustainability features.

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<sup>1</sup> “Implementation – proportionality allows the ICPs to be translated in to a jurisdiction's supervisory framework in a manner appropriate to its legal structure, market conditions and consumers. Application - proportionality allows the supervisor to increase or decrease the intensity of supervision according to the risks inherent to insurers, and the risks posed by insurers to policyholders, the insurance sector or the financial system as a whole. A proportionate application involves using a variety of supervisory techniques and practices that are tailored to the insurer to achieve the outcomes of the ICPs. Such techniques and practices should not go beyond what is necessary in order to achieve their purpose.”

10. Issues arise when these representations<sup>2</sup> are misleading; which can be considered “greenwashing”. The term “greenwashing” is widely recognised by insurers, distributors, customers as well as society in general. This paper uses the term “greenwashing” to englobe all misleading sustainability representations (ie environmental, governance and social).
11. Greenwashing is primarily a conduct risk that can result in the unfair treatment of customers. Supervisors should, therefore, consider tools for ensuring that insurers or intermediaries that claim to be sustainable, do so honestly, both before entering into a contract and through to the point at which all obligations under the contract have been satisfied, in line with ICP 19 (Conduct of Business).<sup>3</sup>
12. Greenwashing can impact stakeholders in various ways. It can deceive potential policyholders into buying products that do not meet their sustainability expectations, or from insurers and intermediaries that are not aligned with their sustainability preferences. In this sense, greenwashing can potentially undermine the efforts of customers (or other stakeholders) to hold insurers and intermediaries accountable for their social and environmental impact.
13. Greenwashing can also prevent capital from flowing towards investments that have concrete sustainability benefits or positively contribute to sustainability factors – for example, in the case of insurers acting as institutional investors that give a false impression that steps are being taken to positively impact sustainability factors.<sup>4</sup> Such misrepresentations could lead to reputational, regulatory and legal risks. Finally, greenwashing can cause the loss of consumer trust, which may reduce capital flows towards the transition to a more sustainable economy.
14. In certain instances, the facts of a specific greenwashing misconduct case may be considered severe misconduct and, if it meets the relevant legal thresholds, even fraud. To mitigate the risk of greenwashing, supervisors should remain mindful of the general reach and provisions of ICP 21 (Countering Fraud in Insurance)<sup>5</sup> and the fraud frameworks within their own jurisdiction. Supervisors should appropriately apply fraud-related enforcement actions when relevant and necessary.
15. Sub-section 3.2 below 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 principles related to ICP 19 (Conduct of Business)<sup>6</sup> and greenwashing. Greenwashing is not a new risk category but rather an element of existing conduct principles and related risks; 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. In particular, in considering whether new policies or requirements are needed, it is important to ensure efforts taken to

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<sup>2</sup> Given the specific meaning that “claim” has in the insurance sector, this paper uses “representation” instead, however both can be interchangeably used.

<sup>3</sup> ICP 19 states: “The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.”

<sup>4</sup> ‘Sustainability factors’ cover environment and social related issues.

<sup>5</sup> ICP 21 states: “The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.”

<sup>6</sup> ICP 19 states: “The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.”

prevent greenwashing are focused on consumer outcomes (eg ensuring disclosures are clear and easy to understand so that consumers can make informed decisions on the sustainability features of a product).

16. These considerations are most relevant for jurisdictions in which insurers or intermediaries publish or make sustainability-related representations about themselves or the products they design and commercialise. 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 aspects.

## 2.2 Clear and robust sustainability-related definitions and criteria

### Context:

17. In the absence of robust sustainability-related definitions or clear criteria as to what are products with sustainability features, commitments and strategies, the risk of greenwashing increases as products and entities could be labelled as sustainable without any substantiation.
18. Unclear sustainability definitions and criteria can hinder insurers and intermediaries in their efforts to promote themselves and their products in a manner that is clear, fair and not misleading (ICP 19.6)<sup>7</sup> and, therefore, prevent stakeholders (including customers) from gaining a correct understanding of their products (ICP 19.7).<sup>8</sup>
19. Similarly, the lack of policies and processes to address the risk of greenwashing by insurers or intermediaries could lead to further information asymmetries between them and customers (ICP 19.2.2).<sup>9</sup>
20. Finally, unclear criteria as to what constitutes greenwashing hinders supervisors' ability to identify greenwashing cases and take relevant supervisory and enforcement actions.
21. Greenwashing can occur in relation to misleading statements, declarations, actions or communications (including advertisements) that are made about the sustainability profile of an entity or a product (sustainability representations).
22. There are several ways in which representations can be misleading and thus be conducive to greenwashing. "Misleading" is meant to cover all of the following: selective disclosure, empty representations, omission, lack of disclosure, vagueness, lack of clarity, inconsistency, lack of meaningful comparisons, unsubstantiated underlying assumptions, misleading imagery, irrelevance, outdated information and falsehoods. One example is a failure to consider the target market sustainability preferences and objectives when offering a product.
23. Typical sustainability representations are those that portray an entity or product as providing benefits to the environment or society. The type of "benefit" is varied and includes:

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<sup>7</sup> ICP 19.6 states: "The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading."

<sup>8</sup> ICP 19.7 states: "The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers."

<sup>9</sup> ICP 19.2.2 states: "Proper policies and processes dealing with the fair treatment of customers are likely to be particularly important with respect to retail customers, because of the greater asymmetry of information that tends to exist between the insurer or intermediary and the individual retail customer."

- Helping sustainability factors drivers;
  - Not negatively impacting sustainability drivers;
  - Aiming to reduce negative impacts on sustainability drivers; and
  - Mitigating the impact of climate change on people (including adaptation measures).
24. Sustainability representations may portray in a misleading way:
- The environmental or social benefits of insurance products. For example, a life insurer may falsely advertise that its policies will only make investments that contribute to the mitigation of climate change.
  - The operations and management of an insurer. For example, advertising that the business processes are sustainable (eg carbon neutral).
  - The environmental or social credentials of an insurer. For example, by highlighting that the insurer does not underwrite oil extraction or coal mining activities, although this may not be fully executed in practice.
25. Greenwashing can occur at all stages of the life and non-life insurance life cycle. When designing a product with sustainability features, product design staff may not have enough expertise to understand the target market's sustainability objectives and preferences. Even if they do, they may choose not to take into account such sustainability related objectives. When marketing or advising on a product with sustainability features, insurers or intermediaries may not provide any applicable regulatory sustainability-related disclosure in a timely and not misleading manner. They may also produce non-regulatory information, such as advertisements or social media posts in an unclear, unfair and misleading manner. Labels, which often lead consumers to identify specific features of a product, can be particularly misleading if not used correctly.

**Recommendation:**

26. To encourage insurers and intermediaries to review their sustainability representations, supervisors should promote the development of a definition of greenwashing and a list of common characteristics of greenwashing in their jurisdiction. To do so, they could consider definitions used in other jurisdictions.
27. In their efforts to prevent greenwashing, supervisors should also promote the development of common criteria used to determine if a product has sustainable features. For example, they may define a benchmark for measuring the level of environmental or social benefit of an insurance product. Where appropriate, minimum thresholds could be stated.
28. Particular attention should be paid to sustainability labels as customers often associate labels with specific features. Regardless of whether the use of sustainability labels is regulated, supervisors should monitor that insurers and intermediaries use sustainability labels in a fair and not misleading way.

## **2.3 Offering products with sustainable features that meet certain policyholder requirements**

**Context:**

29. Greenwashing can occur in the design, delivery or performance monitoring of a product.



30. At the design stage, greenwashing could occur if products that have either no, exaggerated or mis-stated sustainability features are designed for target markets that include consumers with sustainability preferences. This is an example of not considering customers' interest in developing the product (ICP 19.5).<sup>10</sup>
31. At the delivery stage, greenwashing could occur if products with no sustainable features are marketed and sold to consumers with sustainability preferences, using unclear or misleading advertising. This is an example of not considering customers' interest when distributing the insurance products (ICP 19.5).<sup>11</sup>
32. At the monitoring of the products' performance stage, there is a risk of greenwashing if an insurer does not have in place policies, procedures and controls to monitor a product after its launch to ensure that it is still aligned with the stated sustainability-related purpose and objectives for which it was designed, marketed and sold (ICP 19.5.5).<sup>12</sup> Greenwashing may also occur as a result of insurers failing to inform policyholders when products, which originally might have been aligned with policyholders' sustainability preferences, are no longer aligned (for example, due to a change in asset allocation of the product).

#### **Recommendations:**

33. Supervisors should review whether there is a risk of greenwashing in any stages of the product design process. For example, this could be done through a product approval or filing phase, a principles-based approach, or a combination of both.
34. Where relevant, supervisors should assess whether insurers take into account the target market's needs, objectives and characteristics in relation to sustainability factors in the different stages of the product lifecycle.

#### *Design*

35. Insurers should consider policyholders' sustainability preferences when developing and designing new products either by following industry best practices or by carrying out an assessment of the target market. Insurers should assess whether the product's sustainability features are in line with the sustainability preference or objectives of the target market. For example, insurers should not develop a new product with low sustainability features for a target market that has high sustainability preferences. In the European Union, the Product Oversight and Governance (POG) delegated regulation<sup>13</sup> requires the products' manufacturers and distributors to take into account the objectives, interests and characteristics of customers, including any sustainability-related objectives.
36. It is also important that staff designing the product has the necessary knowledge, skills and expertise to understand any sustainability preferences and objectives that potential policyholders might have. In addition, insurers should consider implementing governance

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<sup>10</sup> ICP 19.5 states: "The supervisor requires insurers to take into account the interests of different types of consumers when developing and distributing insurance products."

<sup>11</sup> ICP 19.5 states: "The supervisor requires insurers to take into account the interests of different types of consumers when developing and distributing insurance products."

<sup>12</sup> ICP 19.5.5 states: "Where supervisors follow a more principles-based approach, supervisors may issue guidance in terms of what is expected of insurers and intermediaries. [...]"

<sup>13</sup> [EUR-Lex - 32017R2358 - EN - EUR-Lex \(europa.eu\)](#)

arrangements to monitor and take into account the sustainability preferences of potential customers.

37. When testing an insurance product, insurers should consider whether it will meet, over its lifetime, the identified sustainability-related objectives. If this is not the case, the product should be revised. Furthermore, the product assessment should ensure that both the sustainability preferences and investment risk appetite are aligned with the target market's needs, objectives and characteristics. For example, the investment strategy chosen to address the sustainability preferences may impact the overall level of risk of the investments of a product.

#### *Delivering*

38. 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. Intermediaries should not recommend products that do not meet the customer's preferences.
39. ICP 19.7 states: the supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers. Where applicable, this includes information on any sustainability features (refer to section 3.5 for more detail on disclosure) or sustainability objectives the product targets. Staff distributing products with sustainability features or having sustainability objectives should have appropriate knowledge to explain these sustainability features to customers.

#### *Monitoring the product's performance*

40. Supervisors should periodically assess whether insurers have adequate monitoring arrangements in place to ensure that a product, throughout its life cycle, remains aligned with its initial sustainability-related objectives. As such, there should be appropriate internal or external control mechanisms in place to monitor compliance with the product's, or its underlying investments', sustainability characteristics on a continuous basis (including methodologies used to measure the attainment of those objectives).
41. Timely, adequate and clear disclosure to policyholders may minimise the risk of greenwashing. For example, the actual proportion of underlying investments that meet the product's sustainability focus could be disclosed to policyholders. This includes the situation where following a product review, changes are applied to its sustainable features, making it no longer aligned with policyholders' preferences. This would be the case if an insurer changes the asset allocation towards investments with lower sustainability characteristics.

## **2.4 Insurers promoting their own sustainability profile to attract clients**

### **Context:**

42. Greenwashing in insurance may also occur where insurers make misleading claims or wider statements about the environmental and social impact of their own operations, investments and underwriting activities. This can occur because of omitted information or data, or incomplete information used to promote products and services.

### **Recommendations:**

43. Supervisors should require that any advertising on the environmentally and socially friendly features of products and business operations is clear, fair and not misleading. This may include clarifying and providing clear targets for key terms such as “ethical” and “sustainable”.
44. To mitigate misleading information, supervisors may encourage insurers to report on progress in meeting their sustainability-related commitments. For example, an insurer could publish a roadmap with measurable milestones over short- and medium-term horizons in order to chart the company’s progress on the public commitments made.

## 2.5 Substantiation of sustainability representations presented to policyholders

### Context:

45. There is a risk that sustainability representations are considered unclear or unfair if not sufficiently substantiated or sufficient evidence is not provided (ICP 19.6).<sup>14</sup>
46. Numerous jurisdictions and multilateral bodies are increasingly developing and using international standards relevant to sustainable finance. In addition, there exist a plethora of sustainability-related taxonomies. However, to date, there is no common set of definitions or one unique globally recognised set of sustainability standards. As a result, insurers may use subpar standards to ensure their claims are substantiated, especially in the case of a lack of data (ICP 19.6.2<sup>15</sup>). For example:
  - Insurers may not accurately or sufficiently describe sustainability objectives or characteristics, including metrics and quantitative targets where applicable;
  - Insurers may not sufficiently and adequately explain how their investments or products are sustainable – for example, by failing to sufficiently and adequately link them to existing taxonomies; or
  - Insurers may not provide adequate explanations as to how such products do not negatively impact environmental or social factors.
47. A commonly observed market practice in many jurisdictions is the use of non-regulatory climate-related and other sustainability-related labels for the promotion of insurance products, particularly for investment products (eg a product is labelled “sustainable” or branded a green colour scheme). Whilst non-regulatory labels could prove useful in helping customers choose an insurance product that considers sustainability factors, there is a risk of misinformation. In addition, the multiplicity of non-regulatory sustainability-related labels could lead to further confusion for consumers facing a vast offering of products with diverse sustainability

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<sup>14</sup> ICP 19.6 states: “The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading.”

<sup>15</sup> ICP 19.6.2 states: “Before an insurer or intermediary promotes an insurance product, it should take reasonable steps to ensure that the information provided is accurate, clear and not misleading. Procedures should provide for an independent review of promotional material intended for customers other than by the person or organisation that prepared or designed it. For example, where promotional material is developed by an intermediary on behalf of an insurer, the insurer should verify the accuracy of promotional material before it is used.”

representations (ICP 19.6.2).<sup>16</sup> To mitigate potential greenwashing, insurers using such labels should adequately explain what they mean.

48. Another risk is that sustainability-related information may not be shared in a sufficiently timely manner before the point of sale, in order for the customer to be able to make an informed decision.

### **Recommendations:**

49. In the context of sustainability-related information, supervisors should require that any information provided by insurers and intermediaries is substantiated with an adequate and sufficient level of evidence.
50. Supervisors could encourage the development of fact-based methodologies, using a common sustainability normative framework for their jurisdiction. Such frameworks may consist of a combination of several key elements, including a classification scheme for sustainable investments, sustainability disclosure requirements for all investment products and financial market participants, as well as requirements for all securities issuers to publish sustainability data on their economic activities.
51. Based on such methodologies, supervisors should require that insurers and intermediaries take reasonable steps to provide information in an accurate, clear and not misleading manner before promoting an insurance product. This should relate to both required disclosures as well as any marketing and promotional material. This may also include the implementation of binding and standardised sustainability disclosures focusing on:
  - A description of the promoted sustainable objectives or characteristics and their role in the investment selection process, including metrics and quantitative targets, where applicable;
  - The minimum or effective share of sustainable investment in the product where the jurisdiction has defined criteria to classify sustainable investments (eg through a taxonomy);
  - Information on the extent to which the investments do not negatively impact environmental or social factors; and
  - Information on engagement strategies for the product's investments.
52. Supervisors should also require that any sustainability-related information is provided in a sufficiently timely manner to allow consumers to make informed decisions.
53. To facilitate comparability of sustainability representations, supervisors should also consider developing standardised sustainability disclosures, which may include concise side notes to help introduce to the consumer key sustainability-related information and concepts.
54. Within their remits, supervisors should require that the labels used accurately reflect key product characteristics. They may also consider developing minimum standards for labels.
55. Finally, for insurance products that re-package investment products, supervisors may consider establishing disclosure requirements for the underlying investment funds that are marketed as having sustainability features or as pursuing sustainability objectives. Supervisors could require that investment fund brochures include some of the following information:

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<sup>16</sup> ICP 19.6.2 states: "Before an insurer or intermediary promotes an insurance product, it should take reasonable steps to ensure that the information provided is accurate, clear and not misleading. Procedures should provide for an independent review of promotional material intended for customers other than by the person or organisation that prepared or designed it. For example, where promotional material is developed by an intermediary on behalf of an insurer, the insurer should verify the accuracy of promotional material before it is used."

- The investment focus such as the relevant sustainability criteria, methodologies or metrics (eg third-party or proprietary ratings, labels and certifications) used to measure the attainment of the fund's sustainability focus;
- The investment strategy such as the relevant sustainability criteria, metrics or principles considered in the investment selection process. Also, a description of the sustainable investing strategy used by the fund to achieve its sustainability goals, the binding elements of that strategy throughout the investment process and how the strategy is implemented on a continuous basis;
- The reference benchmark with an explanation of how the benchmark index is consistent with or relevant to its investment focus; and
- The risks associated with the fund's sustainability focus and investment strategy (eg concentration in investments with a certain sustainability focus, limitations of methodology and data, lack of universal sustainability standards or taxonomy, or reliance on third party information sources).

### 3 Natural catastrophes considerations

#### 3.1 Introduction on NatCat considerations

56. NatCat events include extreme weather events, such as water-related (flooding), wind-related (hurricanes, tornados), wildfires, and hail/ice/lightning storms as well as earthquakes. Recent reports by the Intergovernmental Panel on Climate Change (IPCC)<sup>17</sup> highlight that climate change is expected to increase the frequency and severity of different types of extreme weather events across the globe, including heat waves, wildfires, flooding and storms.
57. The increase in NatCat events can lead to an increase in uninsurable risks or risks that can become too expensive to insure. There are also issues in relation to a lack of clarity in the terms and conditions as to which NatCat events are covered by a policy. Furthermore, important protection gaps exist.
58. In addition to concerns about increasing protection gaps, there are also concerns that existing conduct of business risks might not be managed sufficiently by insurers and intermediaries to ensure customers are treated fairly.
59. This section explores how ICP 19 (Conduct of Business)<sup>18</sup> applies to products offering NatCat protection, in particular, how supervisors should identify, monitor and address possible market conduct risks associated with these products.
60. The emerging conduct risks for consumers because of NatCat include:
  - Low awareness of the risks posed by NatCat-related events to home/property, resulting in consumers not having sufficient NatCat insurance protection;
  - Low awareness of available insurance coverage options or limited awareness of price, resulting in consumers not buying coverage even when needed or being unable to access insurance that covers their needs;

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<sup>17</sup> See for example IPCC, *Climate Change 2023: Synthesis Report*, or the World Meteorological Organization, *State of Global Climate, 2022*

<sup>18</sup> ICP 19 states: "The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied."

- Low awareness of insurance coverage options as there is a belief governments should intervene or there is general trust that governments will intervene;
- Lack of affordability or sudden price increases due to the increased frequency and scale of NatCat events;
- Low awareness of the content, coverage and limitations or exclusions of the existing insurance they have purchased, resulting in the fact that there may be a mismatch between what consumers believe is covered and actual coverage – including as a result of changes made due to the increase in frequency and magnitude of NatCat events; and
- Limited understanding of insurance products, coverages, limitations and deductibles can result in unintended coverage gaps.

61. Overall, clarity on NatCat cover and exclusions is a far-reaching area of concern playing a crucial role through the life cycle of a product.

### 3.2 Provide easy to understand products, using plain language

#### Context:

62. Unclear policy wording and ambiguity regarding exclusions may lead to uncertainty over coverage. The extent to which consumers believe that they are covered against NatCat may be influenced by the degree of clarity of their insurance contracts and respective exclusions (ICP 19.7).<sup>19</sup>
63. Uncertainty on how a NatCat claim would be treated may make consumers hesitate to purchase NatCat cover. Such ambiguity may also raise doubts of existing customers on whether to renew their existing coverage (ICP 19.6).<sup>20</sup> Moreover, some consumers may hesitate to buy coverage as they trust governments would intervene.
64. At the same time, there is an increasing risk that insurers may amend their terms and conditions to introduce new exclusions so as to limit disputes or risk exposure following NatCat events. As a result, insurance products that had originally covered such events or had been silent on their coverage may no longer provide adequate cover. There is risk that the implementation of such changes may happen without balancing consumers' interest (ICP 19.2)<sup>21</sup> or without appropriately disclosing such changes to existing and potential customers, which would ultimately affect their understanding of the level of coverage provided.

#### Recommendations:

65. To ensure that information, allowing consumers to make informed decisions in relation to NatCat coverage and exclusions, is properly and sufficiently communicated and understood by the target market, all communication materials should be presented and formulated in a clear and comprehensive manner. In particular, insurers should ensure that NatCat coverage and

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<sup>19</sup> ICP 19.7 states: "The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers."

<sup>20</sup> ICP 19.6 states: "The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading."

<sup>21</sup> ICP 19.2 states: "The supervisor requires insurers and intermediaries to establish and implement policies and processes on the fair treatment of customers, as an integral part of their business culture."

exclusions are clearly stated in disclosures, advertising materials, pre-contractual and contractual documentation by conducting consumer tests. For example, an insurer may test whether the language used is easy to understand and concise, without any complex wording or technical terms/jargon and that there are no misleading or unclear statements.<sup>22</sup> Intermediaries should provide pre-contractual documentation well in advance of the conclusion of a contract, to give customers enough time to read and properly decide on the proper insurance policy.

66. Insurers and intermediaries should ensure that communication materials clearly specify the scope and the type of coverage provided and whether it relates to direct or indirect losses. If standardised disclosures are in place, they should aim at achieving the desired policy outcomes. If standardised disclosure templates are not in place, supervisors should encourage the development of a common approach for insurers to present the insurance options and different types of coverage to consumers. These types of disclosures should include simplified materials, outlining the types of coverage and options available, and examples of what the policy would cover in the case of NatCat events. Supervisors should also encourage providers to develop standardised terminology and models, so that products can be compared more easily.
67. Supervisors should consider whether the communication material should be free of any vague terms such as “similar events”. Supervisors should monitor that terms such as “full coverage”, “complete coverage”, or “all risks” are only used when they are reflective of the actual coverage and that they are used in a clear and not misleading manner. Any exclusion should be properly supported by further explanations and details, and include, whenever feasible and pertinent, possible scenarios.<sup>23</sup>
68. Supervisors should also monitor whether the format and manner in which exclusions are presented is clear, easy to understand, fair and not misleading. Notably, exclusions should be presented in such a way that consumers can understand the overall coverage (eg next to the relevant section explaining what is covered) in order to avoid inaccurate understanding of the risk coverage.
69. If insurers and intermediaries, in the disclosure documents or in the sale process, provide case examples of the stated exclusions, then they should ensure they are giving a sufficient number of examples of such foreseeable exclusions.
70. Finally, supervisors should monitor that insurers and intermediaries use consistent wording throughout their documents about the coverage offered and applicable exclusions.

### **3.3 Test the understanding of exclusions and promote transparent advice**

#### **Context:**

71. Considering the nature of exclusions and the difficulties in understanding different NatCat events, there is a risk that consumers may not clearly understand whether a certain event is

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<sup>22</sup> For more details regarding what constitutes misleading information please refer to Section 3.2.

<sup>23</sup> Make it clear what events are considered “Act of God” etc.

covered. Discrepancies between advertising, marketing material and contractual documents may also limit clarity on coverage (ICP 19.6).<sup>24</sup>

72. Moreover, when NatCat cover is bundled with other products (eg home insurance) and when the sale focuses on the main product, there is a risk of unawareness and low understanding of the options available for NatCat protection (ICP 19.7).<sup>25</sup>
73. Finally, there is a risk that exclusions are not duly assessed to ensure the insurance product is appropriate for consumers, given the risks they are exposed to. For example, in the case of exclusions to certain risks (ie flood losses in high risk flood areas), these exclusions are often not sufficiently communicated and considered in the sale process (ICP.19.8).<sup>26</sup>

#### **Recommendations:**

74. Supervisors should promote the use of behavioural testing, that considers the profile of customers within the target market. If the testing proves that coverage and exclusions are unclear, supervisors should require insurers to revise the contract and other relevant documentation.
75. Insurers could test product disclosures, paying particular attention to exclusions, to ensure that customers are well aware of them and, therefore, are able to make well-informed decisions.
76. Supervisors should assess whether insurers evaluate the differences between sales channels/intermediaries and seek engagement with customers to ensure adequate understanding of exclusions, irrespectively of the sales channel.
77. In the case of contracts with a larger number or more complex exclusions, supervisors should further assess:
  - Whether insurers test whether the product, despite its complexity, remains appropriate for the target market; and
  - Whether the mechanism of communication between insurers and intermediaries is appropriate given the level of complexity.
78. Supervisors should also require that consumer preferences are duly assessed in the product design and sale process.

### **3.4 Affordability**

#### **Context:**

79. Lack of affordability is one of the major reasons leading to underinsurance. Products may be too expensive or perceived as such by consumers. Given the typical annual repricing of non-life insurance contracts, the expected increase in frequency and intensity of some weather

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<sup>24</sup> ICP 19.6 states: “The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading.”

<sup>25</sup> ICP 19.7 states: “The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers.”

<sup>26</sup> ICP 19.8 states: “Where customers receive advice before concluding an insurance contract the supervisor requires that the advice provided by insurers and intermediaries takes into account the customer’s disclosed circumstances.”



events may lead to products becoming less affordable, further disincentivising consumers from purchasing insurance for NatCat events.

80. In some markets, affordability issues also stem from pricing practices, which may lead to possible discrimination. Some insurers may adjust the premium based on factors that are unrelated to the cost of service. For example, consumers may be inappropriately charged a different premium based on personal behavioural characteristics, such as their price elasticity and lack of propensity to shop around at the renewal stage. Such pricing techniques may lead to an unjustified increase in the price for NatCat and household insurance, resulting in consumers cancelling or not buying the policy.
81. Affordability issues raise several conduct risks that require supervisory attention. Often, consumers that are more vulnerable<sup>27</sup> are also amongst those that may be more exposed to NatCat events (ICP 19.4).<sup>28</sup> It is important that consumers are fairly treated in light of their vulnerable condition, which, in some cases, may require public interventions in order to provide broader coverage.
82. Consumers may also perceive insurance as being too expensive; this may be because they do not understand the losses covered by the policy or the extent of the increase in the underlying NatCat risks. This could indicate that products may not be promoted in a clear and fair manner (ICP 19.6)<sup>29</sup> or that pre-contractual information is not provided in a timely and clear manner (ICP 19.7).<sup>30</sup> Finally, differential pricing practices may lead to the unfair treatment of consumers.

### **Recommendations:**

83. Supervisors should require that pricing is adequate, non-discriminatory and properly communicated to consumers. At the same time, without undue interference in commercial pricing practices, supervisors should require that pricing of NatCat products reflect adequate actuarial models, including in relation to the increasing frequency and intensity of NatCat events.
84. Supervisors whose mandate also includes product approval, while supporting product viability and profitability, should also ensure that they are not an impediment to the introduction of new and innovative products, which can improve access and affordability.
85. Where appropriate and when within their remit, supervisors could promote the adoption of practices by consumers to put in place sufficient risk-mitigation measures, which would also reduce the risks for insurers. If pay-outs are conditional on implementing risk-mitigation measures, supervisors should monitor how insurers identify techniques that are feasible and proportional for the identified target market and that such techniques are sufficiently and

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<sup>27</sup> Whilst vulnerability should be assessed in relation to the specific situation in which the specific consumers find themselves, for NatCat particular vulnerability aspects include those consumers – particularly low income consumers – who because of their situation live in houses or building more exposed to climate events and/or who may not be able to take risk-mitigation measures to limit the damage of specific events.

<sup>28</sup> ICP 19.4 states: “The supervisor requires insurers and intermediaries to have arrangements in place in dealing with each other to ensure the fair treatment of customers.”

<sup>29</sup> ICP 19.6 states: “The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading.”

<sup>30</sup> ICP 19.7 states: “The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers.”

adequately communicated to consumers. Alongside this, supervisors should require that risk mitigation measures are clearly advertised and taken into account by insurers through appropriate premium discounts.

86. Supervisors should monitor and require that there are no differential pricing practices, which are misleading and deceptive or unfair to consumers. In particular, supervisors should require that insurers have adequate systems and controls to monitor the implementation of differential pricing practices. For example, insurers should sufficiently test, monitor and review products where differential pricing practices are applied to identify potential consumer harm.
87. When it is within their remit, supervisors could assess whether all costs due are proportional to the service offered and the cost borne by the provider. This includes costs charged to customers that are consistent with the target market's needs and objectives and are clearly identified and quantified. In particular, insurers and intermediaries can clearly link these costs to services rendered, coverage offered, or expenses made and ensure they are proportionate to the efforts and expenses incurred by the insurer or intermediary. Also, it is important to ensure that product testing also considers whether product pricing is aligned with the target market's needs, objectives and characteristics.

### 3.5 Access

#### Context:

88. Beyond affordability issues, consumers may have limited access to adequate coverage because insurers, responding to the increasing frequency and intensity of some weather events may introduce more exclusions or stop issuing policies in some areas (ICP 19.5).<sup>31</sup> There are also instances that consumers may not perceive possible risks they are exposed to, indicating the need to increase awareness on NatCat risks and coverage (ICP 19.13).<sup>32</sup> Customers may find insurance too complex to fully understand, indicating the need to promote simplicity and comparability when implementing financial literacy initiatives (ICP 19.6<sup>33</sup> and 19.7<sup>34</sup>).
89. Often, consumers may not be familiar with the risks they are exposed to, which may lead them to believe they do not need insurance.
90. The process of purchasing products and understanding the risk coverage options available could also be perceived by consumers as burdensome and, hence, limit the buying of these products. The perception that finding the right type of coverage is an effort-demanding activity can deter the uptake of home insurance with NatCat coverage: the effort itself acts as an extra cost which, once added to the financial cost of the insurance, can reduce the perceived benefit of insurance for consumers. Furthermore, the bundled offers of NatCat coverage make comparability increasingly difficult for consumers. Whilst consumers may perceive digital

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<sup>31</sup> ICP 19.5 states: "The supervisor requires insurers to take into account the interests of different types of consumers when developing and distributing insurance products."

<sup>32</sup> ICP 19.13 states: "The supervisor publicly discloses information that supports the fair treatment of customers."

<sup>33</sup> ICP 19.6 states: "The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading."

<sup>34</sup> ICP 19.7 states: "The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers."

access as easy, in some instances, especially for NatCat products, the limited use of digital channels may hinder a higher uptake.

91. When systemic events – such as NatCat – materialise, insurers are often required to review their terms and conditions to avoid losses due to ambiguous contractual terms. Such reviews are regularly carried out without taking into account the different types of consumer needs and objectives (ICP 19.5).<sup>35</sup> A thorough product review process would ensure that the relevant interests and needs of all parties involved are balanced vis-à-vis other business needs and considerations.

**Recommendations:**

92. When it is within their remit, supervisors could develop or promote the development of independent comparison tools to assist consumers in comparing all available insurance products offering NatCat protection.
93. Supervisors should promote the simplicity of the consumer’s journey by requiring that insurers and intermediaries propose a more consumer-friendly purchasing process, whilst ensuring requirements aimed at preventing mis-selling and ensuring that consumers make informed decisions are in place. In particular, supervisors should monitor whether, as part of the insurer’s distribution strategy development process, it has assessed which distribution channel may be most aligned to the target market’s needs, objectives and characteristics.
94. When supervisors have a market development mandate, they should regularly conduct consumer research to determine the main issues causing under-insurance for NatCat events and make available datasets that can provide greater insight into the extent and causes of underinsurance.
95. When developing new products and reviewing existing ones in order to decide whether to introduce new exclusions, insurers should assess whether, in light of the exclusions, the product remains aligned with the target market’s needs, objectives and characteristics.
96. Supervisors could consider liaising with insurers and other relevant authorities to develop accessible tools that provide consumers with first-hand information on the risks they are facing or on the cost of recovery, allowing consumers to make informed decisions about the coverage they purchase (eg public risk-zoning tools which enables consumers to understand the level of risk for their type of home in their regions).
97. Finally, supervisors should require that insurers have back-up systems to ensure consumers can continue to access services in the event that insurers themselves are also affected by NatCat events.

### **3.6 Timely and fair claims handling**

**Context:**

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<sup>35</sup> ICP 19.5 states: “The supervisor requires insurers to take into account the interests of different types of consumers when developing and distributing insurance products.”

98. The magnitude of NatCat events often results in a large number of consumers being impacted, potentially leading to a backlog of claims that may significantly affect the policyholder's claims settlement process and may lead to unfair treatment.
99. If the volume of claims from NatCat events is not managed in a timely way, delays may impact insurers' business-as-usual claims activities. A claims backlog may then have a flow-on effect, leading to delays in internal and external dispute resolution processes.
100. Claims handling is where the promises of an insurance policy become tangible. For consumers, it is where an insurer's product is tested, making it important that insurers can serve their policyholders at times of severe weather events.
101. After a NatCat event, consumers may have difficulty assembling all the information required to submit a claim, including accessing their policies and documentation to establish if and how they are covered for a relevant event. Further, expert investigators are likely to be in short supply in the vicinity of a natural disaster. Delays in claims handling caused by an influx of claims can lead to consumers exhausting any immediate benefits available under their policy while waiting for their claim to be fully processed.
102. Accordingly, insurers should take actions to ensure that claims handling after a natural disaster is timely and fair, and to prevent consequent delays from affecting their wider activities (ICP 19.10).<sup>36</sup> They should ensure that they can handle relevant complaints in a timely manner (ICP 19.11).<sup>37</sup>

#### **Recommendations:**

103. Insurers should examine their claims handling operations and consider whether a demand surge plan or a permanent structural shift in their resourcing, systems and practices (including updating relevant lists of approved service providers for repairs) is required to ensure adequate claims handling in the event of a major NatCat event. This could be achieved through investing in systems and processes to effectively record claims information, or by permanently increasing capacity and resources to deal with increased claims because of the expected impact of climate change.
104. Where the regulatory mandate and cost implications permit, supervisors may also encourage insurers to consider the United Nations Sendai Framework,<sup>38</sup> which prioritises enhancing preparedness for effective response and to "Build Back Better" in recovery, rehabilitation and reconstruction after a NatCat.
105. It is important that insurers manage consumer expectations during the claims handling periods following severe weather events. Where claims will not be resolved in a timely manner, insurers should communicate clearly with customers.
106. It is also important that insurers enable consumers affected by a NatCat event to access all the relevant information to determine if they can make a claim and make it in a timely manner. For example, providing digital access to policy information and insurance coverage is helpful for policyholders that are forced to evacuate or cannot access their properties, and therefore most of their relevant documents for submitting claims.

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<sup>36</sup> ICP 19.10 states: "The supervisor requires insurers to handle claims in a timely, fair and transparent manner."

<sup>37</sup> ICP 19.11 states: "The supervisor requires insurers and intermediaries to handle complaints in a timely and fair manner."

<sup>38</sup> [What is the Sendai Framework for Disaster Risk Reduction? | UNDRR](#)

107. As part of communicating effectively with consumers, insurers could also consider:
  - Centralising the oversight of each claim with a dedicated claim manager to ensure it is easier for the customer to enquire about the claim; and
  - Providing effective and regular communication about the claims process, how it will be assessed and how the claim is progressing.
108. Supervisors should also consider comparing claims handling of extreme NatCat events to that during a business-as-usual period. Supervisors can then determine whether they should advise insurers of any further changes required to their claims handling operations.
109. Supervisors should consider whether they need to engage flexibly with insurers following a NatCat event to temporarily reduce, if appropriate, the regulatory requirements to insurers.
110. If, following NatCat events, insurers decide to reduce or no longer offer coverage for certain risks, they should communicate this in a timely manner, allowing consumers to identify other options or adjust their coverage.
111. Finally, to ensure the fair treatment of consumers when NatCat events occur, supervisors may consider monitoring whether insurers are taking actions to ensure the fair treatment of consumers. For example, measures that insurers could take include premium grace periods or avoiding cancellations.

## Annex: List of examples

The examples listed in the annex are provided for illustration and may support supervisors that want to adopt similar 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.

### Greenwashing

#### **Example about sustainable finance framework to mitigate greenwashing**

In the European Union, a Sustainable Finance framework is being implemented. It aims in part at mitigating greenwashing. It aims to address sustainability-related disclosures, sustainability-related definitions and criteria, advice to consumers with sustainability preferences, and manufacturing of products for target markets with sustainability-related objectives.

In relation to disclosures the EU set out the Sustainable Finance Disclosure Regulation (SFDR). This regulation lays down harmonised transparency rules for financial market participants (including insurers) and financial advisers (including insurance intermediaries) on how they integrate environmental, social and good governance factors into their investment decisions and financial advice, both at entity and product-level. At entity-level, the regulation requires that there is a website disclosure outlining if they consider the negative externalities of their investment decision or of their financial advice, and if so how. At the product level, the regulation sets out pre-contractual, periodic and website disclosures for products with sustainability features. In particular:

- Article 8 outlines the disclosure for products that have some sustainability features but that do not have a sustainable investment objective.
- Article 9 outlines the disclosure for products with a sustainable investment objective.

In relation to sustainability-related definitions and criteria, the Taxonomy Regulation sets out whether an economic activity is environmentally sustainable by setting common EU-wide criteria, which includes the following elements:

- Contributes substantially to one or more of the following environmental objectives: climate change adaptation or mitigation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystem.
- Does not significantly harm any of these environmental objectives.
- Is carried out in compliance with the minimum social safeguards (OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).
- It complies with a set of detailed technical screening criteria tailored to each economic activity.

In relation to environmental and social data availability, an EU directive (the Corporate Sustainability Reporting Directive) outlines environmental and social reporting standards, which require large EU corporates to provide data to allow financial market participants to report under the Sustainable Finance Disclosure Regulation. This directive ensures that there is an adequate level of data available for financial market participants to report on the impact of their investments.

In relation to the advice to consumers, the EU's Insurance Distribution Directive (IDD) was amended to include new sustainability-related requirements in the advice process. These new requirements

require intermediaries, when they are assessing if a product is suitable for a potential consumer, to also assess the potential consumer sustainability preferences vis-à-vis the product.

In relation to product manufacturing, the EU's IDD was amended to include new sustainability-related requirements in the manufacturing process. These new requirements require insurers to take into account target markets' sustainability-related objectives in the design of the insurance product in addition to the objectives, interests and characteristics of the target market.

### **Example about thresholds**

For a unit-linked life insurance where the underlying investments are named, marketed or represented as having sustainability features, the Monetary Authority of Singapore (MAS) expects such investment funds to reflect these sustainability features in its investment portfolio or strategy in a substantial manner. In assessing whether a fund's investment portfolio or strategy is focused on sustainability in a substantial manner, MAS would consider factors including whether the fund's net asset value is primarily invested in accordance with the fund's investment strategy. As a guide, a fund is normally considered to be "primarily invested" if at least two-thirds of the fund's net asset value is invested in accordance with the fund's investment strategy.

### **Example about marketing material**

The French Autorité de Contrôle Prudentiel et de Résolution (ACPR) has issued guidelines on advertising of extra-financial characteristics in life insurance. The guidelines recommend good practices for marketing material related to life insurance products as well as their underlying unit-linked offering and portfolio management options, and institutional communications by insurers and intermediaries on sustainability characteristics.

The recommended practices include displaying the number and percentage of sustainable investment options available on the product, as well as a direct link to a webpage providing all mandatory information on the product's sustainability characteristics. The mandatory information is to substantiate any sustainability representations made in the advertisements. Additionally, in order to avoid any misunderstanding from customers that the entire product has sustainability characteristics whereas only a fraction does, a prominent note should be inserted where applicable, to clarify that the product's effective sustainability depends on the selection of underlying investments. For investment management options, ACPR recommends that sustainability representations should be made only where they reach a minimum share of investment qualified as sustainable, as per national and EU criteria.

Finally, ACPR guidelines extend the principles of materiality and proportionality of sustainability representations to all general marketing material (ie not only those promoting a product or investment offering). Hence any such representations should be evidenced by accurate information presented in the same document. For instance, an insurance company advertising on its initiatives against global warming may include key data and metrics on specific commitments made, quantifiable results achieved, and a reference or a hyperlink for further information.

## **Nat Cat**

### **Examples providing easy to understand coverage**

## European Union

There specific product oversight and governance requirements (POG) are in place, which mandate insurance product manufacturers to test whether the product, including disclosure documents, are aligned with the target market needs, objectives and characteristics. The European Insurance and Occupation Pensions Authority in this regard has also issue a Supervisory Statement<sup>39</sup> which provides further guidance on ensuring exclusions are clear and simple. The Insurance Distribution Directive (IDD), beyond including general requirements on ensuring consumers are treated fairly and are provided information in a timely, fair and not misleading manner, also introduced specific disclosure requirements including a standardised insurance-product information document (IPID).

## Australia

The Australian Competition and Consumer Commissions recommended government (or regulators, depending on jurisdictional differences) to mandate standard definitions for certain prescribed events to remove potential gaps in coverage between insurers.

## Canada

The Canadian Council of Insurance Regulators (CCIR) published, in 2023, a position paper on climate change, natural disasters and consumer awareness. The working group acknowledges that public awareness of risk and products are not the only factors affecting insurance uptake levels. Amongst the other potential factors, research indicates that the cost of insurance (ie premiums, deductibles) may impact some consumers' decision-making process. According to CCIR, more could be done to explain to customers in plain language coverage gaps based on their property-specific risk as well as ways that they can reduce their risk and potentially their insurance premiums.

Complexity and confusion regarding policies, coverages, limitations, and deductibles can limit a consumers' ability to make informed decisions and limit the uptake of needed or suitable products that may be available and affordable.

Even where consumers have purchased additional protection, CCIR is concerned that they may not fully understand what is covered by the policy. For example, an earthquake endorsement covers shake damage, but it may not cover secondary events triggered by the earthquake, such as tsunamis or landslides. Generally, the complexity of insurance policies may result in consumers assuming they have greater protection than their policies offer.

Although detailed breakdowns of the content, coverage, and limitations/exclusions is included in insurance contracts, CCIR's review found that there is tremendous variation in the content and quality of information provided to consumers. Some disclosures provided valuable, plain language explanations of coverage; others provided very little, if any specific information. At the same time, insurers often rely on intermediaries to share disclosures with customers and to solicit and distribute their products, which may result in inconsistencies in terms of the information and level of detail provided to the customer when the product was originally purchased.

The CCIR recommendations include the identification and implementation of best practices for assessing and communicating known property-specific Nat Cat risk at point of sale and at renewal to customers. Also, before providing advice, insurers or intermediaries should take reasonable steps to better understand the known property-specific risk and insurance needs of the specific customer.

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<sup>39</sup> [Supervisory statement on exclusions in insurance products related to risks arising from systemic events | Eiopa \(europa.eu\)](#)



As a best practice, in assessing the customer's risk, insurers should consider the property-specific risk information collected by those interacting with the customer (including intermediaries where applicable). The insurer is responsible for providing intermediaries with the assessment, including any available material property-specific risk information it may have in its possession. Customers should be informed that the data collected from them would be used to help understand their risk profile. Also, customers should receive a clear disclosure of their customer's property-specific Nat Cat risks. Those engaging with the customer should explain their exposure to various perils as well as relevant factors that increase the likelihood of loss based on their disclosed circumstances and potential risk mitigation measures that can help reduce their risk.

This approach ensures that, regardless of distribution channel, the customer is provided with, in plain language, personalised advice regarding how the products they are being offered relates to their property-specific risk. Insurers and intermediaries should also conduct a similar assessment at renewal, ensuring the customer understands any changes to their Nat Cat risk, including from a changing climate.

### **United States**

Some states in the US, for example California and Colorado, have developed tools to allow consumers to compare homeowner insurance premiums being offered along with policy types and coverage limits or to provide general cost comparison between insurers offering differing coverage which includes discounts or surcharges in areas with high NatCat risks<sup>40</sup>.

The NAIC has developed a variety of consumer education resources and tools, for example to improve understanding of flood insurance and coverage of homeowners policies<sup>41</sup>. Some states have also developed such tools, for example South Carolina Department of Insurance has created a webpage explaining the key elements of an insurance policy<sup>42</sup>.

### **Examples access**

#### **European Union**

Excluding household insurance (which in many instances does not include NatCat coverage) and motor and liability insurance 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.

Focus groups part of a study carried out by the European Insurance and Occupation Pensions Authority showed that some consumers would be more likely to purchase coverage if they had access to flat rates for all possible NatCat events, even if this meant paying a higher price. This shows that if consumers are able to more easily understand what is covered and at what cost, they may be willing to pay a higher price.

Behavioural study carried out by the European Insurance and Occupation Pensions Authority shows that when a group of consumers, that have never had home insurance, was asked how much they

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<sup>40</sup> Colorado - provide general cost comparison between insurers offering differing coverage which includes discounts or surcharges in areas higher natcat risks

[http://www.dora.state.co.us/pls/real/Ins\\_Survey\\_Reports.Report\\_Selection\\_Criteria?p\\_report\\_id=HOME&p\\_label=](http://www.dora.state.co.us/pls/real/Ins_Survey_Reports.Report_Selection_Criteria?p_report_id=HOME&p_label=)  
California - [https://interactive.web.insurance.ca.gov/apex\\_extprd/f?p=111:20](https://interactive.web.insurance.ca.gov/apex_extprd/f?p=111:20)

<sup>41</sup> Flood Insurance Campaign - <https://content.naic.org/consumer/flood-insurance/what-the-flood-quiz>

Homeowners Coverage Resource - <https://content.naic.org/consumer/homeowners-insurance.htm>

<sup>42</sup> South Carolina - <https://doi.sc.gov/957/Understanding-Your-Insurance-Policy>

would be willing to pay for it, they provided a median premium similar to the median premium paid in the market.

In Europe there are in place specific product oversight and governance requirements (POG) which mandate insurance product manufacturers to take into account the needs of the customer, including NatCat protection needs and ability to pay. This means that insurance products need to offer a value to the identified target market. In this regard, the European Insurance and Occupational Pensions Authority has also issued a Supervisory Statement which clarifies how POG requirements should be interpreted vis-à-vis NatCat events. The Insurance Distribution Directive (IDD) also introduced specific disclosure requirements including a standardised insurance-product information document (IPID). Finally, in relation to differential pricing practices, the European Insurance and Occupational Pensions Authority issued a Supervisory Statement which clarifies expectations differential pricing practices, including how POG should be applied to ensure that only those practices which lead to good consumer outcomes are implemented.

### **Australia**

In Australia, the Australian Competition and Consumer Commission recommended that insurers disclose premium costs or savings for each optional inclusion or exclusion offered, including premium costs or savings for incremental changes in excess levels and sums insurer.

### **Canada**

According to the Canadian Council of Insurance Regulators (CCIR), more could be done to explain to customers in plain language coverage gaps based on their property-specific risk as well as ways that they can reduce their risk and potentially their insurance premiums. The working group recognises the ability of insurers to freely set prices that reflect competitive market conditions and price risk accordingly.

Federal, provincial, and territorial governments are examining the feasibility of market interventions to address protection gaps that exist where consumers cannot readily purchase insurance for a variety of reasons, including affordability issues.

Regarding affordability, the CCIR suggests that insurers incorporate premium discounts for certain mitigation actions that consumers can take. For example, in its recent report, the Task Force on Flood Insurance and Relocation found that “individual risk reduction behaviour can be incentivised if the costs of premiums and deductibles are explicitly linked to mitigation actions” (ie if risk reduction is rewarded at the consumer level).

### **Switzerland**

It is mandatory to purchase insurance against natural hazards when taking a fire insurance. The insurance covers the most common natural hazards except for earthquakes. The premiums are determined by FINMA and uniform across Switzerland. The legal provisions foresee a limitation of the coverage. However, the parties can purchase additional coverage. Further, in the majority of the Cantons, there is a cantonal monopoly for the insurance of real estate against natural hazards. There are political efforts to solve this issue with regards to earthquakes.

## **Examples affordability**

### **European Union**

A study carried out by the European Insurance and Occupational Pensions Authority in 4 member states showed that 36% of responding consumers stated that the main reason for not being insured was that they considered such NatCat events to be very unlikely. Lack of previous experience with NatCat events can be a driver of diminished risk perception and thus affects the uptake of cover. The same study highlighted that people who were affected by Nat Cat events are more likely to buy insurance coverage: the percentage of respondents who were insured is twice as much amongst those having experienced a NatCat event than amongst respondents who did not (64% vs 36%).

In Europe, the European Insurance and Occupational Pensions Authority has developed a NatCat Dashboard<sup>43</sup> whose aim is to present the drivers of a climate-related insurance protection gap in order to identify measures that will help in decreasing society's losses in the event of natural catastrophes.

### **Australia**

In Australia, the Australian Competition and Consumer Commission recommended that insurers report to the regulator/supervisor their brands and where they are writing new business for the supervisor to publish this information publicly. This is with the aim of providing transparency and assist consumers in searching for alternate suppliers in an easy manner.

### **Canada**

Private insurance coverage for major perils in different regions is generally available across Canada. Additionally, the existence of a competitive marketplace suggests that property insurance products are accessible, provided through multiple distribution channels, and generally affordable to consumers who need coverage. This combination of availability and accessibility is instrumental in mitigating losses associated with catastrophic events. However, the value of these products can only be maximised if consumers are aware of their choices when shopping for insurance, ensuring they have the information required to obtain the right coverage and are protected from the relevant Nat Cat risks. This is partially mitigated by the structure of most homeowner insurance policies, which cover a range of perils. However, certain perils such as earthquake and flooding are not normally included in homeowner insurance policies. For example, in terms of flooding, which is typically sold as an optional endorsement, only 26% of Canadians living in high-risk areas report that their insurance representative has discussed flood insurance options with them.

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<sup>43</sup> [Dashboard on insurance protection gap for natural catastrophes | Eiopa \(europa.eu\)](#)