

Application Paper on the supervision of climate-related risks in the insurance sector

Public discussion session

28 April 2025

Purpose of this public background session



Purpose

1. Background
2. Application Paper
3. Q&A

IAIS strategic themes: 2025-2029

1

Strengthening
supervisory
response to
climate change



2

Adapting to
increasing digital
innovation
and cyber risks



3

Supporting
insurance to serve its
societal purpose
of building resilience



“It is therefore critical for insurance supervisors to **strengthen their understanding of the type and magnitude of climate-related risks** and the insurance sector’s exposure to effectively identify, monitor and incorporate climate-related risks considerations in their supervisory responsibilities.”



IAIS work on climate risk

Supervisory practices: Promoting a globally consistent supervisory response to climate change and providing supervisors with the necessary tools to monitor, assess and address climate-related risks to the insurance sector.

Application Paper published: 16 April. ICP Guidance changes agreed in December 2024.

Data: Providing a global baseline and analysis of climate risk data as climate data elements are now an integral part of the **Global Monitoring Exercise (GME)**. GME examines the sector's exposure to transition risks in investment portfolios as well as the potential materiality of natural catastrophe (NatCat) risks. Outcomes are annually reported in our Global Insurance Market Report.

ICPs and Application Papers

- The Insurance Core Principles (ICPs) form the **globally accepted framework for insurance supervision**. The ICPs seeks to encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions.
- **Application Papers** provide supporting material related to supervisory material. Supporting material aids IAIS members to put the ICPs into practice.
- Application Papers **do not include new requirements**, but provide further advice, illustrations, recommendations or examples of good practice to supervisors on how supervisory material may be implemented.
- The **proportionality principle** applies to the content of Application Papers.

Application Paper background

- In 2022, IAIS undertook a **gap analysis** of the IAIS supervisory materials **to identify areas requiring additional guidance** on supervisory practices. Limited updates to the ICPs made in December 2024, clarifying that climate-related risks should be addressed in supervisory approaches.
- Engaged members and stakeholders through **four public consultations** in March 2023, November 2023, March 2024 and July 2024.
- Materials of the four public consultations **culminated in a final omnibus Application Paper**, which builds on and replaces the 2021 Application Paper.
- The Application Paper serves as a **practical guide for supervisors**, helping them **integrate climate-related risks into their work through illustrations and examples**. The Application Paper does not include new requirements.

Climate consultations responses

March 2023: changes to the **ICP Introduction**. Supporting materials: **governance, risk management and internal controls**

Responses:

- Generally supported the proposed changes to refer to climate-related risk within the ICP Introduction.
- Were in favour of making changes to the existing supporting material related to governance, risk management and internal controls.
- Were supportive of including considerations related to transition planning by insurers within the overall climate-related work programme of the IAIS.

Responses and resolution of comments published on IAIS website

Climate consultations responses

November 2023: Supporting material: **scenario analysis and market conduct**

Scenario analysis responses:

- Differing views on detail needed
- Some responses flagged concerns that scenario analysis is not sufficiently extreme, has limitations and/or needs to include compound risks
- Raised concerns about data availability
- Some responses encouraged greater consideration of climate opportunities
- Support for supervisory coordination

Market conduct responses:

- Those from industry flagged concerns about the approach being prescriptive
- Industry responses raises concerns about liability for greenwashing
- Concerns about striking the balance between solvency and availability in relation to protection gaps

Climate consultations responses

March 2024: ICP guidance. Supporting material: **corporate governance, risk management and internal controls, valuation** of assets and liabilities for solvency purposes, **investments** activities of insurers, and **enterprise risk management**

Industry responses:

- Climate risk over-emphasised
- Text too prescriptive
- Double materiality should not be in scope
- Use of scenario analysis should be reduced given uncertainty and data issues
- Appropriateness to assess climate risk in credit ratings

Non-industry responses:

- Insurers investments should be Paris aligned
- Investees transition plans should be considered in investment decisions
- Adopt precautionary approach in risk management
- Cover sustainability risk

Climate consultations responses

July 2024: Supporting material: supervisory review and **reporting, public disclosure, macroprudential** supervision and **supervisory cooperation**

Reporting/disclosure responses:

- Some flagged concerns about overlap with other frameworks and need to focus on materiality
- Differing views on balance between reporting and disclosure
- Range of views on indicators
- Some focused on commercial sensitivity and legal issues
- Some called for mandating of transition plans

Macroprudential responses:

- Some challenged risks, while others highlighted need for more action
- Differing views on transparency
- NGOs more supportive on the use of macroprudential regulation
- NGOs press for insurers investments should be Paris aligned
- Investees transition plans should be considered in investment decisions

Key topics discussed in the paper

- Qualitative and quantitative considerations related to insurers' corporate governance, risk management, valuation and investments
- Supervisory reporting and public disclosure
- Group supervision and macroprudential supervision
- Scenario analysis
- Market conduct-related issues

Qualitative and quantitative considerations

ICP 7 (Corporate governance)

- Relevant **roles and responsibilities** assigned to the board, senior management and control functions should continue to adapt
- **Appropriate understanding** of, and opportunity to discuss, climate-related risks at the board and board committee levels
- **Incorporate and assess** climate-related risks as part of annual financial planning
- Board should have a role in maintaining **effective oversight** of climate-related risk management

ICP 8 (Risk management and internal controls)

- Integrate these risks into the overall **corporate governance** framework
- **Control functions** should properly consider the impact of climate-related risks
- Develop tools to **collect** reliable quantitative and qualitative **data**

Qualitative and quantitative considerations

ICP 16 (ERM for solvency purposes)

- **Impact and materiality** of climate-related risks when assessing the existing risk categories
- Supervisors should expect insurers to **identify the relevant climate-related risks**
- Description of how they **monitor and manage** material climate-related risks
- Consider all **material physical and transition risks** arising from climate change

ICP 14 (Valuation)

- Consider **climate-related risk drivers** in both asset valuations and when estimating the value of liabilities
- Supervisors should review insurers' **valuation methodologies**
- Review the **sources of information**

Qualitative and quantitative considerations

ICP 15 (Investments)

- Consider the potential impact of climate change on the **insurer's investments**
- Portfolio as a whole considers the impact of their investments on the climate (“**outward perspective**”)
- Consider climate-related risks as part of their **asset-liability management**
- Identifying, assessing, monitoring, managing, controlling and reporting risks **arising from their investments**

Supervisory reporting and public disclosure

ICP 9 (Supervisory review and reporting)

- **Fully integrated** into supervisory reporting where material
- **Holistic view** of what information needs to be disclosed to market participants and policyholders in public disclosure, and what information needs to be reported in supervisory reporting

ICP 20 (Public disclosure)

- Climate-related risks are **effectively captured** in public disclosure
- **Connectivity** between the information presented in their financial statements and their climate disclosures
- Climate disclosures should include appropriate **indicators (or metrics)**
- Revising expectations or providing guidance to clarify how **material climate-related risk exposures** should be disclosed

Scenario analysis

ICP 16 (Enterprise risk management for solvency purposes)

ICP 24 (Macroprudential supervision)

- **Historical trends** of climate risk drivers will not reliably predict their future trajectories
- **Climate-related scenario analysis** exercises as part of their quantitative analyses, considering both inward and outward risks
- Extent to which **climate risk is integrated** into the insurer's ERM framework
- Climate risk scenario analysis used in ORSA to extend **beyond typical business planning** cycles

Issues related to group supervision and macroprudential supervision

ICP 25 (Supervisory cooperation and coordination)

- **Supervisory colleges** should consider including a discussion on climate-related risks in their agenda and supervisory plan
- Supervisors should consider **coordinating** with other involved supervisors and regional or global insurance standard setters.

ICP 24 (Macroprudential supervision)

- Appropriate policies and processes to collect **regular and systematic** climate-related information
- Approach to **aggregate, analyse and present** available climate data
- Flexibility to tailor their supervisory responses to the **nature, scale and complexity** of their insurance sector exposures and activities

Market conduct related issues

ICP 19 (Conduct of business): Greenwashing

- Supervisors may promote the development of common criteria to determine whether a product has **sustainable features**
- Supervisors may review whether there is a **risk of greenwashing**
- Any advertising on the environmentally and socially friendly business operations is **clear, fair and not misleading**

ICP 19 (Conduct of business): Natural catastrophe

- NatCat coverage and exclusions should be presented and formulated in a **clear and comprehensive** manner
- Supervisors should require that pricing is adequate, **non-discriminatory and properly communicated** to consumers
- Insurers should examine their **claims handling operations**

Market conduct related issues

ICP 21 (Countering fraud in insurance)

- To mitigate the risk of greenwashing leading to **severe misconduct** or even fraud, supervisors should remain mindful of the general reach and provisions of ICP 21 and the fraud frameworks within their own jurisdiction



Future work

Supplement this publication with practical member-only materials on supervisory practices to address climate risk, including on **climate metrics** for supervisory reporting and public disclosures

Analyse the extent to which climate risks are integrated into **NatCat models**

Structured **knowledge sharing** with members and invited experts

Continue **collaboration** and joint work with partners, including the Network for Greening the Financial System (NGFS) and Sustainable Insurance Forum (SIF)

In collaboration with partners, IAIS will enhance support for its members, notably those from **EMDEs**, to further integrate climate risk considerations into supervisory practices



Questions?