Inquiry: Design of a Sustainable Financial System

FINANCE SECTOR HUB

SUSTAINABLE INSURANCE FORUM

SUSTAINABLE INSURANCE FORUM

January to June 2020 Update

The Sustainable Insurance Forum

The Sustainable Insurance Forum (SIF) is a leadership group of insurance supervisors and regulators working together to strengthen their understanding of and responses to sustainability issues facing the insurance sector. The long-term vision of the SIF is a global insurance system where sustainability factors are effectively integrated into the regulation and supervision of insurance companies. The United Nations Environment Programme (UNEP) Inquiry serves as the SIF Secretariat. As of July 2020, the SIF has 30 jurisdictions as members.

More information on the SIF is available at: *www.sustainableinsuranceforum.org* or from: Ms. Sarah Zaidi, SIF Coordination and Networking Manager *sarah.zaidi@un.org*.

UNDP Finance Sector Hub

UNDP's Finance Sector Hub (FSH) is a finance and innovation platform that draws on a critical mass of UNDP expertise, initiatives, and partnerships to support the mobilization and leveraging of resources for the SDGs and lead the implementation of the new UNDP private sector strategy and other initiatives which fully supports the implementation of the Strategic Plan and supports governments to align private sector activities and financial investments with the 2030 Agenda. The Hub is an integral part of both the Bureau for Policy and Programme Support (BPPS) and the Bureau of External Relations and Advocacy (BERA), as part of the Global Policy Network.

More information on the UNDP FSH is available at: *https://sdgfinance.undp.org/* or from: Mr. Marcos Neto, Director *marcos.neto@undp.org.*

About this report

The SIF would like to thank the following members for their input to this report: Australia - Australian Prudential Regulation Authority (APRA), Belgium - National Bank of Belgium (NBB), Bermuda - Bermuda Monetary Authority (BMA), Canada - Office of the Superintendent of Financial Institutions (OSFI), France - Autorité de Contrôle Prudentiel et de Résolution (ACPR), Germany - Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Guernsey - Guernsey Financial Services Commission (GFSC), Netherlands - De Nederlandsche Bank (DNB), Singapore - Monetary Authority of Singapore (MAS), South Africa - Prudential Authority (PA), Switzerland - Swiss Financial Market Supervisory Authority (FINMA), United Arab Emirates – Dubai - Dubai Financial Services Authority (DFSA), United States of America - National Association of Insurance Commissioners (NAIC), United States of America – Washington State - Office of the Insurance Commissioner (OIC).

The contribution of Geoff Summerhayes, SIF Chair, Executive Board Member of the Australian Prudential Regulation Authority (APRA); the SIF Secretariat team: William Harding, Senior Analyst, APRA; Stephen Nolan, Head of SIF Secretariat; Sarah Zaidi, SIF Coordination and Networking Manager; Mahenau Agha, Director, UNEP Inquiry; Olivier Lavagne d'Ortigue, Publications Manager, UNEP Inquiry; Nader Rahman, Communications Manager, UNEP Inquiry; Sandra Rojas, Graphic Designer, UNEP Inquiry; and support from UNDP colleagues is also gratefully acknowledged: Jan Kellett, Special Advisor: External Engagement (Finance Sector Hub), UNDP; Marcos Mancini, Senior Sustainable Finance Advisor, UNDP and Marcos Neto, Director Finance Sector Hub, UNDP.

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Comments are welcome and should be sent to *sarah.zaidi@un.org*.

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FOREWORD

I trust that all Members and your families are safe and well. 2020 has been marked by tragedy in a way that none of us could have imagined a mere six months ago. Amid the global COVID-19 pandemic, there have been inspiring stories of courage and selflessness as well as an overwhelming sense of loss for all that many have endured. And as we have sheltered in place like the rest of the world, unfortunately climate change has not.

The Sustainable Insurance Forum (SIF) has adapted and managed to continue its important work. Indeed, in the first six months of this year we released two global publications, added four new members, hosted three member meetings and fully moved our operations online, while never wavering from our goal of responding to the climate emergency.

In collaboration with the International Association of Insurance Supervisors (IAIS), earlier in the year we launched the *Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures*. The paper provides an overview of practices that supervisors have considered in the development of climate-related disclosure requirements within their markets. Considering the diversity of supervisory frameworks across jurisdictions, the paper focuses on practices that can be implemented with limited direct regulatory intervention.

That was followed by our *SIF Question Bank on Climate Change Risks to the Insurance Sector (SIF Question Bank)*. The Question Bank helps supervisors develop engagement tools to better understand exposures and strategic responses of regulated entities to climate change risks and opportunities. It provides a framework, and sample questions, which supervisors can adapt for use in their own jurisdictions – depending on local market contexts, objectives, areas of interest, and levels of sophistication with climate change issues.

In parallel and in partnership with the IAIS, we have also been preparing the groundwork on an Application Paper on the Supervision of Climate-related Risks in the Insurance Sector, expected to be finalised in early 2021. Promoting a globally consistent approach to addressing climate-related risks in the supervision of the insurance sector, it will provide background and guidance on how the IAIS supervisory material can be used to best face challenges and opportunities arising from climate-related risks.

In February, the SIF also held its Eighth meeting (SIF8) alongside the Financial Stability Institute (FSI) Cross-sectoral Policy Implementation Meeting on Climate Risk Assessment. Held in Basel, this meeting further strengthened the Forum's important partnership with the

FSI. Following this, the SIF also held two key virtual member meetings in May. Building on activities to date, these meetings offered an opportunity for members to reconnect as we collectively grappled with how to adjust to the new normal. And last but certainly not least, in the first half of 2020 we also managed to add four new members to the SIF, bringing us to 30 members.

Our new members include the Bermuda Monetary Authority (BMA); the Dubai Financial Services Authority (DFSA); the Financial Market Supervisory Authority (FINMA) in Switzerland as well as the National Association of Insurance Commissioners (NAIC) in the United States of America.

With the SIF serving as the global platform for insurance supervisors to exchange experience and develop common approaches to shared challenges, members have kindly shared updates from their jurisdictions for the first half of the year, highlighting their responses to sustainability challenges and opportunities for the business of insurance, focusing on environmental issues such as climate change.

The development of this report and other activities have been made possible with the support from our key partners, for which we are incredibly grateful.

Geoff Summerhayes
SIF Chair
Executive Board Member
Australian Prudential Regulation Authority (APRA)

CONTENTS

FOREWORD ... iii

INTRODUCTION ... 1

SIF MEMBERS MAP ... 2

UPDATES ... 3

1 AUSTRALIA: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA) ... 4

2 BELGIUM: NATIONAL BANK OF BELGIUM (NBB) ... 5

3 BERMUDA: BERMUDA MONETARY AUTHORITY (BMA) ... 6

4 CANADA: OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS (OSFI) ... 7

5 FRANCE: AUTORITÉ DE CONTRÔLE PRUDENTIEL ET DE RÉSOLUTION (ACPR) ... 8

6 GERMANY: BUNDESANSTALT FÜR FINANZDIENSTLEISTUNGSAUFSICHT (BAFIN) ... 9

7 GUERNSEY: GUERNSEY FINANCIAL SERVICES COMMISSION (GFSC) ... 10

8 NETHERLANDS: DE NEDERLANDSCHE BANK (DNB) ... 11

9 SINGAPORE: MONETARY AUTHORITY OF SINGAPORE (MAS) ... 12

10 SOUTH AFRICA: PRUDENTIAL AUTHORITY (PA) ... 13

11 SWITZERLAND: SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY (FINMA) ... 14

12 UNITED ARAB EMIRATES – DUBAI: DUBAI FINANCIAL SERVICES AUTHORITY (DFSA) ... 15

13 UNITED STATES OF AMERICA: NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC) ... 16

14 UNITED STATES OF AMERICA – WASHINGTON STATE: OFFICE OF THE INSURANCE COMMISSIONER (OIC) ... 17

CONCLUSION ... 18

ANNEX 1: SIF MEMBERS AND PARTNERS ... 19

ANNEX 2: SELECTED SIF RESOURCES 2020 ... 20

INTRODUCTION

Launched in December 2016, the Sustainable Insurance Forum (SIF) is a network of insurance supervisors and regulators from around the world who are working together on sustainability challenges facing the insurance sector. The United Nations Environment Programme serves as the SIF Secretariat.

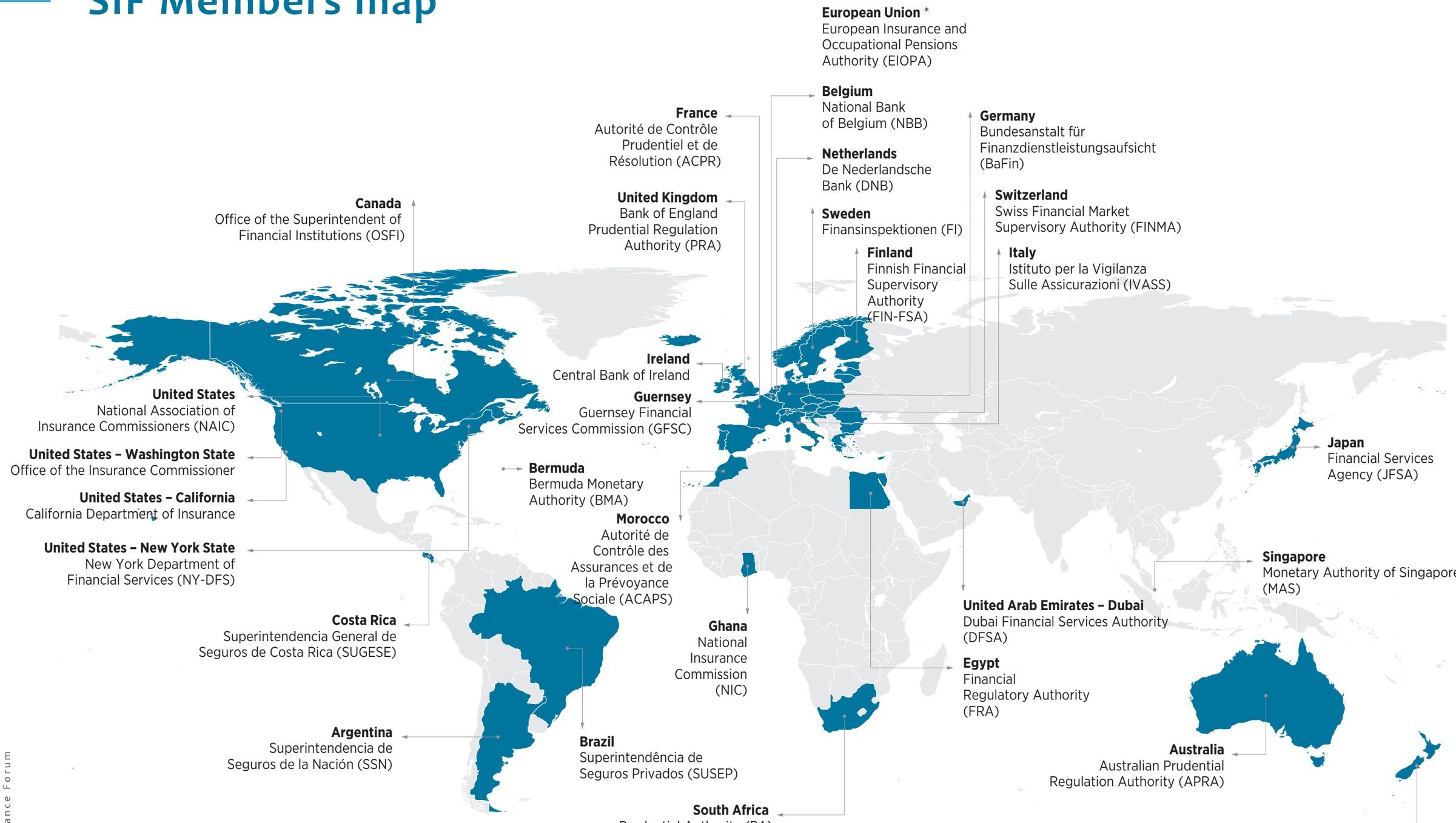
Since its inception, the SIF has evolved into a dynamic platform for international collaborative action on climate issues. This has resulted in research on emerging risks, knowledge-sharing on supervisory practices, high-level policy engagement, and joint supervisory statements.

In 2020, the SIF continued to gain momentum with four new members joining since January 2020, bringing the total membership to 30.

Building on the progress to date, in March 2020 members endorsed the prospect of SIF continuing its work, through a new phase running from 2021-2023. Finalized by the end of July, the development of a 2021-2023 work plan is currently under way.

Despite the challenges posed by COVID-19, SIF members have continued to drive the sustainability agenda in their respective jurisdictions. This update covers some of the exciting work being carried out by the SIF members.

SIF Members map

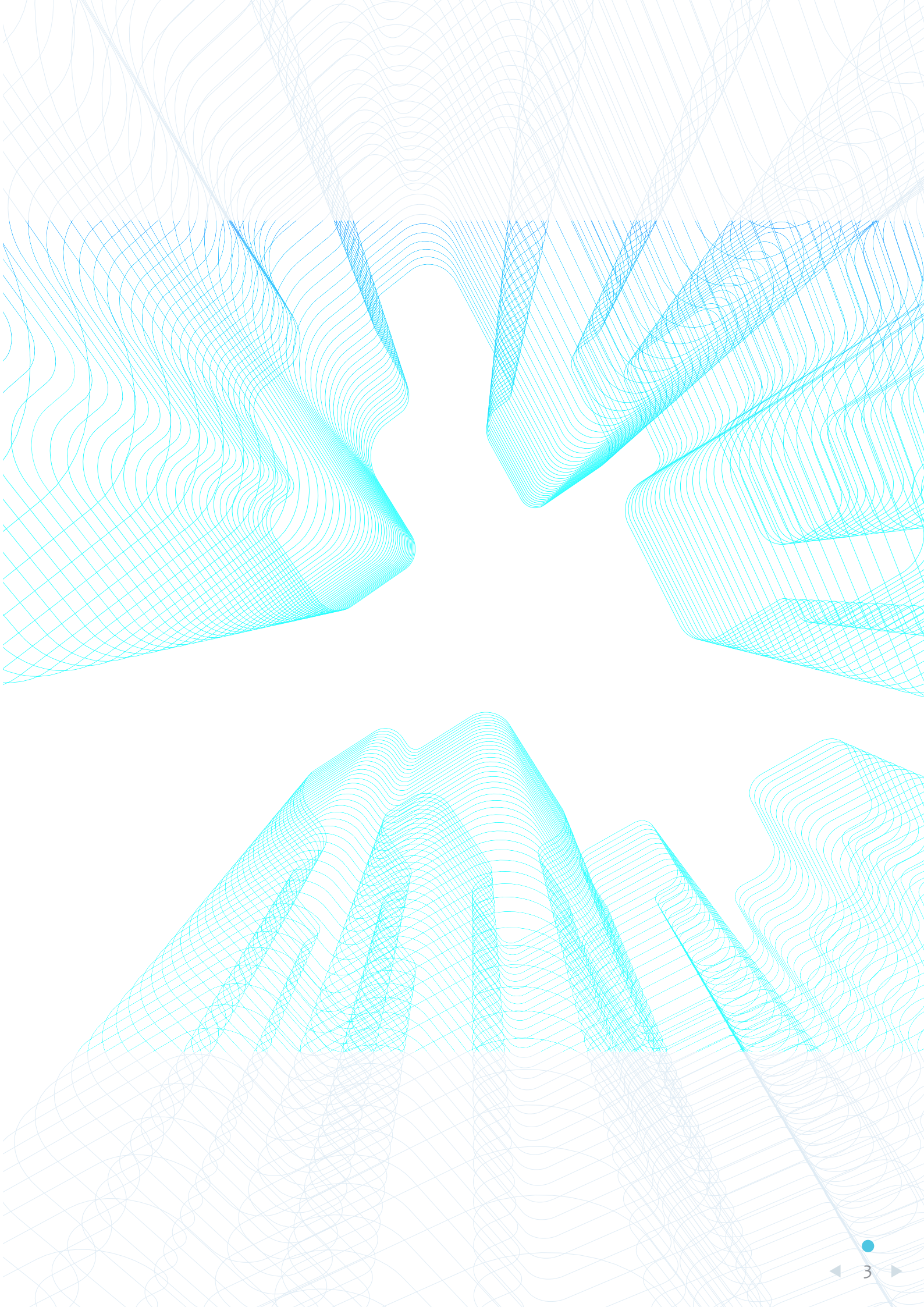


The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined.

Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

* Iceland, Liechtenstein and Norway are observers to EIOPA.



1 AUSTRALIA: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA)

The *Australian Prudential Regulation Authority (APRA)* outlined its planned initiatives relating to climate change financial risk in a *letter to industry* on 24 February 2020. The initiatives outlined include:

- developing climate change financial risk guidance;
- a climate change financial risk vulnerability assessment, working with APRA's peer regulators;
- updating environmental, social and governance investment prudential guidance; and
- a deep-dive supervisory review of regulated entities that participated in APRA's 2018 climate change survey.

APRA has contributed to the virtual meetings of the SIF in 2020, helping to develop the SIF's future plan of work and providing insight into the regulatory landscape in Australia. These meetings have also allowed APRA to better understand international regulatory developments and apply these insights in the drafting of its own policy agenda and supervision activities, some of which have been impacted by COVID-19.

APRA contributed to the *SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)* published in February. APRA is also co-leading the development of the SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector, which recently included co-hosting the stakeholder *webinar on climate-related risks in the insurance sector*.

APRA has been proud to continue its leadership with the SIF in 2020, as SIF members determined to have APRA Executive Board Member Geoff Summerhayes continue in the role of SIF Chair for the remainder of 2020. This allows for a continuity of leadership through the COVID-19 period and for APRA to support the development of the SIF's upcoming work plan. The SIF Secretariat also receives continuous support from William Harding, Senior Analyst, APRA.

National Bank OF BELGIUM
Eurosystem

2 BELGIUM: NATIONAL BANK OF BELGIUM (NBB)

The COVID-19 crisis is a stark reminder of the wide-ranging consequences that the materialization of certain events can have for global society if vulnerabilities to these shocks trigger adverse impacts. Climate change has the potential to trigger unexpectedly large shocks. Societies can prepare for this by taking measures to contain the probability and magnitude of the risk and by building additional resilience to related, potential, unexpected shocks. Even in the challenging circumstances of a global health crisis, climate change remains an urgent policy priority at the *National Bank of Belgium* (NBB).

The NBB published in its *Financial Stability Report 2020*, a thematic article on climate change-related transition risk associated with real estate exposures in the Belgian financial sector. The article identifies the energy inefficiency of real estate exposures as an important risk factor for the transition risk to which the Belgian financial sector is potentially exposed. The article includes the recommendations to financial institutions to gather data on this subject and to start analysing to what extent the energy efficiency of their real estate exposures may impact their current and future credit risk and subsequently manage and mitigate the transition risk associated with their real estate exposures.

During the first half of 2020, the NBB shared its experience on stress test and scenario analysis to better understand banks' and insurers' exposure to climate risks at the Cross-sectoral Policy Implementation Meeting on Climate Risk Assessment in the financial sector organized by the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS). The NBB is also contributing to the drafting of the SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector.

At the European level, the NBB is actively involved in the work of the European Insurance and Occupational Pensions Authority (EIOPA) on sustainability. The NBB is a member of the drafting team of the *Discussion Paper* on the *methodology for the potential inclusion of climate change in the natural catastrophe risk of the standard formula* and is contributing to the *Opinion on the supervision of the use of climate change risk scenarios in Own Risk Solvency Assessment (ORSA)*. The NBB also contributed to the development of the climate change stress tests section of EIOPA's *second Discussion Paper on the methodological principles of insurance stress testing*.

BMA
BERMUDA MONETARY AUTHORITY

3 BERMUDA: BERMUDA MONETARY AUTHORITY (BMA)

The *Bermuda Monetary Authority* (BMA) has worked on an industry survey about climate risk, which is almost final and will be sent to registrants in the second half of 2020. The survey will inform a qualitative status assessment of the Bermuda market with respect to climate risk considerations, including governance and strategy, underwriting, investments, stress tests/scenarios and disclosure. Best practices on the topic are evolving, and some Bermudian players are at the forefront of recent development in some areas. The survey should give BMA a broader picture across various areas and should be the basis for further supervisory engagements and activities. The starting point for the development of the survey questions was the *SIF Question Bank*, with further developments and adjustments to the questions.

4 CANADA: OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS (OSFI)

The *Office of the Superintendent of Financial Institutions* (OSFI) is drafting a discussion paper on climate risk that is expected to be released in December 2020 and is leveraging work of the SIF such as the *SIF Question Bank* and the joint *SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures*.

Supervisors have taken the Question Bank developed by the SIF and tailored questions relevant to Canadian financial institutions. These are used to encourage scenario and stress testing and into areas where the institution may be vulnerable to climate change. OSFI is also using the Question Bank in its training material for supervisors.

OSFI is currently on the drafting team for the SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector.

Other notable updates in the sustainability sphere from the jurisdiction include:

- The Superintendent delivered opening remarks entitled *A prudential perspective on the risks of a changing climate*, at the 17th Annual Review of Insolvency Law (ARIL) Conference.
- Large Canadian companies have been designating *Chief Climate Change Officers* to focus specifically on those issues. Some have also developed board policies on green vs brown investment and identified triggers for emphasizing green investment.
- The Bank of Canada published a Staff Discussion Paper entitled *Scenario Analysis and the Economic and Financial Risks from Climate Change*. The paper adapts climate-economy models that have been applied in other contexts for use in climate-related scenario analysis.
- The Government of Canada continued its efforts to promote climate change disclosure. One of the relief measures *announced* by the government in response to the COVID-19 crisis is the Large Employer Emergency Financing Facility (LEEFF), which will provide bridge financing for large Canadian employers impacted by the COVID-19 pandemic. One of the conditions of the financing will be that LEEFF recipient businesses will need to publish annual climate-related disclosure reports in line with the TCFD. A news release from the PM's Office outlined: *"…recipient companies would be required to commit to publish annual climate-related disclosure reports consistent with the Financial Stability Board's Task Force on Climate-related Financial Disclosures, including how their future operations will support environmental sustainability and national climate goals."*

5 FRANCE: AUTORITÉ DE CONTRÔLE PRUDENTIEL ET DE RÉSOLUTION (ACPR)

The *Autorité de Contrôle Prudentiel et de Résolution* (ACPR) has been actively participating in SIF's work including providing written and oral contributions to the *SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures*, published in February 2020.

This has been followed by Emmanuel Rocher, Deputy Director, International Affairs, ACPR co-chairing the SIF/IAIS drafting team (with ACPR being a member of the drafting team) of the SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector.

In April 2020, ACPR and Banque de France have published the working paper *Long-term growth impact of climate change and policies: the Advanced Climate Change Long-term (ACCL) scenario building model*. This paper provides a tool to build climate change scenarios to forecast Gross Domestic Product (GDP), modelling both GDP damage due to climate change and the GDP impact of mitigating measures.

ACPR has also contributed to several European publications:

1. The *Legislative amendment proposals of Solvency 2 regulation on sustainable finance (governance and risk management)*: The EU's action plan on sustainable finance seeks to clarify the duties of financial institutions to provide their clients with clear advice on the social and environmental risks and opportunities attached to their investments. The aim is to shift capital flows away from activities that have negative social and environmental consequences, and direct finance towards economic activities that have genuine long-term benefits for society.
2. The *Regulation proposal on disclosure of climate-related risks and adverse impact of investment portfolio of insurers and asset managers*: The three European Supervisory Authorities (European Banking Authority (EBA), EIOPA and ESMA) have issued a *Consultation Paper* seeking input on proposed environmental, social and governance (ESG) disclosure standards for financial market participants, advisers and products.
3. The *EIOPA discussion paper* on the protection gap for natural catastrophes (January 2020). It addresses the issue of a protection gap for natural catastrophes in Europe in light of available evidence about the impact of climate change on the frequency and severity of extreme weather and climate-related events.
4. Responses to EU public consultations on:
    a. the *review of the non-financial reporting directive*;
    b. the *EU renewed sustainable finance strategy*.

BaFin

Bundesanstalt für
Finanzdienstleistungsaufsicht

6 GERMANY: BUNDESANSTALT FÜR FINANZDIENSTLEISTUNGSAUFSICHT (BAFIN)

In the first half of 2020, the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin) discussed and exchanged views on initiatives and developments on Sustainable Finance at the national and EU levels with different stakeholders, such as insurance undertakings, institutions for occupational retirement provision, actuaries and accountants.

BaFin is actively participating in international and national work in the field of sustainable finance, including in the SIF, the EIOPA Project Group on sustainable finance, the EBA Sustainable Finance Network, the ESMA Coordination Network on Sustainability, the ECB Climate Risk Contact Group, the NGSF, the Joint Committee ESG Disclosures Sub-Group (EIOPA/ESMA/EBA) and the German Sustainable Finance Advisory Committee.

BaFin made important contributions to the work of the SIF/IAIS and EIOPA. In the first half of 2020, it contributed to the *SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures*, to discussions about the future work programme of the SIF and to exchanges of information about national developments in international insurance supervision. In addition, BaFin participated in the *SIF/IAIS Webinar on Climate-Related Risks in the Insurance Sector*. BaFin is also actively participating in EIOPA's work in the field of sustainable finance that focuses in 2020 on topics such as climate change risk scenarios in ORSA, the development of a natural catastrophe (NAT CAT) protection gap dashboard and a methodology for the possible inclusion of climate change in the NAT CAT standard formula calibration, pricing in light of climate change and a climate risk sensitivity analysis.

At the national level, BaFin is an observer to the Sustainable Finance Advisory Committee of the German Federal Government. The aim of the Sustainable Finance Advisory Committee is to advise the government on the development and implementation on its Sustainable Finance Strategy. In March 2020, the Sustainable Finance Advisory Committee published its draft interim report on *The Significance of Sustainable Finance to the Great Transformation*, which deals with strategic fundamentals and preliminary considerations, resilience, transformation, transparency and disclosure and the role of the public sector. The key takeaways from the public consultation of the interim report have already been drawn. The Sustainable Finance Advisory Committee plans to publish the final report in early 2021.

Guernsey Financial Services Commission

7 GUERNSEY: GUERNSEY FINANCIAL SERVICES COMMISSION (GFSC)

The *Guernsey Financial Services Commission* (GFSC) issued its *2019 Annual report*, in May 2020, which highlighted how GFSC retendered the investment management component of the Commission's staff pensions scheme, and selected an investment manager able to provide staff with a green investment approach. GFSC recognized the importance of offering its staff the choice of investing their pension money in an environmentally supportive fashion. It understands that for people in their personal capacity, the way in which they invest their pension may be the single biggest way in which they can contribute to carbon neutrality.

In order to undertake some active carbon offsetting activity to counter GFSC's emissions, GFSC has announced its intention in its Annual Report to invest in a piece of previously forested land in Angus, Scotland. GFSC intends to plant this land with saplings over the course of the next three years with a view to become a carbon-neutral organization by the mid-2020s as the trees grow and start to act as an effective carbon sink, with the likelihood that this will make GFSC one of the first carbon-neutral regulators in the world.

GFSC is currently working on a Consultation Paper on *Insurance Capital Standards for Green Investments*, which is due for publication in October 2020.

GFSC has introduced a Green section, titled 'Green Approach' on its *website*. The Commission has developed the Green Approach to demonstrate its commitment to develop climate finance through regulatory tools and support the finance sector throughout the transition towards a low-carbon economy.

DeNederlandscheBank
EUROSYSTEEM

8 NETHERLANDS: DE NEDERLANDSCHE BANK (DNB)

The COVID-19 crisis threatens to delay the implementation of climate policies worldwide. The negative consequences of climate change warrant undiminished attention, however. Although the COVID-19 crisis temporarily depresses global carbon emissions, a structural reduction in emissions is needed if we are to meet the Paris climate targets. Therefore, *De Nederlandsche Bank* (DNB) believes it is essential that we seize the opportunity and aim for a *green recovery* from the coronavirus crisis. The current situation of low interest rates and low energy prices may help to achieve this.

In parallel to this work, DNB has focused internally on the following analyses and reports:

- In June, DNB came out with the report *Indebted to Nature*, which underlines that the Dutch financial sector is exposed to risks as a result of biodiversity loss. This result emerged from a joint study by DNB and the Netherlands Environmental Assessment Agency (PBL). Biodiversity loss is a source of financial risks and threatens the availability of ecosystem services, such as wood, animal pollination and soil fertility, on which economic activities depend. As a result, banks, pension funds and insurers that finance these economic activities face physical risks. Financial institutions also run reputation and transition risks when they finance companies that have a major negative impact on biodiversity. The new study builds on the report *Values at risk?* published last year by DNB, in which risks of biodiversity loss were investigated in qualitative terms.
- In April, DNB published the high-level outcomes of an *analysis* on the distribution of energy labels within the Dutch commercial real estate portfolio related to a new law which provides that Dutch office properties must have at least energy label C as of 1 January 2023. Although this may have ramifications for insurers' office-related investments, the analysis finds that the transition risk for insurers is limited.

DNB is also active internationally to further work on sustainability. With Frank Elderson as the current Chair, DNB is a proud member and contributor of Network for Greening the Financial System (NGFS), which has recently published *several reports* in 2020, among which: (i) a guide to climate scenario analysis for central banks and supervisors, (ii) a guide on how to include climate-related and environmental risks into prudential supervision, (iii) status report on financial institutions' experiences from working with green, non-green and brown financial assets and a potential risk differential, (iv) a guide on climate scenario analysis, (v) research priorities in assessing the macroeconomic and financial impact of climate change, and (vi) a report on climate change and monetary policy. Currently, DNB is contributing to SIF and IAIS work as an active member of the SIF and a member of the SIF/IAIS Drafting Group of the Application Paper on the Supervision of Climate-related Risks in the Insurance Sector.

Monetary Authority of Singapore

9 SINGAPORE: MONETARY AUTHORITY OF SINGAPORE (MAS)

The *Monetary Authority of Singapore* (MAS) has been working closely with financial institutions to ensure that Singapore's financial sector actively considers climate-related and environmental risks. In June 2020, MAS issued a set of three consultation papers on the proposed *Guidelines on Environmental Risk Management* for banks, insurers and asset managers. The Guidelines aim to enhance financial institutions' resilience to environmental risk, and strengthen the financial sector's role in supporting the transition to an environmentally sustainable economy, in Singapore and in the region. This is part of MAS' Green Finance Action Plan to become a leading global centre for green finance. The three limbs of the Green Finance Action Plan are to build financial system resilience to environmental risk, develop green finance solutions and markets, and leverage innovation and technology. The Guidelines, which were co-created with financial institutions and industry associations, set out MAS' supervisory expectations for banks, insurers and asset managers in their governance, risk management and disclosure of environmental risk.

MAS is also part of the drafting team for the SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector, which seeks to support supervisors in their efforts to integrate climate risk into the supervision of the insurance sector.

10 SOUTH AFRICA: PRUDENTIAL AUTHORITY (PA)

In line with the increased prominence of sustainable finance and climate change issues on the agendas of international regulatory organizations, the *Prudential Authority* (PA) actively participated in related discussions through its membership in the SIF and the Basel Committee on Banking Supervision.

In July 2019, the South African Reserve Bank (SARB) formally joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The NGFS aims to help strengthen the global financial sector's response to meeting the Paris Agreement goals, including by enhancing the role of financial systems in managing risks and mobilizing capital for green and low-carbon investments. The SARB (including the PA) is also an active member of key workstreams to address climate-related supervisory practices, develop analytical climate risk frameworks and develop green taxonomies.

In 2019, the PA surveyed the domestic banking and insurance sector on its implementation of the recommendations of the TCFD. A *report* was published in April 2020 containing the results of this survey. The main conclusions drawn from the survey indicate:

- an acute awareness among financial institutions (banks and insurers) that climate change will have a significant impact on their business, although awareness is higher in the insurance sector; and
- a need for more comparable climate-related reporting to enhance the industry's understanding of climate risk to better inform business planning and strategy conversations.

The PA intends to publish a document outlining proposals to insurers and banks to consider climate risks as part of their Pillar 2 assessments. The PA will enhance its supervisory processes and activities in assessing climate risks within its overall risk assessment process for financial institutions. Furthermore, the PA recognizes the importance of introducing specific climate reporting as a component of regulatory reporting requirements.

The South African National Treasury (Ministry of Finance) recognized the importance of climate change and its effect on the financial system through its release of a draft technical paper titled *Financing a Sustainable Economy*. This paper highlights the urgency in moving to a more climate-resilient and lower-carbon economy in South Africa and has thus made recommendations to the various regulators of the financial system (i.e. including the PA) that may be important to consider.

finma
Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

11 SWITZERLAND: SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY (FINMA)

The *Swiss Financial Market Supervisory Authority* (FINMA) has been a member of the NGFS since 2019 and a member of the Sustainable Insurance Forum since March 2020.

FINMA is addressing the subject of climate-related financial risks as part of its supervisory remit. It is also reviewing regulatory approaches for improved transparency regarding climate-related financial risks by major financial institutions. The full press release is available on *FINMA's webpage*.

In its yearly *Risk Monitor 2019*, FINMA also discussed for the first time the financial risks arising from climate change as one of the most important long-term risks identified by FINMA. Further information is available in the *Dossier on green finance* published on FINMA's website.

In June 2020, the Swiss Federal Council adopted a report and guidelines on sustainability in the financial sector. FINMA welcomes the Federal Council's initiative to examine the subject of sustainability and climate risks for the financial sector in further depth. FINMA is involved in work being carried out by the federal authorities on sustainability in the financial economy and is supporting the analysis with its technical expertise.

General information regarding the Swiss Federal Council's initiative can be viewed *here*.

12 UNITED ARAB EMIRATES – DUBAI: DUBAI FINANCIAL SERVICES AUTHORITY (DFSA)

The *Dubai Financial Services Authority* (DFSA) is actively promoting the sustainability agenda and supporting the development of sustainable finance in the Dubai International Financial Centre (DIFC), Dubai and the United Arab Emirates (UAE).

DFSA joined the SIF in early 2020, while it previously contributed to the SIF work through its participation in the IAIS. DFSA is also a member of the NGFS where, as part of Workstream 1, it has contributed to the drafting of the *Guide for Supervisors: integrating climate-related and environmental risks into prudential supervision* published in May 2020. DFSA's participation in this allows it to build capacity in the area of sustainability while contributing to developing standards and bringing the regional perspective to the sustainability debate.

DFSA's domestic initiatives to support the sustainability agenda have involved working with other UAE authorities. The UAE intends to meet the challenges of climate change under the framework of the 2030 Agenda and the strategic plans of each emirate, which constitute enablers contributing towards the achievement of the Sustainable Development Goals (SDGs).

In particular, in late 2019, the *UAE Working Group* was created involving the UAE financial regulators, including the DFSA, the UAE Central Bank, the Emirates Securities and Commodities Authority, the Insurance Authority, the Financial Services Regulatory Authority of ADGM, the Ministry of Climate Change and Environment, several UAE exchanges (including Dubai Financial Market, Nasdaq Dubai and Abu Dhabi Securities Exchange) and other bodies such as the Dubai Islamic Economy Development Centre. The UAE Working Group, which collaborates with the UAE National Committee on SDGs to be aligned with the UAE's priorities set out in the 2030 Agenda, serves as a platform to discuss and further the SDGs through the financial industry.

In January 2020, following industry consultation, the UAE Working Group published the *UAE Guiding Principles*, which constitute a joint commitment of the signatories on the minimum elements of a sustainable finance framework in line with prevailing international recommendations and standards (as described in the preceding sections). The document comprises three principles, applicable to all branches of the financial services industry including insurance, which address the following areas:

- Integrating ESG factors to governance, strategy and risk management by financial firms;
- Minimum eligibility requirements for a product to be labelled sustainable; and
- Promoting appropriate ESG-related reporting and disclosures.

In addition, DFSA-regulated firms, such as HSBC and Nasdaq Dubai, alongside the Hawkamah Institute for Corporate Governance, Dubai Financial Market, Emirates NBD, DP World, DEWA, and others, created in July 2019 the 'Dubai Working Group on Sustainable Finance', which aims to embed ESG aspects into the Dubai financial sector, mainstreaming ESG risk analysis and identifying business opportunities for innovation.

13 UNITED STATES OF AMERICA: NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC)

The *National Association of Insurance Commissioners* (NAIC) recently became a member of the SIF in early 2020 and considers addressing climate risk and resilience to be a strategic priority. Shortly after joining the SIF, NAIC contributed to the *SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures*, published in February in 2020.

The NAIC has expanded the risks quantified in its Risk Based Capital Formula to include a specific charge for catastrophe risk, however, the RBC cat charge is currently only in place for hurricane and earthquake perils therefore, regulators are considering adding other perils (such as wildfire and flood) in the future as exposure modelling becomes more accurate and prevalent.

As climate-specific revisions to the *NAIC Financial Condition Examiners Handbook* were last adopted in 2013, efforts are under way to review the *Handbook* for potential further climate risk- and resilience-related revisions. Additionally, online training courses on reviewing climate risks in solvency monitoring were developed between the NAIC and CERES and made available to state regulators.

The NAIC has taken several steps to support private flood insurance market growth including adopting a *document* that provides actionable items for insurance regulators to take to grow their private flood insurance market.

Other disaster resilience activities include developing a *post-disaster claims guide* and finalizing its *state disaster response plan*.

This year, the NAIC plans to update its catastrophe modelling handbook and is drafting an Insurance Regulatory Discussion Points document, which aims to facilitate cross-learning among insurance departments by sharing the compiled responses to questions each insurance department most frequently receives related to resilience and catastrophe activities.

The NAIC website has information related to resiliency and preparedness with a *State Resilience Map* that allows users to click on a U.S. state or territory to learn what disaster resilience information is available on their insurance department website.

Relating to climate risk disclosures, the NAIC has an Insurer Climate Risk Disclosure Survey that is being administered in a multi-state initiative that includes California, Connecticut, Minnesota, New Mexico, New York, and Washington State. The *Climate Risk Disclosure Survey* webpage of the California Department of Insurance provides a central location for insurers, regulators, and members of the public to access survey information from the multi-state initiative. Survey responses are collected annually from insurers with direct written premiums over US$100 million (about 1,000 insurers representing 70% of U.S. direct written premium). Beginning with this year's reporting, insurers were asked to incorporate the TCFD guidelines when answering the survey, which should effectively align the survey with the TCFD guidelines. Those insurers who participate in the TCFD may file their TCFD responses in place of their survey responses.

OFFICE of the INSURANCE COMMISSIONER WASHINGTON STATE

14 UNITED STATES OF AMERICA – WASHINGTON STATE: OFFICE OF THE INSURANCE COMMISSIONER (OIC)

For Earth Day (April 22), OIC (Office of the Insurance Commissioner) circulated a *blogpost* containing 2 videos describing why and how OIC is involved with climate change. This blog was circulated to the entire U.S. insurance industry and all U.S. regulators, as it was included in the weekly "NAIC Newswire."

Commissioner Kreidler participated in two panels where he spoke on climate change. The first was for the Annual Conference of the modeling firm RMS (Risk Management Solutions). The second was for the non-profit advocacy group Ceres. Other panelists included U.S. Senator Sheldon Whitehouse (who chairs the climate change caucus in the Senate) and Sarah Bloom Raskin, who is a former Deputy Secretary of the U.S. Treasury and former governor of the Federal Reserve (their central bank). In both, Kreidler focused on enhancing regulatory procedures and highlighted the TCFD.

In June 2020, Insurance ERM, an international risk management organization, *named Insurance Commissioner Mike Kreidler*, an *insurance industry leader on climate change (insuranceerm.com)*. Insurance ERM named Kreidler as the only state insurance regulator in the United States among the 22 most influential in the insurance industry on climate change, recognizing his two decades of work on climate risk and insurance. His peers included international insurance leaders and others from the financial and investment industries.

CONCLUSION

We started this year looking forward to a decade of action leading up to 2030. While the global goals for the 2030 Agenda have stayed the same, the COVID-19 pandemic is now a faultline in the international development landscape. A few short months ago, the topic of conversation was how to ramp up efforts to achieve the SDGs and the Paris Agreement, and now people are wondering how they can be brought back on track.

If anything, COVID-19 has shown that it affects all countries regardless of income or stage of development. The fact of the matter is that we live in a deeply interconnected world and that the only way to deal with such global problems is to work together to find a global solution.

With more than half the people in the world in lockdown, global carbon emissions were reduced temporarily by a scarcely believable 17% according to a study published in Nature Climate Change. For many, this shows that it is fundamentally possible to tackle climate change aggressively. While it took a devastating pandemic to show what is possible, the world needs to build on these lessons and turn this temporary change into a structural one. Long-since discussed climate risks and opportunities are now being acted upon by the world's regulators and CEOs. That is progress and in many cases, it happened overnight.

The post-COVID-19 economy has to be resilient and low-carbon with sustainable finance driving the recovery but for us to 'build back better' the business case needs to be made. Initial data suggests that this is the case as evidence shows that ESG and sustainable investments have outperformed benchmarks in the crisis so far.

Going forward this decade, the goal of a 'sustainable financial system' can only be achieved if policy leadership, aggressive stimulus, market innovation, and consumer preferences all align towards the goal of a low-carbon, inclusive and socially resilient green economy. This will require us to work across every possible boundary.

During this recent period, the SIF has adapted and managed to continue its important work. As we move towards the finalization of a 2021-2023 SIF programme of work, current and future SIF activities will continue to underpin national and global efforts in tackling climate change while simultaneously working to achieve the SDGs and the goals of the Paris Agreement.

Going forward this decade, the goal of a 'sustainable financial system' can only be achieved if policy leadership, aggressive stimulus, market innovation, and consumer preferences all align towards the goal of a low-carbon, inclusive and socially resilient green economy. This will require us to work across every possible boundary.

Annex 1: SIF Members and Partners

AS OF JULY 2020, THE SIF HAS 30 JURISDICTIONS AS MEMBERS

MEMBERS

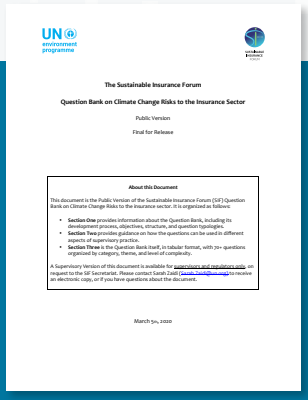
As of July 2020, the SIF has 30 jurisdictions as members:

1. Argentina: *Superintendencia de Seguros de la Nación* (SSN)
2. Australia: *Australian Prudential Regulation Authority* (APRA)
3. Belgium: *National Bank of Belgium* (NBB)
4. Bermuda: *Bermuda Monetary Authority* (BMA)
5. Brazil: *Superintendência de Seguros Privados* (SUSEP)
6. Canada: *Office of the Superintendent of Financial Institutions* (OSFI)
7. Costa Rica: *Superintendencia General de Seguros de Costa Rica* (SUGESE)
8. Egypt: *Financial Regulatory Authority* (FRA)
9. European Union: *European Insurance and Occupational Pensions Authority* (EIOPA)
10. Finland: *Finnish Financial Supervisory Authority* (FIN-FSA)
11. France: *Autorité de Contrôle Prudentiel et de Résolution* (ACPR)
12. Germany: *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin)
13. Ghana: *National Insurance Commission* (NIC)
14. Guernsey: *Guernsey Financial Services Commission* (GFSC)
15. Ireland: *Central Bank of Ireland* (CBI)
16. Italy: *Istituto per la Vigilanza Sulle Assicurazioni* (IVASS)
17. Japan: *Financial Services Agency* (JFSA)
18. Morocco: *Autorité de Contrôle des Assurances et de la Prévoyance Sociale* (ACAPS)
19. Netherlands: *De Nederlandsche Bank* (DNB)
20. New Zealand: *Reserve Bank of New Zealand* (RBNZ)
21. Singapore: *Monetary Authority of Singapore* (MAS)
22. South Africa: *Prudential Authority* (PA)
23. Sweden: *Finansinspektionen* (FI)
24. Switzerland: *Swiss Financial Market Supervisory Authority* (FINMA)
25. United Arab Emirates – Dubai: *Dubai Financial Services Authority* (DFSA)
26. United Kingdom: *Bank of England Prudential Regulation Authority*
27. United States of America: *National Association of Insurance Commissioners* (NAIC)
28. United States of America – California: *California Department of Insurance* (CDI)
29. United States of America – New York State: *New York Department of Financial Services* (NY-DFS)
30. United States of America – Washington State: *Office of the Insurance Commissioner* (OIC)

PARTNER INSTITUTIONS

1. *Access to Insurance Initiative* (A2ii)
2. *Financial Stability Institute – Bank for International Settlements* (FSI)
3. *International Association of Insurance Supervisors* (IAIS)
4. *International Monetary Fund* (IMF)
5. *Network for Greening the Financial System* (NGFS) – SIF is an observer.
6. *United Nations Development Programme* (UNDP)
7. *UNEP FI Principles for Sustainable Insurance* (PSI)

Annex 2: Selected SIF Resources 2020


UN environment programme

The Sustainable Insurance Forum

Question Bank on Climate Change Risks to the Insurance Sector

Public Version

Final for Release

About this Document

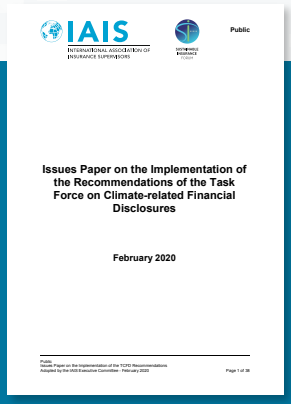
This document is the Public Version of the Sustainable Insurance Forum (SIF) Question Bank on Climate Change Risks to the Insurance sector. It is organized as follows:

- **Section One** provides information about the Question Bank, including its development process, objectives, structure, and question typologies.
- **Section Two** provides guidance on how the questions can be used in different aspects of supervisory practice.
- **Section Three** is the Question Bank itself, in tabular format, with 70+ questions organized by category, theme, and level of complexity.

A Supervisory Version of this document is available for supervisors and regulators only; on request to the SIF Secretariat. Please contact Sarah Zaidi (sarah.zaidi@un.org) to receive an electronic copy, or if you have questions about the document.

March 5th, 2020

SIF Question Bank on Climate Change Risks to the Insurance Sector


IAIS INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Public

Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures

February 2020

Public
Issues Paper on the Implementation of the TCFD Recommendations
Adopted by the IAIS Executive Committee - February 2020

Page 1 of 38

SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures

SIF and IAIS co-hosted webinar on climate-related risks in the insurance sector

UN environment programme

Inquiry: Design of a Sustainable Financial System

FINANCE SECTOR HUB

SUSTAINABLE INSURANCE FORUM

International Environment House
Chemin des Anémones 11-13
Geneva, Switzerland
Telephone: +41 7985 42119
Email: *Sarah.Zaidi@un.org*
Website: *www.sustainableinsuranceforum.org*