



**Insurance Ireland response to the Consultation Paper 151 on Guidance for  
(Re)Insurance Undertakings on Climate Change Risk**

**October 2022**

Insurance Ireland represent companies operating in the Irish market and internationally, making Insurance Ireland a strong leadership voice for the sector. Insurance Ireland members provide competitive and sustainable products and services to customers and businesses across the Life and Pensions, General, Health, Reinsurance and Captive sectors in Ireland and across the globe. In Ireland, our members pay more than €13bn in claims annually and safeguard the financial future of customers through €112.3bn of life and pensions savings.

Our members contribute €1.6bn annually to the Irish Exchequer and the sector employs 35,000 people in high skilled careers. The role of Insurance Ireland is to advocate on behalf of our members with policymakers and regulators in Ireland, Europe and Internationally; to promote the value that our members create for individuals, the economy and wider society; and to help customers understand insurance products and services so that they can make informed choices. Insurance Ireland represents over 130 member firms serving 25m customers in Ireland and globally across 110 countries, including 24 EU Member States, providing protection peace of mind to individuals, households, and businesses, and providing a firm foundation for the success of the Irish economy and wider society.

**General Comments**

Insurance Ireland welcomes the opportunity to provide feedback on the Consultation Paper on Guidance for (Re)Insurance Undertakings on Climate Change Risk and the CBI commitment to engage with financial industry's stakeholders in addressing sustainability and climate-related challenges.

We acknowledge the fact that climate change features as a strategic priority under the new CBI Strategy 2022-2026 and welcome the CBI decision and efforts to develop a Guidance for (Re)Insurance Undertakings on Climate Change Risk, which is a new area both for the regulator and the regulated entities. We note that the proposed Guidance does not introduce any new requirements on (Re)insurers in respect of climate change risk and that the Central Bank is aiming to clarify its compliance expectations with the existing Solvency II prudential requirements relevant to climate change risk. However it should also be acknowledged that by clarifying expectations in this area some changes will be needed for firms in terms of how these expectations are met.

We further acknowledge the urgency to take action to assess and mitigate climate change risks, the importance for the financial system/institutions to be resilient to those risks, and the economic, social and environmental implications of failing to timely address and manage climate-related risks. As evidenced by recent reports of different agencies and noted by the CBI, climate change is no longer considered as an 'emerging risk' and is already having an impact on the insurance sector globally. Climate change risks vary by country and location, so the risk for climate change and associated scenario planning in Ireland should take account of expert advice on the probability and likelihood of these events happening in specific locations. Firms should still have the authority to decide if climate change is an explicit key risk for them and how it is reflected within its risk management system.

Climate change risks and the materiality of these will differ between the life and pension sector, the general insurance sector and indeed the reinsurance and captive sector. There will be further differences in appetite and approach between large firms, medium-sized firms and small firms. This will be most evident in reserving and capital provisions, as climate change more directly affects the General insurance Sector than the Life and Pensions sector, where there is more exposure to physical environment rather than indirect investment. It is positive that the regulator's expectations will vary by reference to the nature, scale, and complexity of the (Re)insurer, including the materiality of the (Re)insurers exposure to climate change risk. This is particularly important for firms in run-off for example, as the risks for these types of firms compared to larger (Re)insurance firms are very different. Therefore, the industry welcomes the fact that the Central Bank has embedded the principle of proportionality in the proposed Guidance, as firms must assess its own risks rather than following an industry-led definition.

It should be noted that it is not the responsibility of the (Re)insurance industry alone to lead change in responding to climate change. This leadership is required at a national and EU level

to derive the change(s) needed. The (Re)insurance sector will not prevent social and environmental risks and costs. This will be as a result of society's failure to act as a whole. It would be helpful to see the CBI acknowledge this in the feedback..

The ability of firms to apply the guidance but also deviate from it where necessary, as long as it produces a similar outcome, is also welcomed as insurance firms work through the various ways of integrating these risks into the organisation's risk management frameworks.

Insurance Ireland and its members also appreciate the visual presentation of the proposed approach to the assessment and ongoing management of a (Re)insurer's exposure to climate change risk provided by the Central Bank in the form of an infographic. In our recent engagements with members on the proposed Guidance, firms noted that the infographic will be a very useful tool in the guidance implementation process.

Finally, as the regulator has noted in the Consultation Paper, there is a willingness from the insurance industry to fully engage in climate change risk planning and management, however the lack of clear expectations on firms does mean that there is a lot of uncertainty about how to do this with any level of comfort in the outputs, and the proposed Guidance is a good start to mitigating that. However, it is vital that the CBI regularly publishes updates to the Guidance as the approach to supervision in this area progresses. This may be done through thematic updates to the Feedback Statement for example. This should pay particular attention to the effectiveness and relevance of the climate change risk guidance.

## **Part A: Introduction**

### *Key risk*

The expectation of climate change being a key risk for all firms is at odds with the principle that firms should conduct their own assessments of risks including climate change risk as part of the ORSA process. Emerging risks can also be considered as evolving risks, under which climate change would fit. In addition, while it may not be an explicit key risk, many firms would already consider climate change and other sustainability issues both within and across a number of key risks (underwriting, operational, strategic and reputational). Firms should still have the authority to decide if climate change is an explicit key risk for them and how it is reflected within the risk management system.

### *Double Materiality*

On the concept of double materiality, it would be helpful if the Central Bank could provide some further insights on possible future expectations. Methods for quantifying the impact of

insurance activities on climate change are currently in their infancy, and it would help to inform planning to know that expectations on double materiality will only be formulated at a later stage, e.g. informed by the EU Corporate Sustainability Reporting Directive, and aligned with the scope of applicability and timeline of implementation of that Directive.

#### *Time horizons*

In terms of the proposed time horizons for assessment of exposure to climate change risk, it might be worth explaining in more detail what is the rationale behind the selected short, medium and long term horizons and why they go beyond most current business planning horizons or the time horizons currently considered by undertakings in their ORSA. The guidance suggests insurers need to consider the impact of climate change over a period up to 80-100 years into the future. Accordingly, we would like to note that the 'funnel of doubt' with any forward projection increases drastically with time - and there is no credible way of translating climate change over a 100 year horizon into a relevant business consideration. Also, many firms may not be around in 100 years, therefore, it diverts resources from more meaningful work.

In addition, the longer-term risks should only be treated within the ORSA report when scenarios and analyses show evidence that they could materialize over the strategic plan horizon.

#### *Group engagement*

As Insurance Ireland has frequently noted in its interactions with the Central Bank, for those Irish-based firms who are part of larger groups, there will be Group-wide frameworks in place and the relevant firms must adhere to these while meeting local regulatory requirements. This supports climate change risk mitigation and oversight in the local entity, as it has a framework that can be leveraged. Similarly, most of the actions taken by a (Re)insurer may be driven by Group policies and therefore the local entity needs to be able to fit into this structure in order to maximise efficiencies across the Group. We therefore support the approach taken by the regulator in the paper that firms can leverage the activity taken at Group level, particularly as the underlying regulation is derived from the Solvency II provisions, which should ensure that a consistent approach is taken across the EU in managing climate change risks and in supervising same.

## **Part B: Guidance**

### *Governance*

It is our understanding from our discussion with the CBI on the draft guidance that insurance firms will be expected to take a cross-firm approach to the consideration of climate change and associated risks. A proportionate approach would ensure that the climate change risks are appropriately captured in relevant risk limits.

We note from previous speeches by CBI senior management that ESG will form part of the senior management responsibilities and we envision seeing more details on this in the forthcoming Individual Accountability Framework consultation.

It should be noted that some of our members already have a number of senior management individuals involved in ESG considerations across a variety of internal functions and this is key for the firm-wide integration of ESG into business planning and strategies.

### *Materiality assessment*

The proposed guidance refers to the definition of materiality provided in EIOPA's '*Opinion on the supervision of the use of climate change risk scenarios in the ORSA*'<sup>1</sup> which is very vague. Accordingly, it would be helpful for firms to have further clarity on what CBI considers as 'material' in the context of climate change risk exposures and on CBI expectations as the supervisory approach evolves. In addition, it is worth noting that the question of materiality will be firm specific, so the Guidance might recognise this and allow sufficient scope for firms to address this question in a manner suitable for the firm.

In the context of materiality assessments, Insurance Ireland's members also expressed concerns about the challenges for actuaries, and indeed other insurance professionals, in undertaking quantitative assessments as they are not climate experts. Further issues in the implementation of the guidance might arise from the lack of available data or the different interpretations of existing data by different firms. Last but not least, the potential outcome of climate change is subject to enormous uncertainty and so any quantitative assessment, made by anyone, will be subject to huge uncertainty.

In this regard, for the avoidance of doubt, the CBI could advise which publicly available climate change scenarios, i.e. which Representative Concentration Pathway (RCP), should be used as a baseline. It is not clear if companies can use the least severe scenario without justification.

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<sup>1</sup> [https://www.eiopa.europa.eu/media/news/eiopa-issues-opinion-supervision-of-use-of-climate-change-risk-scenarios-orsa\\_en](https://www.eiopa.europa.eu/media/news/eiopa-issues-opinion-supervision-of-use-of-climate-change-risk-scenarios-orsa_en)

From a guidance perspective and considering the divergent levels of understanding, managing and mitigating of climate change risk among firms, it would be important for firms to understand the different types of climate change risks (physical and transition) to which they are or would be potentially exposed. Accordingly, provision of more detailed and comprehensive definitions of physical and transition risks in the Guidance would assist firms' understanding related to same.

Further clarity on the CBI's expectations regarding the role of the ORSA/alternative approaches to climate risk considerations would be welcomed as they are closely related to firms' operational resilience and could have a significant impact on firms' strategy, business model and risk profile. We believe it is important to recognize a flexible approach on how ORSAs address climate change. The ORSA should not be the repository for all risks that might possibly be relevant for any insurance firm, given the huge diversity of firms, as it presents the firms' 'Own Risk' assessment after all.

#### *Risk Appetite Statements*

On the expectations of the proposed Guidance for quantified metrics on climate in Risk Appetite Statements (RAS), we have the following observations:

- the discrepancies between time horizons traditionally considered for Risk Appetite Statements, included in the Corporate Governance Requirements for Insurance Undertakings and the expectation to define climate RAS metrics over short (5-10 years), medium (30 years) and long-term (80 years) time horizons
- with the uncertainty and methods limitations that could be associated with quantified RAS metrics for such long-term time horizons, there are questions around the value and potential unintended consequences of integrating them in RAS actionable tools and decision-making processes. It may be appropriate in some circumstances for firms to use assumptions overall, even with limitations for a number of reasons, once this is clearly documented
- finally, to clarify that rather than an immediate expectation, it is for future consideration, subject to insurance's firms' individual assessment of the relevant approach and time horizon to consider, informed by the outputs of climate scenarios, as methodologies and data quality develops, and existing risk appetites.

#### *Other*

From a user experience perspective, we would like to suggest the insertion of relevant parts from EIOPA's guidance documents in the text of the proposed Guidance instead of providing only reference to those documents.

Furthermore, in some instances the text included in the summary boxes following every section of the Guidance is more detailed than the section itself (see for example *Box 3 or Box 5*) which creates confusion for the reader/user and needs to be reviewed.

## **Conclusion**

While acknowledging the challenge to strike the right balance between flexibility of what firms are expected to deliver in terms of assessing, managing and mitigating climate change risk and avoiding a too prescriptive regulatory approach, our members would appreciate if the Central Bank provides some more examples of quantitative parameters that could be used in climate change-related scenarios and further clarity on its expectations as the supervisory approach evolves over time.

Insurance Ireland would like to underline the importance of regular engagement with and feedback by the regulator on what its expectations are in the area of climate change risk management and mitigation. As the CBI has noted, both in this paper and through the stakeholder forum, approaches to climate change risk management and mitigation is an iterative and evolving process. It is vital, therefore, that the CBI continues to share feedback with the sector on an ongoing basis as the regulatory supervision continues and does not treat this as a 'one-off' feedback opportunity.

Finally, while we, together with our members, welcome the CBI consultation in this area, we feel that the CBI have issued a lot of guidance notes over the past 12 months and that this is putting enormous strain on firms' resources. And whilst all areas covered are valid, we would like to underline the fact that no business has unlimited resources. An ever-increasing regulatory burden means that less resources are available for insurance firms to develop innovative products and services for consumers and policyholders, so it is vital that any regulatory initiative serves to mitigate real and present risks to consumers and policyholders and / or the integrity of the financial system. And, as noted above, while 'guidance' technically does not introduce new regulatory rules, the clarifications in any regulatory guidance inevitably means changes to firms processes, practices and procedures and the impact on firms should not be discounted.

**ENDS**