CP - 151

Guidance for (Re)insurance Undertakings on Climate Change Risk

Irish Life and Canada Life Companies Submission

October 2022

INTRODUCTION

ABOUT IRISH LIFE AND CANADA LIFE

Canada Life was founded as Canada´s first life insurance company in 1847. It has now grown into one of the world´s largest and most financially secure providers of life insurance. Since 2003, Canada Life has been a part of Great-West Lifeco Inc., one of the leading financial service providers in Canada. Great-West Lifeco Inc. cares for more than 28 million clients around the world.

Irish Life empowers its customers to look to the future with more confidence and certainty. We manage the financial needs of more than 1.3 million Irish customers. We think ahead to find opportunities and anticipate challenges to help deliver more security and certainty for their futures. We have over 75 years' experience serving corporate and private customers in Ireland. So we pride ourselves on having a deep understanding of our customers' needs, interests and concerns for themselves and their families.

Irish Life Group (ILG) includes inter alia Irish Life Assurance and Irish Life Health as well as its associated companies Irish Life Investment Managers and Setanta Asset Management. We currently have 2,400 people working at our campuses in Dublin and Dundalk, and we continue to grow.

Canada Life Assurance Europe plc has been operating in Germany since the year 2000 and is regulated by the Central Bank of Ireland and regulated by the German regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) for business conduct purposes.

Canada Life International Assurance (Ireland) dac sells unit-linked life assurance and capital redemption bonds to UK residents through UK independent regulated intermediary channels.

Canada Life Re Ireland dac forms part of the Reinsurance Division of Great West Lifeco. The primary focus of the Reinsurance Division is on life and non-life reinsurance business in Europe and the United States.

EXECUTIVE SUMMARY

Irish Life Group and the Canada Life companies welcome the opportunity to share its views in relation to the Guidance for (Re)insurance Undertakings on Climate Change Risk.

The Irish Life Group companies and the Canada Life companies based in Ireland make up one of the largest and most diverse financial services groups in Ireland. The companies are focussed on providing a wide range of investment, reinsurance, protection and health insurance products to a diverse range of customers. As such, we actively seek opportunities to ensure better outcomes for our customers through meeting their needs in a cost efficient, flexible and timely manner.

Submission

The Irish Life Group companies and the Canada Life companies welcome the ‘Open and Engaged’ spirit of the consultation which has been issued. The topic of climate change, and the wider question of sustainability, is of paramount important to us and one we are passionate about as a business.

We agree that (re)insurers have the opportunity to be leaders, supporting broader society in the transition to a climate neutral economy. We recognise that this will be an iterative approach and are committed to up-skilling in this area. As a Group which includes a number of cross-border providers, we would encourage the harmonisation of guidance and taxonomies with respect to climate change risk across the EU and indeed across the world. This is fundamentally important to insure clarity for both firms and customers.

Climate-related risks and sustainability risks are transversal risks manifesting in both financial risks (market, credit, insurance) as well as non-financial risks (operational, conduct, strategic). While climate-related and sustainability risks are not necessarily stand-alone risk types, it may be appropriate to recognize these risks separately within the risk taxonomy. However, the processes for managing climate-related and sustainability risks should be part of the overall risk management framework, similar to the processes for managing other risks and do not need to be called out separately.

We welcome the references to proportionality within the document and the acknowledgement that firms may achieve the stated objective through means other than those set out in the document.

However, we do not agree with the statement (paragraph 2.2) that the Guidance does not introduce additional costs for the industry. We feel that the Central Bank should recognise that new Guidance or legislation always has a cost. There has been numerous Guidance issued in the recent past by the Central Bank, all of which has accumulative effect on costs and resources which needs to be considered. At best, this will be an opportunity cost whereby management must devote time to engage with the Guidance and, even if a firm does not have material exposure, there is pressure to ‘comply or explain’ (reference Box 2, paragraphs e and f). Thus, a firm must devote resource and senior management and Board time to evidence exposures and considerations, even if not material. No matter how large a firm is, resources are finite and this will inevitably lead to some trade-off with the achievement of other objectives.

There are elements of the paper which appear to be suggesting specific actions be taken by (re)insurers. Whilst these are generally aligned with our own plans, we would ask if these should be enshrined within regulatory guidance. For example, 'net zero' / 'net-zero' is mentioned six times in the document, and paragraph 63 seems to imply an expectation that all firms will set such a target. Our business does intend to publicly commit to a net-zero target, but nevertheless we feel this should be left as a matter for each firm to decide rather than being established within regulatory guidance. Similarly, paragraph 63 seems to imply an expectation that firms will develop sustainable focused products. Again, we feel this is an area that must rest with individual firms. Paragraph 1.5 seems to be critical of the fact that two thirds of firms have not reflected climate change factors in their pricing. Firms must have scope to determine what risks are considered material in relation to their product pricing and how the risk timing aligns with the pricing time horizon. It may not be appropriate to reflect long term risks in pricing for short term products so conclusions should not be drawn from the current position.

Paragraphs 27 – 31 set out the expectations vis-à-vis the Board on climate related risks. While we would agree that the Board has ultimate authority over all matters within the business, it is notable that a lot of recent guidance has set out increasing specific requirements for Boards. The role of the Board is for oversight and setting strategy - if increasingly they are forced to review more and more individual items there is a danger that they start to move into the role of executive management. The Board needs discretion to focus its attention on the key areas of the business from a regulatory and commercial perspective, to have increasingly more prescriptive agendas set through guidance may not be optimal. As previously stated, climate risk should rest within the general risk governance framework and should fall within the normal Committee and Board oversight structures.

Similarly for remuneration, we noted the Sustainable Finance Disclosure Regulation (SFDR) requirements vis-à-vis the integration of sustainability risks into the remuneration policy and the requirements vis-à-vis the Solvency II amendment. However, we are of the view that the prescriptive nature of the requirements set out in paragraph 33 go beyond the two regulatory requirements set out above. We would have a similar concern that the expectations set within the Guidance go beyond current regulatory requirements and has the potential to layer requirements in a way that factures the discretion of the Company due to the number of smaller requirements being prescribed.

Box 2, paragraph a, states that a firm must develop a 'baseline climate change scenario'. Box 3 also refers to this baseline scenario, but additionally refers to a range of scenarios. It is not clear to us what a 'baseline' scenario should be in this context. In particular, firms will already have a 'best estimate' scenario to inform their business planning cycle. This will typically be the 'baseline' that risks are evaluated against and will take account of the firm's view of all material items and their expected future outcomes. We do not see the value in introducing a requirement that firms must further develop a second baseline scenario specific to climate change. Rather, we feel that adverse climate change developments (in excess of those already recognised and 'priced in' by the 'market') should solely be considered within scenario analysis.

Paragraph 82 states that (re)insurers are encouraged to try to influence the activities of those they underwrite. We agree with this statement, but only in relation to very specific activities. For many forms of insurance, e.g. death in service benefits for employees, it would not be appropriate for a (re)insurer to do so. We feel this statement should be removed or further clarified in the document.

Paragraph 12 refers to evaluating risks over an 80 year time horizon. Whilst the document also notes that any such analysis will likely be exploratory, we would question the value in any such analysis for the large majority, possibly all, firms. Analysis over such a time horizon will be subject to such a funnel of doubt as to render it largely meaningless, and it is questionable how any such analysis could be an effective use of finite resources and management time. Also with such a long time frame it will not align to any other business or strategic decision making which is made over much shorter time horizons, and is in danger due to its lengthiness of lacking buy-in from stakeholders.

Questions to stakeholders In addition to general feedback on the Guidance, the Central Bank would like feedback on the following overarching questions:

1. Are there any elements of the materiality assessment, or scenario analysis that stakeholders would like further clarity on and if so please specify which elements?

As noted in our introductory remarks, we do not understand the rational for requiring all firms to develop a 'baseline' climate change scenario standalone from its baseline business scenario. We would welcome additional detail on the application of proportionality in terms of the materiality assessments and the "sufficient detail" expected.

2. Are there any other elements of the Guidance, or terms used, that stakeholders would like further clarity on, including the proposed infographic?

Please see introductory remarks.

We would welcome additional guidance on how to approach modelling the long-term time horizons of up to 80 years, including projecting new business volumes and setting experience assumptions. And guidance on how the output of long-term scenarios might be used when setting strategy, risk appetite, underwriting and operational resilience planning.

3. Are there any items not mentioned in the Guidance that stakeholders think should be included, and if so please specify?

No

Conclusion

The Irish Life and Canada Life companies would welcome the opportunity to meet with the Central Bank to discuss any of the matters set out above. Irish Life and Canada Life companies recognise the serious challenges being faced by the planet to address climate change and the key role that financial institutions have in facilitating a smooth transition.