access to insurance initiative

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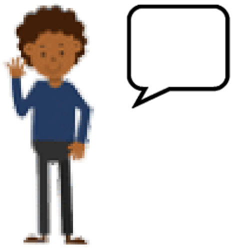

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access to insurance initiative

Climate-related Financial Disclosure and Implications for Supervisors - Supervisory Dialogue

27 January 2022

Dialogues

Housekeeping Rules

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- Please MUTE yourself whilst you are not speaking
- Please use the CHAT function to ask questions
- "RAISE HAND" when wishing to speak or ask a question
- For any technical issues, contact A2ii Secretariat via the chat function or via e-mail at (dialogues@a2ii.org)

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Enter the event code:
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Introduzca el código del evento:
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Hosted by UNDP

UN-CONVENED SUSTAINABLE INSURANCE FORUM (SIF)

Climate-related Financial Disclosure and Implications for Supervisors
William Harding

Thursday, 27th January 2022

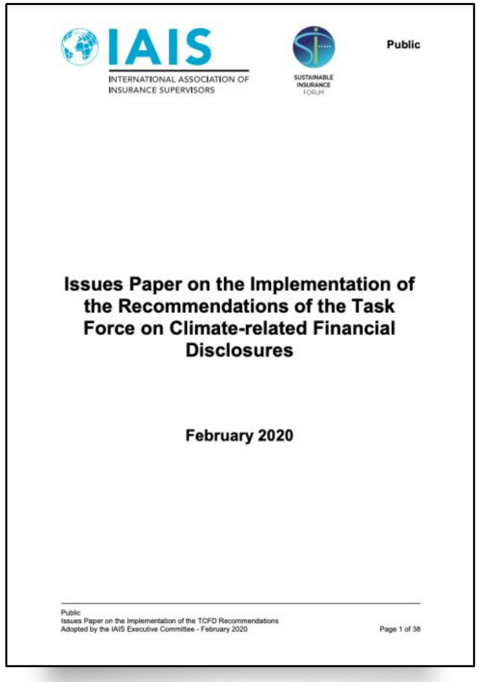
SUSTAINABLE INSURANCE FORUM (SIF)

sustainable insurance forum

Hosted by UNDP

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

- Published in February 2020
- SIF worked with IAIS Secretariat to develop Issues Paper with insights from SIF members and survey of industry administered by supervisory authorities
- Organised into five main sections, plus one annex
  - Introduction
  - Climate Risk and Insurance Supervision: Relevance of the TCFD Framework
  - Assessing TCFD Implementation and Climate Risk Disclosure in the insurance industry
  - The Role of Supervisors
  - Conclusion
  - Annex: The Role of Supervisors: Case studies


IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

SUSTAINABLE INSURANCE FORUM

Public

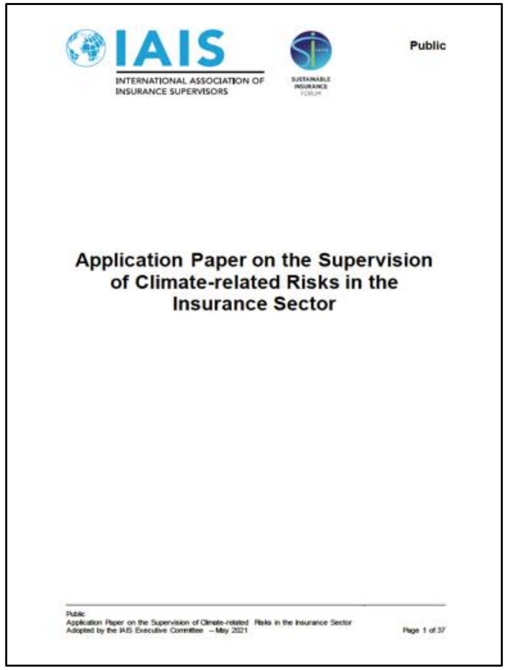
Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures

February 2020

Public
Issues Paper on the Implementation of the TCFD Recommendations
Adopted by the IAIS Executive Committee - February 2020
Page 1 of 38

TCFD and insurance supervision

- Insurance companies have a key role to play in driving climate resilience through **risk transfer, investment and risk intelligence**. Public disclosure supports this role, and further informs other stakeholders.
- **IAIS ICP 20 (Public Disclosure)** includes Standards for supervisors to require insurers to disclose information on a number of areas.
- **SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector (2021)** provides:
  - Material risks associated with climate change should be disclosed by insurers.
  - Insurers should incorporate in their disclosure the extent to which their risk profile exposes them to the impacts of climate-related risks, as well as any metrics or targets developed by the insurer.
  - Supervisors may also use the TCFD Framework when designing best practices or as input for setting their own supervisory objectives.



IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Public

Application Paper on the Supervision of Climate-related Risks in the Insurance Sector

Public
Application Paper on the Supervision of Climate-related Risks in the Insurance Sector
Adopted by the IAIS Executive Committee – May 2021

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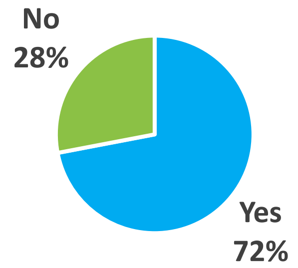
Assessing TCFD implementation

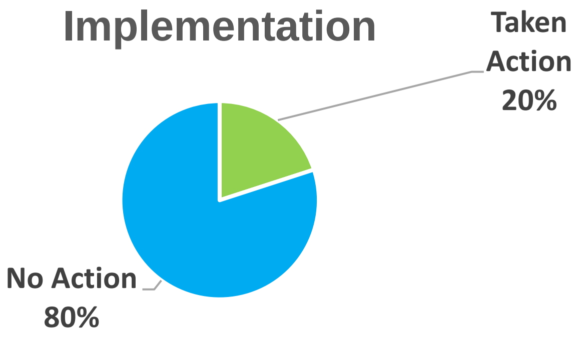
SIF 2019 TCFD SURVEY

- Data collected from 1,170 individual insurers across 15 jurisdictions.
- Nearly three-quarter of insurers that responded to the survey (72%) expect that climate change **will affect their business**.
- 76% reported that they **already disclose** information relevant to climate change impacts (significant differences across jurisdictions).
- Between 15-20% of insurers have made plans to, or are already taking steps to, **implement the TCFD** Recommendations and to deliver TCFD aligned disclosures.

Expectation of climate change impact



Current & Planned TCFD Implementation



Implementation by insurance industry

2020 Issues Paper highlights good practices from industry

- Governance
  - Insurers often begin with governance and strategy pillars of TCFD Recommendations to support complex future work (e.g. risk management changes, metrics and targets and scenario analysis)
- Engaging across the value chain
  - All stakeholders increasingly seeking climate risk information
  - Leveraging modelling expertise to explore exposure of investments
  - Insurers can influence better disclosures from investee firms and policyholders to inform their own risk exposures and build resilience
- Strengthening climate risk assessment capacities
  - Often working with third party providers, but need to balance internal capacity building

Recent implementation of TCFD

Implementation Of TCFD Recommendations By Insurance Supervisors And Regulators (2021)

- Outlines recent supervisory practices through survey of SIF members, at COP26
- TCFD Status Report 2021:
  - Over 2,600 supporters globally, including 1,069 financial institutions, responsible for assets of US$ 194 trillion
  - Insurance industry significantly increased average level of disclosure between 2019 and 2020
  - More than 120 regulators and governmental entities officially support the TCFD

- FSB Report on Promoting Climate-Related Disclosures (2021): showed strong focus on disclosures with a variety of approaches from regulators between voluntary and mandatory regimes
- IFRS Foundation new International Sustainability Standards Board (ISSB) to develop global standards

Case studies of TCFD implementation

JAPAN

- TCFD Consortium of Japan published several guides on TCFD-based disclosures both from an enterprise and investor perspective
- JFSA Expert Panel supporting IFRS process
- JFSA working group to engage stakeholders
- More than 500 Japanese enterprises supporting TCFD

SINGAPORE

- Singapore Green Plan 2030 to achieve net-zero emissions
- MAS guidance to all FIs
- SGX roadmap to mandatory climate disclosures, with TCFD as framework
- Green Finance Industry Taskforce

UK

- Guidance in Supervisory Statement 3/19 – assessing compliance
- TCFD Taskforce: Sustainability Disclosure Requirements
- Will institute mandatory TCFD-aligned reporting

USA

- NAIC Insurer Climate Risk Disclosure Survey implemented in 2010
- Now accepting TCFD reports in lieu of survey
- NAIC Executive Climate and Resilience Task Force to further promote uniform reporting and TCFD alignment

The role for supervisors

IAIS and SIF papers highlight a range of approaches

- **Ensuring climate risks are consider by all insurers**: Many supervisors have tools in place to enable oversight over all material risks, and there is now broad recognition that climate change may pose material risks. Therefore, existing tools are relevant and appropriate.
- **Clarifying the relevance of TCFD to supervisory expectations**: including through reference in statements & market signalling.
- **Setting expectations to encourage TCFD-relevant practices**: Supervisors can consider setting expectations to influence how insurers develop strategic responses to climate risks, taking the TCFD Framework as an example.
- **Checking for coherence with other disclosure requirements**: Supervisors can consider any potential conflicts that may arise from disclosure of climate risk information with broader public disclosure rules, including requirements on timely release of information.

The role for supervisors (cont.)

- **Assessing coherence in climate risk disclosures within groups**: consider ways to integrate climate risks more routinely into group supervisory processes, including supervisory colleges.
- **Providing standardised guidance to support TCFD-related activities**: Supervisors may want to work with experts, both within and outside the industry, to provide guidance (e.g. on developing appropriate scenarios).
- **Referencing TCFD as component of mandatory climate risk disclosures**: Supervisors can consider a range of options to support mandatory climate risk reporting, including phased compliance periods, a step-by-step approach to ratcheting up the quality of disclosures, and providing clear expectations on desired focus areas.
- **Explore new engagement models to support voluntary practice development**: Supervisors can establish new platforms to engage with industry on climate risk disclosure to raise awareness & encourage development of voluntary practices.

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27TH JANUARY 2022

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UKaid from the British people

Climate-related Financial Disclosure and Implications for Supervisors

Elias Omondi
Senior Manager – Risk Regulations

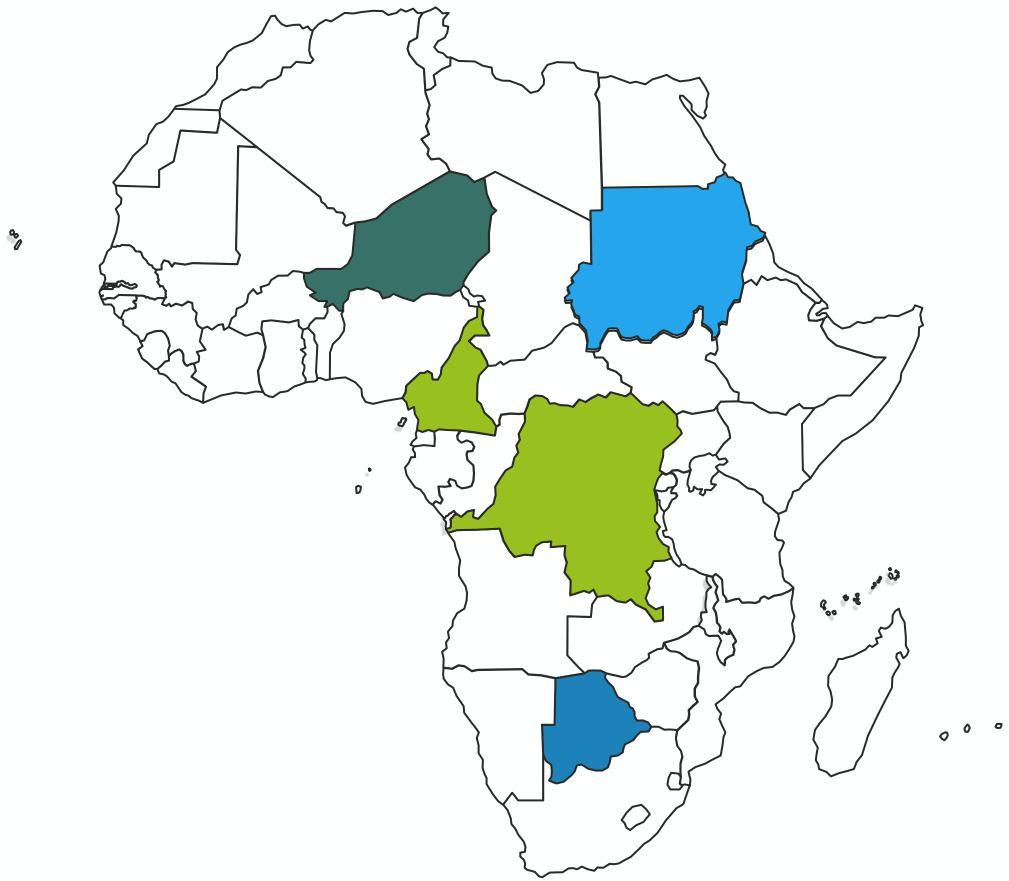
ESG Integration in Kenya, Ghana and Nigeria

AGENDA

- Africa’s Vulnerability
- Climate Financing
- The Role of Financial Sector
- Green Finance
- FSD Africa Support
- ESG Project in Ghana, Kenya and Nigeria
- ESG Project Outcomes

Africa is in a perilous climate position

- Africa's **contribution to global emissions is minimal**, yet economic and geographic factors make it the **most climate vulnerable continent**
  - 30 of the world's 40 most climate vulnerable countries are in SSA
  - GDP of African nations is very exposed to extreme climate patterns
  - Africa's GDP could be down by up to 30% by 2050
  - Some countries are already incurring losses up to 10% of their GDP
  - 23% of Africa's GDP is dependent on nature
- But - currently only 3% of global green finance goes to Africa!



Climate financing

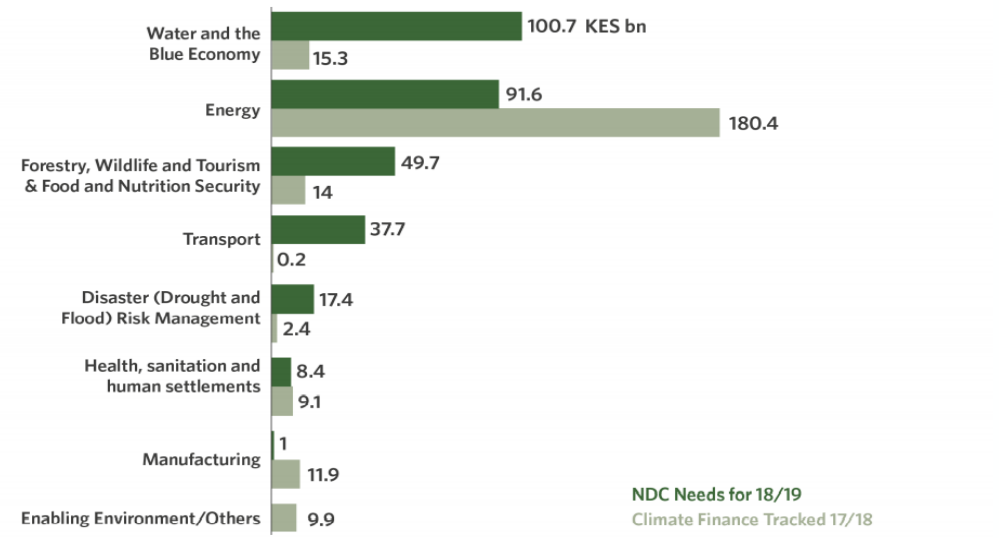
Africa's share of global climate financing is far too low

- CPI: in 2017/18, $546 billion was invested in combatting climate change, **inadequate** compared to the estimated $1.6-3.8 trillion needed annually to achieve the low-carbon transition.
- Africa's need is greatest in **adaptation financing** but only 7% of climate finance globally is directed towards adaptation
- Almost **all adaptation financing is funded out of public sources** and cash-strapped African governments don't have enough money to do this

There is a need to direct capital to underinvested sectors and use subsidy to create opportunities for private investors

- African governments have signed up to ambitious NDCs which point to a huge financing gap which they hope the private sector can fill. But public spending is not being efficiently leveraged.
- Investment patterns are heavily skewed to renewable energy In 2018, Kenya's renewable energy sector attracted 150% of the country's NDC needs for that year.

Figure 7: Investment gap with NDC priority actions (taken from the NCCAP 2018-2022)



Financial Sector Role

- The financial sector as capital and risk managers have a vital role to play in driving:

1. **Climate change mitigation and adaptation**

2. **Transition to a nature-positive future**

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Why an increased emphasis on green finance makes sense

Despite its climate vulnerability, Africa's green response has been slow. It has **massive financing and technical needs**

- Most countries have **inadequate policy and regulatory frameworks** for green finance, compounding already existing challenges in long term finance. As such, green bonds have been slow to take off.
- "More than half of African countries **have had problems mobilising international and national climate finance** and less than a quarter of the countries have a financing strategy in place"[1]
- **Skills gaps** in both public and private sector mean that the opportunities that exist may be lost
- There are **only 19 Direct Access Entities in Africa** accredited by the Green Climate Fund, hampering Africa's access to GCF funding

[1] Afribarometer, Sept 2019

FSD Africa facilitating the market from the bottom up

Awareness raising

Raising awareness and enhancing market transparency on climate and environmental challenges, opportunities and risks across African investors, financial institutions and regulators.

Leadership and governance

Building leadership and governance cultures among investors, financial institutions and regulators that facilitate the changes needed to achieve green finance outcomes.

Innovation

Providing the tools and thought leadership for encouraging innovative thinking in creating green transactions and supporting innovative green finance policy.

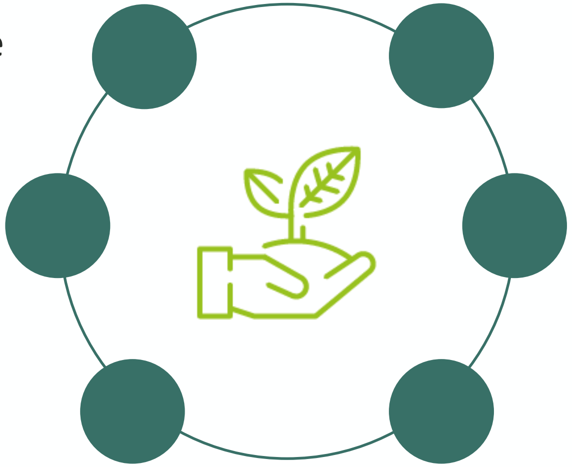
Skills and capacity building

Growing the skills and competencies needed by investors, financial institutions and regulators needed to deliver green finance outcomes (including by learning through doing).

ESG integration by insurance regulators in Kenya, Nigeria and Ghana

Insurance regulators' mandates broadened to include societal risks and development objectives.

Environmental, Social and (Corporate) Governance (ESG)-related risks affect not only the sustainability of the insurance industry, but also pose systemic risk to society as whole. Insurance supervisors have a prudential mandate to supervise risk in the insurance industry for which ESG considerations are thus becoming increasingly relevant. Doing so will enable them to identify and monitor the priority risks and related practices by industry, but also the role of the insurance sector in helping to mitigate broader societal risks (such as climate change and poverty).



Emerging ESG frameworks and standards relevant for insurance regulators.

The UNEP FI Principles for Sustainable Insurance (PSI) and IAIS standards on climate-related disclosures. These frameworks have largely been developed and adopted in the developed world. A practical approach that is relevant for the local context and capacity is required to adapt these frameworks to the realities in the study countries.

ESG integration of interest to insurance regulators, but face constraints.

Our engagement with insurance regulators in Ghana, Kenya and Nigeria, revealed interest in ESG risks and approaches, especially as they relate to insurance regulators' financial inclusion mandates, with emerging interest in environmental risks.

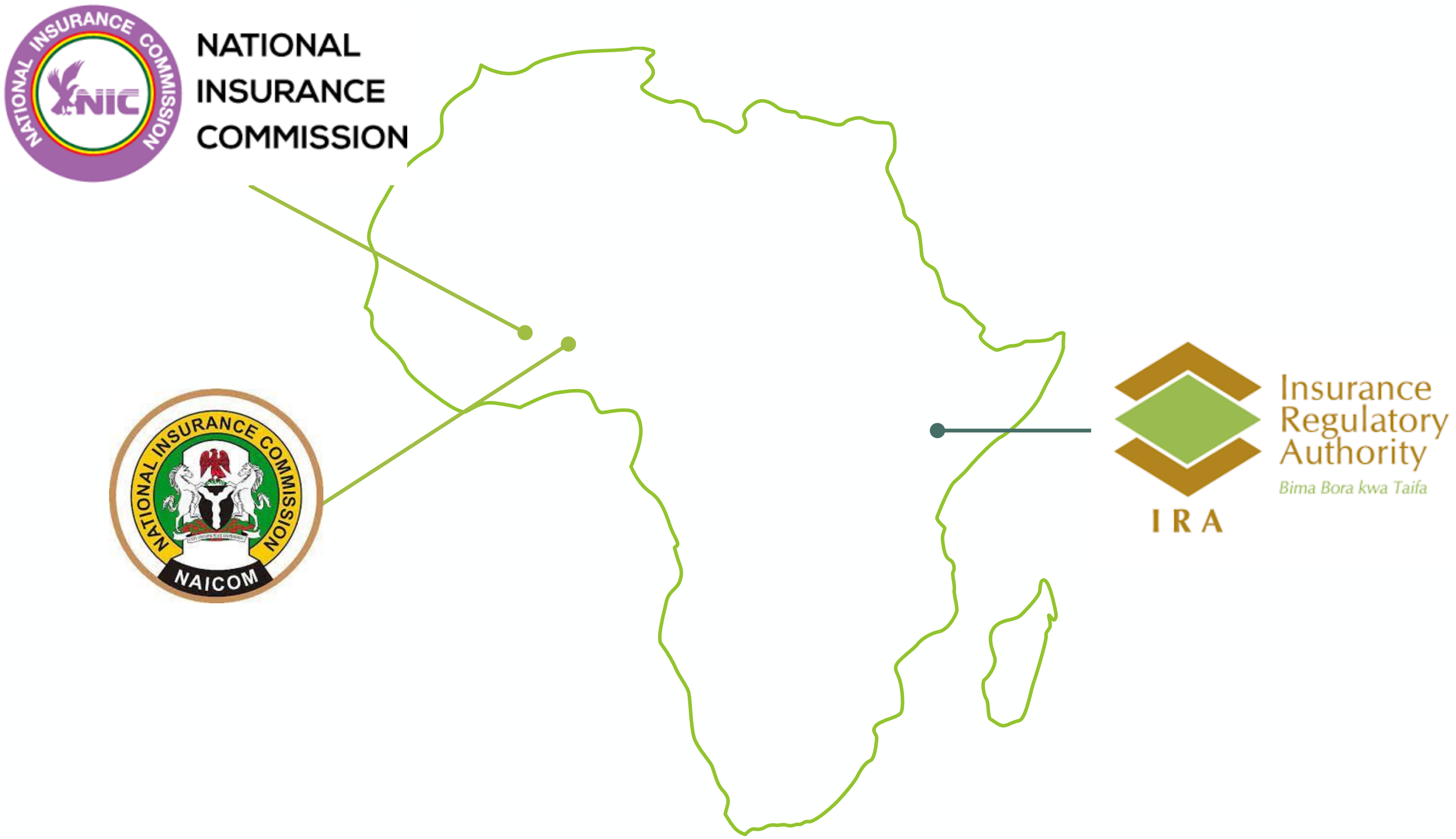
Project Partners

Insurance Regulators in Ghana, Nigeria and Kenya

- Insurance Regulatory Authority – Kenya
- National Insurance Commission(NIC) – Ghana
- National Insurance Commission of Nigeria (NAICOM)

Insurance companies in Ghana, Nigeria and Kenya

Specialist ESG/finance consultants (service contract) and Insurance training institutes



ESG Project Objectives

- To establish the perceptions, capabilities and practices of the African insurance industry towards addressing ESG issues in and through their operations and strategy
- To support actions and initiatives, and build insurers' technical capacity, to improve consideration of ESG in the industry's operations and strategy
- To launch a coalition of "industry champions" who advocate for stronger ESG considerations by the African insurance industry
- To build an enabling supervisory environment for ESG regulation and disclosure

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ESG Project Execution

This assignment seeks to support insurance regulators to address and integrate ESG into their key objectives and frameworks

Diagnose:
Understand current global ESG-related regulatory trends and the priority given to different ESG risks in the local context (aggregated across the market, to enable a systemic risk view in comparison to global best-practice)

Equip:
Develop a framework and toolkit for identifying and assessing ESG risks and the integration of those risks into regulated entities' management, underwriting and capital adequacy processes for SSA insurance supervisors:

Integrate:
Conduct capacity building and training to introduce a common understanding of ESG and global best practice and embed the ESG diagnostic learning, approach, and toolkit.

Project Outcomes

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Gap Analysis Report - diagnosis of the regulatory framework in the insurance sector highlighting the gaps (e.g. in policy, frameworks, reporting, data, competencies, etc.)

Detail fit-for purpose recommendations and action plans to close identified gaps in line with the agreed benchmarks, as well as developing fit-for purpose ESG toolkits and policies for the respective regions

Engagement and Advocacy - Engage the relevant stakeholders in change management efforts


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Thanks!

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Thank you.

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