February 4, 2020

Dr. Victoria Saporta
Chairperson
Mr. Jonathan Dixon
Secretary General
International Association of Insurance Supervisors
Centralbahnplatz 2
CH-4051 Basel
Switzerland

Re: IAIS public consultation on Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD Issues Paper)

Dear Dr. Saporta and Mr. Dixon:

The Institute of International Finance (IIF) and its insurance members appreciate the opportunity to comment on the TCFD Issues Paper published by the International Association of Insurance Supervisors (IAIS) on December 19, 2019. The IIF and its members wish to express their strong support for strengthening industry and supervisor understanding and assessment of climate risks by assessing how physical, transition and liability risks stemming from climate change may affect the business resilience, the offering of products and services, and the profitability and solvency of the financial sector, including the insurance sector. We applaud the work of the IAIS and the Sustainable Insurance Forum (SIF) in supporting the integration of climate risks into insurance supervisory practices.

General Comments

We agree with the IAIS' expectation that public disclosure of material information, including material climate-related risks, should enhance market discipline by providing meaningful and useful information to insurance supervisors, policyholders and investors (Paragraph 3). We also agree that further work needs to be undertaken across the financial services sectors and in the insurance sector to improve implementation of the TCFD recommendations (as noted in Paragraphs 39 and 45); these improvements are a work in progress at our member firms.

To facilitate meaningful and useful disclosure of climate-related risks, it is necessary for the industry and relevant supervisors to reach a consensus on what "good disclosure" looks like. To this end, the Sustainable Finance Working Group of the IIF (SFWG) is developing a dynamic template for what "good disclosure" will look like in 2020 and beyond, coordinating with the UNEP FI Pilot Project on TCFD Implementation. We welcome the continued involvement of the IAIS and the SIF in these efforts. It is hoped and anticipated that these efforts will help produce a globally harmonized template for climate-related financial disclosures that will facilitate comparability and transparency for the wide range of users of those disclosures. A globally harmonized template could contribute to minimizing the risks of regulatory fragmentation that arise when diverse standards, requirements and supervisory expectations are promulgated in different jurisdictions and among different regulators and supervisors, including insurance and securities regulators and supervisors. It would also permit global investors to make more informed investment decisions based on comparable disclosures.

We recognize that the IAIS has not taken a firm view on whether climate risk disclosures should be mandatory. We would recommend that the IAIS and the SIF continue to refrain from calling for mandatory disclosure frameworks, particularly with respect to quantitative disclosures, until the work underway to develop a consensus on “good disclosure” is at a more mature stage of development. Even then, it should be recognized that implementation of the TCFD recommendations by firms is an iterative process. Any disclosure requirements likewise should be iterative and phased in. Importantly, disclosure requirements should be market-driven and informed by the needs of the full range of end users of financial disclosures to ensure that those disclosures are meaningful and helpful to investors and other end users, as well as to supervisors. Recognizing that the development of disclosure requirements is primarily the province of securities regulators, the IAIS should encourage its members to collaborate with securities markets authorities in order to avoid duplication or contradiction of, the requirements of regulators charged specifically with the responsibility for investor protection and fair and efficient markets.

In setting their expectations for TCFD implementation, supervisors should be sensitive to the fact that insurers and other financial firms may face the prospect of shareholder litigation, fines from regulatory and market authorities, and reputational damage if disclosures are found to be materially misleading. These consequences would impact negatively the firm’s profitability and, potentially, solvency and long-term viability. In the extreme, a spate of litigation and fines could have negative systemic consequences. These considerations argue for a proportionate and iterative approach to disclosure requirements.

Moreover, climate-related financial disclosures may be commercially sensitive or highly technical. While we support the disclosure of material climate-related financial information, supervisors should be mindful that companies may need to limit disclosure in the interests of protecting commercially sensitive information. Companies may also tailor the disclosure to the investor audience by presenting at a higher level highly technical information in order to avoid misunderstanding and investor confusion.

Supervisors should recognize that insurers’ implementation of the TCFD recommendations is an iterative process and, accordingly, supervisory expectations for such disclosures should evolve over time, initially focusing on qualitative expressions of the impact of climate risk as supervisors and the industry work to develop alignment on more quantitative approaches. Supervisors should adopt a proportionate approach that recognizes that some firms may need a longer trajectory towards TCFD implementation as a result of their size, geographic reach, complexity or business model. Understanding where a firm is in its adoption of TCFD recommendations is of critical importance and firms that can demonstrate a good faith commitment to understanding, assessing, managing and disclosing material climate-related financial risks through the applicable regulatory and supervisory framework should not be subject to supervisory action. Supervisors should also consider the materiality of climate-related risks for a particular insurer in developing expectations for disclosure, consistent with ICP 20. Insurers should be encouraged to disclose any opportunities created by the challenges of climate change, as well as the risks, in order to provide balanced disclosures.

As firms work to understand the impact of climate change on their businesses and to implement the TCFD recommendations, end users (including supervisors) should expect a focus on more qualitative disclosures and a gradual, measured inclusion of increasingly quantitative disclosures. At present, there is a fundamental lack of alignment on quantitative approaches to climate risk assessment. The IIF is working with its member firms, regulators and supervisors, and academic experts to develop a better alignment on methodologies, metrics and scenarios, but these efforts will take some time to mature and develop tangible and actionable results. A number of other groups and coalitions are developing metrics to track companies' environmental impacts, including representatives from the World Economic Forum International Business Council and participants of the Corporate Reporting Dialogue convened by the International Integrated Reporting Council, just to mention two. Disclosure requirements imposed prior to the development of a framework and appropriate templates and metrics risk being premature and potentially misleading.

In light of our comments above, we recommend that the IAIS add the following new Paragraphs to Section 4.1.7 of the TCFD Issues Paper and re-number existing Paragraphs 58 and following:

58. Supervisors should recognize that insurers' implementation of the TCFD recommendations is an iterative process and, accordingly, supervisory expectations for such disclosures should evolve over time, initially focusing on qualitative expressions of the impact of climate risk as supervisors and the industry work to develop alignment on more quantitative approaches. Any disclosure requirements should be informed by the full range of end users of financial disclosures to ensure that those disclosures are meaningful and helpful to investors and other end users, as well as to supervisors.

59. Supervisors should adopt a proportionate approach that recognizes that some firms may need a longer trajectory towards TCFD implementation as a result of their size, geographic reach, complexity or business model. Understanding where a firm is in its adoption of TCFD recommendations is of critical importance and firms that can demonstrate a good faith commitment to understanding, assessing, managing and disclosing material climate-related financial risks through the applicable regulatory and supervisory framework should not be subject to supervisory action.

60. Supervisors should consider the materiality of climate-related risks for a particular insurer in developing expectations for disclosure, consistent with ICP 20. Disclosure requirements should be iterative and phased in. Disclosure requirements should be market-driven and informed by the needs of the full range of end users of financial disclosures to ensure that those disclosures are meaningful and helpful to investors and other end users, as well as to supervisors. Recognizing that the development of disclosure requirements is primarily the province of securities regulators, the IAIS encourages its members to collaborate with securities markets authorities in order to avoid duplication or contradiction of, the requirements of regulators charged specifically with the responsibility for investor protection and fair and efficient markets.

It is important to emphasize that climate-related scenario analyses are not precise forecasts but, rather, sensitivity analyses that can be used to inform strategic planning and to facilitate awareness and preparation for climate change. **We recommend that the IAIS include language to this effect in Paragraph 53 of the TCFD Issues Paper.**

We appreciate the opportunity to comment on the TCFD Issues Paper and would welcome an occasion to discuss our views in more detail.

Respectfully submitted,

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Institute of International Finance