Institute
and Faculty
of Actuaries

# Underwriting environmental, social and governance risks in non-life insurance business

IFoA response to the UNEP FI Principles for Sustainable Insurance Initiative

11 June 2019

**About the Institute and Faculty of Actuaries**

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues. To fulfil the requirements of our Charter, the IFoA maintains a Public Affairs function, which represents the views of the profession to Government, policymakers, regulators and other stakeholders, in order to shape public policy.

Actuarial science is founded on mathematical and statistical techniques used in insurance, pension fund management and investment. Actuaries provide commercial, financial and prudential advice on the management of assets and liabilities, particularly over the long term, and this long term view is reflected in our approach to analysing policy developments. A rigorous examination system, programme of continuous professional development and a professional code of conduct supports high standards and reflects the significant role of the profession in society.

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**Guide**

1. Does the guide help develop an ESG approach for insurance industry stakeholders and screening of non-life insurance transactions? How can it be improved?

> The guide provides a useful foundation for the purposes of developing an ESG approach for insurance industry stakeholders and screening of non-life insurance transactions. We have identified where the guide can be improved, either through clarification or the addition of greater detail, in response to specific questions below.

2. Is the guide clear and easily understandable? If not, which sections or areas need improvement and how?

> The structure of the guide is organised logically and it is helpful to have key questions identified underneath the relevant subheadings.
>
> In addition to the written content, it would be helpful to include a one page summarised step-by-step guide which highlights the different steps within the guide (e.g. developing your ESG approach, establishing your risk appetite, integrating ESG issues into your organisation etc.) with a short description of the step and any key questions that need to be asked at this step. This would provide additional clarity around the recommended process.

3. Are there any areas missing which should be included in the guide?

> The guide should provide further detail around on climate change and the financial risks associated with this issue. The financial risks from climate change have distinctive elements which present unique challenges. We agree with the guide's assessment that addressing it will require efforts of the entire industry.
>
> The guide should emphasise that pricing is only one lever to manage the climate risks coming onto an insurer's books and that underwriting rules may need to be adapted for climate change. For example, as sea levels rise, some coastal areas may become uninsurable. Withdrawing cover from such areas will pose wider social and reputational challenges.

4. Is the format useful or would another format be better?

> The guide is useful in the existing format.

5. How frequently should the guide be updated (e.g. yearly, every two years)?

> The content within the guide is high-level enough that a commitment to review it biennially would be sufficient.  However we would recommend the heat maps are reviewed more frequently, on an annual basis, to allow for new ESG risks as well as risk mitigation examples and good practice to be captured.


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6. Would additional training or information be helpful? If so, what form (e.g. webinars, training sessions, discussion forums)?

As examples of good practice are identified it may be helpful to publish short case studies. For example, an example which demonstrates how a particular insurer has used a geographic information-based tool to assist with detecting and analysing ESG risks.

Care should be taken to ensure sharing of ideas does not breach anti-trust rules. While we do not anticipate this will be difficult to ensure in the case of sharing examples, information shared on discussion forums may be in breach of these rules as this may represent sharing of information between competitors. As such, we would recommend against the discussion forum approach.

**Heat maps**

7. Are the heat maps clear and easy to understand?

The heat maps are clear and easy to understand.

8. Are there ESG risks which should be added or deleted? Please justify.

The liability risks associated with climate change should be included within the heat map. Where parties who have suffered loss and damage from climate change, they may seek to recover losses from others who they believe may have been responsible. They may consider others to be responsible because of their failure to mitigate to the physical impacts of climate change, their failure to adapt or their failure to disclose or comply climate change relevant information.

Recent years have seen an increase in climate related litigation claims being brought before the courts by property owners, municipalities, states, insurers, shareholders and public interest organisations. Where claims are successful, parties against whom the claims are made may seek to pass on some or all of the costs to their insurance firms under third-party liability contracts. As such, these risks should be considered in the underwriting process.

9. Are there risk mitigation examples and good practices which should be added or deleted?

Meaningful and decision-useful climate-related financial disclosures, such as those developed in line with the Task Force on Climate-related Financial Disclosures (TCFD), should be included as a risk mitigation example of good practice for climate change. In addition to disclosures being a helpful source to inform a decision, making reference to the disclosures as an example within the heat map may prompt organisations and encourage greater disclosure. As insurers are also institutional investors, encouraging this practice will provide benefit beyond the underwriting process.

As highlighted in our response to Q3 pricing is only one option. This may not be adequate and may lead to withdrawal or uneconomic cost of insurance. Adequate mitigation of ESG risks will require interventions such as investing in flood defences or taking action to reduce carbon emissions. Although outside the scope of underwriting, insurers can bring about these interventions through their investments. While the guide touches on considering ESG investment to ensure consistency is achieved across insurance and investment activities, more emphasis should be placed on the impact this can have on risk mitigation.

10. Are there economic sectors, which are material to ESG risks in non-life insurance underwriting that should be added?

11. Do you have suggestions on the risk categorisation of specific ESG risks vs economic sectors? Please provide cell reference and explanation.

12. Should some lines of non-life insurance business be added or deleted? Please explain.

13. Do you have suggestions on the risk categorisation of specific ESG risks vs lines of non-life insurance business? Please provide cell reference and explanation.

14. Are you aware of any additional ESG information sources that are relevant, of good quality and with international recognition? Please indicate them.

> The IFoA has been developing a practical guide to climate change for actuaries working in the field of general insurance. The guide will be published within the coming weeks. In developing our guide we consider a number of information sources, some which focused on ESG risks.
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> Indicated below are ESG information sources used in the development of our guide which we consider to be relevant, of good quality and with international recognition:
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> - IPCC, 2014. *Climate Change 2014 Synthesis Report,* Geneva: IPCC.
> - IPCC, 2018. *Global Warming of 1.5 C,* Geneva: IPCC.
> - World Economic Forum, 2019. *The Global Risks Report,* Davos: World Economic Forum.

**Additional comments**
Please provide your any additional comments, input, questions or suggestions that you may have.

> With regard the heat maps, additional detail regarding how the colour code for each risk is determined and how often these will be reviewed and recoded if necessary.