The LIAJ comments on Public Consultation on Climate risk supervisory guidance – part two

Question	Comment
Draft Application Paper on climate risk market conduct issues in the insurance sector	
Q1. General comments on the application paper on climate risk market conduct issues in the insurance sector.	• The LIAJ agrees with the IAIS that in recent years, climate change issues have become increasingly relevant to the insurance industry, resulting in the emergence of market conduct related issues in the industry, as stated in the application paper. In addressing this, the LIAJ believes that the following points should be noted: – As the IAIS stated in the application paper, the risk of greenwashing and the potential increase in protection gaps are not necessarily new risk categories but are rather related to existing market conduct regulations. As such, it should be noted that unnecessarily introducing new regulations should be avoided. – As for the risk of greenwashing, since it is not only confined to insurance products, the IAIS should refer to past examples and best practices from other sectors such as the asset management sector, and where possible make an effort to take cross-sectoral measures.
Draft Application Paper on climate scenario analysis in the insurance sector	
Q1. General comments on the application paper on climate scenario analysis in the insurance sector.	• Given the long-term and dynamic effects of climate change, the LIAJ believes that applying scenario analysis to climate issues would be effective. Thus, the following points, which are noted in the application paper to some extent, should especially be taken into consideration: – As methodologies for climate-related scenario analysis are still evolving, the resulting analyses may change due to further calibration in methodologies. In addressing issues identified based on these results, supervisory authorities should consider specific approaches and timeline, keeping in mind of the developing analytical methodologies and forward-looking nature of the analyses. – As stated in the application paper, climate risk factors are jurisdiction-specific while climate risk is universal. On the other hand, supervisory authorities need to ensure a certain level of global coordination, assuming that information sharing related to their respective jurisdictions or sectors is needed to compare companies in different jurisdictions or sectors. – Given that climate scenario analysis itself is still evolving, and that risk factors are influenced by jurisdictional features as stated above, disclosing the results of the scenario analysis should be

	considered carefully. • The application paper states in paragraph 22 the importance for supervisory authorities to clearly define the objectives of the scenario analysis exercise. The LIAJ appreciates this understanding to some extent, as it would encourage supervisors to only require insurers to conduct scenario analysis for supervisory purposes as necessary. However, to avoid imposing undue regulations on insurers for supervisory purposes, the following points should also be noted: – The scope of the scenario analysis may vary depending on its purpose. As a result, the LIAJ understands that the scenario analysis that insurers conduct to meet ISSB and other standard disclosure requirements, which focuses on providing information beneficial for investors' decision-making, would not necessarily cover the scope of the scenario analysis for supervisory purposes. – Also, when utilising the scenario analysis, due consideration should be given to limitations inherent in the approach and burden caused by administrative complexity as stated below: ➢ Scenario analysis is a process to assess potential effects based on assumptions. As such, limitations ➢ exist as results may change depending on its assumptions, conditions or factors on scenario analysis. ➢ The scope of the scenario analysis needs to consider multiple aspects, including its assumptions, conditions and factors. This administrative complexity would impose undue burden on insurers. – As such, to avoid imposing undue burden on insurers, supervisors should carefully consider when requiring insurers to conduct scenario analysis for supervisory purposes. They should at least determine whether they need to require additional scenario analysis for supervisory purposes after adequately evaluating if such scenario analysis could be substituted with existing scenario analysis conducted by insurers for disclosure purposes to meet the ISSB and other standards. If supervisors determine that additional scenario analysis is required, they should explain to insurers the need for conducting it.