

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

Question	Comment
ICP 15 (Investments) guidance material	
Q1. General comments on the proposed changes to reflect climate risk in ICP 15 (Investments) guidance material	<ul style="list-style-type: none"> • The Life Insurance Association of Japan (hereafter the “LIAJ”) appreciates the opportunity to submit public comments to the International Association of Insurance Supervisors (or the “IAIS”) regarding the third consultation on climate risk in the insurance sector. • The LIAJ understands that the IAIS focuses on climate risk throughout the guidance (e.g. changes to ICP guidance 15.2.3 and 15.3.1) in the context of emphasizing climate risk in its strategic plan. <p>Having said that, given that insurers already recognise and manage various risks including climate-related risks in its investment activities, the LIAJ believes that in some cases over-emphasizing climate risk in ICP guidance may not be appropriate. Instead, it may be more suitable to be included for example, in the Application Paper on the supervision of climate-related risks.</p>
Q2. Comments on proposed changes to ICP guidance 15.2.3	<ul style="list-style-type: none"> • The LIAJ considers that the proposed changes in this section are intended to recommend insurers to assess investment risks proactively, rather than accept external ratings without any consideration. <p>This can be achieved through other various measures as well, such as by comparing multiple external ratings, breaking down and assessing factors and time horizons that form the basis of the ratings, or insurers performing a reassessment internally while referring to the external ratings.</p> <p>The proposed wording of “make adjustment to the ratings where necessary” may unintentionally mislead readers to think that this is requiring insurers to directly engage with external rating agencies to adjust the ratings (where necessary) rather than showcasing it as a sole example of various ways to attain proactive assessment on investment risks.</p> <p>As the current statement in this section already points out the limits of using external credit ratings, the LIAJ believes this to be adequate in recommending proactive assessment on investment risks for insurers and the proposed change is not necessary. Should IAIS continue to make a revision, there may be more clarity that adjustment to the ratings is an example out of many, if other methods to be considered is stated as well.</p>

<p>Q3. Comments on new ICP guidance 15.2.6</p>	<ul style="list-style-type: none"> • This section refers to the impact that investment decisions could pose on climate change which may potentially assume the double-materiality concept. As the adopted concept for materiality differs by jurisdictions, this reference should be considered carefully. • Also, even though the statement “insurers could decide to take appropriate steps, such as engage with investees, divest of certain assets or change their investment strategy” is written as an example, it could be interpreted as a proposal for insurance supervisors to recommend insurers of divestment or change to their investment strategy. <p>Considering that insurance supervisors’ mandate is to maintain financial stability and to protect policyholders, situations where insurance supervisors recommend insurers to take certain investment activities or to change investment strategy should generally be limited to cases where financial stability or policyholder protection could be impaired. If insurance supervisors go above and beyond their mandate and guides insurers to take specific actions, while it may be unintentional, could distort the sound market and result in impairing financial stability and/or policyholder protection. Given this, the LIAJ believes it would be reasonable to remove these exemplifications.</p>
<p>Q4. Comments on proposed changes to ICP guidance 15.3.1</p>	<ul style="list-style-type: none"> • The LIAJ understands that the IAIS focuses on climate risk throughout the guidance (e.g. changes to ICP guidance 15.2.3 and 15.3.1) in the context of emphasizing climate risks in its strategic plan. • Having said that, given that insurers already manage various risks including climate-related risks within their ALM activities, the LIAJ believes that particular reference to climate risks in this ICP guidance may not be necessary. Instead, this point could be considered for example, in the Application Paper on the supervision of climate-related risks.
<p>Q5. Comments on proposed changes to ICP guidance 15.4.1</p>	<ul style="list-style-type: none"> • While scenario analysis is an important tool to assess climate risks, we should be aware that it is a practice still in the maturing process and its usefulness is yet to be determined, thus reference to the use of scenario analysis should be carefully considered.
<p>ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material</p>	
<p>Q7. General comments on the proposed changes to reflect climate risk in ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material</p>	<ul style="list-style-type: none"> • The LIAJ understands that the IAIS focuses on climate risk throughout the guidance (e.g. changes to ICP guidance 16.2.10) in the context of emphasizing climate risks in its strategic plan. <p>Having said that, given that insurers already recognise and manage various risks including climate-related risks in its ERM for solvency purposes, the LIAJ believes that in some cases over-emphasizing climate risk in ICP guidance may not be appropriate, and instead may be more suitable to be included for example, in the Application Paper on the</p>

	<p>supervision of climate-related risks.</p> <ul style="list-style-type: none"> • We would also like to call attention to the statement in this section “scenario analysis may be considered as an approach to measure, in a forward-looking manner, to what extent the insurer is at risk and whether the insurer is able to absorb possible shocks”. We understand that this section is written in the context of insurers absorbing climate-related risks and shocks measured through scenario analysis. <p>On this point, we would like to mention that, at first, insurers are considered to take measures to mitigate climate-related risks and shocks before absorbing them, since it is generally presumed that climate-related risks and shocks measured through scenario analysis emerge over extremely long time horizons such as decades. As so, citing absorption as the sole example of measures against risks and shocks could be misleading, and the LIAJ would suggest removing this portion.</p> <p>Should IAIS continue to make a revision, the LIAJ would suggest replacing the word “absorb” with “manage”.</p>
Q14. Comments on proposed changes to ICP guidance 16.6.6	<ul style="list-style-type: none"> • This section refers to the impact that investment decisions could pose on climate change which may potentially assume the double-materiality concept. As the adopted concept for materiality differs by jurisdictions, this reference should be considered carefully. Given this, the LIAJ does not believe the revision to this section is necessary. Should IAIS continue to make a revision, replacing the phrase “insurers should consider” with “insurers could consider” would be more suitable.
Supporting material related to ICP 8 (Risk Management and Internal Controls)	
Q20. General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 8 (Risk Management and Internal Controls)	<ul style="list-style-type: none"> • Paragraph 41 of this section refers to the impact that investment decisions could pose on climate change which may potentially assume the double-materiality concept. As the adopted concept for materiality differs by jurisdictions, this reference should be considered carefully. Given this, the LIAJ does not believe the proposed last sentence in this section is necessary. Should IAIS continue to make a revision, replacing the phrase “insurers should be aware” with “insurers could be aware” would be more suitable.
Supporting material related to ICP 16 (Enterprise Risk Management for Solvency Purposes)	
Q34. Comments on section on Risk concentrations	<ul style="list-style-type: none"> • This section states that “insurers with significant investment exposures to assets that are vulnerable to climate-related risks are potentially more exposed to systemic risk”. Although the LIAJ understands the concern for concentration risks, the direct linkage to systemic risk is not necessarily self-evident and would like the IAIS to consider revising this statement.