



# NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 4/19/21

## SOLVENCY WORKSTREAM OF THE CLIMATE AND RESILIENCY (EX) TASK FORCE

Wednesday, May 5, 2021

11:00 a.m. – 12:30 p.m. ET / 10:00 – 11:30 a.m. CT / 9:00 – 10:30 a.m. MT / 8:00 – 9:30 a.m. PT

### ROLL CALL

Kathleen A. Birrane, Vice Chair	Maryland	David Combs	Tennessee
George Bradner	Connecticut	Scott A. White	Virginia
David Altmaier	Florida	Mike Kreidler	Washington
Gary D. Anderson	Massachusetts	Eric Schoene	Wisconsin
Nina Chen	New York		

NAIC Support Staff: Dan Daveline

### AGENDA

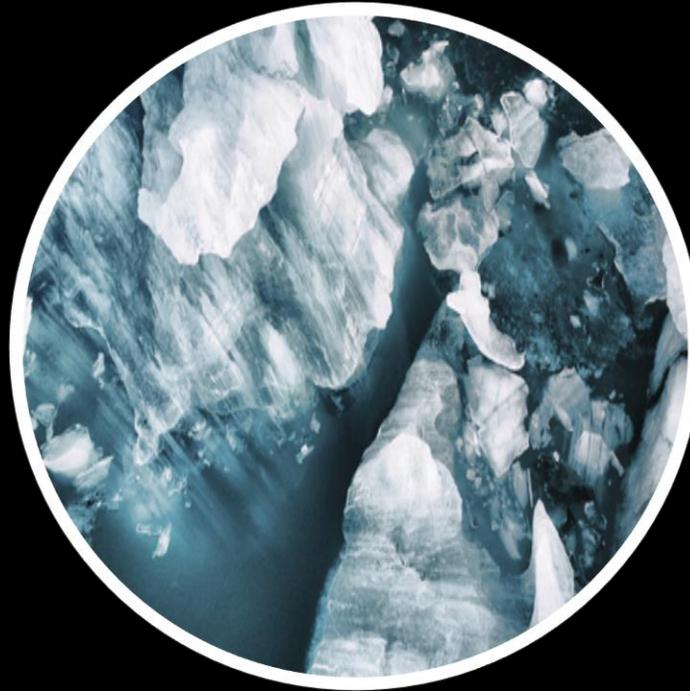
1. Hear an International Overview of the Current State of Regulatory Activities by Insurance Financial Supervisors—*Commissioner Kathleen A. Birrane (MD)*

<u>Panel Topic</u>	<u>Panelist</u>	<u>Panelist Firm</u>
Evolution/Drivers of Regulatory Actions: Survey Results	Howard Mills & David Sherwood	Deloitte
Summary of Current Status of Regulatory Activities (Global & U.S.)	Ellen Dew, Scott Fischer, and Aidan M. McCormack	DLA Piper
Moving Forward: Trends in Supervision and Pending Activities	Anna Sweeney	Sustainable Insurance Forum (SIF)
The View from the Board Room – What Insurers Are Doing	Graham Handy	FTI Consulting

2. Discuss Any Other Matters Brought Before the Workstream  
—*Commissioner Kathleen A. Birrane (MD)*

3. Adjournment

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Evolution of regulatory focus  
on the potential financial  
impact of climate change

NAIC's Climate and Resiliency Task Force  
May 5, 2021



# Presenters

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## **David Sherwood**

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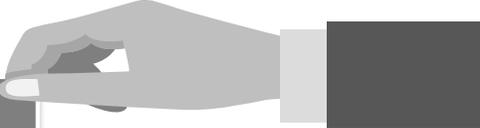
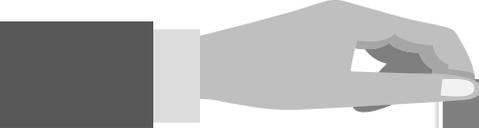
## **Howard Mills**

Independent Senior Advisor to Deloitte Services LP

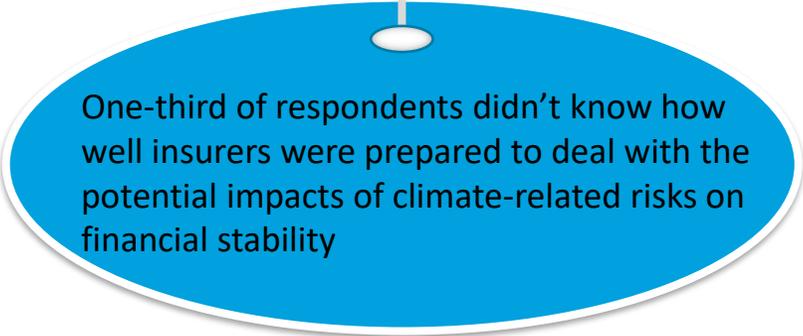
[howmills@deloitte.com](mailto:howmills@deloitte.com)



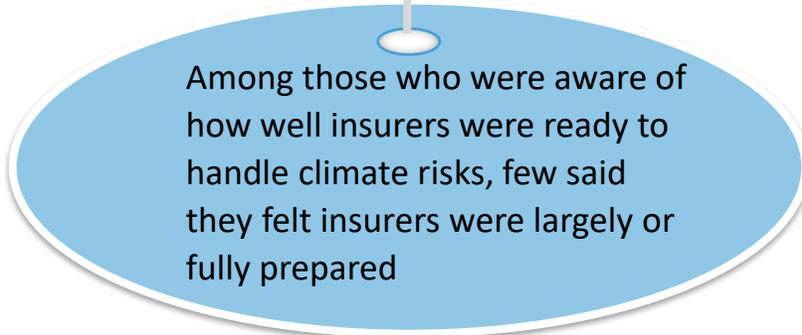
# Regulators are starting to ask more about climate risk



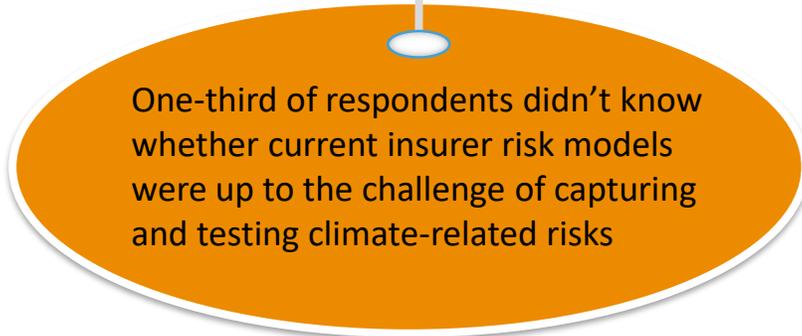
Two years ago, a Deloitte survey of US insurance regulators found:



One-third of respondents didn't know how well insurers were prepared to deal with the potential impacts of climate-related risks on financial stability



Among those who were aware of how well insurers were ready to handle climate risks, few said they felt insurers were largely or fully prepared



One-third of respondents didn't know whether current insurer risk models were up to the challenge of capturing and testing climate-related risks

Source: "Climate risk: Regulators sharpen their focus," Deloitte Center for Financial Services, 2019

# International trends across the regulatory landscape

Increasing international mobilization and activity.

## International Initiatives

- Task Force on Climate-Related Financial Disclosures
- United Nations Environment Programme Finance Initiative
- Institute of International Finance
- Financial Stability Board
- Network of Central Banks and Supervisors for Greening the Financial System
- European Commission
- Principles for Responsible Investment

## Standard Setters

- Sustainability Accounting Standards Board
- Climate Disclosure Standards Board
- Global Reporting Initiative

## Research Institutes

- International Institute for Applied Systems Analysis
- Intergovernmental Panel on Climate Change
- US Global Change Research Program
- Climate-KIC
- Copernicus



## International Bodies

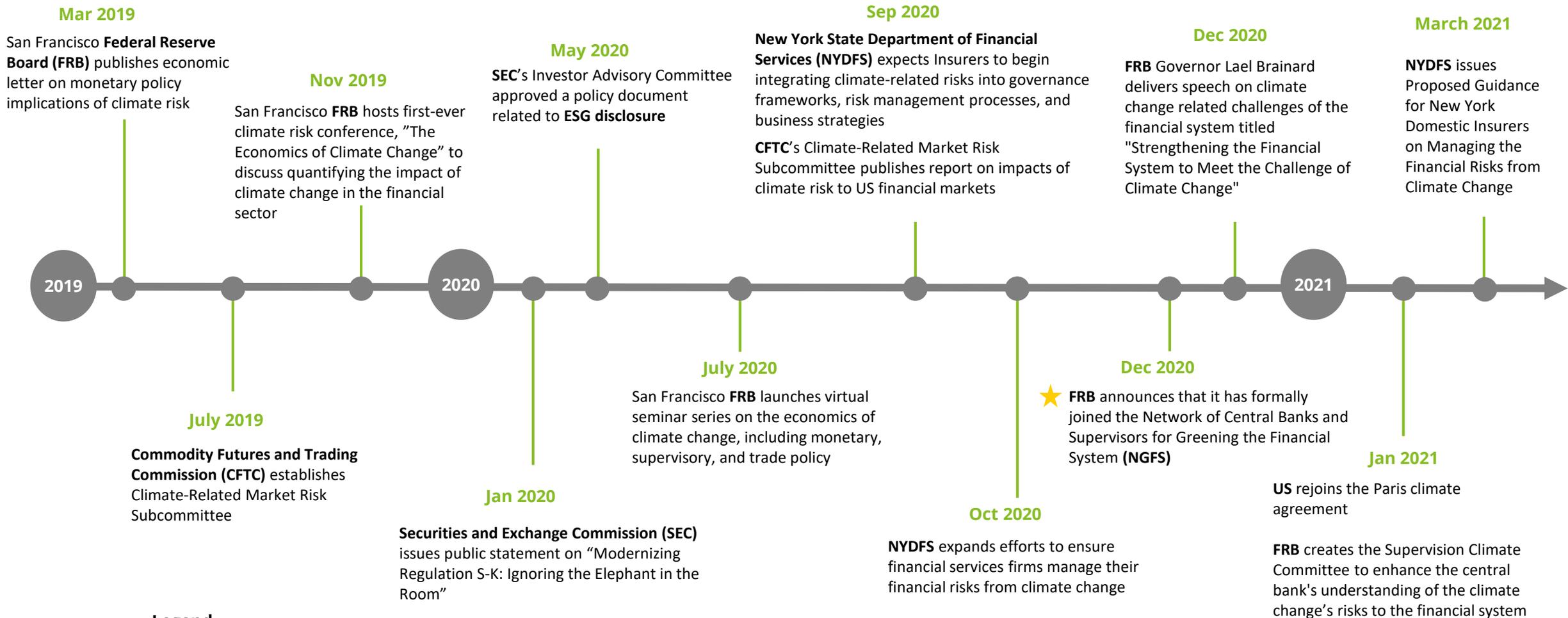
- International Association of Insurance Supervisors
- European Insurance and Occupational Pensions Authority
- UK Prudential Regulatory Authority
- Autorité de contrôle prudentiel et de résolution
- The German Financial Regulatory Authority, BaFin
- China Securities Regulatory Commission
- Australian Prudential Regulatory Authority
- Japan Financial Services Agency

## Data Providers

- Carbon Delta
- S&P Global
- Moody's
- Trucost
- Fitch Ratings
- The World Bank
- OS-C
- Enerdata

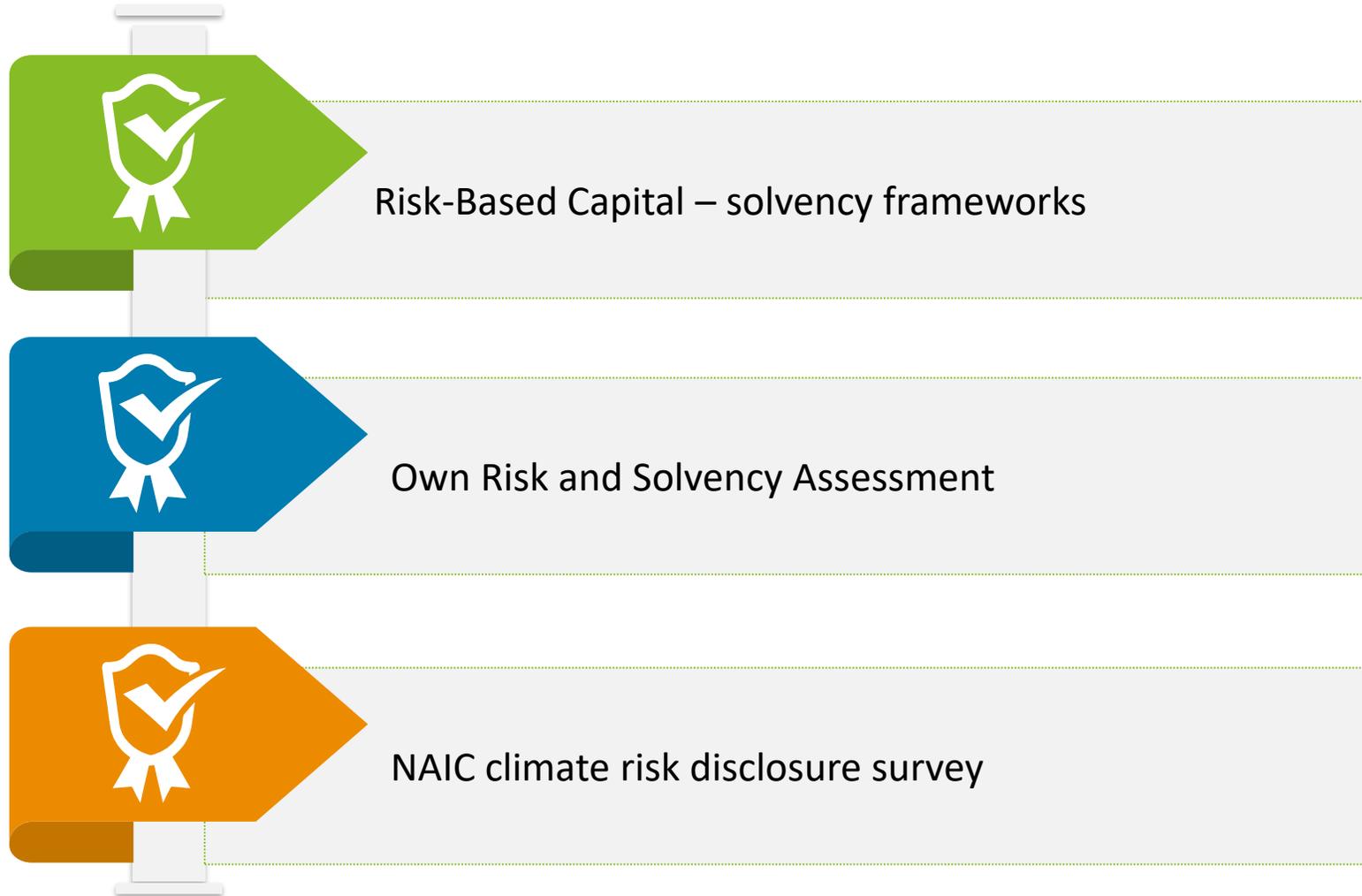
# Timeline of recent US regulatory events in climate change

US regulatory focus has been accelerating and additional guidelines and policies are expected to emerge.



# The supervisory toolkit

Regulators are considering 'what's in the supervisory tool kit' to understand what can be leveraged to help manage this risk and what additional tools, if any, may be needed.





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# NAIC

## Solvency Workstream of the Climate & Resiliency Task Force

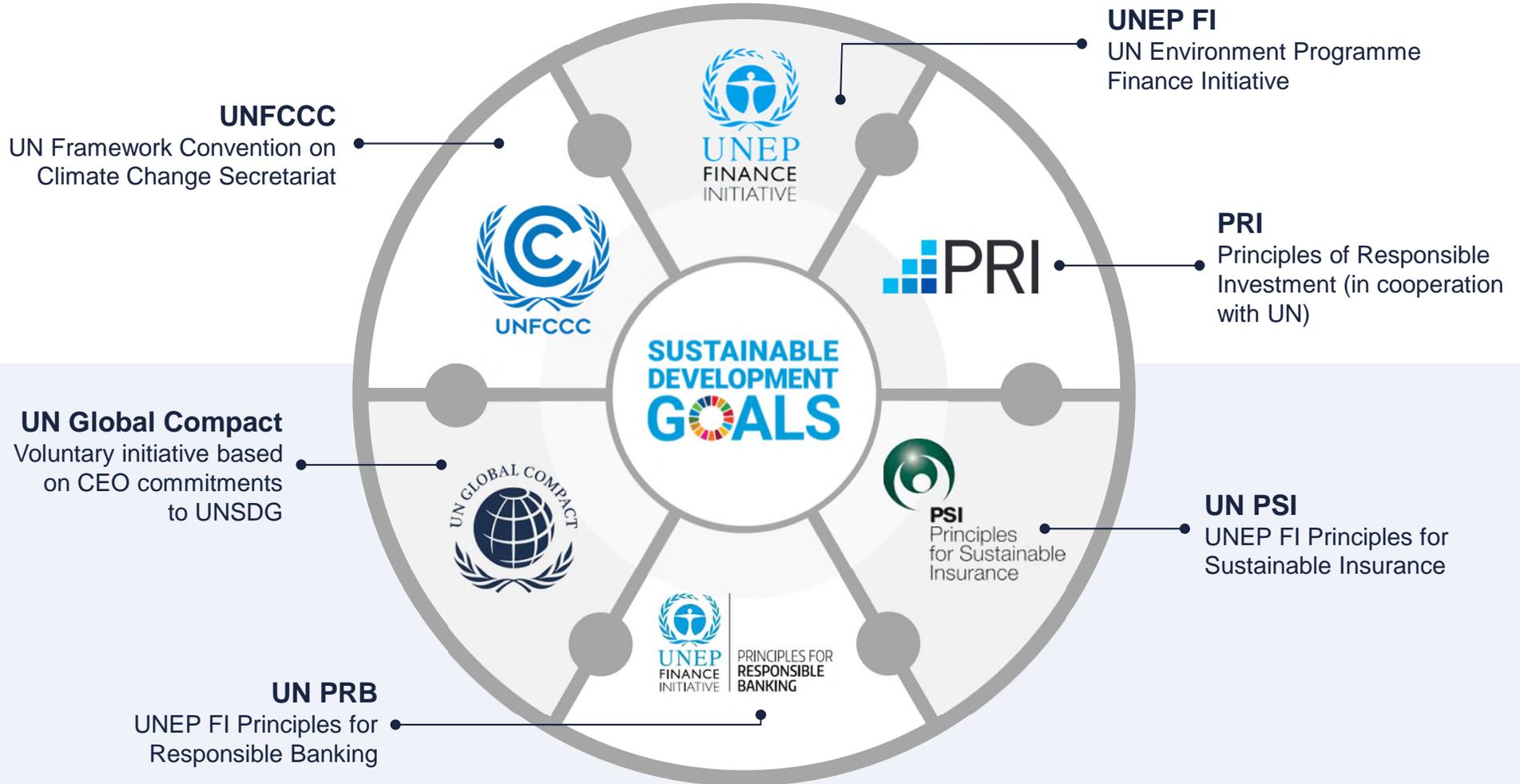
Wednesday, May 5, 2021



# What is the current status of regulatory activity relating to climate risk in the U.S. & Internationally?

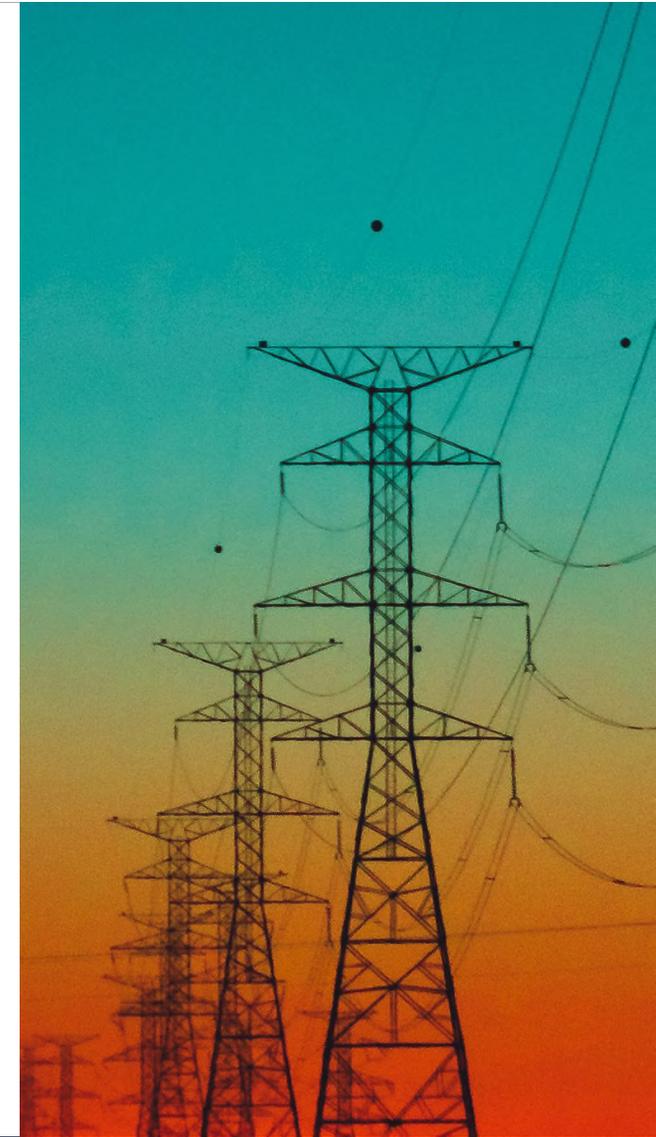


# Relevant UN-related initiatives



# Principles of Responsible Investment (PRI) Initiative

- The PRI have been developed by a group of investors and experts from the investment industry, intergovernmental organizations and civil society and were launched in April 2006
- The PRI are voluntary and offer a variety of possible actions for incorporating ESG issues into investment practice
- Over 3,000 signatories, representing over USD103 trillion, had signed the PRI by September 2020, including e.g. Generali Group, Allianz SE, Insurance Australia Group, Reinsurance Group of America and Munich Re
- The PRI can be signed by asset owners, investment managers and service providers. Existing and future signatories need to maintain the following:
  - an investment policy that covers the firm's responsible investment approach, covering >50% of assets under management
  - internal/external staff responsible for implementing Responsible Investment (RI) policy
  - senior-level commitment and accountability mechanisms for RI implementation

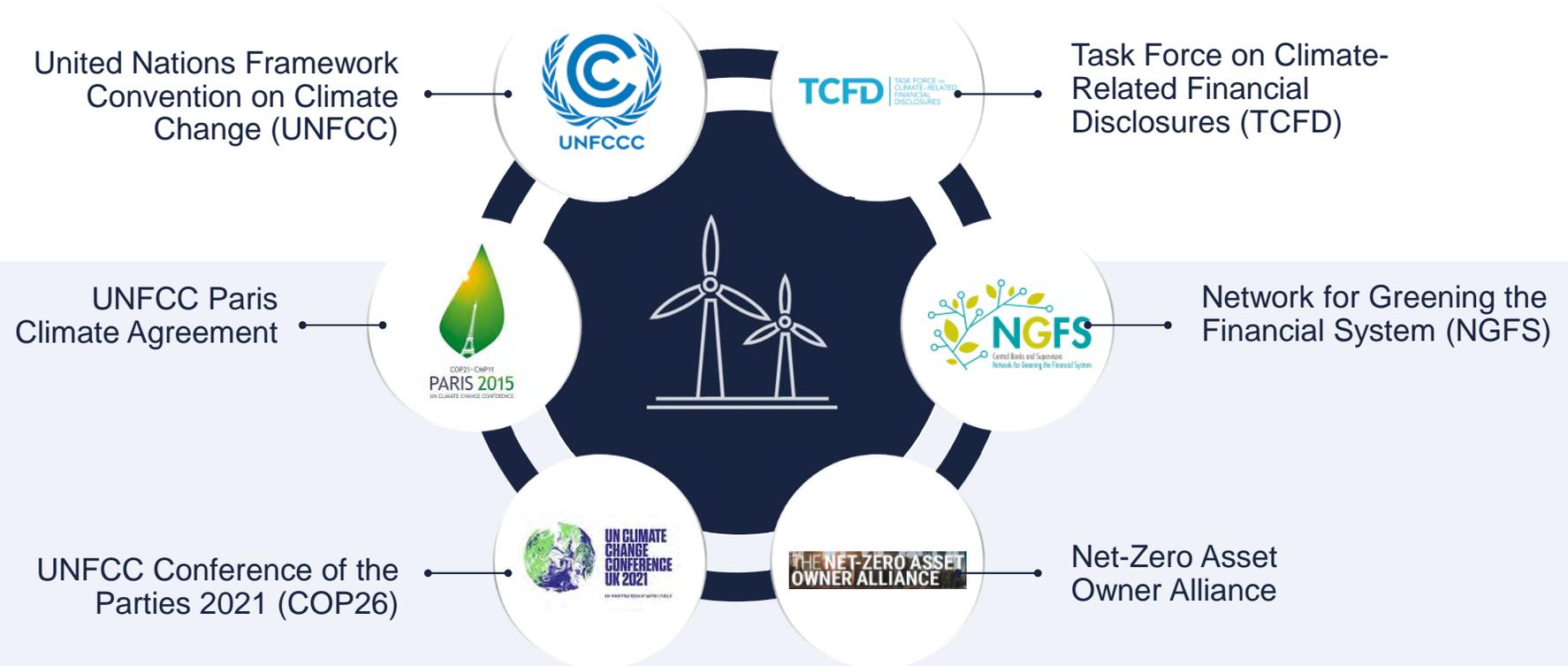


# Principles for Sustainable Insurance (PSI) Initiative

- Global initiative launched in 2012 by UNEP FI with the support of the insurance industry, open to all companies with insurance business, in particular insurers, reinsurers and brokers
- Over 140 organizations worldwide have adopted the PSI, including insurers representing more than 25% of world premium volume and USD 14 trillion in assets under management
- The PSI initiative aims to better understand, prevent and reduce ESG risks and better manage opportunities to provide quality and reliable risk protection.
- Latest projects include TCFD application to the insurance industry, handbook on ESG risk integration in underwriting, Global Resilience Project investing in pre-disaster resilience and analysis of the insurance industry's contribution to the UN SDGs via insurance products and insurance investments



# Mitigating climate change



# Task Force on Climate Related Disclosure (TCFD)

<b>Governance</b>	<b>Strategy</b>	<b>Risk Management</b>	<b>Metrics and Targets</b>
Governance around climate-related risks and opportunities.	Actual and potential impacts of climate-related risks and opportunities	How the organisation identifies, assesses and manages climate-related risks	Metrics and targets to assess and manage climate-related risks and opportunities
<b>Recommended Disclosures</b>	<b>Recommended Disclosures</b>	<b>Recommended Disclosures</b>	<b>Recommended Disclosures</b>
Board's oversight	Risks and opportunities - short, medium and long term	Processes for identifying	Metrics to assess in line with strategy and risk management process.
Management's role	Impact on businesses, strategy, and financial planning.	Processes for managing	Greenhouse gas (GHG) emissions, and related risks.
	The resilience of the strategy	Integration into overall risk management	Targets and performance against targets

# Commitment from Industry

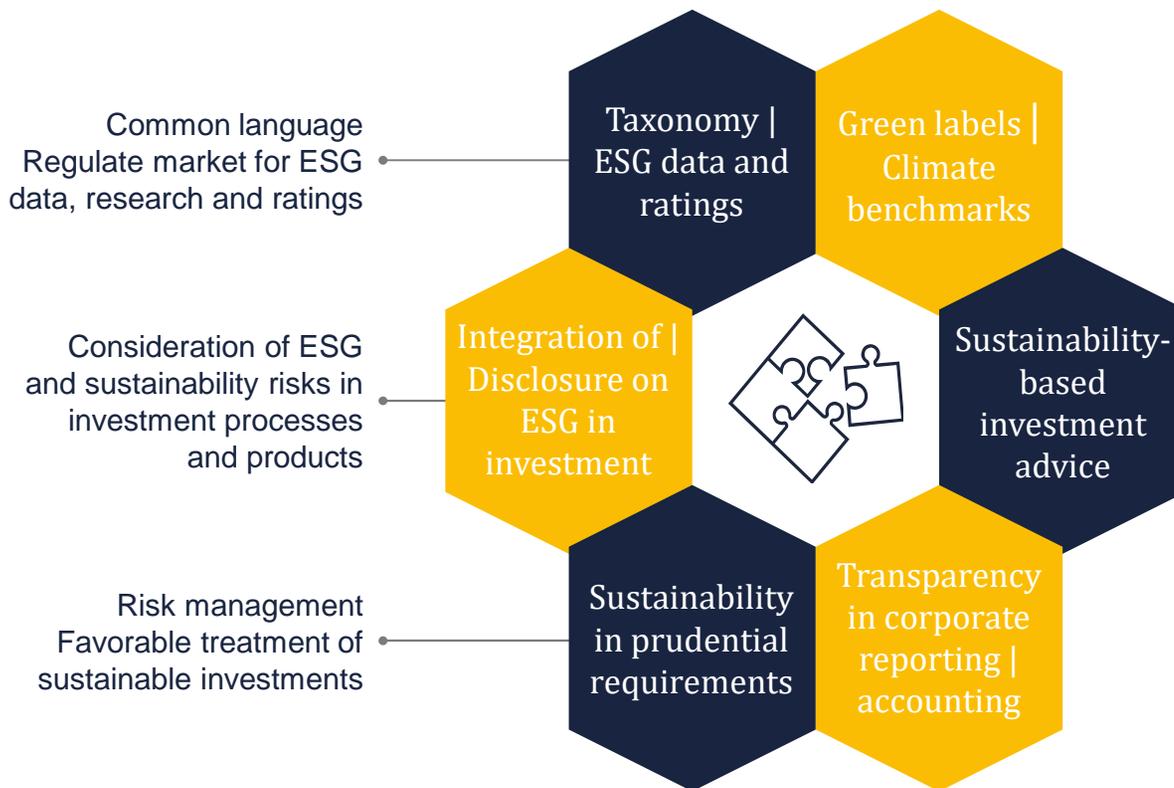
Name of client	Sustainable Development Goals	UN Global Compact	PRI	PSI	TCFD
AIG	X	X			X
Allianz	X	X	X	X	X
Aon	X		X	X	X
Axa	X	X	(X)	X	X
Chubb	X	X			
IAG	X		X	X	X
Liberty	X		X	(X)	
Munich Re	X	X	X	X	X
Ping An	X		X	X	X
QBE Australia	X	X	X	X	X
Swiss Re	X	X	X	X	X
Tokio Marine	X	X	X	X	X

# Status of International Regulation



# EU Sustainable Finance Strategy

The European perspective on sustainable finance



What is sustainable at EU level?

Sustainable finance aims to

- engage in the process of taking due account of ESG considerations when making investment decisions
- but also supporting the delivery on the objectives of the EU Green Deal to **facilitating the flow of capital into more sustainable economic activities**

The Renewed Sustainable Finance Strategy

The Renewed Strategy will support and better align with these objectives by setting out actions to

- manage climate and environmental risks and integrate them into the financial system
- ensure that the financial system is supporting the **transition of businesses towards sustainability**

# EU Sustainable Finance Strategy

Navigating ESG regulations | The start of the sustainable finance journey

New disclosure obligations SFDR started to apply to improve how sustainability related information is disclosed in the financial sector and prevent 'greenwashing'.

Sustainable Finance Disclosure Regulation

10 March  
2021

April  
2021

Renewed Sustainable Finance Strategy

The Renewed Strategy will support the EU's climate action and environmental policy ambitions and help channel investment into sustainable projects and activities.

The Commission's proposal for a review of Solvency II will include the integration of ESG considerations into insurers' prudential framework.

Solvency II Directive Review

Summer  
2021

January  
2022

EU Taxonomy Regulation

First application of the new EU framework in financial markets by 2022.

Full application expected in

2023

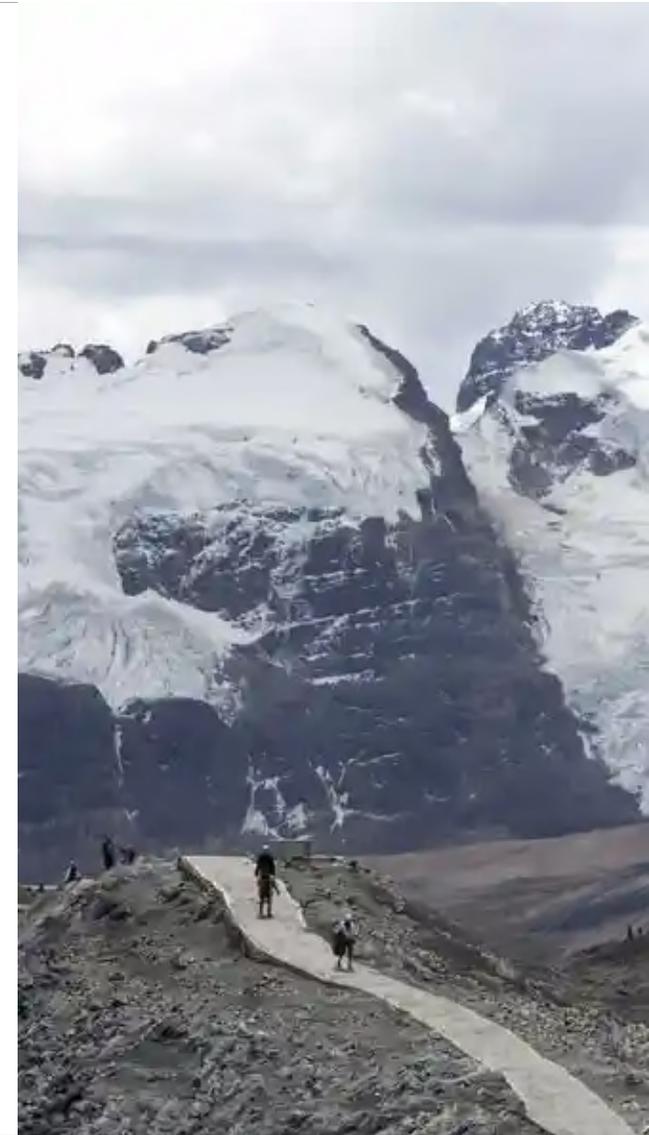
# Europe

- **UK**
  - 2019 informal stress test led by PRA regarding climate change
  - PRA-regulated firms must have fully-embedded approach to managing climate-related financial risks by YE 2021
- **Sweden**
  - Annual Sustainability Reports
  - Insurance Sweden recommends insurance companies to report carbon footprint of investment portfolio
- **Netherlands**
  - DNB conducted energy transition stress test in 2018
  - Published guidance for financial services/banking
    - (Insurance guidance forthcoming)
- **Italy**
  - 2018 Questionnaires & supervisor information gathering



# Asia-Pacific

- **Hong Kong**
  - “Green Finance” recommendations (non-binding)
  - Only listed companies are required to make ESG disclosures
- **New Zealand**
  - Proposed legislation to mandate TCFD recommended disclosures
  - Applicable to all licensed insurers > NZD1billion or annual premium income >NZD250 million
- **Singapore**
  - Developing Environmental Risk Management guidelines.
  - Applicable to all insurers doing business in Singapore



# The Americas (non U.S.)

- **Argentina**

- Resolution 1008 requires insurance companies to allocate 1% of premiums to investment in environmental projects, including reforestation
- No mandatory disclosure or reporting requirements

- **Brazil**

- Superintendence for Private Insurance issued questionnaire to gather information about existing initiatives, reported in 2016
- No enforceable regulations adopted since

- **Canada**

- Regulators call for stress testing & encourage diversification of exposure through reinsurance
- Supportive of TCFD recommended disclosures

- **Chile & Colombia**

- Regulators encourage self-regulation but no mandatory reporting



# US Regulatory Initiatives



# A “Notable Laggard”

## Changes Underway at Executive Level

- Treasury Secretary Yellen – Climate Change is an “Existential Threat”
- Commodities Future Trading Commission Report (Sept. 2020)
- CFTC Acting Chair Behnam creates Climate Risk Unit
- SEC Seeks Input on Disclosure Revisions
- Federal Reserve Board Establishes Financial Stability Climate Committee & Supervision Climate Committee

## Congressional Focus

- Addressing Climate Financial Risk Act of 2021



# Senators' Letter to Insurers

## Focus on Fossil Fuel Underwriting

- Have you studied how your company's annual claims and premiums will evolve as climate-related losses burgeon over the coming decades? Which climate scenarios have you studied?
- Have you conducted a stress test of your company's exposure to fossil fuel assets? Which scenarios have you used? What did any stress tests reveal about your company's exposure to fossil fuel assets?
- How are your company's fossil fuel underwriting and investment policies consistent with your broader commitments to sustainability?



# State Insurance Regulation

## Efforts by NAIC

**Focus on scoping issue and developing guidance**

## New York

- Participation in International Endeavors
- Director of Sustainability & Climate Initiatives
- Circular Letter No. 15 (2020)
- Public Consultation on Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change
- Proposed Revision to ERM to include climate change risk consideration

## California

- Deputy Commissioner for Climate Change
- Series of Initiatives/Programs
- Climate Smart Insurance Database
- California Climate Insurance Working Group
- Climate Risk Carbon Initiative
- Scenario Analysis from 2° Investing Initiative

# State Legislation Addressing Climate Change & Insurance

3 General Types: Imposing Fees, Reporting, Working Groups

## Colorado

House Bill 1208 –  
impose fee to support  
climate change &  
disaster mitigation

## Connecticut & California

- CT Bill 1407 –  
Disclosing investments  
& exposure to carbon  
industry risks
- CA Senate Bill 449 –  
Entities with \$500  
million of revenue to  
report risks related to  
climate change

## Florida

- Senate Bill  
1872/House Bill 1623  
– Commissioner to  
convene the Climate &  
Resiliency Task

Any questions?



# Thank you



**Aidan M. McCormack**  
Partner, Litigation & Regulatory



**Scott Fischer**  
Partner, Litigation & Regulatory



**Ellen E. Dew**  
Partner, Litigation & Regulatory



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# MOVING FORWARD: TRENDS IN SUPERVISION AND PENDING ACTIVITIES

NAIC CLIMATE AND RESILIENCY EX TASK FORCE MEETING

Presentation by Anna Sweeney,  
Sustainable Insurance Forum  
(SIF) Chair

Wednesday, 5<sup>th</sup> May 2021



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# INTRODUCTION



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## ANNA SWEENEY

Chair, Sustainable Insurance Forum  
Executive Director – Insurance, Bank of  
England



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# AGENDA

- SIF OVERVIEW**
- KEY ACHIEVEMENTS**
- EMERGING TRENDS**
- SIF WORK PROGRAMME**
- Q&A**
- CONTACTS**



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# SUSTAINABLE INSURANCE FORUM (SIF)

The global leadership group  
of insurance supervisors and  
regulators working together to  
strengthen understanding and  
responses to sustainability issues.

30

MEMBERS

US\$5+

TRILLION GROSS  
INSURANCE  
PREMIUMS

92%

GLOBAL INSURANCE  
MARKET SHARE



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# SIF OVERVIEW

- ❑ Launched in December 2016.
- ❑ UN convened - SIF Secretariat hosted by the UN.
- ❑ Core partner: global standard setting body – International Association of Insurance Supervisors (IAIS).
- ❑ Observer of the Network for Greening the Financial System (NGFS).
- ❑ Dynamic platform for insurance supervisors.



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# SIF PARTNERS



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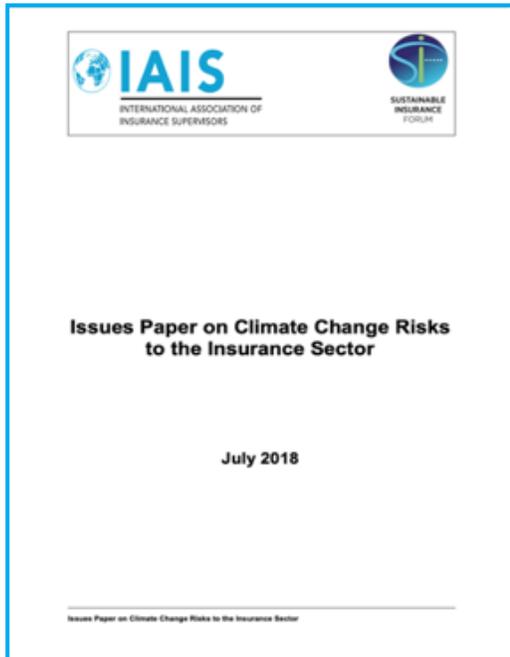


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# SIF KEY ACHIEVEMENTS



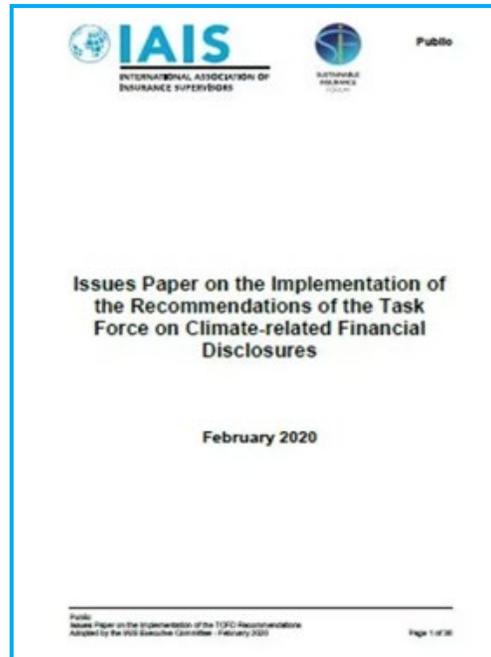
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**Issues Paper on Climate Change Risks  
to the Insurance Sector**

July 2018

Issues Paper on Climate Change Risks to the Insurance Sector



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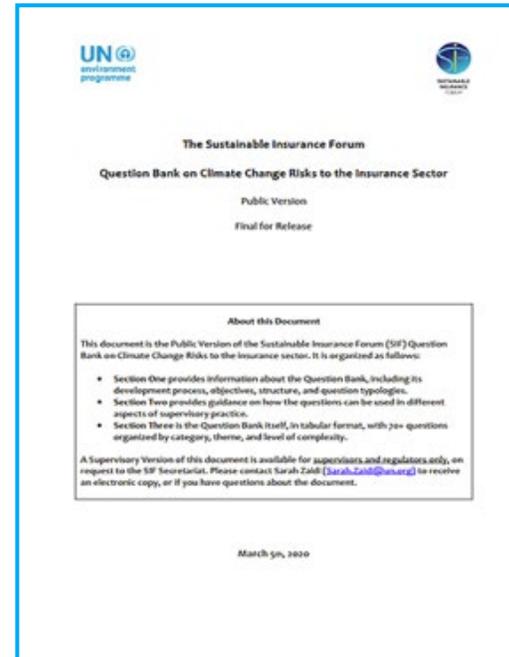
Public

**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

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**The Sustainable Insurance Forum**

**Question Bank on Climate Change Risks to the Insurance Sector**

Public Version  
Final for Release

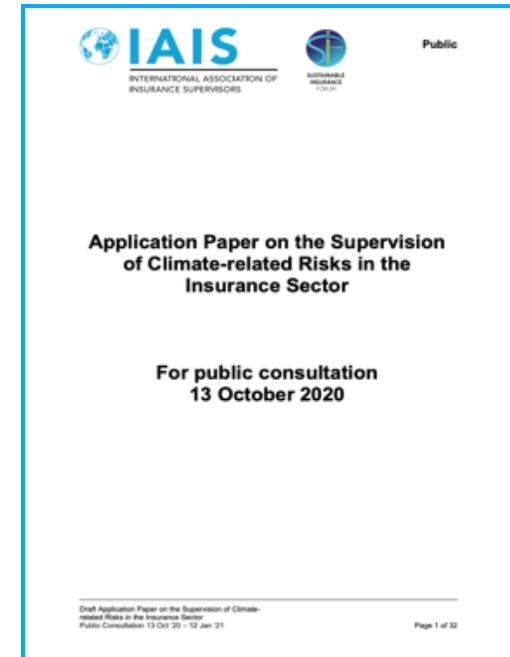
**About this Document**

This document is the Public Version of the Sustainable Insurance Forum (SIF) Question Bank on Climate Change Risks to the Insurance Sector. It is organized as follows:

- Section One provides information about the Question Bank, including its development process, objectives, structure, and question typologies.
- Section Two provides guidance on how the questions can be used in different aspects of supervisory practice.
- Section Three is the Question Bank itself, in tabular format, with 200 questions organized by category, theme, and level of complexity.

A Supervisory Version of this document is available for supervisors and regulators only, on request to the SIF Secretariat. Please contact Sarah Zaidi ([Sarah.Zaidi@unep.org](mailto:Sarah.Zaidi@unep.org)) to receive an electronic copy, or if you have questions about the document.

March 5th, 2020



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Public

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

**For public consultation  
13 October 2020**

Draft Application Paper on the Supervision of Climate-  
related Risks in the Insurance Sector  
Public Consultation 13 Oct 20 - 12 Jan 21

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## EMERGING TRENDS

- ❑ Supervisors are integrating climate-related risks into their supervisory expectations.
- ❑ Supervisors are increasingly incorporating climate-related risks in the supervision of the enterprise risk management of an insurer.
- ❑ A lot of initiatives can be seen in the area of disclosures, various jurisdictions introducing mandatory disclosure requirements for sustainability and/or climate-related risks.



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## SIF WORK PROGRAMME (2021-2023)

- ❑ SIF members have agreed to build on achievements in the 2021-23 work programme.
- ❑ Topics represent members' insights and potential pathways developed by the SIF Secretariat.
- ❑ Utilising SIF's unique position by focusing efforts on three thematic areas and producing a smaller number of high-quality outputs.
- ❑ A dynamic plan that will reflect industry developments and member input.
- ❑ Implementation of the work programme has already begun.



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# WORKSTREAM A - DELIVERABLES

## A. IMPACTS OF CLIMATE-RELATED RISK ON THE INSURABILITY OF ASSETS – ACCESS AND AFFORDABILITY

- ❑ Capacity building programme: including FSI to develop tutorial based on Application Paper, to be included in COP26 Hub for climate risk resources.
- ❑ Case study on climate risk to be integrated within the A2ii and Toronto Centre training program on inclusive insurance and COP26 Hub for climate risk resources.
- ❑ Public comparison paper to to examine the approaches being taken in different jurisdictions.
- ❑ Tools to support the implementation of TCFD disclosure recommendations.



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# WORKSTREAM B - DELIVERABLES

## B. BROADER SUSTAINABILITY ISSUES – E.G. NATURE-RELATED LOSS

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- ❑ SIF is conducting a scoping study on nature-related risks in the insurance sector – covering both underwriting and investment.

The study will assess:

- ❑ Dependency of the insurance sector on nature
- ❑ Nature loss related risks for the insurance sector
- ❑ Impacts of such risks
- ❑ Response/Management: From the perspective of both supervisors and insurance industry
- ❑ Member of Internal Working Group - Task Force on Nature-related Financial Disclosure (TNFD).
- ❑ Member of the new NGFS & INSPIRE - Greening the financial system joint study group on Biodiversity & Financial Stability.



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# WORKSTREAM C - DELIVERABLES



## C. CLIMATE RISKS IN THE ACTUARIAL PROCESSES

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- ❑ Partnership with the International Actuarial Association (IAA).
- ❑ Supporting the development of IAA's series of papers and webinars covering topics from actuarial modelling to product management to the application of climate scenario analysis.
- ❑ The SIF will provide a regulators' perspective to the development of IAA papers, and will conduct webinars to discuss and promote this work.



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QUESTIONS?





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# CONTACTS



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# How Boardrooms are Reacting to Climate Change

NAIC CRTF - Solvency Workstream - Panel Presentation

5 May, 2021

# Executive summary



- Regulators have a critical role to play in ensuring insurers:
  - Are a valuable contributor to the limiting of climate change
  - Remain financially robust through the transition



- Quantification of solvency is only one part of the regulatory toolkit:
  - There are substantial challenges in selecting any suitable quantification method
  - Nevertheless, boards are seeing significant value from applying the quantification/qualification processes



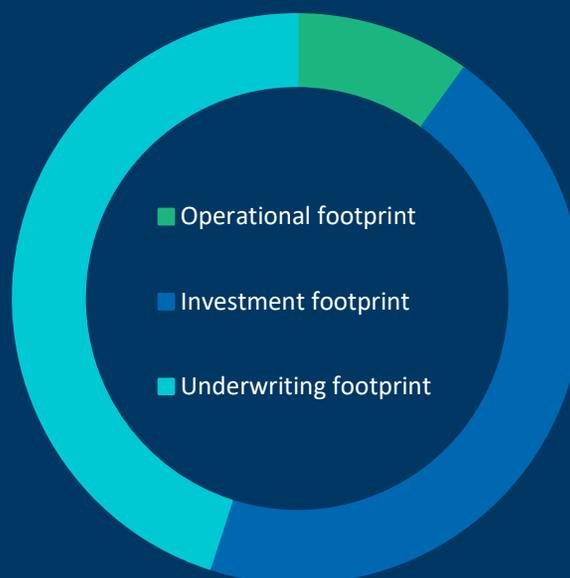
- Regulators around the world have decisions to make on:
  - The importance of, and desire for, consistency
  - The extent to which they impose a ruleset around insurers versus a principles-based exercise
  - The use of solvency aspects to 'reward' desired behaviours

# What is in the minds of insurers' board members?

The last 18 months has seen a substantial shift in thinking: sustainability is now on the minds of every board member of every major insurance company

## Sphere of Impact / Influence

- Sustainability considered for many years but with relatively low urgency
- Risks that were once on the horizon are now within touching distance
- Some of the biggest changes to come since the industrial revolution

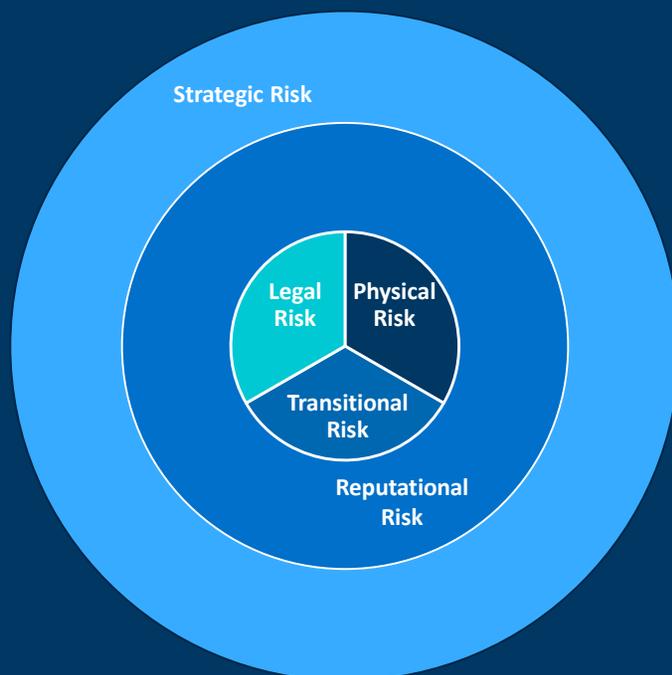


- Leading to substantial increased attention particularly on:
  - The investment portfolio
  - The underwriting footprint
  - The insurer's role in society
- Assessing both risk exposure and the ability to influence positive change
- An underlying concern about "getting credit where credit is due"

This is high on the board's agenda and real action is being taken

# What are boards' thoughts with regards to solvency?

Evaluation of climate risks and its impact on solvency is increasingly appearing on the agenda of the board



- Stresses conducted to date suggest robustness\*
- However, there is an acceptance that over the long-term, inaction *will* lead to adverse impact on solvency
- Stress and Scenario tests are useful exercises – unearthing key strategic and management actions we might take
  - Ultimate projections?
  - Irreversibility?
  - Impact of loss of diversification?
  - Time value?
  - Litigation risk?

\*for a typical insurer in a typical market

**Climate change, whether transitional, physical or legal risk, is as systemic as any risk can be, affecting every industry and human on the planet  
It is not so much balance sheet robustness, as it is strategic robustness that requires the most attention at the moment**

# Variations and dynamics across industry

Of course, the balance of focus has some variation based on size, geographic scope, and product line of the respective insurer



Despite a generally consistent acceptance of the issue, there is wide variation in strategic resilience; appetite for leadership; importance of international regulatory consistency;

# Observations from modelling

The impacts of climate change will take place over a long time and are irreversible – current time horizons fail to capture the full effects

“ *We do not need the ‘world’s best stress tests’, we need to consider all the risks, the value is in the exercise itself, not just the output* ”

“ *A battery of high level response plans is likely more valuable for an insurer than a few detailed response plans to specific scenarios* ”

“ *CEO tenure is shorter than ever and CEO pay is bigger than ever and this is counter productive to a long-term solution* ”

“ *The metrics and raw incentives are just not grounded enough to make all this happen without policymakers setting an overarching pace and tone* ”

- With any solvency test, there are inevitable challenges arising for these kinds of risk
- Insurers currently use very short time frames:
  - Typical business plans 3-5 years ahead
  - P&C companies tend to model contracts to renewal
  - Life/Pensions companies place very little weight on long-term CFs
  - Potential for a false sense of security
- Climate change is irreversible
- Longer time horizons properly reflect risks of assets and liabilities...
- ... but create greater uncertainty
- Exacerbated by great variation in ESG related data

**This is an inevitable challenge regardless of selective measures  
The insights that arrive from the process should be as important as the results themselves**

# Lessons to be learnt from COVID-19?

Though the crisis is by no means over there are some encouraging lessons that apply to the 'climate project'



Risk management frameworks are working well overall



Management actions have been effective at ensuring balance sheet stability



Reducing inclination for exposure to risks that cannot be mitigated



Economically, the COVID shock appears closer to V-shaped than L-shaped



Allowing agility has been critically important; directional action is preferable to letting 'perfect be the enemy of good'

COVID has shown it is possible to have a coordinated global regulatory intervention at a level never seen before

# Experts with Impact™



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