

IAIS work on climate risk and relevance of NatCat models

Miroslav Petkov, Senior Policy Advisor – Climate Risk, IAIS

Opening the world of catastrophe models public event, EIOPA

16 May 2023

IAIS Climate risk work

IAIS – the global insurance standard setter

The mission of the IAIS is to:

- Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to
- Contribute to global financial stability.

More than **200** jurisdictions,
constituting **97%** of global insurance premiums,
represented by **39** members of our ExCo



Climate risk

Broad consensus that climate change is a source of financial risk that impacts insurers, both in their roles as underwriters and investors.

Work focused on equipping supervisors to heighten their focus on the accelerating transition and physical risks and on ensuring that insurers take appropriate action in response.

IAIS work on climate-related risks

- In September 2021, establishment of **Climate Risk Steering Group (CRSG)**: tasked with coordinating the overall IAIS strategy in addressing climate related risks
- IAIS work focuses on:
 - **Undertaking analysis** to understand how climate change impacts the insurance sector and financial stability
 - **Promoting a globally consistent supervisory response** to climate change, by developing guidance on supervisory practices, reviewing existing IAIS standards to assess whether further work is needed, as well as by supporting cross-sectoral initiatives
 - **Assisting in capacity building** initiatives, in cooperation with our partners

Climate risk in IAIS 2023-24 Roadmap

The IAIS 2023-24 Roadmap includes the following climate risk related initiatives:

- Following a gap analysis, the IAIS will consider small updates to certain **Insurance Core Principles (ICP) guidance** and develop further **supporting material** to make it more explicit that insurance supervisors should require insurers to incorporate climate-related risks into their governance and operations:
 - The IAIS will launch three consultations in the next 18 months to gather feedback from stakeholders on the draft materials.
- As part of its Climate Scenario work, IAIS will continue to develop and share practical capacity building materials for insurance supervisors, which will form part of the second climate consultation
- Continue to refine the **data collection** on climate-related risk in the **annual Global Monitoring Exercise (GME)** and also explore introducing additional indicators to capture climate-related risks.
- IAIS will continue to bring the insurance sector supervisory perspective to the climate related work of the FSB and maintain its strong track record of **collaboration and cooperation** with standard-setting bodies to ensure that agendas are aligned

IAIS Possible Use of NatCat Models

Why IAIS Need NatCat Models

One of the key climate related focus areas for IAIS is to understand the materiality of climate change on future NatCat risks

For that we need estimates for the impact of climate change on NatCat losses by country and peril

Other uses on NatCat modelling data:

- help IAIS and a2ii assess NatCat protection gap and support inclusive insurance initiatives
- help to enhance physical risk modelling in NGFS climate scenarios
- inform physical risk metrics for FSB

Desired Model Characteristics

- Has global coverage;
- Covers all main perils and risk drivers (ie sea level rise);
- Has global exposure database;
- Can provide a view on modelling uncertainty
- Is easy to use, transparent and inexpensive to run
- Can be adjusted to perform sensitivity analysis on alternative set of assumptions

The tool does not need to be overly complicated as it is not necessary (initially) to have:

- granular exposure to run it for specific portfolios;
- precise figures but order of magnitude and direction of impact as we recognise the inherent uncertainty of climate change modelling

Advantages of Open Source Models

There are always trade offs between the different types of modelling approaches and platforms

Open source models:

- allow the supervisory community to tailor the model and adjust it over time for their specific use cases
- can provide flexibility to allow performing sensitivity analyses for assessing modelling uncertainty
- provide transparency in supervisors' assessment of NatCat risks
- can be used to ensure consistency in the assessments between different supervisors

Questions?



Thank you

Follow us on LinkedIn

