GIAJ comments on the IAIS consultation on "Issues Paper on Climate Change Risks to the Insurance Sector"

Section/Paragraph	
General comments on the draft Issues Paper	We, the General Insurance Association of Japan, are grateful for this opportunity to comment on the Draft Issues Paper on Climate Change Risks to The Insurance Sector (hereinafter referred to as "IP"). We agree with the objectives of the IP to raise awareness for insurers and supervisors of the challenges presented by climate change. On the other hand, we understand that discussions on how to deal with climate change are still at an early stage. Therefore, we would like to stress that in finalizing the IP (as well as in developing possible Standards if a decision is made to develop them), we believe that the IAIS should duly take into account the characteristics of different financial/insurance markets, their geographical environments and energy policies so that the IP and Standards will be implementable by more jurisdictions. We also would like to stress the importance of the IAIS carefully considering the opinions of private insurance companies that may be subject to regulation and supervision. We think that due consideration should be given to ensure that the IP will not cause unintended effects. For instance, we believe that in-depth discussions should be had not only from the limited viewpoint of insurance regulation and supervision, but also from broader perspectives including interactions with markets and the real economy, effects on broader economic activities, and the consistency with initiatives being considered for the banking and securities industries. Additionally, it should be noted that the existing TCFD framework consists of “recommendations for disclosure of information” and that they do not necessarily pose requirements on insurers to disclose information on loans/investments and the underwriting of companies related to fossil fuel energy across the board. Although climate change is referred to as a systemic risk in several parts of the IP (paragraphs 21, 31, and 244), we do not believe that it leads immediately to systemic risk for insurance companies at present. Insurance companies manage risks by reviewing underwriting terms at the time of contract renewal, and by utilizing loss mitigation schemes such as purchasing reinsurance. While climate change will greatly and directly affect insurance risks in the underwriting business due to the increase in frequency and strength of natural catastrophes, it is said to be difficult to discern whether or not each climate event is derived from climate change due to its physical impact being observed as a long-term trend in units of several decades. Moreover, as is also the case for other risks (market, strategic, investment, operational, and reputational), it is too early to refer to them as systemic without showing the type of risks and the transmission channels of their spillover more specifically. Therefore, we trust

General comments on the draft Issues Paper	that hereafter, when climate change is referred to as systemic risk, careful debates will be held by presenting grounds for arguments and providing proper reference to the grounds for making each argument. In the context of transition risks, the term “high carbon assets risk”, is used in some parts of the IP (paragraphs 31 and 84). However, unless the definition of the “high carbon” sector is clarified, using such a loose term, which seems to recommend adopting a specific index as a method to assess these assets, should be avoided as it is likely to cause misunderstanding.
Comment on Paragraph 19	In addition, while we are also aware that further consideration of the potential impact of climate change on mortality rates will be necessary, we do not see it as a priority matter for actuarial organizations at this time (paragraph 19).
Comment on Paragraph 231	Finally, in Chapter 8.9 (USA – California: California Department of Insurance), the IP states that the “SIF should continue urging the TCFD to call for mandatory disclosures. In addition, it should urge that the FSB and the G20 take concrete steps towards this end”. It is inappropriate for this comment to appear in this chapter, which describes the CDI’s efforts. Rather, it should appear merely as the expectations of the CDI regarding the SIF.