



Paragraph	Comments
General Comment	<p>We, the General Insurance Association of Japan, support the statement in paragraph 3, “The insurance industry plays a critical role in the management of climate-related risks in its capacity as a risk manager, risk carrier and investor, and is uniquely qualified to understand the pricing of risks”. We agree that the insurance industry plays a critical role in mitigating climate-related risks, and our member insurers are currently taking, promoting, or supporting initiatives to shift towards a decarbonized society. As there can be various approaches in handling climate risks, our members are addressing those risks in their own ingenious ways, and it is desirable that these efforts be fully respected, so that the companies are encouraged to further their voluntary efforts. We will continue to work with our members to promote the contribution of Japanese general insurance sector to advance the orderly transition to a decarbonized society.</p> <p>Paragraph 4 states that "Application Papers do not establish standards", and we understand this is consistent with our understanding that every effort is to be respected. However, when we take a careful look at each paragraph of the AP, there are several overly prescriptive expressions that may interfere with insurers’ practices. Considering there can be many different approaches to handling climate risks as stated above, the AP should avoid overly intervening in insurers’ practices in a prescriptive manner, and we suggest such expressions be modified. In particular, each insurer’s business decisions should be fully respected especially regarding their core business functions such as underwriting and asset management, and supervisors should avoid developing documents that promote the usage of particular measures or approaches regarding insurers’ core business functions, unless it is for supervisory objectives, such as policyholder protection.</p>
4	<p>While stating, "Application Papers do not establish standards or expectations...", it is also stated that, "This Paper thereby also aims to promote a globally consistent approach...". We believe the latter sentence contradicts the former sentence, and therefore propose deleting the following sentence: "This Paper thereby also aims to promote a globally consistent approach to addressing climate-related risks in the supervision of the insurance sector".</p> <p>In addition, as the word "guidance" implies standards and expectations, we suggest revising the third sentence as follows: “Application Papers do not establish standards or expectations, but instead provide additional reference to assist implementation”.</p>
12	<p>At this point in time, there are various analysis regarding the effect of climate change on the frequency, severity, and concentration of natural disasters and the extent of which it may be having an effect, considering the difficulty of measuring such effect. Therefore, we suggest revising the sentence as follows:</p>



	"Underwriting risk: Climate change may affect the frequency, severity and concentration of high impact natural catastrophes around the world, leading to increases in weather-related insurance claims".
12	Whilst we understand that the sentence, “Further, reductions in affordability or availability of insurance cover as insurers respond to climate risk may also lead to negative reputational impact.” refers to, for example, the sustainability of fire insurance, any assumptions that may lead to criticism towards insurers for raising premium rates through proper underwriting should be avoided, and therefore, the sentence should be deleted.
13	Although "introduction of a globally-agreed carbon pricing system" is included in the example, this is not agreed globally and is incorrect. We request this example to be removed.
20	We propose deleting the reference to ICP 9.4, as the purpose of the reference is unclear. While the ICP 9.4 “Requires more frequent reporting and/or additional information from insurers as needed,” it is not specifically intended to collect information on climate change but is rather a General Provision regarding additional information requests when needed. We do not consider this to be a basis for seeking climate change-related information, and therefore request deleting the reference. Also, requiring information from the insurer in a frequent manner is questionable from a cost-effectiveness perspective (i.e. workload vs effectiveness), assuming the impact of climate change will appear gradually over a long period of time.
22	There is no established calculation method for carbon-intensity in terms of underwriting, and the liability exposure of general insurance is fairly volatile, as most policies terminate after a single year. Thus, “···and liability exposure” should be excluded, and we request it to be deleted as follows: “•Carbon-intensity of sectors for asset; or”
27	As an example, it is noted that, "non-life insurers writing short duration products are likely to be more impacted from physical and liability risk". However, liability risk may be reduced through underwriting approaches, and it also appears that there have been very few cases of direct litigation against insurers. In this regard, we cannot necessarily conclude that any impact caused by liability risk is significant, and we therefore request deleting the reference to liability risk in this paragraph.
29	We believe this paragraph is too prescriptive. Status and composition of Board committees differ indeed from company to company, and therefore, "Board and Board committee levels, including··· risk committee", should be revised to "···Board and, where appropriate, Board committee levels···".
30	We believe the second sentence of this paragraph interferes with individual insurers' business decisions and such suggestion should not be made in the AP. We strongly request deleting this sentence.



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31	<p>While we agree that Senior Management is responsible for considering adding climate risk-related elements into relevant operational and business policies, developing and implementing "policies related to climate risk" itself are not necessary the responsibility of Senior Management. Therefore, "implementing the policies related to climate risk and/or" in the first sentence is too prescriptive and should be deleted.</p>
32	<p>The statement, “The alignment of (directors’) compensation with prudent risk-taking should take into consideration climate-related risks” interferes with individual insurers' business decisions. We believe the AP should not be overly prescriptive, and suggest revising the sentence as follows:</p> <p>“The alignment of compensation with prudent risk-taking can take into consideration climate-related risks, as appropriate, since risk adjustments generally account for all risk types relevant to the insurer”.</p>
33	<p>We agree with the fact that remuneration may be used as an incentive to integrate climate-related risks in the risk management framework. However, at this stage, we believe it is too early to mention linking it to “variable remuneration,” considering assessment methodologies for non-financial performance are yet to be established. Recommending this approach at such premature stage may encourage practices of developing requirements which are merely a formality. Thus, after deleting “As part of this…”, we suggest integrating the first sentence “Remuneration can indeed be used as an incentive to integrate climate-related risks in the risk management framework” into paragraph 32.</p>
34	<p>Given that this AP does not establish standards or expectations, "This section provides guidance on···" in the second sentence should for example, be revised to "This section discusses···".</p>
37	<p>What should be incorporated into insurers’ risk management policies varies depending on, among other things, the risk profile of each insurer. Thus, we believe that uniformly requiring insurers to document of climate-related risk management policies is excessive. We request deleting "and document" from the second sentence.</p>
41	<p>The sentence, "The following risk management areas may be particularly affected by climate-related risks: asset-liability management (ALM)" should be deleted for the following reasons:</p> <ul style="list-style-type: none">- As the changes in economic value related to climate change is due to, among other things, widened credit spreads and increased default of credit risk assets, and therefore is an issue of credit risk management.- ALM within insurers is essentially a market interest rate risk management issue and should be separate from credit risk management.- At this point, we are not aware of any widened credit spreads or increased default of credit risk assets due to climate change.



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42	<p>With regard to the risk management function, it is stated that, "(The risk management function should) ensure consistency within the insurer". However, if this refers to “business strategy and risk appetite,” it may be difficult to respond to this considering each country’s national policies, and if this refers to “quantitative and qualitative methods and metrics”, using the same method within the group company in a centralized manner may not necessarily desirable as approaches that take into account the different characteristics etc. of each region is needed. In addition, there may be cases where national supervisors already impose regulations such as regarding quantitative metrics and developing uniform regulations for insurance groups on top of that could cause a double burden on the insurer. Therefore, we suggest replacing “ensure” with “take into account” as follows:</p> <p>“The risk management function should use a range of quantitative and qualitative methods and metrics to monitor progress against the insurer’s overall business strategy and risk appetite and take into account consistency within the insurer”.</p>
43	<p>Underwriting and asset management are the core business areas of insurers, and insurer’s business decisions and approaches should be fully respected. In addition, while the use of “heat maps” or “ESG scoring” may be considered by each insurer in their underwriting and investment decisions, they should not be used as supervisory tools. Considering this AP is developed by supervisors, particular or specific methods should not be recommended. Thus, this entire paragraph should be deleted.</p> <p>In addition, although defining “a maximum exposure to policyholders in coastal areas in order to limit the risk exposure to flood risk,” is stated as an example, this needs to be carefully considered in light of the public nature of general insurance and the availability of insurance cover.</p>
44	<p>As the compliance function is responsible for ensuring that insurers be compliant with all relevant laws and regulations, it is not appropriate to single out and only mention ESG principles in this paragraph. The last sentence (after "Accordingly") is unnecessary and should be deleted.</p>
46	<p>Given that the impact of climate change will materialize gradually over a long period of time and that the relationship between "fast-evolving risks" and climate change may not be clearly explained, we request removing “in particular with regard to fast-evolving risk”.</p> <p>In addition, when considering the quality and completeness of underlying data, it should be noted that there are various analysis regarding the impact of climate change and the extent of which it may be having an effect, considering the difficulty of measuring such effect.</p>
48	<p>We believe this paragraph is too prescriptive. While we agree that Control Functions should have sufficient understanding of climate-related risks and their impact on risk portfolios, there are various ways to accomplish this and the AP should not specify a particular approach, as stated in the</p>



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	<p>paragraph, "insurers should adapt their internal policies and implement training programmes". As such, we propose deleting "adapt... programmes to".</p> <p>In addition, considering experience and knowledge required for Control Functions is not limited to experience and knowledge regarding climate-related risks, specifically mentioning regarding climate-related risks is irrelevant, and the second sentence (after "Insurers should") is unnecessary.</p>
section 5.1	<p>As we understand the impact of climate change will materialize gradually over a long period of time, unless insurers underwrite extremely long-term insurance contracts, it is unlikely that insurers will have to take into account the latest understandings of climate change in setting underwriting conditions and also make decisions taking into account aspects of climate change.</p> <p>(It is also practically difficult to make individual underwriting decisions for each case that considers climate change aspects.)</p>
54	<p>Footnote 14 is misleading and should be deleted. It refers to the level of greenhouse gas emissions, vulnerability to extreme weather events, and links to unsustainable energy practices, but how insurance results can be linked to these issues should not be discussed without any proof. Also, while it enumerates some sectors including agriculture and chemicals, it is unclear how these sectors were selected, and we believe these examples are misleading and inappropriate.</p>
56	<p>It is doubtful that the example described in Footnote 16 is an existing case. We strongly believe it is not appropriate mentioning such doubtful example in the paper and request that Footnote 16 be deleted.</p>
56	<p>The actual existence of the example given in Footnote 17 is also doubtful and inappropriate, and therefore should be deleted.</p>
57	<p>Referring to ratings developed by external parties seems to be somewhat abrupt, and the objective of rating usage is ambiguous. Rather than regarding the use of ratings as a premise, the IAIS should clarify why using such external ratings is needed and how they will be used.</p>
58	<p>At this point in time, there are various analysis regarding the effect of climate change on the frequency, severity, and concentration of natural disasters and the extent of which it may be having an effect, considering the difficulty of measuring such effect. Therefore, we suggest revising as follows:</p> <p>"Climate change may cause changes to the frequency and severity of loss events, which in turn may increase the risk profile of an insurer’s business portfolio".</p>
62	<p>In performing continuity analysis, insurers are required to include the direct and indirect impact of climate-related risks in the scenario analysis and (reverse) stress testing process, when risks are identified as material. However, there may be other approaches besides scenario analysis and (reverse)</p>



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	<p>stress testing in responding to climate-related risks. Therefore, in order to make it clear that scenario analysis and (reverse) stress testing are examples of the possible approaches, we propose revising as follows:</p> <p>"When material, this analysis should include the identification and assessment of the direct and indirect impact of climate-related risks. For instance, including as part of the scenario analysis and (reverse) stress testing process".</p>
62	<p>The description of the “claims-made policies” seems abrupt. While only claims-made policies are mentioned in this paragraph, the same could be said regarding the occurrence-based policies, as claim payment in both policies require “accidental events insured” defined in the terms and conditions of policies to occur during the duration of the insurance coverage, and explanation for only mentioning claims-made policies is not provided. Moreover, regarding the conclusion that “Insurers offering claims-made policies should consider appropriate exclusions and/or limits,” rationale behind this conclusion is not clear. Therefore, we believe the following second sentence should be deleted:</p> <p>“Insurers offering claims-made policies should have an understanding of the potential impact on their liability risks as a result of increasing pressure on Boards to manage their companies in a responsible manner, especially as it relates to the environment, and should consider appropriate exclusions and/or limits”.</p>
64	<p>In ORSA, insurers identify risks that are material to their company and describe responses and assessments, etc. regarding the identified risks. Materiality of climate-related risk differs across companies, and therefore, we believe it is not appropriate to require documentation and explanation regarding climate-related risk regardless of each companies’ materiality assessment. Thus, we suggest deleting paragraph 64.</p>
66	<p>It is stated in paragraph 4, "Application Papers do not establish standards or expectations," and therefore, "This section provides guidance related to supervisory expectations···" in the third sentence should be revised to, for example, "This section discusses supervisory viewpoints···".</p>
67	<p>It is unclear what "This" at the beginning of the second sentence refers to. Judging from the rest of the sentence, we understand “this” refers to transition risk, and if that is the case, it should be revised as such.</p>
69 - 71	<p>It is stated that, "Climate change can negatively affect the matching of assets and liabilities", However, if there is such anticipation, we believe it is not due to incongruity of interest rate matching, but rather is due to widened credit spreads or increased default of credit risk assets embedded in ALM. If so, it should be sufficient as long as climate-related components are considered in credit risk management regarding assets, not necessarily in the context of ALM. Therefore, we believe the description of ALM (paragraph 69-71) should be removed from this AP.</p>



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73	<p>With reference to "...ensure that the rating methodology is sufficiently transparent..." and "...consider the extent to which climate risk has been factored into the rating...", these factors are not controlled by insurers, but are rather subject to the disclosure policies of external rating agencies. Thus, the following sentences should be deleted.</p> <p>"However, insurers should ensure that the rating methodology is sufficiently transparent to allow them to understand the ratings provided for their investments. Insurers should also consider the extent to which climate risk has been factored into the rating as well as the time horizon of the assessment."</p>
section 7	<p>Regarding disclosure, although TCFD aligned disclosures are developing, they are still at an early stage. In particular, there are issues such as insufficient data and the lack of a quantitative method for disclosing risk-related information, and the insurance sector is currently exploring various ways of moving forward. In such circumstances, it is important to start with voluntary disclosures, share practices, and promote disclosure in a step-by-step approach.</p> <p>While paragraph 4 states "Application Papers do not establish standards," there are many prescriptive descriptions in this section that seem to specify in detail what insurers should disclose. It should be noted that mandatory disclosures without established methods may lead to a one-size-fits-all approach, such as simply placing checkmarks on check sheets and that such approach may not promote understanding and actions regarding climate-related risks and opportunities among insurers.</p> <p>Therefore, we request every wording of "should" be replaced with "may" or "could".</p>
78	<p>The ICP 20 Standard does not require "insurers to provide information on all material risks faced by the company and its management". As we believe the description in this paragraph is an arbitrary, stretched interpretation, we request the first and second sentences, which refers to ICP 20, be deleted.</p>
80	<p>When using the TCFD Framework for insurance supervisory objectives, the fact that TCFD Recommendations were originally developed to help investors and other users of disclosed information, to understand climate-related risks and opportunities rather than to serve supervisory objectives, should be taken into consideration. Expected disclosure for insurance supervisory objectives and disclosure that is useful to investors may not necessarily be the same, and trivializing the latter as a result of overemphasizing the former should be avoided. In addition, the fact that the resources of the companies that prepare the disclosure are limited should also be considered.</p>



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82	The overly prescriptive expressions in this paragraph should be revised. Specifically, "Insurers should···" in two places should be revised to "It is recommended for insurers to···", and "They should···" at the beginning of the last sentence should be revised to "It is also recommended···". It should be noted that these are not requirements but recommendations in the TCFD recommendations.
83	This paragraph should be revised as follows, as we believe it is too prescriptive: "Insurers that perform climate-related scenario analysis on their underwriting activities are encouraged to disclose a description of the climate-related scenarios used, for example, the critical input parameters, assumptions and considerations, and analytical choices. It is also recommended for them to indicate how the assumptions and parameters align with their risk appetite and strategic business direction".
84	With regards to this paragraph, we believe explanation should be necessary only for those that are material. This paragraph seems prescriptive, and therefore, "where material" should be added to either the beginning or the end of the sentence.
85	This paragraph seems too prescriptive. What is listed in this paragraph are examples, and each company should consider how and what to disclose according to the materiality. This paragraph should be deleted or modified to make it clear that they are illustrative examples.
86	Regarding disclosure of the external impact of insurers, while this paragraph requires disclosing “the impact to the environment from the insurer”, ICP 20 mentions requiring disclosure of “the external environment which it operates”. Considering it is not required in ICP 20 and is an excessive requirement, we request this paragraph be deleted.
88	This paragraph seems not only overly prescriptive, but also inappropriate as it requires to disclose insurer’s confidential information. Also, while the description seems as though liability risk scenario analysis is possible, such method does not exist at this point in time and therefore is inappropriate. Moreover, although “exclusion policies” are stated at the beginning of the examples, they should not come first because exclusion is a last resort. Accordingly, this whole paragraph should be deleted, or at least revised as follows: “88. Insurers are encouraged to disclose the process by which they have identified, assessed and managed climate-related risks and opportunities. In this case, insurers should be able to evidence this, preferably in written manner, for example risk management policies, management information, or Board risk reports”.
89	We believe it is difficult to disclose matters regarding investment strategies, as they are directly related to the investment activities of each company. Therefore, we request revising "investment strategies" to "investment policy".



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