Position Paper

Insurance Europe comments on the FSB consultation on climate-related financial disclosures

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General comments

Insurance Europe, the European insurance and reinsurance federation, welcomes the opportunity to respond to the public consultation run by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures.

The European (re)insurance industry has long identified climate change as an emerging risk and has been accumulating and sharing expertise on climate risks for many years. Over the years, the industry has been promoting climate-change mitigation and adaptation on a voluntary basis, by explaining how climate-related risks and opportunities affect its business strategy and governance. Against this background, Insurance Europe supports the objectives of the Task Force's work, which recognises that one of the most significant, and perhaps most misunderstood, risks that organisations face today relates to climate change.

Insurance Europe recognises the benefits of climate-related information and disclosures, which can enable analysis by all stakeholders and thus promote a better understanding of climate change-related risks. However, the voluntary nature of the disclosures must be preserved, not least due to the lack of data and developed measurement methodologies. In addition, any reporting recommendations should acknowledge the sensitive nature of the required information and should therefore not pose threats to competitive advantages stemming from superior investment/underwriting strategies.

Insurance Europe strongly encourages the FSB to investigate how the emerging recommendations interact and could be aligned with various other climate-related disclosure initiatives. A coordinated approach by international organisations (including IOSCO, the OECD and the IASB) on the issue of climate-related disclosures would avoid companies facing different/overlapping/conflicting reporting concepts and frameworks.

Insurance Europe believes that the Task Force's work is important for the reorientation of the economy towards a low-carbon footprint and looks forward to opportunities to contribute to this workstream.

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Comments on the recommendations

Recommendations on climate-related disclosures by companies could be beneficial for insurers in their investment and underwriting activities. Specifically:

- From an investment perspective, climate-related disclosures by potential investees can enable insurers to enhance their risk analysis and identify specific cases where the business of investees are exposed to climate-related risks.
- In addition, disclosures enhance insurers' ability to understand exposures to physical and transitional climate-related risks associated with their underwriting activity.

However, it is paramount that such recommendations are defined in a way that incorporates key principles such as proportionality and materiality, to ensure a manageable implementation by companies. Specifically:

- Reporting should be tailored to companies' size and ability to implement the recommendations.
- Encouraging stakeholders to be more transparent should seek to avoid an additional layer of reporting with potential negative impacts on business in the form of excessive reporting costs.
- Companies should be granted a sufficient transition period in which to implement the recommendations.

While supporting the objectives of the recommendations, Insurance Europe notes that:

- Such disclosures should not force insurers to reveal business-sensitive information, as this could undermine competitive advantages stemming from — for example — superior investment strategies.
- While quantifying climate-related risks is possible for some investments (eg equities), there is often no established methodology for identifying climate-related risks embedded in a range of asset classes in which insurers invest (eg real estate, corporate bonds, etc.). In such cases, the lack of established methodologies can lead to inaccuracy in the outcomes.

In relation to scenario-level reporting, Insurance Europe believes that:

- Scenario-level disclosures should be kept at a high-level and should not be mandatory, while recognising that the identification of climate-related scenarios can often assist companies in devising their forward-looking business strategies.
- Where insurers use scenarios in underwriting weather-related risks, having to disclose too detailed information (eg the parameters used) could potentially undermine the competitive advantage of insurers, stemming from — for example — superior underwriting methodologies and risk pricing.
- From an investment perspective, it is useful and important for insurers to understand the impact of various scenarios on an investee company's business model. However, such information does not have to be part of financial reports, as it can be elicited through bilateral engagement with the investee.
- Gaps in the availability of data and developed methodologies make scenario identification and analysis difficult for insurers.

Finally, Insurance Europe strongly encourages the FSB to investigate how the emerging recommendations interact and could be aligned with various other climate-related disclosure initiatives. A coordinated approach by international organisations to the issue of climate-related disclosure would avoid companies facing different/overlapping/conflicting reporting concepts and frameworks.

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