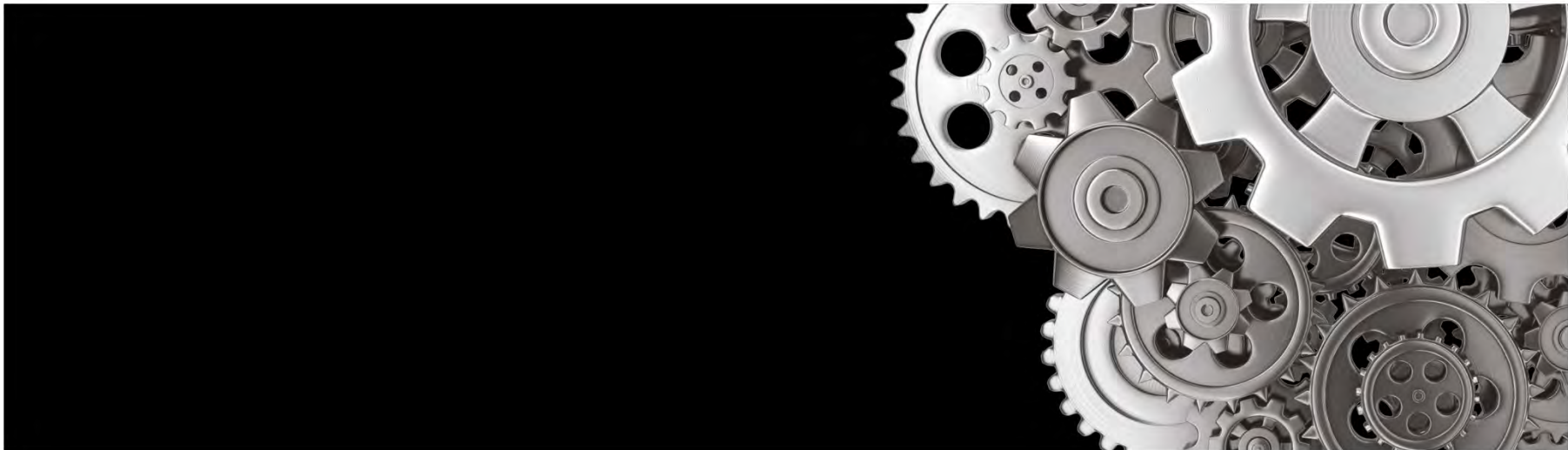




[R]EVOLUTION
Aon's 16th Hazards
Conference 2019 **OF RISK**

23-25 September 2019 | Gold Coast, Australia



Next steps on climate-related financial disclosure

Sharanjit Paddam
Head of ESG Risk
QBE Insurance Group

Abstract

Increasingly insurers are committing to disclose their climate risks and opportunities following the recommendations of the Financial Stability Board's Task force on climate-related financial disclosures (TCFD), and many have already begun such disclosure.

A key requirement is for insurers to undertake scenario analysis, and to disclose both the financial impact of different scenarios, and their strategic responses to these scenarios.

Needless to say this is easier said than done, especially given the current uncertainties in the behaviour of perils at a local level, and the resulting potential for insurers to adopt very different assumptions.

In this presentation we will discuss attempts to develop standards on the measurement of climate physical risks to assist insurers and other stakeholders in building confidence in our disclosures.

Taskforce on climate-related financial disclosure

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning .	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions , and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios , including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.



QBE Approach

- Committed to full implementation of TCFD by 2021

QBE Climate Change Action Plan

- QBE has made a public commitment to the recommendations of the Task Force on Climate-related Financial Disclosures.
- Climate Change Action Plan sets out how we will achieve this.
- We have completed:
 - Implemented governance
 - Established an ESG Risk team
 - Established Climate Change Working Groups
 - Performed a high-level impact assessment
 - Assessed the alignment of our investment portfolio to Paris Agreement
 - Integrated climate risk within our ERM
- We are in the process of:
 - Deep dive analysis of underwriting portfolios for liability and transition risk
 - Undertaking physical risk scenario analysis
 - Identifying opportunities from transition risk
- Next year we will:
 - Complete scenario analysis including strategic responses
 - Develop metrics to monitor our performance and set targets

	DESCRIPTION	ACTION	2017	2018	2019	2020
Governance	Disclose the organisation's governance around climate-related risks and opportunities	Board:		✓		
		• Strengthen Group Board and Committee oversight of climate-related issues		✓		
		• Strengthen divisional governance of climate-related issues			✓	
		Management:				
		• Establish senior cross-functional, cross-divisional Climate Change Working Group to support the Board and management in identifying and managing climate-related risks and opportunities	✓			
		• Sign TCFD Statement of Support with commitment to begin disclosures in February 2019		✓		
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material	• Complete high level impact assessment of physical, transition and liability risks and opportunities across the business over the short, medium and long term		✓		
		• Review investment strategy to ensure it appropriately reflects consideration of climate-related risks and opportunities			✓	
		• Complete further detailed analysis of climate-related risks and opportunities in priority underwriting portfolios			●●●	
		• Review underwriting strategy in line with detailed analysis of climate-related risks and opportunities				●●●
		• Participate in the UNEP FI Insurance Industry TCFD pilot group on scenario analysis				●●●●●
		• Integrate additional climate-related scenario analysis into strategic planning across the business				●●●●●
Risk Management	Disclose how the organisation identifies, assesses and manages climate-related risks	• Establish ESG Risk team to coordinate ongoing integration of climate-related risks and opportunities across the business		✓		
		• Review Enterprise Risk Management Strategy and Framework to ensure they appropriately reflect climate change considerations		✓		
		• Review risk classes, risk appetites and risk management standards and processes to ensure that climate change risks are properly reflected		✓		
		• Integrate multi-year scenario analysis into risk management strategy				●●●●●●●
Metrics & Targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	• Disclose scope 1, 2 and 3 operational greenhouse gas emissions	✓			
		• Evaluate metrics and targets for assessing climate-related risks and opportunities that are in line with strategy and risk management processes				●●●●●●●
		• Disclose metrics and performance against targets for assessing climate-related risks and opportunities				

KEY

- Commencement date
- Continued in progress
- Target completion date
- ✓ Action completed

TCFD Compliance

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities. ✓	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. ✓ <input type="checkbox"/>	a) Describe the organization's processes for identifying and assessing climate-related risks. ✓	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. <input type="checkbox"/>
b) Describe management's role in assessing and managing climate-related risks and opportunities. ✓	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning . <input type="checkbox"/>	b) Describe the organization's processes for managing climate-related risks. ✓	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions , and the related risks. ✓
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios , including a 2°C or lower scenario. <input type="checkbox"/>	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management. ✓	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. <input type="checkbox"/>

Tough questions for working groups: use our internal experts – underwriters, claims etc.





Challenges for the industry

Climate Data Deficit

Insurers, for example, are experts in assessing and pricing risk, but doing this accurately requires access to reliable data, such as such historical records, models and scientific analysis. If past experience is no longer a reliable guide as to what will happen in future, insurers' ability to underwrite their policies and calculate premiums that keep the business competitive and profitable inevitably suffers.

Geoff Summerhayes – APRA Executive Board Member

Two key challenges

TCFD is incomplete

- Low barriers to entry
- A lot of interpretation required
- An inconsistent approach could result in a lack of confidence in our disclosures

TCFD breaks new ground

- Insurers have never disclosed cat model results
- Long-term risk in a short-term business
- Challenging questions

TCFD is incomplete (I)

Requirement	Question	Options
Disclose short, medium and long term, considering: <ul style="list-style-type: none"> - Life of assets - Profile of climate-related risks - Sectors & geographies 	<ul style="list-style-type: none"> • What are these in relation to one-year general insurance contracts? 	<ul style="list-style-type: none"> • Lifetime of underlying asset being insured • Insurance contract term, allowing for renewal probabilities?
	<ul style="list-style-type: none"> • Current or future exposure or vulnerability? • Exposure in particular is very significant, and for physical risk need specific assets, not general growth assumptions 	<ul style="list-style-type: none"> • Current exposure most logical and not subject to overly optimistic assumptions (cf. energy industry) • Management action to be considered in addition to no action
	<ul style="list-style-type: none"> • Peril or geographical splits? 	<ul style="list-style-type: none"> • Likely to be useful to demonstrate robustness of analysis • Ensure that no components are missing

TCFD is incomplete (II)

Requirement	Question	Options
Insurers to disclose impact on revenues, expenses, assets and liabilities.	<ul style="list-style-type: none"> • What line items should be disclosed? • Gross or net of reinsurance? • Taxation impacts? • What inflation/discounting assumptions to capitalise cash flows? 	<ul style="list-style-type: none"> • IFRS 17 or consistency with current accounting standards? • Annual or other periods?
	<ul style="list-style-type: none"> • Should this be at the mean/expected level, or also at a probability of adequacy level? • What about capital impacts? 	<ul style="list-style-type: none"> • Capital is a crucial question – expect costs of capital to increase because of increased volatility in claims • Cost of capital is a critical question in how we price and underwrite business • Current regulatory capital regime is one-year horizon
Describe the resilience of the organization's strategy	<ul style="list-style-type: none"> • What does “resilience” mean in this context? 	<ul style="list-style-type: none"> • Is financial impact that does not result in solvency OK? • Real risk is not higher claims, but unaffordability leading to a loss of market

TCFD is incomplete (III)

Requirement	Question	Options
Description of the critical input parameters, assumptions and considerations, and analytical choices	<ul style="list-style-type: none"> • Seriously??? For Cat Modelling??? 	<ul style="list-style-type: none"> • What is sufficient enough to demonstrate robust thinking, but not overly complicated
	<ul style="list-style-type: none"> • What are the critical parameters, assumptions and choices? 	<ul style="list-style-type: none"> • Importance of sensitivity analysis before scenario analysis • Identify which parameters, assumptions and choices result in the greatest change in financial impact
Uncertainty	<ul style="list-style-type: none"> • How should insurers disclose the uncertainty in their estimates of financial impact? 	<ul style="list-style-type: none"> • Scenario Analysis takes care of political uncertainty... • But within each scenario there are significant uncertainties

TCFD breaks new ground

Cats

- Never disclosed details of our cat modelling before
- Not interested in forecasts – we want scenarios
- Lower level of accuracy needed – we will never actually price contracts on these scenarios
- Is the board ready to sign off on this disclosure?

Long-term risk

- The real risk from climate change is a loss of market as products become unaffordable or uninsurable
- Its not the claims its the premiums
- How do we explain or disclose this?

New questions

- Physical risk – integrating climate into our cat models
- Liability risk – How policies respond will be determined in court. Are we opening ourselves up if we disclose under the assumption they respond?
- Transition risk – it's not just the change in the size of economic sectors, but the change in the **risks** of those sectors.



Meeting the challenges

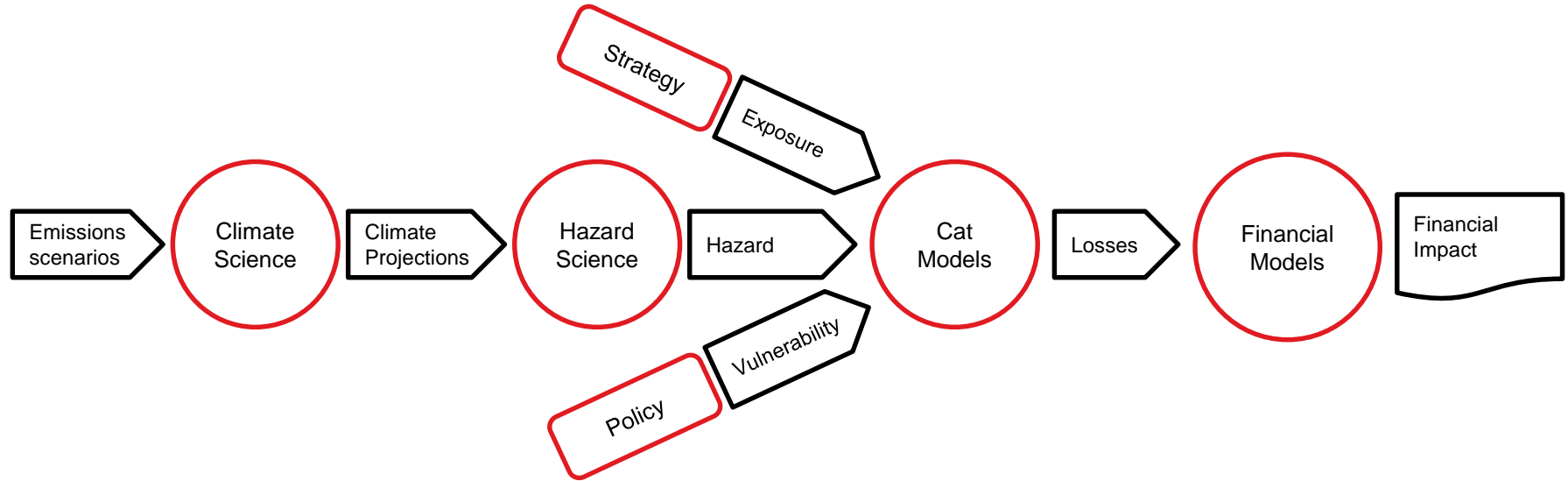
Climate Measurement Standards Initiative

- An industry-lead collaboration between insurers, banks, scientists, regulators, reporting standard professionals, service providers and supporting parties to develop open-source technical business and scientific standards for climate physical risk projections of future repair & replacement costs of residential and commercial buildings and infrastructure in Australia.

Reduce the risks and costs of disclosure for companies

- Confidence through standards rather than more disclosure
- Confidence through comparability between insurers
- Confidence through appeal to authority
- Guide for developers and model vendors
- Enable widespread adoption
- Focus research & development on what we actually need
- Meaningful and practical regulation

Integrate the science and the models



**Six month
Sprint**

**Publish
Draft for
Consultation**

Iterate

Steering Group

- Scope & members of committees
- Funding ~\$10,000 each

Financial Disclosure Committee

- What should we be disclosing under the TCFD?

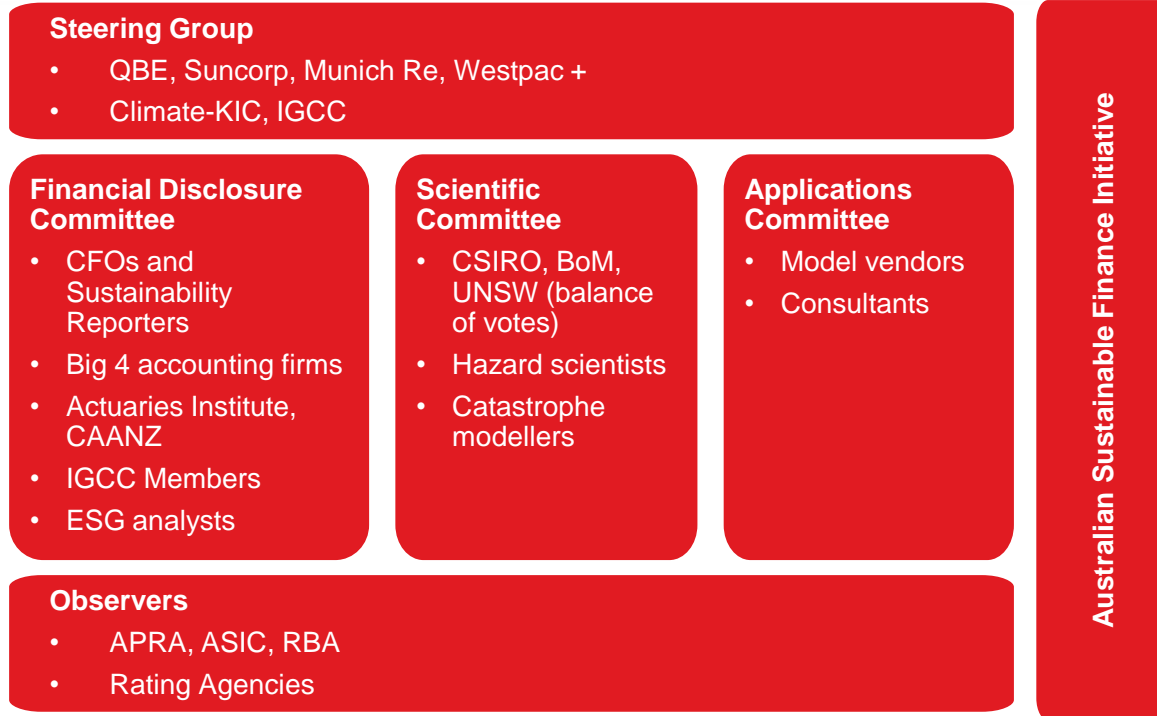
Scientific Committee

- How can we do that today?
- How can we do that in the future?
- What's the R&D Roadmap?

Applications Committee

- Fully specify three scenarios for modelling

CMSI – Who?





Questions