



Climate change risk governance



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Introduction

This report aims at shedding light on the evolution of industry practices regarding governance of the risk associated with climate change and their evolution since the previous document published by the ACPR in 2019 (No. 102 *analyse et synthèse*, “French insurers facing climate change risk” published in April 2019¹.), which highlighted the need for insurance and reinsurance undertakings to:

- Further define their climate risk management strategy;
- Adapt their governance mechanism;
- Establish indicators so as to assess the risk associated with climate change;
- Increase transparency-related requirements.

This report forms part of a drive towards co-construction and good practice sharing. It brought together twenty-one insurance and re-insurance groups² as well as three trade associations³ for four round-table discussions scheduled between April and June 2021, during which the various aspects of climate governance were studied according to five topics⁴: strategy, risk management, communication, role in awareness-raising and internal organisation.

Without being exhaustive, the practices detailed in this document illustrate the way in which (re)insurers have taken into consideration all the issues related to the impacts of climate change and are acting to strengthen their governance of climate risks. This report can serve as a source of inspiration for institutions in their efforts to integrate climate change risks.

Furthermore, the regulatory framework dedicated to the consideration of the climate risk is undergoing tremendous changes, whether they be at the European level, with the publication of the taxonomy regulation⁵, the implementation of the SFDR (Sustainable Finance Disclosure Regulation)⁶, the review of the Solvency II Directive, and discussions around the CSRD (Corporate Sustainability Reporting Directive)⁷, or at the national level in France with the 2019 Energy and Climate Law⁸. This changing regulatory background implies the need for a regular reassessment of the adequacy of practices referred to in this document. Work on this topic is to be continued with that purpose in mind.

This report focuses on the risks related to the exposure of (re)insurers to the physical, transition and liability risks that stem from climate change. In the interest of simplification, risks related to climate change will be referred to as “climate risks” in the remainder of this document. It should be noted that these risks have various time horizons, which complicates their

¹ “Climate change risk” refers to risks caused by climate change.

² ACM, AEMA, AG2RLM, ALLIANZ, AVIVA, AXA, CARDIF, CCR, CAA, CHUBB, CNP, COVEA, GENERALI, GROUPAMA, MACSF, MAIF, NATIXIS ASSURANCES, PROBTP, SCOR, SMABTP, SOGECAP

³ CTIP, FFA, FNMF

⁴ Strategy, risk management, communication, role in awareness-raising and internal organisation

⁵ Taxonomy for a sustainable economy, Regulation 2020/852/EU of 22 June 2020

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

⁶ Regulation 2019/2088/EU of the European Parliament and Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

<https://eur-lex.europa.eu/legal-content/fr/ALL/?uri=CELEX%3A32019R2088>

⁷ Proposal of the European Commission for the CSRD

[Corporate sustainability reporting | European Commission \(europa.eu\)](https://ec.europa.eu/commission/press-detail/index.cfm?id=press_release_detail&lang=fr)

⁸ French Energy and Climate Law of 8 November 2019

<https://www.legifrance.gouv.fr/loda/id/JORFTEXT000039355955/>

understanding. The definitions of these climate risks are based on the first report by the NGFS⁹ and on ACPR publication No. 102¹⁰:

- Physical risk measures the direct impact of climate change on persons and goods. For (re)insurers, it stems from an increase in the frequency and costs associated with extreme weather events (droughts, floods, etc.) on physical assets and the consequences of global warming on life risks (new areas impacted by malaria, etc.). Physical risk has a direct impact on undertakings, both through the impairments in value associated with assets held by (re)insurers and through changes in the frequency and cost of these risks on the liability side of the balance sheet.
- Transition risk stems from a change in the behaviour of economic and financial agents as a result of the implementation of regulatory developments, energy policies or technological changes. Transition risk has an impact on undertakings through decreases in the value of assets the activities of which are considered as polluting or not compatible with the ecological transition, through changes in exposures, but also through the loss of insurance contracts concerning these activities or stemming from a shift in consumer preferences.
- Liability risk corresponds to the damages that a legal entity would have to pay if it were held liable for global warming. (Re)insurers are exposed to this risk: directly, where these institutions are held liable for having contributed to the consequences of climate change, a liability that is certainly difficult to establish, and indirectly, if the institution is exposed to companies that are held liable themselves, through the channels of counterparty risk, market risk and reputation risk.

Furthermore, it should be noted that this report focuses both on the measures taken by insurers to adapt to climate risks, particularly through balance sheet risk management, and on the measures and actions taken to contribute to the mitigation of climate change. Firstly, the report develops how the undertakings organise themselves (so as) to adapt to these emerging risks by addressing the following topics: strategy, risk management and internal organisation. Then it continues on to the relationship between the undertakings and their stakeholders by elaborating on how they communicate and how they intend to raise awareness.

This report is the result of discussions between the Authority and participants in round-table meetings that marked the first work undertaken with the financial centre on this topic. This work could be continued to further develop or broaden certain topics so as to continue making progress on this fundamental issue.

⁹ Network for the Greening of the Financial System: “First comprehensive report: A call for action Climate change as a source of financial risk”, April 2019.
https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

¹⁰ https://acpr.banque-france.fr/sites/default/files/medias/documents/20210602_as_exercice_pilote_english.pdf

1) Strategy

The impact of climate risk on activities, and beyond that, on the business model, is increasingly becoming a central component of (re)insurers' strategy. Given the potential impacts on their activity in the short term, and on their investments and their business model in the longer term (change in policyholder behaviour, regulatory developments, increase in the number of claims, stranded assets, insurability issues, etc.), undertakings stressed the need to integrate climate change risk as a significant element to be taken into account in the development of their strategy. In order to develop a suitable strategy, (re)insurers emphasised the need to take the following elements into account: identifying and understanding climate risk so as to define strategic objectives and associated risk management measures that account for both its various components and its long-term horizon.

- a) The identification of the various components of the risk associated with climate change constitutes a key prerequisite to the development of an appropriate strategy.

Finding: In order to integrate the risks associated with climate change to the strategy of groups and to their business model, undertakings ensure that they have a proper understanding of these risks, the materiality of their impact on business, and the associated constraints and opportunities.

- i) It was stressed that in order to establish an adequate climate strategy, risks must be identified in an exhaustive and detailed manner, according to the breakdown presented below, which is commonly used: (i) physical risk, (ii) transition risk and (iii) liability risk.
- ii) Risk factors, whether they be internal or external to the institutions (market behaviour, public policy, etc.), may limit (re)insurers' ability to adapt and optimise their strategy with a view to facing climate change, as mentioned in the decree implementing the French Climate and Energy Law¹¹. The identification of these external constraints (such as public policies for the divestment from fossil fuels) and internal ones is therefore paramount to the assessment of an institution's room for manoeuvre.
- iii) Climate risks impact the insurance business, and conversely, (re)insurers' business can also have an impact on climate change and the environment. This concept is referred to by the European Commission as "double materiality"¹². Therefore, when identifying climate risks, undertakings cannot confine their analysis to the consequences on their activities. They also have to take account of the potential adverse externalities of their activities on the environment. Management measures for these two types of risks may differ depending on the materiality over time of their financial and non-financial effects.
- iv) Given the uncertainties associated with climate change and the risks this may pose to the implementation of the strategy, comparing existing data and work is key.

¹¹ Decree No. 2021-663 of 27 May 2021 under Article L. 533-22-1 of the French monetary and financial Code

<https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000043541738>

¹² https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

Insurers call on internal and external experts through various channels (in-house scientific committee gathering experts from various fields, occasional recourse to external experts, etc.) so as to: (i) supplement their data¹³; (ii) compare the effectiveness and appropriateness of methods to advance the climate change support strategy.

- b) The long-term aspect of the climate change risk is increasingly being accounted for through the setting of long-term strategic targets with intermediate milestones.

Finding: Once the climate risks have been identified, undertakings must ensure these risks are managed in the short term and in the long term. Consequently, as for other elements taken into account in the strategy, (re)insurers increasingly integrate the climate change risk by defining a long-term pathway with intermediate milestones.

- i) The strategy established by undertakings must account for the time lag between strategic plans, which often provide a vision going forward 3-5 years, and climate change which already has effects today that are expected to intensify over longer time horizons. This may include the design of strategic plan objectives as milestones towards longer-term targets, consistently with the objectives fixed by public policies such as the carbon neutrality target by 2050 laid down in the European Green Deal to comply with the 1.5°C pathway. It is therefore important to set short-term objectives that can be seen as intermediate milestones on a path towards a longer-term target. Some groups have already set carbon footprint reduction goals by 2025 for their investment portfolios (as a minimum, Article 29 of the French Energy and Climate Law requires the setting of targets to be reached by 2030) to reach their commitment to carbon neutrality by 2050.
- ii) In order to ensure the effectiveness of intermediate milestones, (re)insurers have stated that the milestones should be associated with quantitative and qualitative indicators analysed and reviewed at regular intervals. For example, in its target setting protocol¹⁴, the Net Zero Asset Owner Alliance sets targets for reducing the carbon footprint of investment portfolios to achieve carbon neutrality by 2050, and the first milestone with numerical targets is set in 2025. In addition, indicators taking ESG criteria into account are also integrated into the development and decision-making process used to define the strategy.
- iii) In an effort to reduce the transition risk, some undertakings associate sectoral policies and targets either in terms of divestment targets or, conversely, investment in economic activities deemed sustainable within the meaning of the taxonomy defined by the European Commission¹⁵.

¹³ Cf. memo from the French Treasury on data collection-related issues:

<https://www.tresor.economie.gouv.fr/Articles/2019/07/02/publication-du-bilan-de-l-application-des-dispositions-du-decret-2015-1850>

¹⁴ Net Zero Asset Owner Alliance, "Inaugural 2025 Target Setting Protocol", January 2021.

<https://www.unepfi.org/net-zero-alliance/resources/alliance-2025-target-setting-protocol/>

¹⁵ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

2) Risk management

After conducting a materiality assessment and, where appropriate, integrating climate risks into their strategy, undertakings endeavour to manage these risks so as to mitigate their impacts. This second section focuses on risk management, starting with how climate risks are taken into account when identifying, assessing and monitoring major risks. This section then looks at the collection and reliability of the data required for an appropriate management of these risks. Lastly, it looks at how modelling and forward-looking tools are helping to improve climate risk management.

- a) Climate risks are now tending to be integrated, in their various dimensions, into risk mapping, and their interactions with other risks are better understood

***Finding:** the consequences of climate change can have a significant impact on undertakings, on their activities and exposures. Therefore, they consider the whole spectrum of climate risks in order to deploy the most comprehensive risk management policy possible.*

- i) The issue of climate change is considered a key one by undertakings, which increasingly tend to analyse whether the risks associated with them are included in their list of major risks. (Re)insurers indicated that they define a risk map tailored to their activities. In order to be comprehensive and adequate, that list must take into account the following elements: the sub-risks attached to the previously defined categories (transition, physical and liability risks), the various time horizons (short, medium and long term), the probability of occurrence, the associated materiality in case of occurrence as well as the part of the balance sheet on which the risks have an impact. When conducting this exercise, undertakings may rely on the mapping defined by the EIOPA¹⁶ which provides a detailed description of the transition and physical sub-risks.
- ii) Climate risks can also act as an amplifier or trigger for other risks. In order to assess this effect, some (re)insurers carry out quantitative and/or qualitative analyses of the way climate risk factors could influence prudential risks (market risk, counterparty risk, underwriting risk, operational risk, reputational risk, etc.) depending on their activities.
- iii) In view of the potential impacts of climate change, undertakings define their appetite for these risks. The use of these quantitative and qualitative indicators has been cited as a way of allowing for appropriate follow-up and perspective-taking on these risks. (Re)insurers study various indicators in order to assess which of them are most relevant to their activities. As a minimum, undertakings can rely on the quantitative indicators in the RTS of the SFD Regulation¹⁷ for aspects related to their investments and ESG criteria.

¹⁶ European Insurance and Occupational Pensions Authority (EIOPA), “Opinion on climate change risk scenarios in ORSA”, April 2021.

https://www.eiopa.europa.eu/content/eiopa-issues-opinion-supervision-of-use-of-climate-change-risk-scenarios-orsa_en

¹⁷ Joint Regulatory Technical Standards on ESG disclosure standards for financial market participants <https://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/joint-rtsg-disclosure-standards-financial-market-participants>

- iv) Depending on their exposure and risk appetite, (re)insurers implement a specific climate risk mitigation policy. For example, some undertakings implement fossil fuel divestment policies.

b) The reliability and accuracy of data is an important issue for monitoring the climate change risk, which explains the drive for progress in this area

Finding: In order to establish quantifiable and robust metrics for monitoring climate risk, the required data (both on the assets and on the liabilities side) needs to be collected and made usable, while acknowledging that at this stage there may be a degree of approximation due to the lack of harmonised data and methodologies, which is likely to be reduced over time.

- i) On the assets side as well as on the liabilities side, one of the reported challenges is the collection of reliable data, the lack of homogeneity of such data and that of the collection methods. To improve data reliability, some undertakings reported the use of comparison and cross-referencing of data from different sources. They also highlight the need to sometimes use external providers, and/or mobilise internal resources in order to improve the quality of the collected data (e.g. ESG data or carbon footprint data).
- ii) The level of accuracy of data on the asset side is another constraint that was underlined during discussions. For example, information is often collected per country or geographical area. A more granular view of the asset portfolio to better understand the issue of climate risk transition requires the development of a more detailed analysis of the portfolio broken down by asset type and taking into account asset location, which in turn requires being able to obtain the appropriate data for this purpose, which is still a challenge to date.
- iii) On the liability side, for the physical risk, it was pointed out that one of the main tools used in liability risk management is the geolocation of policyholders with as high a degree of accuracy as possible. To that end, geocoding is the subject of considerable attention from the financial centre for the data collection and exploitation phases. As is the case with assets, the main challenge lies in accessing sufficiently granular data at a controlled cost with a capacity for external input. Some (re)insurers underline the fact that control of data reliability could be strengthened by certifying some geocoders. The efficiency of the geolocation principle depends on its granularity as well as its integration into the IT systems that are involved in the underwriting, compensation and management processes. It is also pointed out that, although that principle is widely used in France, this is not the case yet in all countries in which an organisation has commitments. The (re)insurers' exposure maps can then also be compared with physical risk maps such as those provided by the IPCC, EIOPA¹⁸ and the European Commission¹⁹. This comparative work can contribute both to a better understanding of risks and to a better anticipation of those risks.

¹⁸ European Insurance and Occupational Pensions Authority (EIOPA), "Methodological paper on potential inclusion of climate change in the Nat Cat standard formula", July 2021.
<https://www.eiopa.europa.eu/content/methodological-paper-potential-inclusion-of-climate-change-nat-cat-standard-formula>

¹⁹ JRC, European Commission, "Climate change impacts and adaptation in Europe", 2020
<https://publications.jrc.ec.europa.eu/repository/handle/JRC119178>

- iv) As the effects of climate change are already being felt, some undertakings are already identifying and quantifying trends in future claims experience, particularly for physical risks. These trends are used, among other things, to predict future droughts or frost events. Where this is not possible in-house, undertakings have indicated that they use disaster model providers who are working to incorporate projections of these risks into their models.

c) Climate scenarios over longer time horizons are progressively taken into account in the projections

Finding: In order to account for the uncertainties associated with climate change, undertakings should complement their historical data with a climate scenario analysis that includes longer time horizons. This approach is essential as it helps to anticipate the potential impacts of climate change and to overcome gaps in historical data.

- i) Some undertakings favour the use of the ORSA process as a tool for governance bodies in the monitoring climate of change issues. Others reckon that other submissions, such as the one dedicated to extra-financial information reporting, are more relevant both in terms of communicating on this risk and monitoring it. However, it has been highlighted that the ORSA process allows for the identification of the climate issues specific to each undertaking over their strategic horizon, and for the identification of other risks to which undertakings are exposed due to their activities. It should also be noted that the proposal by the European Commission to review Article 45 of the Solvency II Directive²⁰ goes toward the integration of climate risks in ORSA processes.
- ii) The time horizon used by institutions for the purpose of the ORSA process is usually 3 to 5 years. The inclusion of climate risks in this exercise improves understanding of its consequences on business and the implementation of risk management measures integrated in the management of all (re)insurers' risks. This approach may be combined with stress tests and asset allocation (ALM) research with a longer time horizon. To that end, the intermediate results (5-year milestones) of climate stress tests relying on long-term scenarios (2050 and beyond) can be included in ORSA processes²¹.
- iii) In order to carry out forward-looking analyses, (re)insurers may design their own scenarios or use scenarios that are already available, such as those published by the NGFS²² or those used for the purposes of the pilot exercise conducted by the ACPR in 2020-2021.

²⁰ Solvency 2 review proposal

[Insurance rules' review: encouraging solid and reliable insurers to invest in Europe's recovery | European Commission \(europa.eu\)](#)

²¹ International Association of Insurance Supervisors & Sustainable Insurance Forum: "Application Paper on the Supervision of Climate-related Risks in the Insurance Sector", May 2021.

<https://www.iaisweb.org/page/supervisory-material/application-papers/file/97146/application-paper-on-the-supervision-of-climate-related-risks-in-the-insurance-sector>

European Insurance and Occupational Pensions Authority (EIOPA), "Opinion on climate change risk scenarios in ORSA", April 2021.

https://www.eiopa.europa.eu/content/eiopa-issues-opinion-supervision-of-use-of-climate-change-risk-scenarios-orsa_en

²² Network for Greening the Financial System, "NGFS Climate Scenarios", of which the Bank of France and the ACPR provide the worldwide secretariat.

<https://www.ngfs.net/ngfs-scenarios-portal/>

- iv) For insurers with short-term commitments (e.g. health insurance, legal expenses insurance, property and casualty insurance, etc.), the analysis of a transition scenario (below 2°C and preferably above 1.5°C) and a no-transition scenario makes it possible to estimate the potential impacts of the risks associated with global warming. Furthermore, for undertakings with long-term commitments, the use of at least two transition climate scenarios (orderly and disorderly) compared to a no transition scenario, as recommended by EIOPA²³, seems more relevant.
- v) Participants emphasised the value of stress testing exercises by pointing out that the scenarios are not likely to significantly change from one year to the next. Some undertakings felt that it would be more appropriate to alternate the variables to be tested in order to study different effects. As a first step, undertakings may use the work carried out by the ACPR in 2020-2021 within the framework of the climate pilot exercise²⁴ which defined a first methodological framework. It should also be noted that the proposal by the European Commission to review Article 45 of the Solvency II Directive includes a reference to climate scenarios being reviewed every three years.

3) Internal organisation

To enable the development of a strategy, to allow for risk management, communication and the drafting of an awareness-raising policy, undertakings adapt their internal organisation. Given the scope of the subject and the need for varied expertise, this organisation involves all of the undertakings' business lines and functions. This section looks first at the role of the governing bodies. Then at how responsibilities should be clearly defined internally. Thirdly, it stresses the need to involve all the business lines in the setting up of objectives and roadmaps. Finally, it looks at the organisation of climate risk control within undertakings.

- a) Actions aimed at mobilising and informing governing bodies have been launched

Finding: the mobilisation and information of governing bodies is paramount to drive the development and deployment of a climate strategy. For this purpose, the following practices have been observed:

- i) Some undertakings reported that they now have included one or more climate change specialists on the board of directors or on a dedicated body attached to the board. They are involved in the monitoring and analysis of climate change risks and opportunities.
- ii) The range of risks and opportunities that are induced by climate change is wide and complex. In order to ensure that they are sufficiently familiar with climate change issues, the undertakings indicated that they carry out information campaigns and training activities dedicated to their boards of directors. Given the

²³ European Insurance and Occupational Pensions Authority (EIOPA), "Opinion on climate change risk scenarios in ORSA", April 2021.

https://www.eiopa.europa.eu/content/eiopa-issues-opinion-supervision-of-use-of-climate-change-risk-scenarios-orsa_en

²⁴ results of the ACPR's pilot exercise

[Main results of the 2020 climate pilot exercise | Banque de France \(banque-france.fr\)](https://www.banque-france.fr/fr/actualites/2021/07/2021-07-20-main-results-of-the-2020-climate-pilot-exercise)

fast-paced evolution of knowledge on this subject, which remains exploratory to this day, several undertakings have integrated these training sessions into their compulsory training programme to be scheduled (or repeated) on a regular basis (such as every year).

- iii) Within executive committees, a manager can now be designated as specifically in charge of climate change risk issues. Executives and persons in charge of climate risks could also have a variable part of their remuneration indexed to (short and long-term) objectives linked to the implementation of the climate strategy.

b) A clear definition of internal responsibilities seems to be a key factor for the implementation of measures related to the climate change risk

Finding: climate risk management being relatively new, undertakings ensure that roles are properly defined internally in order to avoid deficiencies and successfully implement the strategy. It has been found that:

- i) In order for climate risks to be fully integrated into an undertaking's risk mapping, the roles and responsibilities of all individuals and businesses involved in implementing the climate risk strategy must be clearly identified in written policies and internal procedures validated by the governance bodies.
- ii) In order to assist the governing bodies in the development and deployment of the climate strategy, some undertakings have established a climate risk committee. This committee may include at least the key risk management, compliance and CSR functions. In addition, this committee may be composed of representatives from the various business lines and directorates of the undertaking.
- iii) The CSR function now appears to be a major player in the development and implementation of undertakings' climate strategy. That function supports the directorates of the various business lines in order to better implement the undertaking's strategy. Thus, it is positioned as a coordination function guaranteeing the proper implementation of the global warming-related objectives that the undertaking has set for itself.
- iv) Climate change risks are multidisciplinary issues and the extent of their consequences is still unclear. Some undertakings have been able to set up units bringing together experts, from within or outside the company, and from various backgrounds (legal experts, researchers, etc.) in order to carry out forward-looking work in this field, which helps to provide useful insight in the development of the strategy.
- v) In order to ensure that decisions taken by undertakings do not run counter to their climate governance commitments, this dimension is increasingly integrated into decision-making mechanisms. For example, the person(s) in charge of CSR or the person(s) in charge of climate risk are increasingly clearly identified within the executive committee (manager in charge of this issue as mentioned above or presence of the CSR/sustainable development manager).

c) The involvement of the various business lines is also an essential factor in the implementation of accompanying measures for the climate change risk

***Finding:** As mentioned above, the climate issue concerns all of the undertakings' business lines and functions. In order to increase involvement, business line-specific objectives can be set. It has been found that:*

- i) Regarding the specific case of groups, they can set up a follow-up of initiatives within their subsidiaries in order to monitor the proper application of the strategy and to allow the implementation of good practices in other entities, where it is possible to do so.
- ii) As mentioned in the first section, undertakings define objectives and develop a roadmap for the effective implementation of the strategy. In order to achieve relevant objectives and coherent actions, all business lines and/or group directorates can be involved in their elaboration so as to take into account the specificities of each entity/team.

The introduction of sustainability risk in Commission Delegated Regulation (EU) 2015/35 of 10 October 2014²⁵ will also necessarily lead to its consideration by the various key functions in the course of their work. Consideration should therefore be given to the ways in which sustainability risk can be integrated into the missions of key functions²⁶. For example:

- iii) The key actuarial science function should therefore assess how climate risks influence portfolio valuation (transition risk), the valuation of commitments (physical risk) and the underwriting policy. Similarly, that function should ensure the quality of the data collected and associated with these risks.
- iv) The key risk management function should consider climate risks in the same way as all the usual prudential risks, as mentioned in the second section, and associate them with a risk mitigation policy.
- v) The key compliance function could set up a follow-up of regulatory developments concerning climate risks in order to ensure that the organisation fulfils its obligations and adequately meets regulatory expectations.

4) Thanks to both their expertise and the institutional nature of their investor profile, (re)insurers play an important role in raising awareness among stakeholders

In addition to protecting themselves against climate risks and communicating on their actions, insurance undertakings hold a key role in the prevention of risks related to climate change through their expertise and as institutional investors. Therefore, this section looks first at the way undertakings can involve and mobilise their staff, and secondly at the way they can assist the various stakeholders in managing climate risks.

²⁵ Amendment of the Delegated Regulation including sustainability risk of 21/4/2021
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM:C%282021%292628

²⁶ International Association of Insurance Supervisors & Sustainable Insurance Forum: "Application Paper on the Supervision of Climate-related Risks in the Insurance Sector", May 2021.

https://www.sustainableinsuranceforum.org/view_pdf.php?pdf_file=wp-content/uploads/2021/05/210525-Application-Paper-on-the-Supervision-of-Climite-related-Risks-in-the-Insurance-Sector.pdf

a) The number of actions towards the mobilisation of the workforce has increased

Finding: undertakings raise awareness among their employees and train them since they play a key role on which a sound governance of climate risks relies (distribution channels, actuarial work, etc.), but also because, as major employers, (re)insurers have the opportunity to raise awareness of climate risk among a great number of individuals.

- i) As employers, insurance undertakings are developing in-house awareness-raising and training initiatives for their employees. In addition to training on environmental risks in the broadest sense, some undertakings stated that they had set up training modules tailored to the teams and their specific issues, including the creation of internal schools on climate risk.
- ii) In addition to awareness-raising activities, some undertakings are considering how to define individual and/or collective objectives with their employees in order to increase their involvement in climate risk management. These objectives may include ESG criteria. As the environmental challenges may differ from one business branch to another, these objectives could be specific to each team.
- iii) Following the publication of the decree relating to Article 29 of the French Climate Energy Law²⁷, a part of variable compensation can be indexed to the achievement of the above-mentioned objectives.
- iv) As the main channel of communication with policyholders, customer advisors (general agents, sales representatives, brokers, etc.) must also be trained in climate issues in order to carry out their awareness and prevention missions. Similarly, part of the variable remuneration could be indexed to the achievement of "climate" objectives.

b) Prevention and awareness-raising actions for stakeholders are being stepped up

Observation: thanks to their expertise in risk assessment and modelling, insurance undertakings can act as advisors in setting up prevention actions. This preventive policy makes it possible to anticipate both physical and transition risks.

- i) Through their positioning, (re)insurers play an essential role in raising awareness among policyholders and/or members. This support takes place in a preventive framework. Thanks to their internal expertise, insurers can, upstream of the underwriting process, raise policyholders' awareness so that they choose more sustainable solutions ("green" investments in savings, "eco-friendly" and resilient technical solutions in the non-life sector). To some extent, during the life of the contract, the promotion of a circular economy can be integrated into the management of claims by some groups, for example by promoting the use of reused parts in the case of motor insurance claims.
- ii) In addition to guiding policyholders towards sustainable solutions that minimise their impact on the environment, some organisations reported assisting them in the prevention of climate risks, including physical risks. Indeed, thanks to their

²⁷ Published on the JORF on 27 May 2021

expertise, (re)insurers can advise policyholders on the location of their assets and the associated exposures, but also help them to better anticipate losses.

- iii) As shareholders, undertakings have indicated that they are making their counterparties aware of the risks associated with climate change. They can also play a significant role in influencing the direction taken by the boards of directors or shareholders' meetings they participate in. In addition, undertakings are particularly vigilant as this voting policy must be the subject of a dedicated notice, as set out in the decree²⁸ associated with Article 29 of the French Climate Energy Law. In particular, any vote that disagrees with the established policy must be explained in this notice. On this subject, undertakings can draw on the recommendations presented in the joint ACPR/AMF report on the monitoring of climate commitments²⁹
- iv) In order to keep their shareholders, customers or member-policyholders informed, the main communication channel of (re)insurers seems to be the general meetings during which they present the main decisions in terms of climate actions that are fully integrated into their strategies.

5) Communication

After integrating climate risks into the strategy and risk management and implementing concrete actions, undertakings should report on these through appropriate non-financial disclosure. Communication on climate risks is one of the key points of their governance insofar as it allows them to: (i) inform stakeholders of the actions taken and the risks to which undertakings are exposed; (ii) understand the stakeholders' expectations in a transition process.

- a) Undertakings emphasise the importance of communicating on their strategy and their commitments in terms of alleviating climate change risk in a way that is both clear and adapted to the various audiences.

Finding: In order to keep the public informed of their actions in terms of climate risk governance, the undertakings are developing, in addition to regulatory reporting, communication actions towards their policyholders and other stakeholders. Furthermore, undertakings indicated that they take into account a discussion component with stakeholders in order to better identify expectations and contribute to fostering exchanges on climate issues

- i) Beyond regulatory reporting, participants stressed the importance of adapting their publications to the target audience. Indeed, the particularities and technical nature of some documents may hinder understanding. In addition to contractual information on climate issues, (re)insurers may, for instance, use summary documents for informative purposes.

²⁸ Decree No. 2021-663 of 27 May 2021 under Article L. 533-22-1 of the French monetary and financial Code

<https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000043541738>

²⁹ [L'ACPR et l'AMF publient leur rapport sur les engagements climatiques des acteurs de la Place / AMF \(amf-france.org\)](#)

- ii) Depending on their size and the nature of their activities, undertakings indicated they are setting up discussions with civil society bodies (NGOs, consumer organisations, etc.) and/or investors on an institutional basis (events, research, surveys). These exchanges make it possible to better understand the expectations of stakeholders in order to adapt methodologies and ensure the consistency and sincerity of communication on climate issues.
- iii) Certification by independent third parties or the option to become a company with a social purpose (“*entreprise à mission*”) were also cited as elements of communication that serve to strengthen the management of both reputational risk and accusations of greenwashing.

b) Reporting requirements and the development of appropriate communication call for the development of the associated skills

***Finding:** in order to meet the growing expectations of stakeholders in terms of communication and to carry out their reporting mission, undertakings ensure that the teams in charge of these matters develop the appropriate skills.*

- i) With a view to achieving efficiency in communication around the criteria and methodologies retained for ESG topics, some (re)insurers have set up a financial disclosure team that has been trained on these matters.
- ii) Communication around climate issues is a vast topic, which combines regulatory reporting components and voluntary reporting as well as interactions with the various stakeholders. According to some undertakings, this mission involves several functions: CSR, investment, communication, risk etc. Yet, participants highlighted the need for consistency between the different publications to ensure a clear message and the need to integrate dedicated climate change teams either in the drafting or in the proofreading phase of the elements to be published.
- iii) Given the increasing number of reporting requirements, these tasks now require more investment from the teams in charge of climate change-related issues. To address these constraints, participants highlighted the need to size their workforce accordingly, to hire both technical and communication-oriented profiles and to significantly invest in the training of these teams.

In conclusion, this initial work has been focused on the risks induced by climate change. The opportunities, such as the development of new products inherent in the societal changes that could occur in the context of an ecological transition, have been little discussed or not at all. Similarly, the impact of pricing policies has not been developed in the context of this preliminary work. The potential consequences of climate change risk on insurers' liabilities and the challenges in terms of underwriting policy have not been discussed much, discussions being focused on the management of asset risks at this stage.

The new and evolving nature of climate change-related issues calls for continued exchanges with the financial centre in order to contribute to the emergence of good practices implemented in response.