

# **Summary of consultation comments on the draft Application Paper on climate scenario analysis in the insurance sector and their resolution**

**April 2025**



This document provides a high level overview of the resolution of comments on the draft [Application Paper on climate scenario analysis in the insurance sector](#) which was published for public consultation between 23 November 2023 and 23 February 2024. We are grateful to the 21 organisations that took the time to respond to the consultation. The [responses to the consultation](#) were published on the IAIS website on 5 December 2024. Some respondents asked for their responses not to be published.

The material points raised in the consultation responses included:

**Purpose:** some responses questioned the emphasis placed on climate scenario analysis and the risk that climate related-risks were being elevated above other risks. The purpose of the Application Paper is not to place additional emphasis on climate risk compared to other risks but rather to provide guidance on how to conduct climate scenario analysis. The IAIS has been clear that climate risk is a driver of existing risk categories and should be integrated into existing frameworks (see Section 4.1) and the Application Paper provides a way for supervisors to consider this issue.

**Additional detail:** Some responses requested that additional detail be added to the Application Paper. Some additional information was added consistent with the approach taken with other Application Papers. The IAIS will continue to engage with supervisors on understanding practical challenges and emerging scenario analysis practice including related to issues such as the compound climate risks.

**Scenario analysis uncertainties:** some responses set out concerns that the Application Paper sets unrealistic expectations about the accuracy of scenario analysis results. Similar to other non-climate models, scenario analysis may not provide a precise assessment, rather the outcome of the exercise may help define the resilience of the business strategy of the insurer, providing insights into material exposures and business risks and testing the robustness and adequacy of its solvency position (see section 11.2). To this extent the qualitative outputs from a scenario analysis exercise can be as relevant as the quantitative aspects. Equally, they may help supervisors understand how insurance markets and insurance coverage is likely to change over time.

Additional text was added to the Application Paper to capture the uncertainties of climate risk including issues related to the non-linearities of climate risk, tipping points, long risks and spatial resolution (see section 11.5.2-3). These are areas in which climate science continues to develop but which may be relevant for scenario analysis.

Some respondents also flagged concerns about access to data for running scenario analysis exercises. These concerns were already reflected in the Application Paper (see Section 11.1).

The IAIS appreciates that climate science will continue to evolve and that climate scenarios will continue to be updated over time. But the IAIS believes that it remains important to understand the range of climate change impacts, even if it cannot be assessed precisely, and climate scenario analysis is one tool to support such assessments.

**Business models:** Some responses suggested the Application Paper does not adequately recognise different insurance business models. The IAIS believes that climate risk should be integrated into risk management frameworks and therefore does not believe a “one size fits all” approach is appropriate. Table 6 (Climate risks by business line) sets out considerations for running scenario analysis exercises for different business lines. It is also expected that supervisors will consider the different business models and the particularities of their market when setting objectives for the exercise.

Similarly, a number of responses were received related to the time horizons used for scenario analysis. The IAIS recognises that long time horizons increase uncertainty and complexity but believes that it can still provide broad strategic analysis as suggested. Additionally, given the varying risk profiles across insurers and between different lines of businesses, the Application Paper does



not intend to explicitly link the time horizon of a scenario analysis exercise to the type of insurance business but instead leaves it to supervisors and insurers to determine the most appropriate time horizon to use. Table 8 of the Climate Risk Application Paper sets out more considerations on what time horizons could be used, recognising that this will vary because of business models and climate risks in different jurisdictions. No edits were made.

**Scenario analysis objectives:** respondents had a range of views on the use of scenario analysis for micro and macroprudential purposes. The paper makes clear that supervisors may consider risks from a microprudential and/or a macroprudential perspective as well as broader macroeconomic impacts of climate change. There are good grounds for scenario analysis to be used to assess macroprudential risks and any spillover effects from the insurance sector to the rest of the financial system from climate risk. (Note that Section 10 of the Application Paper covers macroprudential supervision.)

**Scenario design:** some responses requested more detail on what scenarios should be used or suggested points about existing scenarios that need to be changed. This was outside the scope of the Application Paper.

Some responses highlighted the benefits of conducting reverse stress tests compared to scenario analysis exercises. The Application Paper references reverse stress tests and the requirement set out in ICP 16.2.21, but the primary purpose of the paper is to consider scenario analysis so it does not go into this issue in detail.

Some responses suggested that scenarios needed to be more extreme or have greater alignment to emerging science on climate risk. Section 11.5.2 was added and notes the importance of scenario analysis exercises considering non-linearities, tipping points and long risks.

**Litigation risk:** a respondent noted the broader litigation risks faced by insurers beyond those related to litigation from underwriting activities. An update was made to Section 11.2 to reflect this point.

**Regulatory coordination:** some responses flagged the need for supervisors to coordinate on their efforts when conducting scenario analysis. Section 11.7.2 of the Application Paper sets out the benefits of coordination. There are significant benefits to aligning the design and frameworks of climate-related scenario analysis at an international level and sharing best practice.

**Disclosure:** a range of views were shared in relation to disclosure. These issues were considered further in the consultation undertaken for the draft *Application Paper on public disclosure and supervisory reporting of climate risk* and which is now covered in Section 8.4.2 of the final Application Paper.

**Opportunities:** one respondent suggested that the paper should focus more on the opportunities that may also come with climate transition. Climate transition may provide some investment opportunities for insurers however since the focus of the report is on understanding risks, this matter was not within scope.

**Protection gaps:** a number of responses asked for more detail on protection gaps to be included. More information was not added given IAIS had also published a report on [protection gaps](#) and is now developing a Global Insurance Market Report special topic edition focused on the potential financial stability implications of natural catastrophe (NatCat) protection gaps. The Application Paper includes references to the work of the IAIS on protection gaps.

**Transition planning:** some respondents flagged the need to either mandate transition plans or to provide more details on transition plans. The Application Paper includes significant detail on how scenario analysis can be used to assess transition risk. The IAIS has made clear that transition risks need to be embedded into risk management but the development of transition plans more broadly is



outside the scope of this paper. The UNDP Sustainable Insurance Forum undertook work on transition plans. Given our overlapping membership, the IAIS does not at this stage propose to undertake additional activities on transition plans but expect this may happen in the later years of our current [Strategic Plan](#).

**ORSA:** some comments were made about references to ORSA. An edit was made in Section 11.11 to note that climate-related risks should be added to an ORSA “where climate risk is material”. The driving factors behind incorporating climate risk in ORSA and ERM will vary among jurisdictions and are meant to be determined by each supervisory authority taking materiality, proportionality and other considerations. Additional edits were also made note the importance of recognising differences between insurers.

**Board accountability:** in responses to comments, additions were made in Section 11.17 on the review of scenario analysis. One respondent raised concerns that the Application Paper suggested that boards should change the insurer’s risk appetite in response to scenario analysis results. The paper does not recommend changing the risk appetite statement based on the results from one scenario. Rather it recommends assessing the possibility of breaches to risk appetite under different scenarios and then based on the likelihood of those scenarios crystallising, considering whether the risk appetite will be appropriate for most likely scenarios.