Questions for public consultation on proposed changes to reflect climate risk in selected ICP guidance and supporting material

Thank you for your interest in the public consultation on the proposed changes to reflect climate risk in selected ICP guidance material and supporting material. The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the Consultation Tool to enable those responses to be considered.

Consultation questions

ICP 15 (Investments) guidance material	
1	General comments on the proposed changes to reflect climate risk in ICP 15 (Investments) guidance material Finance Watch commends the IAIS for incorporating climate risk considerations into the ICP 15 guidance material and for recognizing the importance of the double materiality perspective, as well as the long term horizon perspective on climate risk management. These changes represent a significant step forward in ensuring that insurers are equipped to manage the evolving risks associated with climate change. The integration of climate-related risks into investment strategies, risk assessments, and supervisory requirements is essential for a holistic approach to addressing climate-related risks and ensuring the resilience of the insurance sector. Finance Watch believes, nonetheless, that the sustainability perspective could be embedded more precisely in other segments of ICP 15 as well. Firstly, we recommend adding under 15.1.3 a provision that highlights the risks stemming from transition trends and adjustments in the context of relevant international and national climate commitments and objectives. Adding such a provision would underscore the importance of aligning investment strategies with broader climate goals as an approach to managing transition-related risks. Secondly, Finance Watch suggests clarifying in the guidance that the overall investment strategy should promote the long-term durability of the investment portfolio. This especially holds true for the risk of asset stranding in fossil fuel investments. Considering the fact that fossil fuel investments contributing to emissions beyond the available carbon budget are, in a Paris-aligned future, worthless and a risk to the portfolio (credit, market and liquidity in particular), we suggest making the following addition to 15.4: - 15.4.7: Investments which are not compatible with the carbon budget of the planet and are contrary to the Paris commitments, should be kept to prudent levels, as they are likely to lose most of their value or otherwise contribute to the growing physical risk of climate change, which will lead to major losses for all financial actors. We refer to our report on Finance in a hot house world for a deeper view: https://www.finance-watch.org/policy-portal/sustainable-finance/report-finance-in-a-hot-house-world/
2	Comments on proposed changes to ICP guidance 15.2.3 Finance Watch welcomes the additional remarks on considering the extent to which external risks, such as climate change, are impacting credit ratings. Credit ratings mostly have a short-term focus, typically evaluating credit risk on a one-year time horizon and are based on methodologies calibrated using historical data (in the EU, this methodological requirement is regulatory given). This narrow time horizon poses a significant challenge in accurately capturing the long-term, non-linear, and unpredictable nature of climate risk, as Finance Watch has already referred to in past

	consultation responses (https://www.finance-watch.org/policy-portal/sustainable-finance/response-to-consultation-on-the-esg-ratings-market-in-the-eu/) and as confirmed by the ECB (https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op303~eaa6fe6583.en.pdf). Consequently, there is no evidence that climate-related factors are adequately reflected in credit ratings and, therefore, there is a substantial risk of underestimation if reliance is made on these ratings. Given the rapidly evolving nature of climate risk and its potential to impact financial stability over extended periods, it is important for insurers to conduct their own comprehensive due diligence, including assessing the integration of climate risk into credit ratings and making necessary adjustments to reflect a more accurate long-term risk profile.
3	Comments on new ICP guidance 15.2.6 We welcome the IAIS recognition of the importance of tackling climate-related impacts of insurers' activities to mitigate future risks (i.e. impacts of climate change on insurance business). This holistic approach is crucial for understanding how climate change can impact insurers' investments and overall financial stability. A double materiality perspective fully represents a company's vulnerabilities and contribution to climate-related systemic risk.This approach is vital for breaking the climate-finance doom loop, where financial activities exacerbate climate change, which in turn leads to greater financial risks. From a company-centric perspective, consideration of climate impacts often runs contrary to the objective of (short term) profit-maximisation, which is how delivering value to shareholders is mostly defined. Yet, the longer-term perspective on impacts as proxies for transition risk increasingly becomes relevant in the short-term, as we are approaching the important intermediate milestones of the Paris Agreement and climate-related risks increasingly materialise for insurers. The new ICP Guidance 15.2.6 is a significant step forward in integrating climate risk into investment decision-making processes. This will contribute to the resilience of the insurance sector.
4	Comments on proposed changes to ICP guidance 15.3.1 Having a long-term view on climate-related risks on investments is paramount to proper risk management, especially when managing assets that match long-term policyholder liabilities and regulatory capital requirements. The recognition that climate-related risks can significantly alter conditions for asset-liability management is a welcome addition. As we have noted in previous responses, climate risk is long-term, non-linear, and unpredictable (i.e. radically uncertain) and must be integrated into the insurer's investment strategies to ensure financial stability and resilience. The insurer's investment strategies should ensure that cash flows from investments match liability cash flows in terms of timing, amount, and currency, even under varying conditions. This is essential for maintaining the insurer's ability to meet its obligations

	to policyholders and creditors. By considering climate-related risks, insurers can better anticipate and mitigate potential mismatches that may arise due to changing environmental conditions.
5	Comments on proposed changes to ICP guidance 15.4.1 We appreciate the IAIS's recognition of the challenges posed by information gaps in assessing climate-related risks. Climate risks are fast evolving and multifaceted, and it is essential for insurers to proactively address these risks despite the current limitations in the availability of historical and market data and not to wait for the availability of perfect data. We agree with the suggestion that quantitative or qualitative scenario analysis can be useful in managing such risks. However, it is important to recognize the limitations and exploratory nature of scenario analyses. Climate scenario analyses are still developing and their usefulness for decision making depends heavily on the identification and use of suitable economic models and realistic assumptions. They are not yet a comprehensive tool for risk management, but can provide valuable insights into potential future vulnerabilities and risks. The economic models currently used in the climate scenario analyses feature important flaws, which lead to underestimation of risk (both transition and physical). One of the most notable flaws is the use of quadratic damage function, which is at odds with climate science. The features of climate-related risks not captured by the existing scenarios include tipping points, physical impacts such as sea level rise, societal impacts such as mass migration, and endogenous financial sector dynamics. These limitations have been acknowledged by the NGFS (https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guidance_note_on_the_scenarios.pdf) and most recently by the French supervisor ACPR (https://acpr.banque-france.fr/les-principaux-resultats-de-lexercice-climatique-sur-le-secteur-de-lassurance). Therefore, while Finance Watch welcomes the IAIS' efforts to use scenario analyses as a tool to better understand climate risks for insurers, we caution that scenario analyses should be approached with a realistic assessment of climate change-related economic impacts. This includes considering an adequate time horizon, realistically assessing the physical risks and disruptions and quantifying the potential for stranded fossil fuel assets within investment portfolios. Effective scenario analyses should combine these elements to offer a more accurate and useful tool for assessing climate-related risks. We also refer to our previous response to the public consultation on climate scenario analysis: https://www.finance-watch.org/policy-portal/sustainable-finance/iais-work-on-climate-scenario-analysis-needs-a-reality-check-consultation-response/
6	Comments on proposed changes to ICP guidance 15.4.2 The requirement for insurers to consider varying time horizons—short, medium, and long-term—in their risk assessments is a crucial step forward in comprehensive risk management. Incorporating different time horizons allows for a more nuanced understanding of how risks can evolve over time. This is particularly important for climate-related risks, which are characterised by their non-linear and unpredictable nature. The guidance would additionally benefit from the common definition of a

	long-term horizon, which should orient itself at the global climate goals and commitments, i.e. the year 2050.
ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material	
7	General comments on the proposed changes to reflect climate risk in ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material Finance Watch commends the IAIS for the proposed changes to reflect climate risk within the ICP 16 guidance material. These updates are a positive step forward in ensuring that insurers are adequately prepared to manage the complex and evolving risks associated with climate change. In particular, Finance Watch welcomes the following proposed additions: integration of forward-looking scenario analysis for complex, long-term, and non-linear climate-related risks, the acknowledgment of longer-term time horizons**,** even within the maturity profile of investment portfolios, and the emphasis on double materiality (i.e. assessing both the impact of climate-related risks on investments and the impact of investments on the climate). The holistic consideration into the risk management, including the step of solvency assessment, is essential to keep the prudential rules coherent. In the absence of commonly recognised and agreed upon methodologies to assess/measure climate-related risks and many uncertainties associated with risk materialisation, defining appropriate risk management measures to ensure solvency of insurance undertakings is likely to be an iterative learning process.To render the prudential rules and supervision credible and consistent across jurisdictions, it is important that there is a shared view on the most useful tools and fundamental principles to assess the risk. A fundamental principle for identification and assessment of climate-related financial risk should be the recognition of the fact that investments and activities which contribute to accelerating climate change and are incompatible with the carbon budget of the planet and global climate commitments, should be recognised as being a source of risk. Under any climate scenario, such assets are subject to either high risk of stranding (transition risk) or to a very high physical risk of climate-related disruption (physical risk). Regarding the tools to manage climate-related risk, transition plans present themselves as a pragmatic solution for a tool to assess and mitigate transition-related risks over time. The supervisory community has recognised the prudential value of transition planning, as evidenced by the work and publications of the NGFS. In the EU, “prudential” transition plans have been included in the prudential rulebook - the revised Solvency II Directive. We further refer to Finance Watch’s reponse to the IAIS consultation from May 2023: https://www.finance-watch.org/policy-portal/sustainable-finance/consultation-response-iais-public-consultation-on-climate-risk-supervisory-guidance/ Furthermore, regarding section 16.7 on underwriting, it is important to emphasise that insurers should consider the potential effects of their underwriting portfolios on climate, similar to the considerations for investments. Just as insurers are guided to assess the impact of material climate-related risks on their investments and the broader climate,

	this principle should extend to their underwriting activities. The proposed changes to section 16.6.6, which addresses the integration of long-term time horizons and the impact of investments on climate, serves as an excellent model for a similar, and equally important, change to section 16.7, for example as an addition to 16.7.4. Such an addition would ensure that insurers keep in mind the potential long-term financial impacts of their underwriting activities on climate change. Although the effects of underwriting on climate may not immediately translate into relevant risks on the entity level, they can have significant long-term climate implications that will reflect on insurer's investments and the overall financial and operational stability.
8	Comments on proposed changes to ICP guidance 16.1.1
9	Comments on proposed changes to ICP guidance 16.1.3
10	Comments on proposed changes to ICP guidance 16.1.6
11	Comments on proposed changes to ICP guidance ~~16.2.2~~ **16.2.10** We appreciate the recognition of the need for different approaches to measuring risk based on the nature, scale, and complexity of the risk, as well as the availability of reliable data. The integration of forward-looking scenario analysis for complex, long-term, and non-linear risks, such as climate-related risks, is a positive development. However, as mentioned in our response to question 5, scenario analysis should be approached with a realistic assessment of climate change-related economic impacts, including the consideration of adequate time horizons and quantification of the potential for stranded fossil fuel assets within investment portfolios. Effective scenario analyses should combine these elements to offer a more accurate and useful tool for assessing climate-related risks. We again refer to our previous response to the public consultation on climate scenario analysis: https://www.finance-watch.org/policy-portal/sustainable-finance/iais-work-on-climate-scenario-analysis-needs-a-reality-check-consultation-response/
12	Comments on proposed changes to ICP guidance 16.2.16
13	Comments on proposed changes to ICP guidance 16.2.19 Finance Watch commends the IAIS for adding reference to the importance of varying time horizons when accounting for climate-related risks. Regarding stress testing, we would like to point out that most stress tests currently being conducted are effectively not stress tests but scenario analyses, built around the joint effect of two different types of climate change-related risk: transition and physical risk. There are, however, no known tests that account for a third kind of risk: disruption risk, meaning the disruption of the world economy as we know it due to severe environmental disturbances which will inevitably arrive if climate change is not mitigated and tipping points in the global climate system are reached. Firstly, the underlying economic models used in the scenario analyses significantly underestimate the physical impacts of climate change; secondly, the scenario analyses do not reflect all physical impacts of climate change or complex and interconnected second-round effects. As a result, the so-called stress tests do not allow for conclusions about the ability of financial institutions to withstand climate-related events, as predicted by climate science (i.e. solvency in case of a stress event). Without significant improvements, these exercises will not provide meaningful and decision-useful results and will limit the scope and effectiveness of supervisory actions.

14	Comments on proposed changes to ICP guidance 16.6.6 The acknowledgment that insurers should consider longer-term time horizons, even within the maturity profile of their investment portfolios, is an important step forward. Climate-related risks often unfold over extended periods, and a long-term view is necessary to capture the full spectrum of potential risks. By integrating longer time horizons into investment strategies, insurers can better anticipate and manage the evolving risks associated with climate change. We also appreciate the emphasis on assessing both the impact of material climate-related risks on investments and the impact of investments on the climate. This integration of the principle of double materiality is essential for fostering a sustainable financial system and aligning investment activities with global climate goals, as well as for safeguarding the investment portfolios against climate-related risks.
15	Comments on proposed changes to ICP guidance ~~16.12.1~~ 16.12.9
16	Comments on proposed changes to ICP guidance 16.16.9
ICP 7 (Corporate Governance) supporting material	
17	General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 7 (Corporate Governance)
18	Comments on proposed changes to section 3.3 (The role of the Board) Finance Watch welcomes the specification that the board and its committees should have a thorough understanding of the possible risks associated with climate change, as well as its potential impact on the business and vice versa. We also support the guidance that the board should obtain external expertise, as long as it ensures the external experts' independence. Requirements for climate change expertise not only at the board level but also within senior management are also very important. Senior management often plays a critical role in implementing strategies and taking appropriate actions without constant supervision by the board. We are therefore pleased to see this perspective reflected in the additional paragraph 33 of the application guidance. This inclusion aligns with section 3.4, which outlines the duties of senior management. Given that the board hires senior management and entrusts them with significant responsibilities, it is imperative that the board ensures senior management possesses the necessary expertise to effectively manage climate-related risks. We also refer to the recommendations in our latest publication on the insurance sector: https://www.finance-watch.org/policy-portal/sustainable-finance/report-transition-planning-for-insurers-a-supervisory-tool-to-improve-climate-risk-resilience/
19	Comments on proposed changes to section 3.5 (Duties related to remuneration) Finance Watch is pleased to see the additional detailing on the use of remuneration as an incentive for sound climate-related risk management. The focus on impact rather than process is particularly commendable, as it helps safeguard against superficial actions being taken merely as a tick-box exercise for remuneration purpose and

	ensures that the emphasis is on meaningful and substantive actions that contribute to sound climate-related risk management. Furthermore, we appreciate the inclusion of non-financial criteria in remuneration policies. This broadens the scope of what is considered valuable performance, moving beyond purely financial metrics to include actions and outcomes that support sustainability and effective climate risk management. We specifically support the IAIS' effort to ensure that financial and non-financial factors in variable remuneration are better balanced. The guidance that "criteria should be appropriately balanced, and non-financial criteria should not be negligible" is crucial.
ICP 8 (Risk Management and Internal Controls) supporting material	
20	General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 8 (Risk Management and Internal Controls) We commend the IAIS for strengthening the wording on integrating climate risk into the overall corporate governance framework, including risk management and internal controls. Mandating a fully integrated approach, rather than simply requiring a non-time-bound transition towards full integration, underscores the urgent need to act now to protect against climate-related risks. This decisive stance highlights the importance of immediate and comprehensive action to safeguard the insurance sector from the multifaceted impacts of climate change. Additionally, we strongly support the concept of double materiality reflected in the text. Recognizing the dual significance of how climate risks impact the business and how the business impacts the climate is essential for fostering a more sustainable and resilient corporate governance framework. This approach ensures that insurers consider the broader implications of their operations and investment decisions, aligning with both environmental sustainability and long-term financial stability.
21	Comments on proposed changes to section 4.1 (Integrating climate-related risks into the scope of the risk management system) Finance Watch welcomes the addition of forward-looking assessments into the risk management system. This approach aligns with the nature of climate-related financial risk, which cannot be measured using backward looking data analysis alone, as the transition has not yet occurred (at the scale which is required in the future) and, thus, transition risk is not captured in historical data. The use of forward-looking methodologies marks a significant advancement in how environment-related financial risks, particularly those related to climate change, are assessed. We recognize that forward-looking methodologies hinge on certain assumptions and models, in particular those used in the analyses of different transition scenarios, which can greatly influence the results. Finance Watch has drawn the attention to the current modelling limitations and modelling flaws in the current scenario analyses in its report Finance in a hot house world (https://www.finance-watch.org/policy-portal/sustainable-finance/report-finance-in-a-hot-house-world/).

	Recognising the forward-looking nature of climate-related transition risk and only small steps made towards transitioning the real economy to date, we emphasise the fact that this risk is likely to only grow bigger in the future, as the pace of the necessary economic transformations to achieve the net zero objective needs to be faster than the transformations that have already happened. Hence, we strongly support that at this stage more weight is given to the forward-looking methodologies and their development rather than relying on historical data, which is only likely to perpetuate the failure of the current prudential rules to price in climate-related risks. In particular, investees' and clients' transition plans (whenever available) should be referenced as a source of forward-looking information. Moving towards a global common baseline on transition plans would facilitate development of credible and comparable approaches to climate-related risk assessment and management. We also refer to our response to the latest public consultation by EIOPA on the prudential treatment of sustainability risks (https://www.finance-watch.org/policy-portal/sustainable-finance/eiopas-report-shows-they-take-climate-risk-seriously-consultation-response/).
ICP 14 (Valuation) supporting material	
22	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 14 (Valuation)
23	Comments on section on Valuation of assets Finance Watch welcomes the recognition that climate change will affect asset valuations. Acknowledging the potential for climate risk to diminish the value of investments through both transition and physical risks is essential to evolve proper risk management in the sector.
24	Comments on section on Impacts on types of valuations Finance Watch would like to point out the need to further develop valuation methodologies to ensure that climate-related risks are accurately reflected in asset valuations without delay. Currently, there is no evidence that market prices adequately reflect climate-related information (both transition-related as well as information related to likely future physical disruptions). This is due to the specific features of climate-related physical risks (which were extensively elaborated upon in the "Green Swan" book by the BIS), uncertainties associated with the transition and inability of the existing pricing models to account for these specifics. For instance, the Carbon Tracker Initiative report "Still Flying Blind: The Absence of Climate Risk in Financial Reporting" highlights this gap (https://carbontracker.org/reports/still-flying-blind-the-absence-of-climate-risk-in-financial-reporting/). Waiting for market prices to adjust before updating valuation methodologies will likely lead to cliff effects—abrupt market price swings and significant valuation corrections in the future. This delay can make risks unmanageable and have severe consequences for the solvency of insurers. Therefore, it is imperative to proactively develop and implement qualitative approaches to incorporating climate-related risks into asset valuations (as well as risk assessments based on precautionary approach) to mitigate financial stability risks.

25	Comments on section on Time horizons of the investment Finance Watch recommends including guidance on the use of forward-looking information derived from transition plans. Insurers should take into account the transition plans of their investee companies and clients when assessing investment and underwriting risk levels. Transition plans provide valuable insights into how companies intend to adapt to a low-carbon economy, including policy changes, technological advancements, and mitigation of physical risks. By integrating these plans into their valuation processes, insurers can more accurately forecast potential impacts on asset values and better manage transition risks. This approach will not only enhance the quality of information used in valuations but also ensure that insurers are proactively preparing for the dynamic nature of climate-related risks. Supervisors should assess whether insurers are incorporating the most current and reliable forward-looking information available, including clients' transition plans, to improve the resilience and sustainability of their investment portfolios. We also refer to the recommendations in our latest publication on the insurance sector (https://www.finance-watch.org/policy-portal/sustainable-finance/report-transition-planning-for-insurers-a-supervisory-tool-to-improve-climate-risk-resilience/).
26	Comments on section on Valuation of liabilities Finance Watch welcomes the recognition that the valuation of liabilities will change due to the increasing frequency and severity of climate events for non-life insurance, as well as the impacts of climate change on health and longevity for life insurance. This acknowledgment highlights the evolving nature of risk and the need for insurers to adapt their valuation models accordingly. However, it is important to address the implications of these changes on consumers. As insurers adjust the valuation of liabilities, there will inevitably be a need to re-price insurance products. This re-pricing could lead to insurability problems, where certain risks become prohibitively expensive for consumers to insure against. It is essential that insurers do not fully transfer this burden to end consumers, as price increases will inevitably hit a ceiling. This could result in reduced accessibility to insurance and greater financial vulnerability for policyholders. This necessitates a broader discussion about the potential solutions to insurability problems, holistic consideration of insurers' actions on climate change mitigation and adaptation and transparency of pricing decisions. In particular, we stress the need for enhanced transparency towards supervisors regarding changes in valuation and pricing.
ICP 15 (Investments) supporting material	
27	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 15 (Investments)
28	Comments on section on Climate change factor for investment requirements

	We agree with the IAIS' identification of the various factors through which climate change can influence investment values, including the risk of stranded assets. Recognizing the complex and non-linear impacts of climate-related risks, as well as their second-order effects, on insurers' investments is essential for effective risk management, which in particular call for a precautionary approach to addressing the risks. Finance Watch believes that the supporting material would benefit from the explicit consideration of the interplay between climate-related transition and physical risks, which leads to the recognition that, according to current evidence and scientific research, there is no scenario in which investments into new fossil fuel exploration or exploitation can be justified. In a transition scenario these assets would lose all of their values, whereas, in the case of no transition, the economy will be subject to very high physical risks and will be disrupted. This acknowledgment would reinforce the importance of aligning investment strategies with the climate objectives.
29	Comments on section on Investment of assets for the portfolio as a whole Engagement with investees is one of the most powerful tools insurers, as major investors in the real economy, have at their disposal in order to mitigate their own transition risks and facilitate the sustainable transition of the real economy, which is in itself a precondition for the stability of the sector itself. Therefore, it is essential that shareholder engagement strategies are fully integrated into insurers' strategy and risk management through detailed engagement and voting policies, as well as corresponding escalation policies. AGM voting is a key mechanism for active stewardship, allowing shareholders to push investees to implement concrete transition measures or to remove board members who hinder these efforts. As shareholders, insurers can also leverage existing channels such as periodic and annual investor meetings to discuss sustainability concerns and climate-related risks with their investees. When standard engagement efforts do not yield results, insurers should escalate their actions by calling for specific meetings with investee management or the board. Alternatively, they can publicly address these concerns through public statements. We also refer to the recommendations in our latest publication on the insurance sector: https://www.finance-watch.org/policy-portal/sustainable-finance/report-transition-planning-for-insurers-a-supervisory-tool-to-improve-climate-risk-resilience/.
30	Comments on section on Asset liability management
31	Comments on section on Risk assessment and management of investments
ICP 16 (Enterprise Risk Management for Solvency Purposes) supporting material	

32	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 16 (Enterprise Risk Management for Solvency Purposes) We welcome the IAIS recognition of all aspects of physical and transition risks, in particular the specific features of the risks that limit the ability of traditional risk management tools and approaches to effectively address them. It is commendable that the proposed supporting guidance acknowledges the far-reaching and significant impact of climate change, its nonlinear and irreversible nature, uncertain but foreseeable timing, and the critical importance of taking short-term actions to achieve long-term effects. This recognition underscores the necessity of moving beyond reliance on historical data to predict future risks, as climate change presents unprecedented challenges that require proactive and forward-thinking strategies. We refer to our other response to the ICP 16 guidance material for more details.
33	Comments on section on Risk identification and measurement
34	Comments on section on Risk concentrations Finance Watch welcomes the recognition that “Insurers with significant investment exposures to assets that are vulnerable to climate-related risks are potentially more exposed to systemic risk”. In this context, we emphasise the importance of transition planning within the insurance sector, which can also be a means to identify and address risk concentrations.
35	Comments on section on Corporate strategy and time horizons Finance Watch would like to reiterate the risk of transferring the burden of climate-related risks to consumers (see also our response to Q26). In particular, regarding the mention in the guidance that "insurers should consider questions such as: which business areas are exposed to physical or transition risks; the materiality of the risks; whether affected areas should be continued, scaled back or adapted." Although we recognise the importance of safeguarding entity-level business viability, it is crucial that insurers manage these risks without disproportionately impacting policyholders, which necessitates a broader discussion on the issue and the role of the insurance sector in addressing climate-related risks at the entity and systemic level. There is a significant risk to the overall sustainability of certain insurers' business models due to the potential for some regions and products to become commercially unviable. As climate change progresses, certain areas may experience heightened physical risks, while others may face increased transition risks. Insurers need to carefully evaluate these factors and develop strategies that ensure the long-term viability of their operations and sustainability of their business models without placing undue strain on consumers. By addressing these challenges proactively, insurers can help maintain the stability and resilience of their business models while contributing to a fair and equitable transition to a climate-resilient economy.
36	Comments on section on Risk appetite and limits
37	Comments on section on Asset liability management

	Finance Watch commends the recognition of the risk of correlated exposures. With climate change accelerating, it is important to acknowledge that it can trigger second-order effects such as civil unrest, political instability, mass migration, economic fragility, and resource security issues. These cascading impacts may lead to changes in the correlation between different risk types, thereby increasing both the probability and scale of potential losses. Addressing these interconnected risks is crucial for developing robust strategies that enhance the resilience of the insurance sector in the face of growing climate challenges. At present, however, none of the existing prudential tools allows to account for these second-round effects, which requires, on the one hand, advancements of the existing prudential tools, and deployment of new, in particular, precautionary approaches to address the risk.
38	Comments on section on Investment policy Finance Watch recommends that insurers reflect climate risk considerations when designing their investment policies. This includes restricting investments in sectors with high transition risk. By proactively managing their exposure to these high-risk sectors, insurers can mitigate the potential for material impacts on their returns from their asset portfolios. Additionally, restricting investments that exacerbate climate change will reduce financial risks in the long term. Supervisors should closely monitor the climate-related risk assessments conducted by insurers to ensure that these considerations are effectively integrated into their investment strategies.
39	Comments on section on ORSAs Finance Watch welcomes integration of climate-related financial risks into ORSA, which should ensure a holistic view on managing these risks–from materiality to solvency assessment. We welcome the recognition that certain risks need to be considered over a time horizon that extends beyond insurers' financial and business planning cycles. In particular, it is essential that transition risk analyses take into account the time horizon until 2050 to meaningfully understand the risk exposure of investees and counterparties. This long-term perspective is essential for assessing the full scope of climate-related risks and ensuring that investment strategies are aligned with the goal of transitioning to a low-carbon economy.