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Industry-based Guidance on implementing Climate-related Disclosures

Volume 17—Insurance



International Sustainability Standards Board

IFRS S2 CLIMATE-RELATED DISCLOSURES–JUNE 2023

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IFRS S2 INDUSTRY-BASED GUIDANCE

Introduction

This volume is part of the Industry-based Guidance on Implementing IFRS S2 Climate-related Disclosures. This guidance suggests possible ways to apply some of the disclosure requirements in IFRS S2 but does not create additional requirements.

This volume suggests possible ways to identify, measure and disclose information about climate-related risks and opportunities that are associated with particular business models, economic activities and other common features that characterise participation in this industry.

This industry-based guidance has been derived from Sustainability Accounting Standards Board (SASB) Standards, which are maintained by the International Sustainability Standards Board (ISSB). The metric codes used in SASB Standards have been included for ease of reference. For additional context regarding the industry-based guidance contained in this volume, including structure and terminology, application and illustrative examples, refer to Section III of the Accompanying Guidance to IFRS S2.

Volume 17—Insurance

Industry Description

The Insurance industry provides both traditional and non-traditional insurance-related products. Traditional policy lines include property, life, casualty and reinsurance. Non-traditional products include annuities, alternative risk transfers and financial guarantees. Entities in the insurance industry also engage in proprietary investments. Insurance entities generally operate within a single segment in the industry, for example, property and casualty, although some large insurance entities have diversified operations. Similarly, entities may vary based on the level of their geographical segmentation. Whereas large entities may underwrite insurance premiums in many countries, smaller entities generally operate in a single country or jurisdiction. Insurance premiums, underwriting revenue and investment income drive industry growth, while insurance claim payments present the most significant cost and source of uncertainty for profits. Insurance entities provide products and services that enable the transfer, pooling and sharing of risk necessary for a well-functioning economy. Insurance entities, through their products, can also create a form of moral hazard, reducing incentives to improve underlying behaviour and performance, and thus contributing to sustainability-related impacts. Like other financial institutions, insurance entities face risks associated with credit and financial markets. Within the industry, regulators have identified entities that engage in non-traditional or non-insurance activities, including credit default swaps (CDS) protection and debt securities insurance, as being more vulnerable to financial market developments, and therefore more likely to amplify or contribute to systemic risk. As a result, some insurance entities may be designated as Systemically Important Financial Institutions, thus exposing them to increased regulation and oversight.

Note: Topics and metrics regarding sustainability issues associated with the provision of health insurance are outlined in the Managed Care (HC-MC) industry.

Sustainability Disclosure Topics & Metrics

Table 1. Sustainability Disclosure Topics & Metrics

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Incorporation of Environmental, Social and Governance Factors in Investment Management	Description of approach to incorporation of environmental, social and governance (ESG) factors in investment management processes and strategies	Discussion and Analysis	n/a	FN-IN-410a.2
Policies Designed to Incentivise Responsible Behaviour	Net premiums written related to energy efficiency and low carbon technology	Quantitative	Presentation currency	FN-IN-410b.1
	Discussion of products or product features that incentivise health, safety or environmentally responsible actions or behaviours	Discussion and Analysis	n/a	FN-IN-410b.2

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TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Physical Risk Exposure	Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes ¹⁹	Quantitative	Presentation currency	FN-IN-450a.1
	Total amount of monetary losses attributable to insurance pay-outs from (1) modelled natural catastrophes and (2) non-modelled natural catastrophes, by type of event and geographical segment (net and gross of reinsurance) ²⁰	Quantitative	Presentation currency	FN-IN-450a.2
	Description of approach to incorporation of environmental risks into (1) the underwriting process for individual contracts and (2) the management of entity-level risks and capital adequacy	Discussion and Analysis	n/a	FN-IN-450a.3

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of policies in force, by segment: (1) property and casualty, (2) life, (3) assumed reinsurance ²¹	Quantitative	Number	FN-IN-000.A

Incorporation of Environmental, Social and Governance Factors in Investment Management

Topic Summary

Insurance entities must invest capital to preserve accumulated premium revenues equivalent to expected policy claim pay-outs and maintain long-term asset-liability parity. Because environmental, social and governance (ESG) factors increasingly have a material impact on the performance of corporations and other assets, insurance entities increasingly must incorporate these factors into their investment management. Failure to address these issues may diminish risk-adjusted portfolio returns and limit an entity's ability to issue claim payments. Entities, therefore, should enhance disclosure on how they incorporate ESG factors, including climate change and natural resource constraints, into the investment of policy premiums and how they affect the portfolio risk.

¹⁹ Note to FN-IN-450a.1 – The entity shall describe climate-related scenarios used, including the critical input parameters, assumptions and considerations, analytical choices, and time frames, in calculation of the PML.

²⁰ Note to FN-IN-450a.2 – The entity shall discuss how climate change-related impacts and variability of weather-related losses impact the cost of reinsurance and the entity's approach to transferring risk through reinsurance.

²¹ Note to FN-IN-000.A – The entity additionally may disaggregate the number of policies in force by product line.

Metrics

FN-IN-410a.2. Description of approach to incorporation of environmental, social and governance (ESG) factors in investment management processes and strategies

- 1 The entity shall describe its approach to incorporation of environmental, social and governance (ESG) factors in its investment management processes and strategies.
 - 1.1 The definition of incorporation of ESG factors is aligned with that of the Global Sustainable Investment Alliance (GSIA) and includes the use of ESG information in the investment decision-making processes.
 - 1.2 The *PRI Reporting Framework—Main definitions 2018*, section 'ESG issues', provides examples of ESG factors/issues.
 - 1.3 Incorporation of ESG factors includes the following approaches, consistent with the *PRI Reporting Framework—Main definitions 2018*:
 - 1.3.1 Screening, including a) negative/exclusionary, b) positive/best-in-class and c) norms-based
 - 1.3.2 Sustainability-themed investment, defined as investment in themes or assets specifically related to sustainability (for example, clean energy, green technology or sustainable agriculture)
 - 1.3.3 Integration of ESG, defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions
 - 1.3.4 A combination of the approaches.
- 2 The entity shall describe regulatory requirements to which it is subject that limit the types of allowable investments the entity may make, as well as the allowable credit and equity risk to which the entity may be exposed.
 - 2.1 The description of the entity's approach to incorporation of ESG factors in its investment management processes and strategies shall be provided in the context of the regulatory environment to which the entity is subject.
- 3 The entity shall describe policies that determine its approach to incorporation of ESG factors in its investment management processes and strategies.
- 4 The entity shall describe how it implements ESG incorporation practices.
 - 4.1 The discussion shall include:
 - 4.1.1 Parties responsible for day-to-day incorporation of ESG factors
 - 4.1.2 Roles and responsibilities of employees involved
 - 4.1.3 Approach to conducting ESG-related research
 - 4.1.4 Approach to incorporating ESG factors into investment strategies
- 5 The entity shall describe its oversight/accountability approach to the incorporation of ESG factors.

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- 5.1 The discussion shall include:
 - 5.1.1 Formal oversight individuals or bodies involved
 - 5.1.2 Roles and responsibilities of employees involved
 - 5.1.3 Criteria used in assessing the quality of ESG incorporation
- 6 The entity shall discuss whether it conducts scenario analysis or modelling in which the risk profile of future ESG factors at the portfolio level is calculated.
 - 6.1 ESG factors may include climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.
- 7 The entity shall discuss ESG factors that it considers apply broadly in terms of their impact on sectors and industries, as well as the factors it deems as sector- or industry-specific.
- 8 The entity shall describe whether it incorporates ESG factors in strategic asset allocation or allocation of assets between sectors or geographical markets.
- 9 The entity shall describe how it incorporates ESG factors into the assessment of and influence the entity's perspectives on:
 - 9.1 Time horizon of investments
 - 9.2 Risk and return profiles of investments
 - 9.3 Traditional fundamental factors such as economic conditions, central bank policy, industry factors, and geopolitical risks
- 10 Where relevant, the entity shall discuss how it incorporates ESG factors in selecting external fund managers and fiduciary managers.
 - 10.1 The entity shall describe its oversight/accountability approach to assessing the quality of the incorporation of ESG factors by external fund managers and fiduciary managers, which includes:
 - 10.1.1 Formal oversight individuals or bodies involved
 - 10.1.2 Roles and responsibilities of employees involved
 - 10.1.3 Criteria used in assessing the quality of ESG incorporation
- 11 Where relevant, the description of the entity's approach to incorporation of ESG factors in its investment management activities shall be disaggregated by asset class or by style employed.
 - 11.1 The discussion shall include, but is not limited to, the differences in the entity's approaches to incorporation of ESG factors in:
 - 11.1.1 Public equity, fixed income, private equity or alternative asset classes
 - 11.1.2 Passive versus active investment strategies
 - 11.1.3 Fundamental, quantitative and technical analyses of investments

Policies Designed to Incentivise Responsible Behaviour

Topic Summary

Advances in technology and the development of new policy products have allowed insurance entities to limit claim payments while encouraging responsible behaviour. The industry is subsequently in a unique position to generate positive social and environmental externalities. Insurance entities can incentivise healthy lifestyles and safe behaviour as well as develop sustainability-related projects and technologies, such as those focused on renewable energy, energy efficiency and carbon capture. As the renewable energy industry continues to grow, insurance entities may seek related growth opportunities by underwriting insurance in this area. Additionally, policy clauses may encourage customers to incorporate environmental, social and governance (ESG) factors to mitigate overall underwriting portfolio risk, which may reduce insurance pay-outs over the long term. Therefore, disclosure on products related to energy efficiency and low carbon technology, as well as discussion of how entities incentivise health, safety or environmentally responsible actions or behaviours, may assist investors in assessing how insurance entities incentivise responsible behaviour.

Metrics

FN-IN-410b.1. Net premiums written related to energy efficiency and low carbon technology

- 1 The entity shall disclose the net premiums written for policies related to energy efficiency and low carbon technology, including renewable energy insurance, energy savings warranties, and carbon capture and storage insurance.
 - 1.1 The disclosure scope includes policies that can be demonstrated to absorb environmental risks, thereby enabling sustainability-related projects, technologies and activities.
 - 1.2 Renewable energy insurance may range from specialised protection against natural hazards or mechanical breakdowns to insurance against fluctuations in the availability of wind or solar radiation.
 - 1.3 Energy savings warranties insure the energy savings guaranteed by Energy Services Entities (ESCOs) for building retrofitting and other energy efficiency projects.
- 2 The disclosure scope shall include policies in which the insurer has priced and identified separately such net premiums in its customer billing.

FN-IN-410b.2. Discussion of products or product features that incentivise health, safety or environmentally responsible actions or behaviours

- 1 The entity shall describe how it incentivises health, safety or environmentally responsible actions or behaviours through incorporation of clauses in the insurance policies sold to clients and through pricing structure of the policies.
 - 1.1 The scope of disclosure includes policies underwritten in the Property & Casualty (P&C) and Life segments and excludes Health Insurance policies.
 - 1.2 The scope of disclosure includes the consumer insurance segment and the commercial insurance segment:

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- 1.2.1 The consumer segment includes homeowners, automotive, supplemental health and accident, and other personal insurance.
 - 1.2.2 The commercial segment includes casualty (for example, liability, workers' compensation), property, specialty (for example, crop, marine, political risk) and financial (for example, errors and omissions, fiduciary liability) insurance.
- 2 Disclosure shall include a description of the aspects of traditional products that incentivise health, safety or environmentally responsible actions or behaviour. Such aspects may include:
 - 2.1 Premium discounts for green buildings
 - 2.2 Premium discounts for improving resource efficiency of properties
 - 2.3 Actuarially adjusted premiums for the use of low-emission vehicles, fuel-efficient non-hybrid vehicles or alternative-fuel vehicles
 - 2.4 Premium discounts for safer driving and lower use of personal vehicles
 - 2.5 Premium discounts for healthy behaviour (healthy diet, routine exercise, weight loss, giving up smoking/drinking).
- 3 The entity may disclose quantitative measures related to performance on underwriting of products with clauses incentivising healthy, safe or environmentally responsible actions or behaviour, such as:
 - 3.1 Number of policies incorporating such clauses
 - 3.2 Amount of premiums generated from the relevant products
 - 3.3 Quantitative measures of the associated social and environmental factors influenced through products (reduction in the amount of car accidents involving policyholders, amount of exercise hours per week, average amount of weight lost by a policyholder).

Physical Risk Exposure

Topic Summary

Catastrophic losses associated with extreme weather events will continue to have a material, adverse effect on the Insurance industry. The extent of this effect may evolve as climate change increases the frequency and severity of both modelled and non-modelled natural catastrophes, including hurricanes, floods and droughts. Failure to appropriately understand environmental risks, and price them into the underwritten insurance products, may result in higher-than-expected claims on policies. Therefore, insurance entities that incorporate climate change considerations into their underwriting process for individual contracts, and well as the management of entity-level risks and capital adequacy, may be better positioned to create value over the long-term. Enhanced disclosure of an entity's approach to incorporating these factors, in addition to quantitative data such as the probable maximum loss and total losses attributable to insurance pay-outs, may provide investors with the information necessary to assess current and future performance on this issue.

Metrics***FN-IN-450a.1. Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes***

- 1 The entity shall disclose the Probable Maximum Loss (PML) of insured products from natural peril catastrophe events.
 - 1.1 PML is defined as the anticipated value of the largest monetary loss affecting the entity's insurance portfolio that could result from weather-related natural catastrophes and is based on catastrophe modelling and exceedance probability (EP).
 - 1.2 The disclosure scope of natural peril catastrophic events includes: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat and winter weather.
- 2 The entity shall disclose the PML using, at a minimum, three likelihood of exceedance scenarios: (1) 2% (1-in-50); (2) 1% (1-in-100); (3) 0.4% (1-in-250).
 - 2.1 The entity may disclose additional likelihood of exceedance scenarios.
- 3 The entity shall disaggregate the PML by geographical location.
- 4 The entity shall report the PML amount on gross and net of catastrophe reinsurance bases.
 - 4.1 The gross PML is the gross probable maximum loss for natural peril catastrophic events (prior to reinsurance) for annual aggregate exposure to all risks, including reinstatement premiums for the year following the relevant year based upon the entity's catastrophe model.
 - 4.2 The net PML is the net probable maximum loss for natural peril catastrophic events (after reinsurance) for annual aggregate exposure to all risks, including reinstatement premiums for the year following the relevant year based upon the entity's catastrophe model.
- 5 Disclosure shall be provided for relevant geographical regions.
- 6 The entity may summarise the disaggregation of the PML in the following tables:

Table 3. Gross PML

	1-IN-50	1-IN-100	1-IN-250
Hurricanes (Typhoons)			
Tornadoes			
Tsunamis			
Floods			
Droughts			
Extreme Heat			
Winter Weather			

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Table 4. Net PML

	1-IN-50	1-IN-100	1-IN-250
Hurricanes (Typhoons)			
Tornadoes			
Tsunamis			
Floods			
Droughts			
Extreme Heat			
Winter Weather			

Note to FN-IN-450a.1

- 1 The entity shall describe climate-related scenarios used, including the critical input parameters, assumptions and considerations, analytical choices, and time frames, in calculation of the PML, as aligned with the *Task Force on Climate-related Financial Disclosures (TCFD) Supplemental Guidance for Insurance Companies*.

FN-IN-450a.2. Total amount of monetary losses attributable to insurance pay-outs from (1) modelled natural catastrophes and (2) non-modelled natural catastrophes, by type of event and geographical segment (net and gross of reinsurance)

- 1 The entity shall disclose the amount of policyholder benefits paid and claims incurred during the reporting period resulting from policy losses and benefits expenses related to modelled and non-modelled natural peril catastrophe events.
 - 1.1 The disclosure scope of natural peril catastrophic events includes: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat and winter weather.
- 2 Benefits and claims incurred shall be disclosed in accordance with IFRS 17 *Insurance Contracts*.
- 3 The entity shall disaggregate policy losses and benefits expenses for modelled and non-modelled natural peril catastrophe events.
 - 3.1 Modelled natural catastrophes are typically large-scale events, such as hurricanes and earthquakes, that the entity has analysed using a catastrophic risk model.
 - 3.2 Non-modelled events are typically smaller-scale events, such as floods, droughts, snowstorms and tornadoes, that the entity has not analysed using a catastrophic model (CAT model).
 - 3.2.1 CAT models are probabilistic mathematical models that simulate hazardous events and estimate the associated potential damages and insured losses. They may be conducted by the entity or by a third party on behalf of the entity.
- 4 The entity shall disaggregate policy losses and benefits expenses by geographical segment.

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- 5 The entity shall disaggregate policy losses and benefits expenses by natural peril catastrophic events.
 - 5.1 Where relevant, natural peril catastrophic events include: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat and winter weather.
- 6 The entity shall report the policy losses and benefits expenses on a gross and net of catastrophe reinsurance base.
 - 6.1 The net amount shall be calculated as the gross amount of policy losses and benefits expenses from natural peril catastrophe events minus the recoverables from ceded reinsurance.
- 7 The entity shall consider IFRS 17 *Insurance Contracts* a normative reference, thus any future updates made to it shall be considered updates to this guidance.

Note to FN-IN-450a.2

- 1 The entity shall discuss its strategy around enhancing catastrophe modelling.
- 2 The entity shall discuss how climate change-related impacts and variability of weather-related losses effect the cost of reinsurance and the entity's approach to transferring risk through reinsurance.

FN-IN-450a.3. Description of approach to incorporation of environmental risks into (1) the underwriting process for individual contracts and (2) the management of entity-level risks and capital adequacy

- 1 The entity shall describe its approach to incorporation of environmental risks into both individual policyholder contracts and entity-wide assessments of risk.
- 2 The entity shall describe the processes for identifying and assessing climate-related risks on insurance and reinsurance portfolios by geography, business division or product segments.
 - 2.1 Climate-related risks are defined by the Task Force on Climate-related Financial Disclosures (TCFD) as:
 - 2.1.1 Physical risks from changing frequencies and intensities of weather-related perils
 - 2.1.2 Transition risks resulting from a reduction in insurable interest because of a decline in value, changing energy costs or implementation of carbon regulation
 - 2.1.3 Liability risks that could intensify due to a possible increase in litigation
- 3 The entity shall describe what it considers to be the relevant short-, medium- and long-term horizons in the context of the underwriting process for individual contracts as well as the management of entity-level risks and capital adequacy.
- 4 The entity shall describe specific climate-related risks for each time horizon (short, medium and long term) that the entity considers in the underwriting process for individual contracts as well as in the management of entity-level risks and capital adequacy.

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- 5 The entity shall describe the process for integration of climate-related risks in probabilistic mathematical models (catastrophic models).
 - 5.1 Discussion shall include:
 - 5.1.1 The use of new and emerging datasets (for example, for dam burst risk)
 - 5.1.2 The use of the critical input parameters, assumptions and considerations, and analytical choices
 - 5.2 Discussion shall be provided in the context of the relevant short-, medium- and long-term horizons.
- 6 The entity shall describe how outputs of catastrophe models inform its underwriting decisions.
 - 6.1 Discussion shall include:
 - 6.1.1 Development of insurance and reinsurance products which account for climate-related risks
 - 6.1.2 Pricing of insurance and reinsurance policies
 - 6.1.3 Client selection (for example, the type of events the entity chooses to cover or not, or geographical markets in which the entity chooses not to underwrite policies)
 - 6.1.4 Cedent selection (for example, decisions on the amount of risk the entity chooses to transfer through reinsurance).
 - 6.2 Discussion shall be provided in the context of the relevant short-, medium- and long-term horizons.
- 7 The entity shall describe the process for incorporation of clauses in the insurance policies sold to clients that incentivise reduction of exposure to climate-related risks of insured assets through pricing structure of the policies.
 - 7.1 Discussion shall include incentives such as:
 - 7.1.1 The use of sustainable building materials
 - 7.1.2 Enhancement of the weather resiliency of properties
 - 7.1.3 Coverage of properties in communities with building codes requiring climate-risk adaptations
- 8 The entity shall discuss the process for integration of environmental risks into entity-wide assessments.
 - 8.1 Discussion shall include:
 - 8.1.1 Consideration of risks by segment (for example, life versus property and casualty)
 - 8.1.2 Capital adequacy
 - 8.1.3 Contingency planning for market failure (from many disaster-related claims)

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- 8.1.4 Use of alternative risk transfer (for example, catastrophe bonds, weather derivatives).
 - 8.2 Discussion shall be provided in the context of the relevant short-, medium- and long-term horizons.
- 9 The entity may discuss how sustainability risks are integrated into its use of an enterprise risk management (ERM) framework, such as the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Enterprise Risk Management–Integrated Framework.



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