Institute and Faculty of Actuaries

RISK ALERT
Climate-Related Risks

KEY MESSAGE
Actuaries should ensure that they understand, and are clear in communicating, the extent to which they have taken account of climate-related risks in any relevant decisions, calculations or advice.

What are Risk Alerts?
A series of email alerts drawing members' attention to specific issues where the IFoA asks members to think carefully about the consequences of actions they are taking.

The information in the Risk Alert is non-mandatory guidance which we publish to protect the public interest.

This Alert is relevant for the following members

All members

Subject matter

There is an increasing body of evidence demonstrating that climate-related issues represent a material risk to future economic stability affecting environmental, societal and governance matters. Many clients of actuaries are exposed to this risk.

A Task Force on Climate-related Financial Disclosures (TCFD) has been established under the auspices of the Financial Stability Board with members from across the G20 to develop a consistent approach to disclosures of material climate-related risks for use by companies when providing information to lenders, insurers, investors and other stakeholders.

includes guidance on how to report climate-related financial information for all sectors and supplemental specific guidance for the financial sector (banks, insurance companies, asset owners and asset managers). The IFoA are drawing members' attention to the publication of the TCFD Report and guidance.

Considerations for actuaries

All actuaries should consider how climate - related risks affect the advice they are providing.

For example:-

- All investors should consider the potential implications of climate-related risks on their invested assets.
- Institutions with short-term liabilities (e.g. general insurers and re-insurers) should evaluate and manage the impact of extreme weather.
- Institutions with long-term liabilities (e.g. life insurers, re-insurers and pension funds) should evaluate and manage the impact of changing patterns of temperature and disease on mortality.
- Institutions with unfunded or partially funded liabilities should evaluate and manage the impact on the covenant of the sponsor or other funding bodies.

In particular, we ask members to consider the relevance of climate-related issues in relation to:

1. **Physical risks** – the risks arising from potential degradation to physical assets; e.g. property damage, disruption of resource availability, supply chain interruption for providers and their services.

   For example, risks may arise in the short-term from damage to property due to extreme weather events such as flooding and in the longer-term from changes to rainfall patterns affecting the local use of land for agriculture and the movement of human populations reducing local workforce availability.

2. **Transition risks** – depending on the nature and speed of mitigation and adaptation policies and requirements by governments and regulators related to climate change, transition risks may pose varying levels of financial and reputational risk to insurers, pension funds and other institutional investors from the potentially rapid reduction in the market value of, or income generated by, assets.

   For example, the risk referred to as "stranded assets" includes the inability of a company or industrial sector to engage in activities that may be restricted by a variety of stakeholders leaving the company/sector with an inability to extract value from its assets (e.g. plants, rights, land). In effect, the assets become "stranded", resulting in a decline in market value of the affected company or industry, meaning the value or cash flows originally expected would no longer be able to materialise as expected.

3. **Liability risks** –depending on the types and coverages of insurance or assets invested in, risks could arise if third parties have suffered damage or losses from the effects of climate change and seek compensation. A commonly cited example is those of the Pacific Island nations whose territory may disappear as sea levels rise.

Further, institutions exposed to mortality and morbidity risks through life and health policies may experience an altered claims profile due to climate change. Alterations to pricing or other assumptions may be required.

It may be helpful to consider the risks under the headings of Governance, Strategy, Risk Management and Metrics and Targets as described on page 16 of the TCFD report.

Professional Obligations

Members are reminded of their obligations under the Actuaries' Code, Actuarial Profession Standards (APSs) and the Technical Actuarial Standards (TASs).

Further information and support

Actuaries who have specific professional questions or concerns should contact the Professional Support Service.

Task Force's website: https://www.fsb-tcfd.org/

Live webinar on the Financial Stability Board's Task Force on Climate-related Financial Disclosure Monday 22 May 2017 12:00 - 12:45 (book your place here)

For Pensions actuaries: Resource and Environment Issues; A Practical Guide for Pensions Actuaries

For North American climate risks: the Actuaries Climate IndexTM