Swiss Re

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Swiss Re Asia Pte. Ltd.
ABN 19 631 490 447
Level 36, Tower Two,
International Towers Sydney
200 Barangaroo Avenue
Sydney NSW 2000 Australia
Phone +61 2 8295 9500
Fax +61 2 8295 9600
swissre.com

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Prudential Practice Guide Draft CPG 229 Climate Change Financial Risks

Dear Sir or Madam,

Thank you for the opportunity to comment on the draft Prudential Practice Guide Draft on Climate Change Financial Risks (CPG 229). Climate change and related risks are topics that Swiss Re attaches considerable attention to. We are, for example, an active member of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) and the European Commission´s Technical Expert Group (TEG), a signatory of the UN Principle of Responsible Investors (PRI) and participated in the UNEP FI TCFD pilot.

We are pleased to see that the Prudential Practice Guide (PPG) is principles based and aims to facilitate well-informed decision-making regarding the management of climate risk, rather than set prescriptive requirements for compliance.

As an international organisation, we believe that the key is to avoid regulatory fragmentation and improve comparability through a consistent approach to the incorporation of climate-related risks into regulatory supervision. Hence, we appreciate the PPG alignment with the TCFD in terms of best practice. Swiss Re is fully supportive of TCFD as the framework to adopt and regulator's interpretation of TCFD recommendations will help industry to move into a common direction (in qualitative assessments and introduce quantitative elements where material and meaningful). It is also helpful that the PPG stresses the need for flexibility and a dynamic approach because many policies in this area are still under development and reliable and comparable quantification tools are not yet available in the market.

We are fully supportive of the PPG consideration that climate risks are not a stand-alone risk but can be subsumed into existing risk categories. It is important that climate risks are not singled out and are managed within the risk framework that is established to align with APRA's existing Prudential Standards. We are in full agreement with APRA's view that a separate framework is not needed to manage Financial Risks due to Climate Change.

Specific considerations for CPG 229

Below are some of the considerations, from Swiss Re' perspective, where CPG 229 can be further strengthened:

Scenario analysis

Swiss Re supports the need for scenario analysis and considers it a valuable tool for understanding the consequences of climate change and encouraging longer term strategic thinking about risks and opportunities.
We suggest that guidance can be further expanded through:

- Distinguishing the scenario analysis with the stress testing and the usefulness of the two approaches in a climate scenario analysis. Stress tests might be a useful tool in assessing the risks over a shorter time horizon, for example in the assessment of transition risks such as financial market or liquidity stresses that may be caused by sudden policy actions or technology shifts. However, it would provide limited benefit in the context of assessing physical risks. In contrast to the case with stress tests, multi-year scenarios may consider a broad range of assumptions, allowing climate risk analysis to provide information that is most relevant to the eventual decisions being taken. For the long-term perspective, given the multiple uncertainties, we see *qualitative* scenario analysis as a more decision-useful tool.
- There should be a clear acknowledgement and recognition of the challenges, e.g. with the reliability of the data as well as comparability of results that come with a longer time horizon. It should be recognised that the projections beyond typical planning periods introduces considerable uncertainty. Also, any mid to long term analysis, should be analysed in view of other possible factors that were not considered in the scenario but could be relevant in the future. We believe guide should note the key parameters and assumptions (e.g. consideration for discount rates, macro-economic variables, socio-economic dynamics etc.) in addition to selection of analytical choice with regards to specific scenario and time horizon considerations. In the end, as PPG outlines, organisations should have the flexibility to model the scenarios (i.e. chose the parameters) that are most meaningful to them.

Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) is identified as an appropriate framework to consider and record the material impact on capital adequacy of climate risks. Swiss Re sees scope for climate risk considerations to be included in the ICAAP framework and agrees that climate-related financial risks, should be considered in a forward-looking manner subject to their materiality. However, it is important that climate risk is not singled out but should be recognised as an additional risk driver for existing risk categories. We believe further guidance on how to apply this in practice would be useful addition to the PPG.

Disclosures

Swiss Re welcomes the guidance to allow firms to consider additional reporting on their approach to measuring and managing climate risks. Swiss Re began to implement the TCFD recommendations in our 2016 Financial Report and have since continued to expand our climate-related disclosures. Swiss Re supports the adoption of the TCFD recommendations and ongoing refinements to these recommendations to make them more decision-useful for stakeholders, in particular for investors. We would highlight that it is important, for an international re/insurer, duplicative reporting requirements is minimised and that disclosure requirements implemented at the group level are considered sufficient to avoid double reporting within various jurisdictions. We will be grateful if PPG can distinguish and provide further guidance for the branches of international organisation on disclosures.

Yours sincerely,

Swiss Re Asia Pte. Ltd.