

TERMS OF REFERENCE FOR INDUSTRY COMMITTEE TO ADDRESS CLIMATE CHANGE

APPROVED: NOVEMBER 2019

The Board of the Insurance Council has approved a terms of reference for the industry committee to address climate change:

The members of the Insurance Council of Australia (ICA) accept the international scientific consensus presented by the Intergovernmental Panel on Climate Change and supported by the CSIRO: *'The earth's mean surface temperature is increasing and it is extremely likely the dominant cause of the observed warming is the effect of human activity on the climate system. In recent decades, changes in climate have caused impacts on natural and human systems on all continents and across the oceans.'*

Our members support the ratification of the United Nations Framework Convention on Climate Change Paris Agreement by the Australian Government, including commitments to significantly reduce emissions below 2005 levels before the year 2030. The ICA is also a signatory to the United Nations Principles for Sustainable Insurance.

Climate change is occurring along a rapid and severe pathway, and without intervention it presents a serious risk to environments, economies and people worldwide. The impacts of human-induced greenhouse gas emissions are becoming increasingly evident through the occurrence of extreme weather events. As a shared risk, and a shared responsibility, climate change presents several concurrent pressures for the insurance industry and wider Australian community:

- changing physical risk, extreme weather patterns, and the need for new tools, modelling and investment to inform decision making, climate adaptation and mitigation;
- the continued need for suitable and affordable insurance products to protect the community and businesses against perils;
- a changing economy and the transition to a net zero carbon emissions economy; and
- the need to ensure the solvency and stability of prudentially regulated entities.

The role of general insurance is to assist policyholders to recover from losses, such as those caused by extreme weather events. With expertise in risk management developed over hundreds of years of operation, general insurers play a critical role in communicating, managing and responding to the risks that many policyholders face today, as well as how those risks may evolve under a changing climate. We are working alongside the community, governments and other stakeholders to help ensure insurance remains affordable and accessible through adaptation and increased community resilience.

To achieve this, the ICA has established a Climate Change Action Committee (CCAC) which will operate as a member working committee reporting as required through ICA management to the Board of the ICA.

The mandate of this committee is to:

1. Support the insurance industry to embed environmental issues and insights into decision making

- Support research on disaster risk reduction, and climate change adaptation and mitigation.
- Support the development of products and services to assist the community to adapt to future climate change risks, as well as products that will assist with the transition to a low-carbon economy.
- Develop industry literacy programmes on climate and disaster risk and insurance.

2. Work with stakeholders to raise awareness of environmental issues, manage risk and develop solutions including awareness of disaster preparedness in communities, and improve disaster response and recovery.

3. Work with governments, regulators and other key stakeholders to promote action on environmental issues

- Support prudential policy, regulatory and legal frameworks that promote disaster risk reduction, climate change adaptation and mitigation, and improve access to insurance.
- Engage with governments, the financial and business community and civil society to promote disaster risk reduction, climate change adaptation and mitigation, and develop insurance solutions.
- Engage with academia and the scientific community to foster research and educational programmes on disaster risk reduction, climate change adaptation and mitigation, and insurance solutions.
- Engage with media to promote public awareness of the benefits of disaster risk reduction, climate change adaptation and mitigation, and insurance solutions.

4. Support industry disclosure of climate risks and opportunities

- Foster dialogue with regulators, rating agencies and other stakeholders to gain mutual understanding on the current challenges of climate and disaster risk disclosure.
- Collaborate with international insurance associations regarding global industry positions on climate change and best practice risk assessment, management and disclosure.
- Support the formulation of best practice standards on assessment and disclosure of climate risk in members' insurance and investment portfolios, consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), including:
 - *Supporting the industry to identify and coordinate development of best practice prudential and disclosure frameworks for climate risks.*
 - *Supporting the industry seek clarity over technical methodologies and approaches to scenario analysis and stress testing.*