



Monetary Authority of Singapore

Consultation Paper  
P013-2023 – October 2023

# Consultation Paper on Guidelines on Transition Planning (Insurers)



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# 1. Preface

- 1.1. The Monetary Authority of Singapore (“MAS”) is proposing to introduce a set of Guidelines on Transition Planning to facilitate financial institutions’ (“FIs”) transition planning processes as they build climate resilience and enable robust climate mitigation and adaptation measures by their customers, asset managers and investees.
- 1.2. This consultation paper pertains to insurers. Two other consultation papers relating to the banks and asset managers are concurrently being issued.
- 1.3. MAS invites comments from FIs and other interested parties on the Guidelines on Transition Planning (Insurers) (“TPG”).
- 1.4. Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like:
  - (a) their whole submission or part of it (but not their identity), or
  - (b) their identity along with their whole submission,to be kept confidential, please expressly state so in the submission to MAS. MAS will only publish non-anonymous submissions. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libelous or offensive.
- 1.5. Please submit your written comments to the consultation paper by **18 December 2023** via this link: <https://go.gov.sg/tpginsurers>.



## 2. MAS' Supervisory Approach to Transition Planning for Insurers

- 2.1. MAS has previously set out supervisory expectations in relation to environmental risk in the Guidelines on Environmental Risk Management for Insurers (“ENRM Guidelines”). The TPG is intended to supplement these with additional granularity in relation to insurers’ transition planning processes. It follows similar broad themes across Governance and Strategy, Risk Management, Underwriting, Investment and Disclosures.
- 2.2. Transition planning<sup>1</sup> for insurers refers to the internal strategic planning and risk management processes undertaken to prepare for both risks<sup>2</sup> and potential changes in business models associated with the transition.
- 2.3. Insurers play a key role in enabling their customers, asset managers and investees, to transition in an orderly manner, and this should be reflected in their transition planning processes. In particular, insurers should play the role of an effective steward of their customers, asset managers and investees via a robust engagement and stewardship processes, to encourage changes (through the adoption of risk mitigation and adaptation strategies) in their customers’ and investees’ business strategies and risk profiles, instead of indiscriminately withdrawing investment or insurance coverage.
- 2.4. Insurers need to take a multi-year risk perspective for the continued sustainability of their business models. This implies the use and continual refinement of forward-looking risk management tools like scenario analysis and stress testing. Insurers should also seek to improve data availability and understanding thereof, including the need to contextualise metrics for better risk assessment – for instance, point-in-time financed and insurance-associated emissions should be supplemented with forward looking information, such as customers’ and investees’ planned transition pathways. MAS encourages insurers to consider the setting of relevant decarbonisation targets, that are supportive of the global transition to a low carbon economy.
- 2.5. Insurers are expected to have clear, actionable and decision-useful risk appetite statements that consider risks holistically when implementing their business strategies and transitioning to a low carbon economy. Both mitigation and adaptation measures should be considered in response to transition and physical risks faced by insurers through exposure to their customers and investments.
- 2.6. Environmental risk beyond climate-related risks should be proactively and holistically considered as part of insurers’ transition planning process given the inter-dependencies between climate and nature.

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<sup>1</sup> “Transition plan” refers to the firm’s tangible output of the transition planning process.

<sup>2</sup> This includes ensuring resiliency to a range of future states of the world (including varying degrees of physical risk, and potential shifts in policy, technology, or consumer sentiments).

While insurers have been prioritising climate-related risks, for which methodologies are more advanced (albeit still developing), it is increasingly recognised that climate and nature are closely connected. It is also possible that there can be trade-offs in terms of environmental degradation arising from the pursuit of climate solutions. How well an insurer addresses environmental risk, including through its transition planning process, may have an impact on MAS' overall risk assessment of that insurer.

- 2.7. Insurers are expected to make disclosures of meaningful and relevant information to enable stakeholders to understand how they are responding over the short-, medium- and long-term to the material climate-related risks they face, and the governance around processes for addressing such risks. Appropriate and sufficient levels of transparency will support the understanding of insurers' risk management strategies and risk profiles, as well as accountability for any public commitments made by insurers, i.e. whether said commitments will fulfil their intended and stated purpose.
- 2.8. Insurers are expected to take an iterative approach to enhance their transition planning and to embed better practices into their business-as-usual processes over time. This includes incorporation of refinements arising from their experiences in transition planning, as well as industry developments (such as in the areas of insurance-associated emissions and other environmental risks beyond climate change).

*Question 1. MAS seeks comments on the proposed definition of transition planning.*

*Question 2. MAS seeks comments on the proposed context for the TPG as laid out in paragraph 1.3 of the TPG.*

*Question 3. MAS seeks comments on whether the drafting of paragraph 1.3 (d) of the TPG on factoring in the climate-nature nexus accords insurers with sufficient flexibility to improve their understanding of other environmental-related risks and risk management processes over time. What are some tangible areas regarding other environmental-related risks (e.g. vulnerability on water availability) that you would see value in having elaboration in the guidance?*



## 3. Applicability of the TPG

- 3.1. MAS proposes to apply the TPG to all insurers, including insurers carrying on business in Singapore under a foreign insurer scheme established under part 2A of the Insurance Act 1966.
- 3.2. MAS recognises that the scale, scope and business models of insurers can be different. Insurers should implement the TPG in a way that is commensurate with the size and nature of their activities as well as their risk profiles.
- 3.3. MAS proposes to apply the TPG to insurers' underwriting and investment activities. Insurers should also apply the TPG to other activities that expose them to material environmental risk. In particular, insurers with investment activities should also refer to the relevant sections of the Guidelines on Transition Planning (Asset Managers), for sound transition planning practices with respect to investments.

*Question 4. MAS seeks comments on the entities and business activities that are in the proposed scope of the TPG.*

## 4. Proposed TPG

### Governance and Strategy

- 4.1. Robust governance is key to insurers' effective enterprise-wide decisions on their business strategies and risk appetite in response to climate-related risks. Support from the Board of Directors ("Board") and senior management is also essential for effective ongoing implementation of strategies and incorporation into risk management frameworks, including through effective resource allocation.
- 4.2. The ENRM Guidelines already set out the expectation for the Board and senior management to incorporate environmental considerations into insurers' risk appetite, strategies and business plans, and to maintain effective oversight of insurers' environmental risk management and disclosure. MAS now proposes that the decisions made by insurers' Board and senior management around business strategy and risk appetite should take into consideration how the current and future operating environment will impact the insurers' risk profiles.
- 4.3. MAS proposes that insurers' senior management should actively ensure that their climate-related business strategy and risk appetite are effectively embedded within the insurers' operations. MAS has included non-exhaustive steps that insurers' senior management could take. MAS also proposes that the insurers' senior management should establish a mechanism(s) through which insurers' existing approach (and implementation thereof) to respond to climate-related risks is regularly refined.

*Question 5. MAS seeks comments on the proposed expectations on governance and strategy as laid out in paragraphs 2.1 to 2.3 of the TPG.*

### Risk Management

#### **Portfolio management – forward looking risk assessment tools**

- 4.4. Forward-looking risk assessment tools like climate scenario analysis and stress testing allow insurers to better understand the potential impact of climate-related risks and opportunities under varying scenarios. The value and limitations of such tools should be duly considered as part of insurers' transition planning processes and incorporated into their business strategies. This extends from existing expectations under the ENRM Guidelines on scenario analysis and stress testing, which broadly set out the expectation for the insurers to develop capabilities in these areas to assess the impact of

environmental risk on their risk profiles and business strategies, and explore their resilience to financial losses.

- 4.5. MAS proposes that insurers should employ a range of forward-looking tools, such as scenario analysis and stress testing, in their transition planning for risk discovery and risk quantification. MAS proposes that the results of such exercises, where material, should be incorporated into insurers' planning processes (including their internal capital adequacy assessment processes) so as to trigger the appropriate management actions.
- 4.6. MAS recognises that methodologies are still in the process of maturing, and best practices on incorporating the use of climate scenario analysis and stress testing in transition planning continue to evolve. MAS proposes for insurers to continue to develop their capabilities in climate scenario analysis and stress testing, referencing leading industry practices wherever possible. MAS has included some illustrative examples on the use of forward-looking tools for portfolio management.

*Question 6. MAS seeks comments on the proposed expectations on the use of forward-looking tools for portfolio management as laid out in paragraphs 3.1 and 3.2 of the TPG.*

## **Portfolio management – data and metrics**

- 4.7. Given current gaps in data availability, quality and comparability, the use of proxy data is inevitable. The use of such proxies brings with it risks that insurers need to recognise. Potential implications of using proxies to make decisions should also be accounted for. Metrics are key to allow insurers to track their progress and their limitations should be assessed and mitigated where possible. Insurers should endeavour to track metrics using a multi-year perspective (in line with the horizon over which risks materialise). For example, financed or insurance-associated emissions based on point-in-time emissions data would not capture further reductions in emissions (e.g. an investment to install carbon abatement technology); they should thus be supplemented with forward looking information from corporate transition plans such as possible future emissions reductions. Metrics should also be monitored over time and analysed so as to identify drivers (e.g. whether changes are due to improvements in the profile of customers or portfolio composition) and address any implications thereof.
- 4.8. MAS proposes that insurers should recognise the inherent limitations or trade-offs that they face in using proxy data to mitigate data availability issues when performing their climate risk assessments at the customer and portfolio levels. MAS proposes that insurers should balance the considerations of having a set of reasonable data to support decision-making against the inherent limitations or trade-offs of using proxy data. Decisions on the choice of proxy data should be documented and material implications of the use of proxy data on risk assessment results should be highlighted to decision-makers.



- 4.9. MAS proposes that the impact of public or internal decarbonisation targets (if any) on insurers' business strategies and risk profiles should be well understood and accepted by the insurers, with residual risks identified and addressed. Decarbonisation targets (if any) should be set based on appropriate science-based pathways and reference scenarios that are sufficiently ambitious, relevant to insurers' risk profiles and include actionable short-, medium- and long-term targets. Targets should be set in consideration of the materiality and distribution of their emissions profiles at the appropriate industry and geographical granularity. Decarbonisation targets (if any) should be supplemented with additional metrics as necessary.
- 4.10. MAS also proposes that insurers should set metrics and targets to track progress towards their strategic goals. Limitations of the metrics chosen should be recognised and explained with additional information provided as necessary.

*Question 7. MAS seeks comments on the proposals set out in paragraphs 3.3 to 3.5 of the TPG, particularly in relation to the expectations around setting of decarbonisation targets by insurers.*

- 4.11. Where there is a misalignment between insurers' espoused risk appetite and actual trajectories, MAS proposes that insurers have a structured process in place to explain the variance. The proposed process should include attributing causation to specific risk factors and considering the need to implement additional measures to keep within their risk appetite, and/or achieve their stated targets and commitments. Where misalignment is assessed to be fundamental and not temporary, insurers should review the continued relevance of their risk appetite and/or targets.

*Question 8. MAS seeks views on the proposed required attribution process set out in paragraph 3.6 of the TPG, including any practical constraints that insurers may face.*

*Question 9. MAS seeks views on whether it would be useful to specify broad categories for attribution referenced in paragraph 3.6 of the TPG, and if so, what such categories could include.*

- 4.12. Given the evolving nature and understanding of climate change, MAS proposes that insurers should review all relevant risk indicators periodically for continued relevance and monitor them using a multi-year risk perspective. For example, short-term fluctuations in insurance-associated or financed emissions due to actions in support of climate-positive outcomes may not be an indication of a deterioration in insurers' climate risk management practices or failure to meet their publicly committed climate objectives. MAS recognises that insurers may see a short-term increase in their financed or insurance-associated emissions when they invest in or provide insurance coverage for projects that facilitate transition. MAS proposes that insurers should be able to explain how their transition plans, as well as their transition-related investments and the insurance covers they provide



to their customers, are consistent with their risk appetite statements, commitments and decarbonisation targets (if any).

*Question 10. MAS seeks views on whether the drafting in paragraph 3.7 of the TPG will allow insurers to support climate positive outcomes, and if there are other considerations to include in the drafting to ensure that these are done in a credible manner and not used as a means of transition washing.*

### **Implementation strategy (people, processes, systems)**

4.13. People, processes and systems are critical for robust implementation and the alignment of the transition planning process with insurers' strategic goals. With adequate capability, tools, technologies and infrastructure, insurers will be able to execute their strategic goals, prioritise actions and allocate resources effectively.

4.14. MAS proposes that insurers should implement a robust implementation strategy. In particular, insurers should:

- (a) equip their staff, including through capacity building and training, with adequate expertise to assess, manage and monitor climate-related risk in a rigorous, timely and efficient manner.
- (b) update their internal governance and processes, including their risk management framework, to manage climate-related risks in a systematic manner and on a regular basis.
- (c) develop and implement a data strategy to build, maintain and effectively utilise relevant environmental-related data to support effective decision-making.

*Question 11. MAS seeks views on whether paragraphs 3.8 to 3.10 of the TPG provide an adequate overview of the people, processes and systems necessary for a robust implementation of insurers' transition planning.*



## Underwriting

### **Engagement with customers**

- 4.15. Insurers have a role to play in the transition to a net zero economy through providing insurance coverage for projects that facilitate the transition of their customers and customers' exposure to physical risks. It is important that customers recognise the need to take risk mitigation and adaptation measures where relevant. Insurers are well-positioned to engage their customers on the risks they face and work closely with vulnerable customers to implement the relevant risk-mitigating measures. This process also serves as an avenue for insurers to collect relevant risk data from customers and deepen their understanding of customers' risk profiles.
- 4.16. The TPG set out MAS' proposed expectations for insurers to have a structured process to steer customers' transition by actively engaging customers on the climate-related risks that they face and their response to such risks. MAS proposes for insurers to engage and steer customers, particularly those identified as vulnerable to transition and/or physical risks, to proactively manage the risks that customers face. MAS has included examples of what engagements with customers may include. These examples are not meant to be exhaustive and should be applied as appropriate for the given customer's business and risk profile.
- 4.17. To facilitate a better understanding of the impact of climate change on customers' businesses and risk profiles, MAS proposes that insurers collect climate-related risk data from their customers. Insurers can consider developing or building on existing structured templates to facilitate collection of consistent and comparable customer data. MAS has included illustrative examples of possible data to collect.
- 4.18. For customers exposed to elevated climate-related risks and who are not implementing adequate risk mitigation and adaptation strategies (due to inability or unwillingness), MAS proposes for insurers to place these customers on enhanced monitoring and engage them further to allow prompt risk mitigation actions to be taken.
- 4.19. MAS further proposes for insurers to regularly engage customers on a risk-proportionate basis to accelerate timely action by customers that aligns with insurers' risk appetites, commitments and ambitions. It is important for insurers to guide customers in developing or enhancing their own plans to address climate-related risks, instead of indiscriminately withdrawing insurance coverage in the first instance.



*Question 12. MAS seeks comments on the proposed expectations on customer engagement as laid out in paragraphs 4.1 to 4.5 of the TPG.*

## **Risk Selection**

- 4.20. For management of climate-related risks in a structured manner, frameworks and processes at an appropriate level of granularity and specificity should be in place. Insurers can benefit from grouping customers by their risk characteristics such as at the sector level, risk level and readiness level, and by prioritising the management and engagement of customers that are exposed to greater risk.
- 4.21. The ENRM Guidelines broadly set out the expectation for insurers to identify, assess, mitigate and monitor material climate-related risks at both customer and portfolio level. MAS now proposes for insurers to take a differentiated approach for sectors (at an appropriate level of granularity) posing higher climate-related risks in their transition planning to take sectoral specificities into account.
- 4.22. MAS also proposes for insurers to have differentiated strategies that cater to customers exposed to different levels of climate-related risks, and who are at different stages of readiness. Insurers should:
- (a) avoid indiscriminately withdrawing insurance coverage from customers or sectors deemed to be of higher climate-related risks so as not to increase protection gaps and to support an orderly transition;
  - (b) consider the type of physical risk the customer segments are exposed to for higher physical risk segments; and
  - (c) pay attention to potential correlations or novel risks that they are exposed to as a result of such exposures (individually or in aggregate).

*Question 13. MAS seeks comments on the proposed expectations on risk selection as laid out in paragraphs 4.6 and 4.7 of the TPG.*

## **Investment**

### **Engagement with asset managers and investees**

- 4.23. Insurers have a role to play in the transition to a net zero economy through the mobilisation of capital to facilitate their investees' transition. It is important that asset managers and investees recognise the need to take risk mitigation and adaptation measures where relevant. Insurers are well-positioned to engage their asset managers and investees on the risks they face, and work closely with vulnerable investees to implement the relevant risk-mitigating measures. This process also serves as an avenue for insurers to collect relevant risk data from asset managers and investees and deepen their understanding of the risk profile of their investment portfolios.
- 4.24. The TPG set out MAS' proposed expectations for insurers to have a structured process to manage the exposure to climate-related risks, including transition risk, in their investment portfolios, which may include engagement with investees to transition towards more sustainable business practices. MAS proposes for insurers to engage and steer their in-house and/or external asset managers to proactively manage climate-related risks of insurers' investment portfolios on an ongoing basis. MAS has included examples of what engagements with asset managers may include. These examples are not meant to be exhaustive and should be applied as appropriate.
- 4.25. To facilitate a better understanding of the impact of climate change on insurers' investment portfolios, MAS proposes that insurers collect climate-related risk data from their asset managers. Insurers can consider utilising external data providers or developing their own environmental risk indicators and scoring system to assess the environmental risk exposure of their investments. MAS has included illustrative examples of possible data to collect.
- 4.26. For asset managers and investees exposed to elevated climate-related risks and who are not implementing adequate risk mitigation and adaptation strategies (due to inability or unwillingness), MAS proposes for insurers to place these asset managers and investees on enhanced monitoring and engage them further to allow prompt risk mitigation actions to be taken.
- 4.27. MAS further proposes for insurers to regularly engage asset managers and investees on a risk-proportionate basis to accelerate timely action by asset managers and investees that aligns with insurers' risk appetites, commitments and ambitions. It is important for insurers to guide asset managers and investees in developing or enhancing their own plans to address climate-related risks, instead of indiscriminately divesting from sectors exposed to higher climate-related risks in the first instance.

*Question 14. MAS seeks comments on the proposed expectations on engagement with asset managers and investees as laid out in paragraphs 5.1 to 5.6 of the TPG.*

## **Portfolio management approach**

- 4.28. For management of climate-related risks in a structured manner, frameworks and processes at an appropriate level of granularity and specificity should be in place. Insurers can benefit from grouping asset investments by their risk characteristics - such as at the sector level and risk level, and by prioritising investments that are exposed to greater risk.
- 4.29. The ENRM Guidelines broadly set out the expectation for insurers to monitor, assess and manage the potential and actual impact of environmental risk on investments on an ongoing basis. MAS now proposes for insurers to take a differentiated approach for sectors (at an appropriate level of granularity) posing higher climate-related risks in their transition planning to take sectoral specificities into account.
- 4.30. MAS also proposes for Insurers to have differentiated strategies for investments that are exposed to different levels of climate-related risks and asset managers who are at different stages of readiness to participate and contribute to the transition to net zero. Insurers should:
- (a) avoid indiscriminately withdrawing investments from sectors deemed to be of higher climate-related risks when developing their portfolio management strategies;
  - (b) consider the type of physical risk the investments are exposed to for higher physical risk segments; and
  - (c) pay attention to potential correlations or novel risks that they are exposed to as a result of such exposures (individually or in aggregate).

*Question 15. MAS seeks comments on the proposed expectations on the approach to portfolio management as laid out in paragraphs 5.7 to 5.8 of the TPG.*

## Disclosure

- 4.31. Disclosures are critical for enabling insurers' stakeholders to understand whether and how insurers are responding to material climate-related risks as they navigate the transition toward a low-carbon economy. Sharing of relevant information from the transition planning process could help insurers avoid adverse reactions and accusations of green-washing arising from heightened scrutiny of insurers' underwriting and investment activities, while allowing them to demonstrate accountability for any public commitments they have made.
- 4.32. The ENRM Guidelines currently set out broad expectations that insurers should disclose their approach to managing environmental risk in accordance with well-regarded international reporting

frameworks<sup>3</sup>. The International Sustainability Standards Board (“ISSB”) standards, which form the new global baseline for sustainability reporting, require companies to disclose information on their transition plans if they have any. MAS thus seeks to provide further guidance through the TPG to insurers to make additional disclosures encompassing insurers’ transition planning processes and approaches towards addressing and mitigating the impact of material climate-related risk.

- 4.33. MAS proposes that insurers should disclose meaningful and relevant information to enable stakeholders to understand how insurers are responding over the short-, medium- and long-term to material climate-related risk they face, and governance around processes for addressing such risks in accordance with well-regarded international reporting frameworks and standards, such as the ISSB standards.
- 4.34. MAS proposes that insurers clearly communicate their risk management strategies and approaches for different sectors, and how their underwriting and investment activities relate to their publicly committed climate objectives (where relevant), particularly where underwriting or investing in such sectors or sub-sectors could be negatively perceived due to high financed or insurance-associated emissions intensity in the shorter term. Such disclosures are critical in enabling stakeholders to understand insurers’ reasons for underwriting and investing in such sectors, as well as the corresponding risk strategies and mitigation measures put in place by insurers, to avoid adverse reactions and accusations of green-washing which may negatively impact insurers. Where relevant, insurers should disclose their engagement strategies for stakeholders including, but not limited to shareholders, rating agencies, regulators and governments, and non-governmental organisations. Insurers could also consider the use of credible and well-regarded green and transition taxonomies<sup>4</sup> in their disclosures, such as labelling of sustainability and transition products offered by insurers, to facilitate better stakeholder understanding of how these products contribute to insurers’ publicly committed climate objectives.
- 4.35. Lastly, to balance the need for transparency in disclosures with existing challenges that insurers may face (i.e. data and methodological challenges), MAS proposes that insurers may disclose reasonable and supportable information that is available at the reporting date without undue cost and effort. However, insurers should disclose factors, inputs, methodologies, material assumptions and dependencies underlying their disclosures for transparency.

*Question 16. MAS seeks views on whether paragraph 6.1 of the TPG should reference other reporting frameworks.*

*Question 17. MAS seeks views on whether paragraphs 6.1 and 6.2 of the TPG set out the key aspects necessary for market transparency.*

<sup>3</sup> Such as the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) recommendations

<sup>4</sup> Examples include the Singapore-Asia Taxonomy developed by the Green Finance Industry Taskforce (“GFIT”), the ASEAN Taxonomy and the EU Taxonomy.



*Question 18. MAS seeks views on whether paragraphs 6.1 and 6.2 of the TPG provide sufficient additional guidance (i.e. in addition to existing expectations in paragraphs 7.1 and 7.2 of the ENRM Guidelines) for insurers to disclose information related to their response to material climate-related risks and governance around processes for addressing such risks.*

*Question 19. MAS seeks views on the proposal in paragraph 6.2 of the TPG for insurers to consider the use of taxonomies in disclosures, including the suitability of including GFIT's Singapore-Asia and ASEAN taxonomy as examples. For instance, would such suggestions restrict or support insurers' transition financing activities?*

*Question 20. MAS seeks views on the cited areas of disclosure under paragraph 6.3 of the TPG (i.e. disclosures of factors, inputs, methodologies, material assumptions and underlying dependencies), such as whether there are any practical constraints or competitiveness concerns in providing such disclosures.*

## 5. Implementation Approach

- 5.1. MAS has included illustrative examples of sound practices in relation to insurers' governance, risk management, underwriting, investment and disclosure of their transition planning practices in the TPG, to facilitate implementation. MAS welcomes suggestions of other examples of transition planning practices currently implemented by insurers which would meet the expectations in the TPG. The examples, if incorporated in the TPG, will not be attributed to any individual insurer.
- 5.2. MAS is cognisant that the maturity of transition planning practices (and environmental risk management more broadly) vary among insurers. Some insurers may face initial challenges in implementing the TPG, including in relation to the availability of data and expertise, and will also need time to operationalise the requirements. Hence, MAS proposes to provide a transition period of 12 months after the TPG are issued, for insurers to assess and implement the TPG as appropriate.

*Question 21. MAS seeks suggestions of other examples of transition planning practices currently implemented by insurers that could be incorporated in the TPG.*

*Question 22. MAS seeks comments on the proposed implementation approach, including the proposed transition period of 12 months.*





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	climate-related risks and governance around processes for addressing such risks.	
Question 19	MAS seeks views on the proposal in paragraph 6.2 of the TPG for insurers to consider the use of taxonomies in disclosures, including the suitability of including GFIT's Singapore-Asia and ASEAN taxonomy as examples. For instance, would such suggestions restrict or support insurers' transition financing activities?	16
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# 7. Proposed Guidelines on Transition Planning (Insurers)

## 1 INTRODUCTION

1.1 The Guidelines on Transition Planning (“TPG”) set out MAS’ supervisory expectations for insurers to have a sound transition planning process as they build climate resilience and facilitate robust climate mitigation and adaptation measures by their customers, asset managers and investees. The global transition to a net zero economy and the expected physical effects of global warming will result in transformational shifts in the economic activities financed and insured by insurers.

1.2 “Transition planning”<sup>1</sup> refers to the internal strategic planning and risk management processes undertaken by a firm to prepare for both risks<sup>2</sup> and potential changes in business models associated with the transition.

1.3 In their transition planning process, insurers are to consider the following:

- a. **Insurers should take a multi-year view for the continued sustainability of their business models.** The strategic decisions made by insurers will have a bearing on the sustainability of insurers’ business models and risk profile over varying time horizons. Insurers are expected to assess the implications of their strategic decisions and continually adapt their business models, as well as governance frameworks, risk management policies and processes, in a forward-looking manner.
  - i. An increasing number of insurers have set decarbonisation targets, either internal or publicly disclosed, as a strategic decision to guide the pivoting or transformation of their business models towards a low carbon economy. Many have also developed or are developing short-, medium- and long-term roadmaps to guide the transition of their portfolios towards stated targets. MAS encourages insurers to consider the setting of relevant decarbonisation targets, that are supportive of the global transition to a low carbon economy.
- b. **Insurers should engage their customers, assets managers and investees on the need to adopt mitigation and adaptation strategies as they transition towards a net zero economy and deal with the physical effects of climate change.** A robust engagement approach with customers, asset managers and investees should bear in mind that:
  - i. indiscriminate withdrawal of investment or insurance coverage by insurers from customers or sectors deemed to be of higher climate-related risks would hinder companies with credible transition plans and adaptation plans from securing the financing or insurance coverage they need to transition. This would impede the real economy’s transition, and could lead to stranded assets and protection gaps and increase the risk of a disorderly transition;

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<sup>1</sup> “Transition plan” refers to the firm’s tangible output of the transition planning process.

<sup>2</sup> This includes ensuring resiliency to a range of future states of the world (including varying degrees of physical risk, and potential shifts in policy, technology, or consumer sentiments).

- ii. short term fluctuations in financed and insurance-associated emissions<sup>3</sup> due to actions to support climate positive outcomes should be viewed against potential longer-term improvement in customers' climate risk profiles, and managed through appropriate governance guardrails established by insurers; and
  - iii. collective inaction or delays may increase the chances of a disorderly transition and precipitate climate tipping points which can heighten financial stability risk.
- c. **Insurers should have clear, actionable and decision-useful risk appetite statements<sup>4</sup> to guide the implementation of their transition plans.** Insurers have the flexibility to select a range of metrics and targets<sup>5</sup> in support of their risk appetite statements. In selecting the appropriate metrics and setting targets for their business model and risk profile across the short-, medium- and long-term, insurers are expected to consider the potential adverse impacts or shocks that could manifest from a delayed response in supporting transition or from misalignment with national, regional and/or global decarbonisation pathways<sup>6</sup>.
- d. **Insurers should continue their efforts to address environmental risks beyond climate-related risks<sup>7</sup>, particularly as the risks are inter-linked.** Insurers should apply safeguards against other environmental risks that may manifest as a result of their actions to address climate-related risks<sup>8</sup> while building capacity to manage both climate-related and environmental risks in a holistic manner. The remainder of the TPG should be read in this context, and insurers should, to the extent possible, incorporate other environmental risks into their transition planning processes over time.
- e. **Insurers should proactively communicate their transition planning process to stakeholders.** This can be done through published sustainability reports, general purpose financial reports and/or transition plans. Such reports or plans can be useful tools to inform stakeholders on an insurer's short-, medium-

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<sup>3</sup> Insurers should incorporate the management of insurance-associated emissions into their climate strategies as measurement methodologies mature where appropriate, and to the extent possible, steer their customers to proactively manage the risks arising from their carbon-intensive activities. Insurers should keep abreast of good practices in this evolving area, e.g. The Partnership for Carbon Accounting Financials ("PCAF")'s Global Greenhouse Gases Accounting and Reporting Standard for Insurance-Associated Emissions issued in November 2022.

<sup>4</sup> Insurers can refer to Section 2.3, Focus Area 3: 'Risk Appetite' of the Information Paper on Environmental Risk Management (Insurers) for examples of qualitative and quantitative risk appetite statements.

<sup>5</sup> For example, this may include portfolio decarbonisation targets like net zero portfolio emissions at a specified date, sector-level commitments in line with scientific recommendations or proportion of portfolio aligned with science-based sector pathways aiming to limit global warming to 1.5 degrees.

<sup>6</sup> Countries globally have committed under the Paris Agreement to continue to progress and enhance their Nationally Determined Contributions over time. A country that has not currently committed to limiting global warming to 1.5 degrees may do so in the future. Corporates are expected to face increasing pressure to align to transition pathways that limit warming to 1.5 degrees, with consequent impact on their business models and risk profiles.

<sup>7</sup> NGFS (2022) Statement on Nature-Related Financial Risks. Nature-related risks, including those associated with biodiversity loss, could have significant macroeconomic implications, and failure to account for, mitigate and adapt to these implications is a source of risks for individual FIs as well as for financial stability.

<sup>8</sup> Reasonable effort should be made to consider if risk mitigation and adaptation measures adopted by customers have unintended financial or non-financial risks through negative impact on nature. For example, deforestation caused by expansion of large-scale, monoculture plantations for biofuel feedstocks or mining of transition-critical materials like lithium can pose risks to nature-dependent companies operating in the region (e.g. through reduction to water security in view that intact forest ecosystems provide water cycling and climate regulation services).



and long-term risk appetite<sup>9</sup>. Conversely, a perceived lack of transparency or credibility in an insurer's transition planning could elevate an insurer's risk profile if it is not viewed as adequately managing climate-related risks or supporting transition.

## Application

1.4 The TPG builds on and should be read together with MAS' existing supervisory guidance<sup>10</sup> to insurers<sup>11</sup>. The TPG can be viewed as an elaboration of MAS' supervisory expectations around the strategy to address environmental risk.

- a. The TPG is applicable to insurers providing insurance coverage to corporate customers, insurers' investment activities, and other activities that expose insurers to material environmental risk.
- b. The TPG is applicable on a group basis for locally-incorporated insurers<sup>12</sup>. Insurers that are branches or subsidiaries of insurance groups headquartered overseas may take guidance from their Group's transition planning as long as the Group's transition planning approach meet the expectations set out in the TPG.
- c. MAS recognises that the scale, scope and business models of insurers can be different and will continue to take a risk-proportionate supervisory approach. An insurer should implement these Guidelines in a way that is commensurate with the size, nature and risk profile of its activities.

1.5 MAS expects insurers' implementation of transition planning processes to mature as best practices evolve. MAS will update its guidance to the industry as appropriate to reflect the evolving nature and maturity of transition planning practices.

## 2 GOVERNANCE AND STRATEGY

2.1 **Decisions made by the insurer's Board of Directors ("Board") and senior management around business strategy and risk appetite (e.g. through portfolio allocation) should take into consideration how the current and future changes in operating environment will impact the insurer's risk profile.** The Board is responsible for ensuring that the insurer's risk appetite, framework and policies adequately address the insurer's business strategy and risks as it navigates to a lower-carbon future.

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<sup>9</sup> Beyond financial risk considerations, such public disclosure of risk appetite statements can take the form of portfolio decarbonisation targets in support of insurers' public commitments and/or nation-wide/global climate goals.

<sup>10</sup> Examples include: i) MAS' Guidelines on Environmental Risk Management ("ENRM Guidelines") – effective since June 2022 – which set out MAS' expectations for insurers to build resilience against the impact of environmental risk; ii) MAS' Information Paper in May 2022 sharing our observations on insurers' progress in addressing environmental risk, including through the consideration and integration of such risks into their risk management processes and business strategies.

<sup>11</sup> As defined in the ENRM Guidelines, 'insurers' refers to all insurers, including insurers carrying on business in Singapore under a foreign insurer scheme established under part 2A of the Insurance Act 1966.

<sup>12</sup> For a locally-incorporated insurer that is headquartered in Singapore, this refers to the group including the holding company in Singapore, as well as the insurer's subsidiaries and branches in Singapore and overseas, where applicable. For a locally-incorporated subsidiary of a foreign insurer, this refers to the subsidiary's operations in Singapore and its downstream subsidiaries and branches in Singapore and overseas, where applicable.



**2.2 The insurer's senior management should actively ensure that its climate-related business strategy and risk appetite are effectively embedded within the insurer's operations.** Steps taken should include (but are not limited to):

- a. Establishing a robust governance process to make climate-related decisions (such as on business strategies, risk appetite, targets, scope, risk framework, implementation timelines and approach), founded on sufficient understanding of key assumptions, dependencies, and residual risks;
- b. Establishing a clear tone from the top around the need to address climate-related risk, such as when making decisions around business strategy and risk appetite;
- c. Establishing clear lines of communication and escalation across different parts of the insurer to address risks that cut across functions;
- d. Ensuring that internal strategies and risk appetite statements are consistent with any publicly communicated climate-related strategies and commitments<sup>13</sup>; and
- e. Establishing mechanisms to implement business strategies and align internal behavior to address climate-related risks (such as through performance measurement, remuneration policy and incentive structures)<sup>14</sup>.

**2.3 The insurer's senior management should establish a mechanism(s) through which the insurer's existing approach (and implementation thereof) to respond to climate-related risks is regularly refined.** In view of the evolving nature of climate risk management practices, the insurer should view transition planning as an iterative process. The insurer should regularly review its approach, including its risk appetite and risk framework, for continued appropriateness and effectiveness, as well as to incorporate industry developments and emerging best practices in a timely manner.

### **3 RISK MANAGEMENT**

#### **Portfolio management – forward-looking risk assessment tools**

**3.1 Insurers should employ a range of forward-looking tools, such as scenario analysis and stress testing consistent with MAS Notice 126, in its transition planning for risk discovery and quantification.** In the deployment of these tools, the insurer should consider the impact of climate-related risks on its portfolios under a range of plausible scenarios. The results of such exercises, where material, should be incorporated into the insurer's planning processes (including its internal capital adequacy assessment process) so as to trigger the appropriate management actions. For example, this could include, but is not limited to, decisions around business strategy and risk appetite, enhancing risk management policies and practices, adjusting sector strategies, or bolstering capital and liquidity levels.

**3.2 The insurer should continue to develop its capabilities in climate scenario analysis and stress testing, referencing industry's leading practices wherever possible.** Climate scenario analysis can be used to identify and

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<sup>13</sup> For reference, please refer to "Principles for the effective management and supervision of climate-related financial risks" (June 2022) by Basel Committee on Banking Supervision.

<sup>14</sup> For reference, in the "Principles for the effective management and supervision of climate-related financial risks" (June 2022) by Basel Committee on Banking Supervision, the Board and senior management should consider whether the incorporation of material climate-related financial risks into the bank's overall business strategy risk management frameworks may warrant changes to its compensation policies, taking into account that these should be in line with the business strategy, risk appetite, objectives, values and long-term interests of the bank.

assess emerging risks which insurers should take into consideration in their transition planning. For example, certain assets may present increased risks if those sectors become negatively impacted by policy shifts or technological changes related to climate change. Non-life insurers could use scenario analysis to measure the compounding impact of several catastrophe risk perils occurring consecutively in short order. Parameters and assumptions for climate stress testing scenarios may be adopted from modelling work performed by meteorological agencies, regulators or other external experts<sup>15</sup>. Insurers should use models that are pertinent to their geographical scope and nature of business. It is important that insurers to understand these models, the uncertainties of the results and their underlying assumptions when deciding on their relevance<sup>16</sup>. When modelling the impact of transition, the insurer should factor in forward-looking information, such as customer's transition plans, to better capture the level of transition risk that customers are exposed to. The insurer should seek to address material data gaps to allow them to adequately capture and differentiate the level of climate-related risks that their counterparties face.

## Portfolio management – data and metrics

**3.3 The insurer should recognise the inherent limitations or trade-offs that it faces in using proxy data<sup>17</sup> to mitigate data availability issues when performing its climate risk assessment at the individual investment / customer and portfolio levels.** The insurer may have to conduct such risk assessment in the absence of perfect information. In doing so, it will need to exercise considerable judgement in the choice of using proxy data and accepting data trade-offs. The insurer should therefore balance the considerations of having a set of reasonable data to support decision-making against the inherent limitations or trade-offs of using proxy data. The insurer should document the decisions on the choice of proxy data, such as the sources, underlying assumptions, methodology and limitations, so as to inform future iterations and enhancements. The insurer should recognise and highlight the potential material implications of the use of proxy data on its risk assessment results to decision-makers. The insurer should continue in its efforts to obtain actual data to enhance the robustness of its decision-making process.

**3.4 The insurer should set metrics and targets to track progress towards its strategic goals, recognise the limitations thereof and supplement with additional information<sup>18</sup> as necessary.** For example, an insurer may identify portfolio decarbonisation as a strategic goal and track progress using point-in time-emissions data in the absence of forward-looking emissions data. However, point-in-time emissions data would not capture future reductions in emissions (e.g. an investment to install carbon abatement technology). Point-in-time emissions data should hence be supplemented by additional information on possible future emissions reductions<sup>19</sup> where relevant. In monitoring such metrics, the insurer should keep its intended outcome in mind. As data availability increases, the insurer should also review existing metrics for continued relevance.

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<sup>15</sup> In developing the climate risk modelling frameworks, the insurer can leverage external reference scenarios (such as the scenarios published by the NGFS).

<sup>16</sup> Insurers may refer to the “Application Paper on the Supervision of Climate-related Risks in the Insurance Sector” (May 2021) by the International Association of Insurance Supervisors for further guidance on climate scenario analysis and stress testing.

<sup>17</sup> This includes cases where the insurer chooses to source its data from data vendors, where the reasonableness of any assumptions or proxies used by the vendor in deriving missing datapoints should be recognised, assessed and considered in decision-making where material.

<sup>18</sup> The insurer should also consider interlinkages with broader environmental risk in choosing metrics and setting targets.

<sup>19</sup> Usage of such projected future emissions should recognise their inherent uncertainty of materialisation, and be premised on the willingness and capability of customers' ability to follow through with their plans.





**3.5 The impact of any public or internal decarbonisation targets (if any) on the insurer's business strategy and risk profile should be well understood and accepted by the insurer, with residual risks identified and addressed.** Decarbonisation targets<sup>20</sup> (if any<sup>21</sup>) should be set based on appropriate science-based pathways and reference scenarios that are sufficiently ambitious<sup>22</sup>, relevant to the insurer's risk profile and include actionable short-, medium- and long-term targets. Targets should be set in consideration of the materiality and distribution of their emissions profile at the appropriate industry and geographical granularity. Decarbonisation targets (if any) should be supplemented with additional metrics as necessary.

**3.6 Where there is a misalignment between the insurer's espoused risk appetite (which can be reflected in its targets) and actual trajectories, the insurer should have a structured process in place to explain the variance.** The insurer should be able to attribute causation to specific factors and consider the need to implement additional measures to keep within its risk appetite, and/or achieve its stated targets and commitments. If the misalignment is assessed to be fundamental and not temporary, the insurer should review the continued relevance of its risk appetite and/or targets.

**3.7 Given the evolving nature and understanding of climate change, the insurer should review all relevant risk indicators periodically for continued relevance and monitor these metrics using a multi-year risk perspective.** For example, short term fluctuations in insurance-associated or financed emissions due to actions in support of climate-positive outcomes (e.g. projects for which reductions in emissions will materialise only after the project is completed) may not be an indication of a deterioration in the insurer's climate risk management practices or failure to meet their publicly committed climate objectives. The insurer may see a short-term increase in its financed or insurance-associated emissions when it invests in or provides insurance coverage for projects that facilitate transition. The insurer should be able to explain how its transition plan, as well as transition-related investments and the insurance covers they provide to their customers, is consistent with the insurer's risk appetite statements, commitments and decarbonisation targets (if any).

### Implementation strategy (people, processes, systems)

**3.8 The insurer should equip its staff, including through capacity building and training, with adequate expertise to assess, manage and monitor climate-related risks in a rigorous, timely and efficient manner.** The insurer should develop staff capability to effectively engage customers, asset managers and investees on developing a credible strategy as a response to the climate-related risks. Where relevant, the insurer should consider the use of stakeholder engagement toolkits (such as analytical tools or customer assessment templates) to facilitate consistent engagement processes by its staff.

**3.9 The insurer should update its internal governance and processes, including its risk management framework, to manage climate-related risks in a systematic manner and on a regular basis.** Scalable and consistent processes will allow the insurer to cascade and implement its climate risk strategy and plans effectively. This could include alignment of existing products, investments, services and business activities with the insurer's strategy, as well as embedding of strategic climate consideration in decision-making processes.

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<sup>20</sup> Gross, rather than net, metrics should be used to distinguish the effects of carbon credits.

<sup>21</sup> An insurer who has not set any decarbonisation targets should likewise have adequate measures in place to address risks associated with the transition to a low-carbon future, including any residual risks arising from its choice of metrics.

<sup>22</sup> In the insurer's choice of pathway, it should consider the likelihood of progressively stronger policy responses by jurisdictions to fulfil Paris Agreement commitments.



**3.10 The insurer should develop and implement a data strategy to build, maintain and effectively utilise relevant environmental-related data to support effective decision-making.** Relevant environmental-related data could include information to enable tracking of the insurer's commitments, transition and physical risks, as well as other environmental risks it is exposed to through its portfolio, mitigating factors (e.g. status and adequacy of customers' plans to address risks) and sector analysis to identify changes in business operating environment. System(s) should be in place to reliably collect, aggregate, and enable accessibility of relevant climate-related data across the insurance group as part of the overall data governance and IT infrastructure. The insurer should have appropriate mechanisms in place to facilitate improvement of data-related processes over time, including the identification of new-to-insurer relevant datapoints and data sources, data collection processes as well as participation in and support of emerging developments of technological solutions<sup>23</sup>. As data availability and quality are expected to improve over time, insurers should be agile in how they embed relevant climate-related data in their risk management frameworks and processes, and be flexible enough to allow enhancements (e.g. inclusion of new datapoints or additional granularity) over time.

**3.11** As part of transition planning, insurers also need to take into the account the inevitable increase in claims arising from climate-related events especially for risks within climate-exposed regions. Increasing society's resilience will be critical to manage this risk and crucial elements include proper risk assessment, risk prevention and adaptation measures, appropriate product design and balanced solutions for risk transfer across private and public parties. Insurers can play a role in all the above. This will enable continued access and affordability of insurance coverage, mitigating the risk of new or widening of protection gaps, while enhancing the financial resilience of insurers.

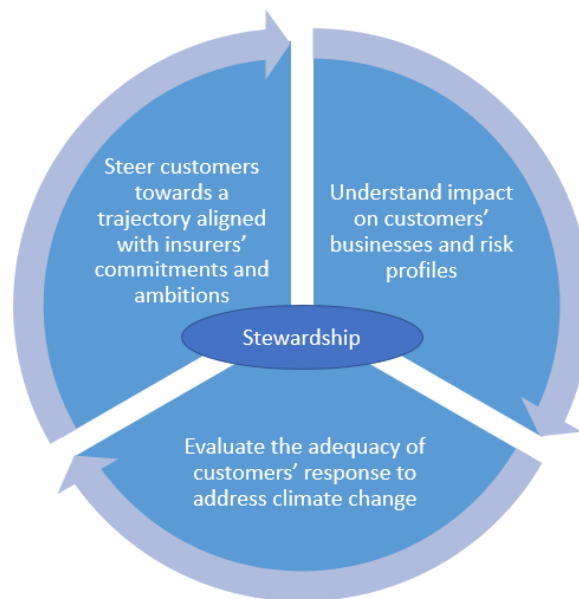
## **4 UNDERWRITING**

### **Engagement with customers**

**4.1 The insurer should have a structured process to steer customers' transition by actively engaging customers on the climate-related risks that they face and their response to such risks.** A credible response by customers should comprise actionable strategies to adequately tackle the climate-related risks faced by customers, with such strategies spanning short-, medium- and long-term time horizons depending on the nature of customers' risk profile.

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<sup>23</sup> This may include, but are not limited to, utilising data obtained from customers, asset managers and investee companies' disclosures when made available over time and supporting industry initiatives to harmonise data.



4.2 **The insurer should engage and steer customers, particularly those identified as vulnerable to transition<sup>24</sup> and/or physical risks, to proactively manage the risks that customers face.** Customers' responses to address these risks should include, but are not limited to:

- a. referencing available information about potential future trajectories (e.g. science-based sectoral transition pathways, future sector technological mix and national decarbonisation policies) and potential physical hazards<sup>25</sup> arising from climate change to which customers are materially exposed to;
- b. addressing the risk of an increasing protection gap (which could arise due to increased frequency and intensity of climate-driven catastrophes) and the continued viability of customers' business models; and
- c. considering physical risk mitigating measures (such as investments in adaptation measures or recovery efforts after hazard events) and their impact on cashflows and capital expenditure.

4.3 **The customer engagement process should include collecting climate-related risk data from customers to facilitate a better understanding of the impact of climate change on customers' businesses and risk profiles.** This data can be used to inform risk decisions (e.g. enhanced monitoring and escalation) and appropriate account strategies. The insurer can consider developing structured templates to facilitate collection of consistent and comparable customer data. Examples of such data could include (where relevant and appropriate for the customer's business model and risk profile), but is not limited to the following:

- customers' self-assessed impact of transition and physical risk (where available);
- customers' sustainability commitments, initiatives and strategies;
- mechanisms put in place by customers to deliver such sustainability commitments, initiatives and strategies (e.g. incentives, compensation, etc)
- customers' key asset locations;

<sup>24</sup> Such as those directly engaging in carbon intensive activities or indirectly dependent on such activities through supply chain linkages.

<sup>25</sup> Such as hazards that could directly affect customers' business operations due to the financial impact on customers' key physical assets and working capital, or indirectly through the impact on collateral value, access to and cost of insurance etc.



- customers' exposure to supply chain risk (including pass through of carbon costs) and impact on working capital cycles;
- customers' carbon emission data and vulnerability to changes in public policies, technological developments, and shifts in consumer and investor sentiments; and
- customers' existing or planned measures to address transition and physical risks.

**4.4 Customers exposed to elevated climate-related risks and who are not implementing adequate risk mitigation and adaptation strategies (due to inability or unwillingness), should be placed on enhanced monitoring and engaged further to allow prompt risk mitigation actions to be taken.** While the effects of climate change may not be pronounced in the short term, the manifestation of physical and transition risks is likely to accelerate in the longer term. A firm that does not recognise and manage this risk could be exposed to higher climate-related losses if these risks are not adequately managed. The insurer should consider the adequacy of customers' response (or lack thereof) to address climate change as part of the customer onboarding, underwriting and review processes and put in place risk mitigating measures as necessary. This should include consideration of the potential reputational and litigation risks that such customers expose the insurer to.

**4.5 The insurer should regularly engage customers on a risk-proportionate basis to accelerate timely action by customers that aligns with the insurer's risk appetite, commitments and ambitions.** The insurer should aim to guide customers in developing or enhancing their own plans to address climate-related risks, instead of indiscriminately withdrawing insurance coverage. Where customers do not have credible roadmaps to address transition and physical risks, the insurer should consider a range of mitigating options such as reflecting the cost of additional risk in the premiums, applying underwriting limits, and re-assessing the customer relationship, including declining future transactions and exiting the relationship.

## Risk Selection

**4.6 The insurer should take a differentiated approach for sectors (at an appropriate level of granularity) posing higher climate-related risks in its transition planning to take sectoral specificities into account.** The insurer should factor in global and/or regional sectoral pathways and jurisdictional level specificities to inform risk decisions and facilitate engagement with customers, including having sufficient understanding of the assumptions, scope and ambition behind the sectoral pathways it references. This will allow targeted measurable progress in responding to climate-related risks.

**4.7 For more effective customer engagement, the insurer should have differentiated strategies that cater to customers exposed to different levels of climate-related risks, and who are at different stages of readiness to participate and contribute to the transition to net zero.**

- a. In developing its portfolio management strategy, the insurer should avoid indiscriminately withdrawing insurance coverage from customers or sectors deemed to be of higher climate-related risks so as not to increase protection gaps and to support an orderly transition. The insurer can consider the circumstances of each customer, such as its jurisdictional operating environment, in engaging its customers.
- b. For sectors highly exposed to physical risk, the insurer should consider the type of physical risk the customer segments are exposed to at an appropriate level of granularity, and model the expected climate-related losses. The insurer can also consider the existence and progress of risk mitigation measures such as jurisdiction-level adaptation projects to address systemic risk that could manifest at the portfolio level.



- c. Even for customers focused on climate solutions<sup>26</sup>, the insurer should pay attention to potential correlations or novel risks that it is exposed to as a result of such exposures (individually or in aggregate), such as potential technological risks arising from uncertainty around future developments and potential supply chain risks (e.g. interruptions to supply of critical minerals required for associated technology) or potential unintended environmental risks that might subject the insurer to legal or reputational risks.

## 5 INVESTMENT<sup>27</sup>

### Engagement with asset managers and investees

5.1 **The insurer should have a structured process to manage the exposure to climate-related risks, including transition risk, in its investment portfolio, which may include engagement with investees to transition toward more sustainable business practices.** A credible response to manage climate-related risks in the insurer's investment portfolio should span short-, medium- and long-term time horizons.

5.2 **The insurer should engage and steer its inhouse and/or external asset managers to proactively manage climate-related risks of insurer's investment portfolio on an ongoing basis.** Asset managers' responses to address these risks should include, but are not limited to:

- a. supporting investees in developing or enhancing their plans to address climate-related risks and not reduce or divest from higher risk climate-relevant sectors indiscriminately;
- b. referencing available information about potential future trajectories (e.g. science-based sectoral transition pathways, future sector technological mix and national decarbonisation policies) when setting carbon targets and portfolio restrictions on the insurer's investment portfolio;
- c. addressing the risk of stranded assets (which could occur due to factors such as misalignment with decarbonisation pathways, obsolescence due to technological advancements, etc) and the continued viability of investees' business models.

5.3 **The engagement process should include collecting climate-related risk data from its asset managers to facilitate a better understanding of the impact of climate change on the insurers' investment portfolio, as well as the impact of climate mitigation and adaptation measures taken by the asset managers to steer the portfolio towards net zero.** This data can be used to inform investment and risk decisions (e.g. rebalancing of investment portfolio, enhanced monitoring and escalation). Such data could include, but is not limited to:

- carbon emissions data; and
- environmental, social and governance ("ESG") rating of securities and issuers.

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<sup>26</sup> Climate solutions here collectively refers to (i) assets that directly eliminate, remove or reduce GHG emissions; (ii) indirectly contribute to, but are critical for, emission reductions by facilitating the deployment of assets that directly contribute to GHG emissions reductions; and/or (iii) nature-based solutions.

<sup>27</sup> Insurers with investment activities should also refer to the relevant sections of the TPG for Asset Managers, for sound practices on the transition planning with respect to investments.



5.4 The insurer can consider utilising external data providers or developing its own environmental risk indicators and scoring system to assess the environmental risk exposure of its investments<sup>28</sup>.

5.5 **Asset Managers and investees exposed to elevated climate-related risks and who are not implementing adequate risk mitigation and adaptation strategies (due to inability or unwillingness), should be placed on enhanced monitoring and engaged further to allow prompt risk mitigation actions to be taken.** While the effects of climate change may not be pronounced in the short term, the manifestation of physical and transition risks is likely to accelerate in the longer term which could affect investment returns. The insurer should consider the adequacy of asset managers' response (or lack thereof) to address climate change as part of the asset manager selection process and in its periodic reviews of the managed portfolios and put in place risk mitigating measures as necessary. This should include consideration of the potential reputational and litigation risks that such climate-sensitive investments expose the insurer to.

5.6 **The insurer should regularly engage asset managers and investees on a risk-proportionate basis to accelerate timely actions by asset managers and investees that aligns with the insurer's risk appetite, commitments and ambitions.** The insurer should aim to guide the asset managers and investees in developing or enhancing their own plans to address climate-related risks, instead of indiscriminately divesting from sectors exposed to higher climate-related risk. Where they do not meet the insurer's envisioned portfolio trajectories, the insurer should engage the asset managers and investees further on their roadmap and develop appropriate strategies.

## Portfolio management approach

5.7 **The insurer should take a differentiated approach for sectors (at an appropriate level of granularity) posing higher climate-related risks in its transition planning to take sectoral specificities into account.** The insurer should factor in global and/or regional sectoral pathways and jurisdictional level specificities to inform risk decisions and facilitate engagement with asset managers and investees, including having sufficient understanding of the assumptions, scope and ambition behind the sectoral pathways it references. This will allow targeted measurable progress in responding to climate-related risks.

5.8 **For more effective engagement, the insurer should have differentiated strategies for (i) investments that are exposed to different levels of climate-related risks; and (ii) asset managers who are at different stages of readiness to participate and contribute to the transition to net zero.**

- a. In developing its portfolio management strategy, the insurer should avoid indiscriminately withdrawing investments from sectors deemed to be of higher climate-related risks to reduce the formation of stranded assets and support an orderly transition. The insurer can consider the circumstances of each asset manager and investee, such as its jurisdictional operating environment, in its engagement. The insurer can utilise a range of financing solutions (e.g. blended finance, early retirement of carbon-intensive assets) to support its asset managers and investees in carrying out risk mitigation and adaptation measures based on specific and meaningful climate-performance targets and/or risk metrics.

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<sup>28</sup> Insurers can refer to Section 5.1, Focus Area 1: 'Ongoing Monitoring' of the Information Paper on Environmental Risk Management (Insurers).



- b. For investments in sectors with high physical risk, the insurer should consider the type of physical risk the investments are exposed to at an appropriate level of granularity, and determine the current value and realisability of returns. The insurer can also consider the existence and progress of risk mitigation measures such as jurisdiction-level adaptation projects to address systemic risks that could manifest at the portfolio level.
- c. Even for investments focused on climate solutions<sup>29</sup>, the insurer should pay attention to potential correlations or novel risks that it is exposed to as a result of such exposures (individually or in aggregate), such as potential technological risks arising from uncertainty around future developments and potential supply chain risks (e.g. interruptions to supply of critical minerals required for associated technology) or potential unintended environmental risks that might subject the insurer to legal or reputational risks.

## 6 DISCLOSURE

6.1 **The insurer should disclose meaningful and relevant information to enable stakeholders to understand how the insurer is responding over the short-, medium- and long-term to material climate-related risks it faces, and governance around processes for addressing such risks.** Such disclosures should be in accordance with well-regarded international reporting frameworks, such as the International Sustainability Standards Board (“ISSB”) standards.

6.2 **To manage and mitigate potential reputational and greenwashing risks arising from its underwriting or investment activities, the insurer should clearly communicate its risk management strategies and approaches for different sectors, and how these activities relate to the insurer’s publicly committed climate objectives (where relevant), particularly where underwriting or investing in such sectors or sub-sectors could be negatively perceived due to high financed or insurance-associated emissions intensity in the shorter term.** Such disclosures are critical in enabling stakeholders to understand the insurer’s reasons for underwriting and investing in such sectors, as well as the corresponding risk strategies and mitigation measures put in place by the insurer, to avoid adverse reactions and accusations of greenwashing which may negatively impact the insurer. Where relevant, an insurer should disclose its engagement strategies for stakeholders, including but not limited to, shareholders, rating agencies, regulators and governments, and non-governmental organisations (NGOs). The insurer could also consider the use of credible and well-regarded green and transition taxonomies<sup>30</sup> in its disclosures, such as labelling of the sustainability and transition products offered by the insurer, to facilitate better stakeholder understanding of how these products contribute to the insurer’s publicly committed climate objectives.

6.3 **In light of data and methodological challenges, the insurer may disclose reasonable and supportable information that is available at the reporting date without undue cost and effort. However, the insurer should disclose factors, inputs, methodologies, material assumptions and dependencies underlying its disclosures for transparency.** For instance, the insurer should disclose the scenarios and time horizons used in its risk assessments, data proxies (for emissions and/or physical risk data) used if it was unable to obtain data directly from its customers and asset managers, the extent of proxy data usage, and the scenarios used in the insurer’s scenario analyses and

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<sup>29</sup> Climate solutions here collectively refers to (i) assets that directly eliminate, remove or reduce GHG emissions; (ii) indirectly contribute to, but are critical for, emission reductions by facilitating the deployment of assets that directly contribute to GHG emissions reductions; and/or (iii) nature-based solutions.

<sup>30</sup> Examples include the Green Finance Industry Taskforce (GFIT) Taxonomy, ASEAN Taxonomy and the EU Taxonomy.



stress testing. Where relevant, insurers should also disclose plans to overcome such data and methodological challenges.