



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

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Dear CEO

PRA RESPONSE TO DEFRA ON CLIMATE CHANGE ADAPTATION REPORTING

Under the UK Climate Change Act (2008), the Prudential Regulation Authority (PRA) has been invited by the Department of Environment, Food and Rural Affairs (Defra) to submit a Climate Change Adaptation Report with a target date for completion of July 2015. Given the importance of the topic, the PRA has chosen to accept Defra's invitation. The report will inform the next UK Climate Change Risk Assessment, to be laid before Parliament in 2017, and seek to answer two primary questions:

- 1) the impact of climate change on the PRA's objectives (with a focus on insurance); and
- 2) the role of insurance regulation in supporting adaptation to climate change, including proposals and policies the PRA may choose to adopt, and timescales for their implementation.

I am therefore writing to request your support with the PRA's response to Defra on this issue. Clearly an effective assessment of the impact of climate change on the safety and soundness of PRA-authorized insurance firms, and to insurance policyholders, will require a collaborative approach with the industry. We hope the process will allow your firm to share thoughts on climate-related risks, and to share knowledge with, and gain insights from, colleagues in the insurance industry.

We are aware of the regulatory workload for the industry and would like to make the process as practical and collaborative as possible. We intend to take a two-phased approach, the first of which will involve your response to a small number of qualitative questions, included with this letter, by 31 August 2014. The PRA also intends to visit a sample of firms, including yours, to discuss the responses before the survey is completed. I would therefore be grateful if you could provide the name of a member of your senior management team as soon as possible so my colleagues can follow up accordingly.

While the target date for completion is July 2015, we intend to share our findings from the first phase of work later this year before proceeding with the second phase, the structure of which will depend on our initial findings. We view the Adaptation Report as an opportunity to provide

helpful insight into the UK's Climate Change Risk Assessment, and to also deepen our shared understanding of an important issue. We look forward to working with you, and your colleagues.

Yours sincerely

Julian Adams
Executive Director, Insurance

1. Background

Further details on Climate Change Adaptation Reporting, and specifically the Defra consultation paper on the second round of Adaptation Reporting, can be found at the link below. This provides additional background on Adaptation Reporting and further details on how the Adaptation Reports will be used.

<https://www.gov.uk/government/publications/adapting-to-climate-change-2013-strategy-for-exercising-the-adaptation-reporting-power>

As can be found in the consultation paper, the PRA was identified as a priority organisation for the second round of Adaptation Reporting. In line with our statutory objectives, and our forward-looking approach, the PRA has decided to accept Defra's invitation and set a target date of July 2015 to complete the Adaptation Report, with a focus on insurance.

2. Overview of Adaptation Reporting process

We intend to take a collaborative, two-phased approach to completing the Defra Adaptation Report. The first phase will involve a survey and discussions with a selection of PRA-regulated insurance firms, based on the questions attached, as well as a number of wider stakeholders. We expect this first phase of external engagement to be completed by Q3 2014 and to then share our interim findings in Q4 2014. The exact format of this will be finalised as our work progresses.

Prior to completing the Adaptation Report by July 2015, we expect to have a second round of engagement with firms, the structure of which will depend upon our initial findings, requirement of the Defra report and feedback from the first phase.

3. Use of firm information

We will use the information collected from interviews, discussions and responses to the survey to inform our response to Defra on Adaptation Reporting. Any information from firms will be referred at an aggregate, rather than specific, level, unless otherwise agreed with the firm.

4. Responding to the survey

We have included the survey with this letter and firms can also send supporting information to the PRA via contact points listed below. Unless discussed otherwise with the firm, we expect one single submission per firm at a group level. We are appreciative of your continued efforts to support our requests and as such are mindful to keep this survey as short as possible.

5. Sources of climate change information

While we expect firms to have their own sources of information and knowledge on climate change issues, there are a number of information sources that we have found helpful in the scoping phase of our response to Defra's request. These include:

- 5.1 Adapting to Climate Change (UK Government) <https://www.gov.uk/government/policies/adapting-to-climate-change>
- 5.2 The UK Climate Projections <http://ukclimateprojections.metoffice.gov.uk/>
- 5.2 Intergovernmental Panel on Climate Change <http://www.ipcc.ch/>
- 5.3 Met Office Climate Guide www.metoffice.gov.uk/climate-guide

6. Contact Points

The PRA's response to Defra on Climate Change Adaptation Reporting has the full support of the PRA and Bank of England. The Report is being sponsored by Julian Adams, Executive Director Insurance, and led by James Orr and Matthew Scott within the General Insurance Risk Specialists (GIRS) Department. In the first instance, please address any questions to Adaptation.Reporting@bankofengland.co.uk or contact Matthew Scott on 020 3461 8079.

Phase 1 Adaptation Reporting Survey

Please find six Adaptation Reporting questions for your consideration below. In line with Adaptation Reporting requirements, these questions focus upon:

- i) current and future impacts of climate change on your organisation;
- ii) your approach to managing climate change risk, including climate change risk thresholds; and
- iii) the role of the insurance industry, and within this, insurance regulation, in supporting adaptation to potential climate change.

Supporting information to your answers is welcome and can be sent to the PRA's dedicated email address at Adaptation.Reporting@bankofengland.co.uk

1) Current impacts of climate change

1a) Within your organisation's current business planning horizon, what risks arising from climate change have you identified that would impact your firm, in relation to:

- i) the achievement of your business plan;
- ii) the continued safety and soundness of your firm; and/or
- iii) the protection of your policyholders?

Please let us know the duration of your current business planning horizon: _____ **years**

Please list your top 3 to 5 risks arising from climate change.

1b) Has your organisation assessed the likelihood and impact of these climate risks? **YES / NO**

If yes, please provide further details, including the timescale over which risks have been assessed.

1c) Has your organisation assessed the potential impact of climate change on your investment portfolio? **YES / NO**

If yes, please provide further details.

1d) Are there specific lines of business, and/or geographies, within your organisation that will be more affected by climate change than others? **YES / NO**

If yes, please provide further details.

1e) Has your organisation identified opportunities presented by climate change, as well as risks? **YES / NO**

If yes, please provide further details.

2) Future impacts of climate change

- 2a) Beyond your existing business plan horizon (as indicated in 1a), has your organisation identified the future risks of climate change on your business model, safety and soundness of your firm and to policyholders? **YES / NO**

If yes, please provide further information below, including how the risks differ, if at all, from those identified in Question 1 and the future timescale(s) over which these risks have been considered.

- 2b) If you have not done so as part of question 2a), please consider the risks that may arise from climate change in 2025. In doing this, please include how these 2025 risks differ, if at all, from those identified in Question 1.

3) Climate change risk management

- 3) What is your organisation's approach to managing the risks from climate change? Please provide further information, including who within the organisation is responsible for climate change risk management.

4) Climate change risk thresholds

- 4) Have you determined thresholds (e.g. change in temperature or frequency and severity of major weather events) above which future climate change scenarios may pose a threat to the achievement of your business plan (e.g. earnings impact), the solvency of your firm (e.g. capital impact) or the viability of your business model? **YES / NO**

If yes, please provide further information below, including the nature of the climate change threshold considered and the impact on your organisation.

5) Role of the insurance industry, and insurance regulation

- 5a) What do you consider to be the role of the insurance industry in supporting the adaptation to potential climate change?
- 5b) Within this, what do you consider to be the role of insurance regulation, and specifically the PRA, in supporting the adaptation to potential climate change?

6) Additional information

If there are any other climate change related issues you would like to include, please do so below.