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# The Heat Topic

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# An introduction

Mark Rothwell

25 October 2018

# A few questions to open with...

- Who believes Climate Change is happening?
- Who believes that current Climate Change is anthropogenic?
- Does Climate Change pose a Financial Risk to:
  - The Economy
  - The Insurance Industry
- Is Climate Change relevant to the work of Actuaries?



# Agenda

- Why the risks arising from climate change are both important and urgent
- The key points from the recent PRA Supervisory statement
- What barriers might prevent us acting on the Financial Risks of Climate Change
- What might encourage us to act
- What the next steps might be





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# Climate Change Supervisory Statement

Patrick Cleary

# Important

- Why is climate change important for you?



# Important

- Why is climate change important for you?
- At least three reasons:
  - It's a significant financial risk
  - The IFoA has issued a risk warning about it
  - You live on planet Earth



# Urgent

- Why is climate change urgent for you?



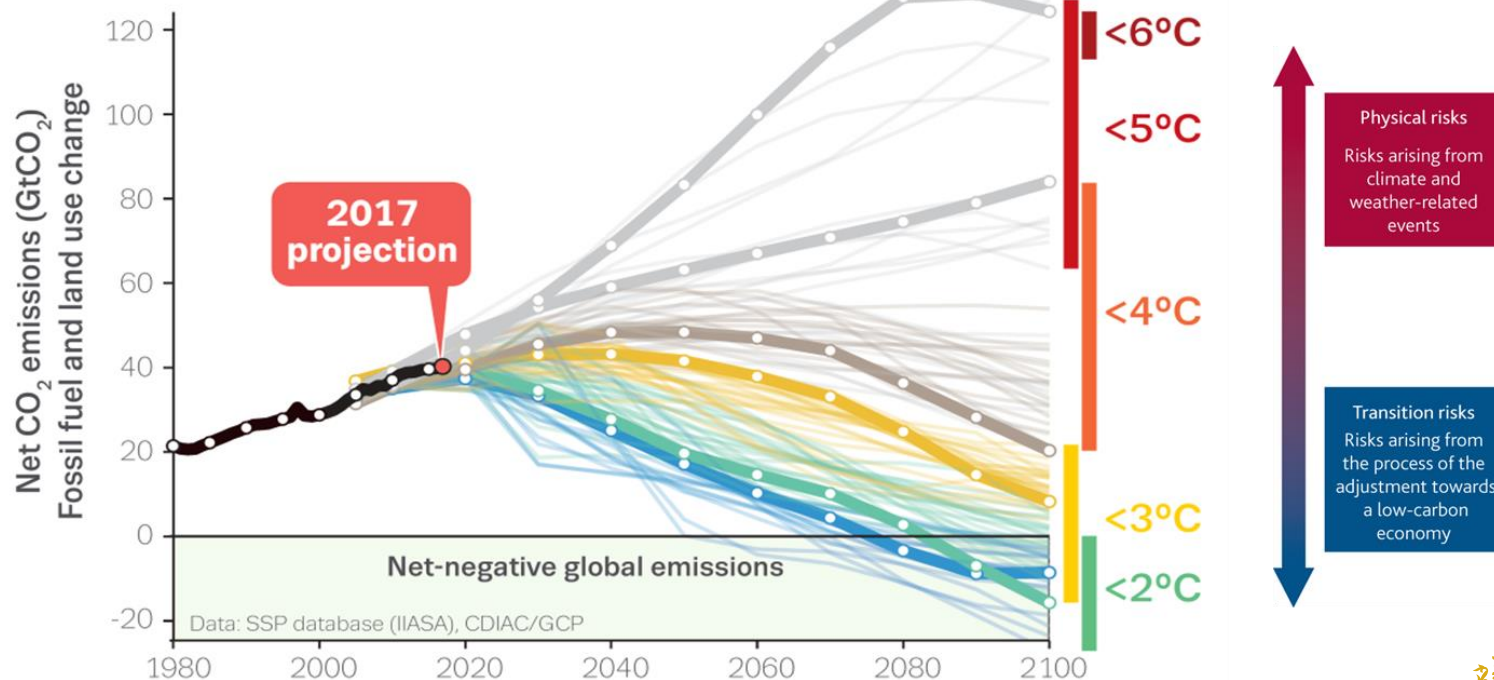


# Urgent

- Why is climate change urgent for you?



# Urgent



# Supervisory statement (CP23/18)

- PRA / Bank of England view is that climate change causes financial risks that threaten both:
  - Financial stability
  - Safety and soundness of the firms we regulate
- We are active in many areas and want to move things on
  - 2015 Insurance report
  - September 2018 Banking report
  - October 2018 Insurance / Banking supervisory statement
  - Embed into day-to-day supervision



# Supervisory statement – the PRA expects

## Governance

- Board to understand financial risks from climate change
- Board and management to identify Senior Manager with responsibility for managing financial risks from climate change

## Risk management

- Firms to address the financial risks from climate change through their existing risk management frameworks
- Insurers (under Solvency II) to consider possible accumulation of risk in the investment portfolio (particularly via transition risk)



# Supervisory statement – the PRA expects

## Scenario analysis and stress testing

- Firms (where proportionate) to do scenario analysis to examine the impact of financial risks from climate change on business strategy
- Firms to consider scenarios over both short term (eg life of business plan) and long term (eg consistent with a global temperature rise of 2 degrees C)

## Disclosure

- Firms will make disclosures about their financial risks from climate change
- Firms to consider if they would benefit from TCFD proposals (TCFD = taskforce on climate-related financial disclosure). Firms could encourage greater climate-related disclosure in the economy through their ownership of financial assets



# Supervisory statement – consultation

- The consultation period runs to 15 January 2019
- Please respond!





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# So what holds us back?

Carol Storey

# We have 12 years to limit climate change catastrophe, warns UN



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# BLACK WIDOW SPIDERS ARE HEADING NORTH DUE TO CLIMATE CHANGE



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# Climate Change Is Cooking the Oceans



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# Nights Are Warming Faster Than Days. Here's Why That's Dangerous.



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**GLETSCHERSTAND  
GLACIERPOSITION  
1995**

# As glaciers melt, 'Land of Fire and Ice' watches its history seep away



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# How do these images and headlines make you feel?







**‘One Small  
Step for Man,  
One Giant  
Leap for  
Mankind’**



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# Paris climate change agreement: the world's greatest diplomatic success



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# Hole In the Earth's Ozone Layer Is Finally Closing Up, NASA Says



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# THE OCEAN CLEANUP



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# Renewable energy sets new record by producing nearly a third of UK electricity



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# US mayors bypass Trump to back Paris climate goals



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# How do these images and headlines make you feel?



# What's stopping you?



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# Closing Thoughts....?

# Next Steps

- Respond to the PRA's Consultation
- Re-read the IFoA Climate Change risk alert (May 2017)  
<https://www.actuaries.org.uk/news-and-insights/media-centre/media-releases-and-statements/foa-warns-climate-change-financial-risks>
- To get more background on climate science, attend the workshop "F3: Climate Change: A Survival Guide" tomorrow 10:30am
- To find out more about how Climate Change affects your day to day work, attend the workshop "D3: A Practical Guide to Climate Change for General Insurance Practitioners" this afternoon 4:40pm
- For more on the risk alert and regulatory developments, attend the workshop "E10: Shame! Half the Room Hadn't Heard of our Climate Change Risk Alert" tomorrow 9:30am
- Read the "Practical Guide to Climate Change for General Insurance Practitioners" out soon!
- Read "Climate change for Actuaries: an introduction" out soon!
- Join the Resource and Environment Practice Area LinkedIn Group  
<https://www.linkedin.com/groups/13593694>
- Volunteer to be part of the R&E Member Interest Group  
<https://www.actuaries.org.uk/practice-areas/resource-and-environment/current-resource-and-environment-member-interest-group-mig>
- Apply your new-found knowledge



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# Questions

# Comments

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