RESPONSE TO CONSULTATION PAPER

Consultation topic:	Proposed Guidelines on Environmental Risk Management (Insurers)
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Question 1. MAS seeks comments on the entities and business activities that are in the proposed scope of the Guidelines.

MAS can consider how the Guidelines apply to capital market services licence holders (CMS), reinsurers and Investment-Linked Products (ILP) in the following scenarios:

1) Insurers often outsource their investment activities to CMS, of which some are related group entities

2) Insurers do underwrite and reinsure high environmental risks to reinsurers. Reinsurers may accept risks from other reinsurers outside MAS' supervisory purview

3) Role of Appointed or Certified Actuary - whether environmental risks competency is an approval criterion

Given the similar investment-focus between ILP and investment products such as unit trusts, we seek clarity from MAS on how the Guidelines ensure a level playing field across these investment products and financial institutions.

Question 2. MAS seeks comments on the proposed responsibilities of the Board in overseeing environmental risk management, including its role in ensuring that environmental risk, where material, is addressed in the insurer's risk appetite framework.

If environmental risk is deemed another component under the Enterprise Risk Management (ERM) framework, the Board should oversee environmental risk management. However, the Board may not have the knowledge and expertise to effectively implement the above.

We propose a pragmatic step-by-step phased route as an alternative to achieving the above:

- Delegate the responsibility for development and implementation of the environmental risk management framework and policies to preferably senior in-house ESG expert(s). This could either be individuals or a committee (which may include a Board representative) such as an ESG or environmental oversight committee with adequate representation from various key stakeholder groups such as investment teams, client relationship managers as well as ESG experts
- Apart from defining the policies and processes, this group should regularly track environmental risk metrics for each of the firm's strategies on a periodic basis such as semi-annually, and update the Board on key risks in various strategies and how they are being managed. In this manner the Board would have oversight on environmental risk issues
- On a concurrent basis, the Board should undergo training to acquire the knowledge, expertise and skills required to ultimately be in a position to perform the proposed oversight responsibilities

In implementing the above suggested route, we should take into account the following:

- Most insurers already have Board Committees for risk management which renders the above suggestion of a committee not-arduous to adopt. And as part of an insurance company director's duty to exercise care, skill and diligence, she or he has to be prepared to address these risks, especially if they are members of Board Committees responsible for risk management

- Managers of different asset classes may experience different challenges in implementing an environmental risk framework. For example, availability of data needed for private equity to implement the risk framework may be scarce and difficult to obtain

- In general, insurers with huge AUMs are in better position to implement the framework due to more resources at their disposal. Small insurers or outsourced fund houses with small AUM will struggle to do the same, and may experience significant increase in costs, especially if they have to rely on vendor data and expertise, putting them at a disadvantage compared to bigger insurers. Hence, there should be a differentiation in timeline for different insurers and outsourced fund houses

- Nevertheless, there are numerous no-charge online training material for many insurers and outsourced fund houses to benefit from. Alternatively, the authorities or regulators may want to make available or catalyse the development of courses and training for the benefit of financial professionals

Question 3. MAS seeks comments on the proposed responsibilities of senior management in overseeing environmental risk management, including its role in developing an environmental risk management framework and policies, regularly reviewing their effectiveness, and allocating adequate resources to manage environmental risk.

The Group Chief Risk Officer should or can be responsible for environmental risk as part of ERM, or a committee should the Group Chief Risk Officer has yet to acquire the relevant expertise or knowledge.

For the senior management team, this should come under the purview of the risk management team and its head.

Question 4. MAS seeks comments on the proposal for insurers to designate a senior management member or a committee to oversee environmental risk, where such risk is material.

The Board, via its Risk Committee, should be the committee overseeing environmental risk. The Head of the risk management team, or the relevant member of this team such as Group Chief Risk Officer, should be an invited participant to every meeting. Executives in and/or the Head of the risk management team should be responsible for proposing, executing, and implementing approved policies.

Question 5. MAS seeks comments on the expectation for insurers to engage each customer that poses higher environmental risk to improve its risk profile and support its transition towards sustainable business practices.

[No comments]

Question 6. MAS seeks comments on whether there are specific aspects of environmental risk management policies and processes that would benefit from further supervisory guidance.

[No comments]

Question 7. MAS seeks feedback on the insurers' escalation and monitoring frameworks in relation to the underwriting process in considering environmental risk, as well as the expectation for insurers to develop tools and metrics to monitor the insurers' underwriting exposures to environmental risk, and examples of the aforementioned tools and metrics that may be adopted.

If environmental risk is subsumed under ERM, we seek clarity on how does MAS differentiate its supervisory approach between environmental risk and other insurance risks underwritten by insurers.

Question 8. MAS seeks comments on the proposed and any additional measures that can be used to help the insurer monitor and mitigate the environmental risk inherent in the investment portfolio.

Fiduciary responsibilities and risks are core. MAS can be holistic in how it supervises environmental risks in underlying investment portfolios managed by all financial institutions, including insurers and CMS.

Question 9. MAS seek comments on the proposed form and frequency of disclosure of environmental risk by an insurer.

There needs to be differentiation in terms of scope of disclosure and time frame for compliance for different asset classes. The availability of data necessitates this differentiation – publicly listed company data are in general more readily available compared to data required by private equity. When data is scarce or meaningful disclosure not possible, insurers may opt to not-comply but they have to explain the reasons for non-disclosure.

Question 10. MAS seeks comments on any aspects of the Guidelines that have not been covered in earlier questions.

MAS might want to consider a broader based ESG implementation approach instead of just focusing on E. Once insurers incorporate ESG factors into portfolio management, refinement on environmental factors can follow.

Question 11. MAS requests for examples of sound risk management practices currently implemented by insurers, which would meet the expectations in the Guidelines.

[No comments]

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

From the experience of CFA Society Singapore Members who are already in the ESG space, the 12 months implementation timeframe would be sufficient for fund managers who have already laid the foundation on ESG risk evaluation and integration into their investment processes.

The same cannot be said for other companies who have not started or are at the very early stages of the ESG / environment or climate risk journey. It will be challenging to comply with the proposed guidelines in 12 months. Availability of data, size of AUM and many other factors may also affect the ability of different insurers or their outsourced fund houses of different asset classes to comply.

Secondly, with the availability of third-party data providers, evaluating and disclosing climate risks is plausible within 12 months but systematic integration into investment analysis and portfolio construction will take much longer. Mainstream analysts are not familiar with such factors and will require practical training to be proficient. In addition, the variety of assumptions made during scenario analysis makes integration even more complex as it is not clear when and how these risks could play out.

Lastly, the suggested phased step-by-step approach as per response #2 will definitely require more than 12 months to implement.