

# International Network for Sustainable Financial Policy Insights, Research and Exchange (INSPIRE)

## Call for Research & Policy Project Proposals

### **Environment-related financial risks and regulatory capital requirements**

20 June 2022

Incorporating environment-related risks, and especially climate-related risks, into regulatory considerations is complex but key to the prudent management of financial stability. INSPIRE and the Sustainable Insurance Forum (SIF), an observer of the Network for Greening the Financial System (NGFS), seek to support prudential regulators and supervisors' understanding of how these risks can be integrated into capital frameworks to (i) monitor the latest developments on these risks' application to the banking and insurance sectors and (ii) contribute to the academic literature that provides central banks and supervisors with the evidence base for regulatory action on these issues. To support this work, INSPIRE is partnering with the UNDP-hosted SIF, which convenes insurance regulators and supervisors to address sustainability issues. This partnership reflects the value that further research on this topic is expected to provide, as well as the policy relevance of decision-useful insights for the international regulatory community.

Central banks and supervisors play a central role in advancing climate risk assessment approaches, notably through scenario analysis and stress tests, to encourage financial institutions to adopt their own risk assessment exercises. As these institutions enhance their sophistication in assessing climate risk and understanding the size of their risk exposures, they will have to understand the impact of the exposures on capital adequacy requirements. Some jurisdictions are already beginning to adjust regulatory capital frameworks to ensure that climate risks are considered within these calculations.

INSPIRE invites submissions on the following areas to address relevant gaps in regulatory and supervisory capital frameworks, and to inform both supervisors and the financial sector. The objective of this call is to support prudential regulators and supervisors in creating the evidence base and analytical understanding to enable integration of environment- or climate-related financial risks into their regulatory frameworks. Ultimately, this foundation can enable central banks and supervisors to provide guidance on the mitigation of environmental risk to safeguard financial stability across global capital markets.

Key topics that proposals can address include, but are not limited to:

- The analytical evidence base on the exposure to and materiality of environment and climate risks to provide a foundation for adjustment of prudential frameworks
- The extent to which environmental risks are captured, wholly or in part, by current regulatory frameworks, building on and globally expanding upon the existing work in the EU and UK
- The use of regulatory capital as a tool to ensure firms' alignment with supervisory expectations related to environmental risks, including governance and risk management responses
- Adjustment of regulatory capital frameworks to integrate environmental risks and the legal framework implications in different jurisdictions
- Identification of the most relevant environment, and especially, climate risk transmission channels that will need to be taken into account for regulatory capital frameworks
- The use of system-wide capital buffers to address environmental risks
- Quantification of risks related to underwriting, lending, and investing to either high-carbon sectors or high-emitting jurisdictions to reflect climate-driven changes in risk profiles
- Adjustments to the wider prudential regime, outside of the capital framework, to enhance the supervision and risk management of environment- and climate-related risks
- Incorporation of insurance-specific climate risks in supervisory frameworks

### **Details of submission**

In this targeted call, INSPIRE aims to support several projects with an individual budget of approximately \$30,000 to \$50,000.

We welcome proposals that are relevant to either financial supervisors or financial institutions and encourage research that promotes the integration of environment and climate risk considerations in capital frameworks for insurers. We encourage interdisciplinary teams and the use of quantitative or qualitative approaches. To further build collaboration, joint projects between policy institutions and academia are strongly encouraged. While submissions from a wide range of geographical backgrounds are invited, projects with a focus on SIF member jurisdictions or participation from SIF members are particularly encouraged. Furthermore, projects that are related to the existing work of the SIF Secretariat that could benefit from the exchange with SIF and its members are also encouraged.

Details of the proposal form are provided in a separate document on the call [webpage](#). Similarly, research proposals can be saved and submitted via INSPIRE's website. The submission period will span 4 weeks and ends on **Wednesday, 20 July 2022, 23:59 GMT**.

For FAQs, please refer to the link provided above. Should you have additional questions, please send an email to [INSPIRE@climateworks.org](mailto:INSPIRE@climateworks.org).

## **The goals and background of INSPIRE**

INSPIRE has three goals: first, to commission independent, gold-standard research and policy analysis on central bank and supervisory practice to manage climate risks and promote green finance; second, to convene researchers, policymakers and practitioners and third, to widely communicate the results.

INSPIRE is a research stakeholder of the NGFS and commissions research to inform the NGFS's work, as well as encourage the exchange of insights between researchers and central banks. The [NGFS](#) is a global network of central banks and supervisors partnering to share best practices and contribute to the development of environmental and climate risk management in the financial sector. In better understanding these risks, the NGFS can enable greater financial stability by mobilizing mainstream finance to support the transition to a low-carbon economy.

INSPIRE is a global, philanthropy-supported research platform established to commission independent and gold-standard research supporting the promotion of green finance. INSPIRE was specifically designed to support the NGFS's work programme and has commissioned over 30 research projects across a range of critical themes. Most recently, INSPIRE co-led the Joint NGFS-INSPIRE Study Group on Biodiversity and Financial stability resulting in the NGFS launching the "Taskforce on Nature-Related risks". The INSPIRE secretariat is co-hosted by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science and the ClimateWorks Foundation. For more information on INSPIRE, please visit: [www.inspiregreenfinance.org](http://www.inspiregreenfinance.org)

## **The goals and background of the SIF**

Established by the United Nations with the support of the International Association of Insurance Supervisors (IAIS), the Sustainable Insurance Forum (SIF) is a global network of 33 insurance supervisors and regulators working together to strengthen responses to sustainability and climate change challenges facing the insurance sector. Launched in December 2016, the SIF provides a platform for international collaboration among supervisors, facilitating knowledge sharing, dialogue, and uptake of policy innovations. The SIF Secretariat is hosted by the United Nations Development Programme (UNDP).

The SIF has a demonstrated ability to support the mainstreaming of climate risk consideration by individual insurance supervisors and regulators as well as the global insurance standard-setting body, the IAIS. The IAIS and SIF have partnered to deliver key projects such as thought-leading Issues Papers on climate risk and TCFD adoption. Most recently, the SIF and IAIS published an Application Paper on the Supervision of Climate-related Risks in the Insurance Sector, outlining the risks from climate change in relation to the existing IAIS Insurance Core Principles. The SIF continues to support strengthening of climate risk considerations within standard setting bodies, through its active membership in the IAIS climate risk steering group, as well as the fast tracking of action on sustainability risks in within individual member jurisdictions.

The SIF is the platform for insurance supervisors and regulators who want to address sustainability issues impacting consumers, firms and markets in their jurisdictions, and who have an interest in collaborating with their peers to share knowledge and identify best practices. The SIF's vision is a global insurance system where sustainability factors are effectively integrated into the regulation and supervision of insurance companies. For more information on SIF and SIF members, visit: [www.sustainableinsuranceforum.org/](http://www.sustainableinsuranceforum.org/)