EIOPA’s Opinion on Sustainability within Solvency II

Dear Mr Guersent,

Further to your request of 28 August 2018, I herewith submit EIOPA’s Opinion on Sustainability within Solvency II.

The European Commission requested EIOPA’s Opinion particularly as regards the integration of climate-related risks in Solvency II for the valuation of assets and liabilities, investment and underwriting practices, the calibration of market and natural catastrophe risks and the use of internal models.

In developing the Opinion, EIOPA extensively consulted with stakeholders through a public call for evidence, a confidential request for information to undertakings and a public consultation. In the course of this year, EIOPA also organised two workshops on sustainable finance. A large variety of stakeholders attended and the conclusions are published via EIOPA’s Website.

Furthermore, EIOPA built on its advice on the integration of sustainability risks and factors in Solvency II and Insurance Distribution Directive (IDD) submitted earlier this year, in which it emphasised the stewardship role of (re)insurers in contributing to climate change adaptation and mitigation.

In its Opinion, EIOPA considers that Solvency II - as a risk-based, forward-looking and market-consistent framework - is well equipped to accommodate sustainability risks and factors.

At the same time, climate change brings considerable challenges to the valuation of assets and liabilities, underwriting and investment decisions and risk measurement.
Furthermore, climate change increases the uncertainty about the occurrence and the impact of physical or transition risks, which can happen at any time and suddenly, with far-reaching consequences. Therefore, undertakings should not be complacent about these risks.

EIOPA calls upon (re)insurance undertakings to implement measures to climate change-related risks, especially in view of a substantial impact to their business strategy. Therefore, EIOPA stresses the importance of scenario analysis in the undertakings’ risk management.

EIOPA found no current evidence to support a change in the calibration of capital requirements for “green” or “brown” assets.

To increase the European market and citizens’ resilience to climate change, (re)insurers should consider the impact of their underwriting practices on the environment. Consistently with sound actuarial practice, where risk mitigation and loss prevention can make a significant difference, the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities, should be part of the industry’s stewardship activity.

EIOPA will continue engaging with stakeholders on the European supervisors’ expectations towards the (re)insurance sector on climate change-related and more generally, sustainability challenges.

In the interest of the European citizens and policyholders, EIOPA is committed to contribute to securing a resilient industry in a sustainable environment.

Yours sincerely,

[Signature]

Annex: Opinion on Sustainability within Solvency II

CC:
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