Sustainable finance in insurance and pensions

Joint meeting of the EIOPA Board of Supervisors (BoS) and Stakeholder Group Members
Frankfurt, 28 November 2018

EIOPA and sustainable finance

- EIOPA prioritises sustainable finance because we are a supervisory authority not despite it.
  - o *Clear affinity between prudential supervision – which is concerned with financial sustainability – and other forms of sustainability*
- Insurance and pensions have the longest time horizons and hence the greatest stake in sustainability
- There has already been significant action by insurers and pension funds on sustainable finance
  - o E.g. UN Environment's Finance Initiative with 16 of the world's largest insurers
  - o Many other examples

EIOPA's objectives in relation to sustainable finance

- Overall: Insurers and pension funds develop a long term sustainable approach
- More specifically:
  - Insurers manage and mitigate ESG risks appropriately: this reflects the role of insurers in underwriting risk for the whole economy.
  - Insurers and pension funds adopt a sustainable approach to their investments and other activities:
    - this reflects the importance of insurers and pension funds as owners of a substantial portion of the European economy.
  - Preferences of policyholders and pension scheme members for sustainable investments are reflected.

EIOPA's approach

- Protection of policyholders and pension scheme members remains paramount.
  - No trade off between prudential soundness and proper conduct of business on the one hand; and sustainable finance on the other.
- Forward looking
  - Drive looking forward not using the rear view mirror
- Evidence-based.
  - Gather information
  - Learn from others
- Reorientation not a discontinuity
  - Financial stabillty implications include stranded assets

Both sides of the balance sheet - and all three pillars

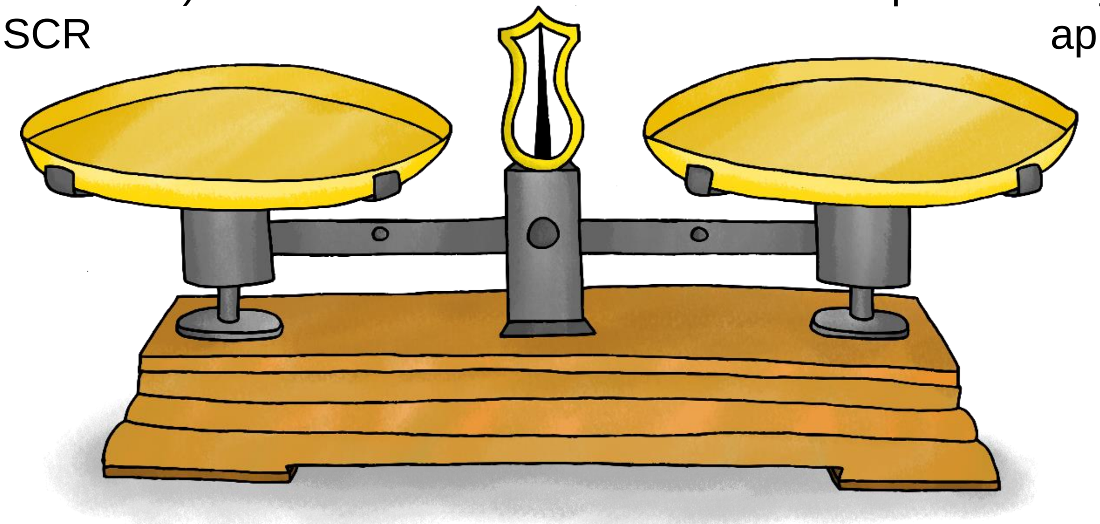
Liability side of particular importance

Liabilities

- Underwriting / risk management strategies
- Best estimate (premium & claims provisions)
- NatCat SCR

Assets

- Valuation to take sufficiently account of sustainability issues
- Preferable treatment in capital requirements justifiable / appropriate ?



Implementation

- Establishment of Sustainable Finance Project Group
- Membership of Technical Expert Group on taxonomy
- Membership of Sustainable Insurance Forum

Questions for discussion

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EIOPA consulting on proposed advice to Commission on investment decisions and product design/distribution

1. How should insurers and pension funds take account of the sustainability impact of their investments?
2. How should insurers and pension funds take account of the sustainability preferences of their members/policyholders?

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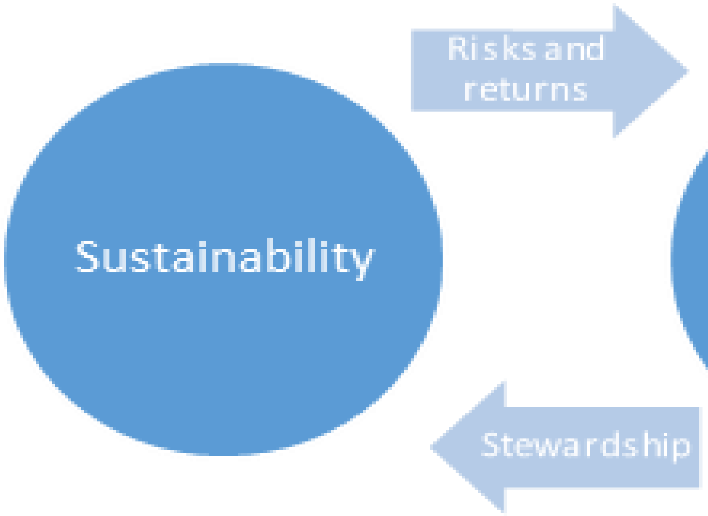
Concept of stewardship



Stewardship: current and proposed legislation

IORPII

Article 19

Investment rules

1. Member States shall require IORPs registered or authorised in their territories to invest in accordance with the 'prudent person' rule and in particular in accordance with the following rules:

(a) the assets shall be invested in the best long-term interests of members and beneficiaries as a whole. In the case of a potential conflict of interest, an IORP, or the entity which manages its portfolio, shall ensure that the investment is made in the sole interest of members and beneficiaries;

(b) within the prudent person rule, <u>Member States shall allow IORPs to take into account the potential long-term impact of investment decisions on environmental, social, and governance factors</u>;

Proposed SII delegated regulations

Section 6 Investments

Article 275bis

Integration of sustainability risks in the prudent person principle.

"1. Within the prudent person principle, insurance and reinsurance undertakings shall take into account sustainability risks when assessing the security, quality, liquidity, and profitability of the portfolio as a whole.

2. Insurance and reinsurance undertakings <u>shall take into account the potential long-term impact of investment decisions on sustainability factors</u> and, where relevant, reflect the environmental, social and governance preferences of policyholders and beneficiaries."

2. How should insurers and pension funds take account of the sustainability preferences of their members/policyholders?

- IDD – organisational requirements
  - o Conflicts of interest: Identification of types of conflicts of interest which entail a risk of damage to customer’s interests, <u>including interest in attaining ESG objectives (where relevant)</u>
- <u>IDD – Product Oversight & Governance</u>
  - o ESG preferences of customers in the target market shall be considered in various stages of product lifecycle <u>(where relevant)</u>
    - Notion of “**where relevant**”: insurers generally not required to consider ESG factors in product approval process, only if “individual” products intended to have ESG profile