IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Response to EIOPA's consultation paper on sustainability within Solvency II

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European Insurance and Occupational Pensions Authority

SHORT SUMMARY OF THE IRSG ANSWER TO THE EIOPA CONSULTATION PAPER ON AN OPINION ON SUSTAINABILITY WITHIN SOLVENCY II

The IRSG generally supports EIOPA work on sustainability, and especially climate change,. This will encourage insurers to consider sustainability more explicitly in their business.

Regarding the Challenges on integrating sustainability risks in prudential Pillar 1 requirements The IRSG found that:

- No change in the time horizon for capital requirements would be required to integrate climate change considerations. Sustainability risks can already be incorporated into the current Solvency framework and no new requirements are necessary.
- Measuring and monitoring long-term risks is highly important, as climate change poses severe risks, not only for our society and ecosystems, but also for our long-term investments, insurance customers and retirement plans. This becomes even more important because historical trends may no longer be a reliable indicator of future risks. In addition, the actions taken by (re)insurers today may impact the sector in the long-term.
- With respect to long-term scenario analysis and stress testing, EIOPA's expectations need to be clarified. Here the IRSG found several points to further consider.
- Regarding the implementation of a forward-looking approach, undertakings should be given sufficient flexibility to reflect their specific business model and integrate sustainability risks in their relevant processes (e.g. in the ORSA) and policies (like UW, investment and risk management).
- It will be helpful to have access to a standardized set of quantitative scenarios, but flexibility and proportionality for insurers needs to be considered with respect to the development of a forward-looking approach on sustainability risks. This will allow to accommodate different business models and needs.

On the valuation of assets and liabilities, the IRSG believes that:

- The general valuation principles of Solvency II allow for integration of all material risks, including financially material sustainability risks. Any change in these principles would be a step away from using current market values.
- The observation that improved public disclosure of sustainability risks is crucial to ensure that market prices can factor in sustainability is highly important and also true, but we find a lot of issues to consider here.
- With respect to prudential disclosure requirements, expressly making reference to sustainability considerations and explicitly including sustainability considerations might be beneficial and ensure that all insurers take this sufficiently into account . On the other hand, the IRSG found that the current requirements are sufficient and do not represent a barrier to consider sustainability considerations. They require insurers to consider the valuation uncertainty and to state the assumptions underlying the valuation approach, which might also include sustainability considerations.
- Transition risks are highly complex due to several secondary effects. These will also cause liability risks which might need to be considered in different ways in future.
- The liability best estimate should already capture the relevant sustainability risks. New requirements for the best estimate might be difficult as there is a serious lack of data, more expertise will be needed and the existing articles in Delegated Acts are already quite demanding.
- The principle of proportionality should be reflected in the calculation of the best estimate via a forward-looking modelling approach.

Relating to the investment and underwriting practices, the IRSG answered that:

- Stewardship and engagement are important practices in managing sustainability risks in the investment strategy. Also increased transparency and targeted information on companies are crucial prerequisites to include sustainability risks in the investment strategy
- The consideration of sustainability factors should be part of a general risk/return assessment of investments. The inclusion/exclusion of policies, good practice in dealing with transition and physical risk and stewardship strategies should all play a role here. Several examples were provided.

- The consideration of climate risk mitigation and adaptation strategies is usually company specific. A generalization of such practices should be carefully evaluated to avoid conflicts with general insurance mechanisms.
- The widening of the protection gap was acknowledged as a potential future issue.

On capital requirements, the IRSG found that:

- In principle, the current Solvency II framework does not represent a barrier to investments in sustainable assets.
- There is no clear available evidence that shows risk differences between green assets or brown assets that would justify a different calibration of capital requirements.
- The prudent person principle already requires insures to consider financially relevant sustainability risks in their investment portfolio.
- It is premature to differentiate capital requirements for sustainable listed and unlisted equity at this stage, even though it might be possible in the future. Equally important, a binary green/brown approach is not a precondition for insurers adopting efficient asset allocations against climate change considerations.
- Finding a meaningful standardised set of quantitative scenarios might be difficult, we suggest EIOPA should focus on the development of general principles rather than a prescribed set of quantitative scenarios. It is key that there is flexibility on how each company integrates sustainability risks in its ORSA.

The IRSG was highly unanimous in the answers provided and will be keen to continue the work and help EIOPA on sustainability related matters.

FULL IRSG RESPONSE

to EIOPA's Consultation on an Opinion on Sustainability within Solvency II

Challenges on integrating sustainability risks in prudential Pillar 1 requirements ("time horizon")

* Question 1:
Do you agree that no change in the time horizon for capital requirements would be required to integrate climate change considerations?

- (●) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

No change in the time horizon for capital requirements would be required to integrate climate change considerations. We also agree with EIOPA that climate risks in general do not materialize in one year, but over time.

We are of the opinion that measuring and monitoring long-term risks is highly important, as climate change poses severe risks, not only for our society and ecosystems, but for our long-term investments, insurance customers and retirement plans. Research shows that the returns pensions and savings depend on will be lower in a world affected by climate change than in an economy which has taken action to mitigate these risks and losses. Investors increasingly want to consider the environmental impact of their savings and understand the impact climate change will have on their long-term returns. Also substantial climate change will affect dramatically the insurance market offering and the customer protection.

We agree that the impact of climate change in the long-term can be captured with complementary tools, such as risk and scenario analysis. We find that longer-term risks are better managed through management actions resulting from strategic business planning, such as changes to underwriting strategy, policy terms and conditions, pricing, loss prevention requirements (underwriting area) and strategic and tactical asset allocation, taking into account sustainability considerations at a qualitative level. These can also be done in the absence of statistically relevant quantitative data, such as time series of green investments (investment area).

Stress testing should be used as a complementary tool to identify vulnerabilities of the whole insurance sector to relevant climate change scenarios in order to facilitate strategic business planning (and additional policy action if relevant).

* Question 2:
Do you agree that insurers should consider sustainability risks, and in particular climate change risks, in a forward-looking manner?

- (●) Yes
- ( ) No
- ( ) n/a

* If yes, how should this be incorporated into current or new requirements?

we agree that insurers should consider sustainability risks, and in particular climate change risks, in a forward-looking manner, especially when these risks are expected to have a future material impact on an insurer‘s balance sheet. Moreover, this becomes important because historical trends may no longer be a reliable indicator of future risks. Also, the actions taken by (re)insurers today may impact the sector in the long-term, as recognised by the Bank of England recently.

We believe that sustainability risks can already be incorporated into the current Solvency framework and that no new requirements are necessary. In fact, according to Art. 44 of the Solvency II Directive, undertakings already have to identify, assess, manage and monitor the risks to which they are or could be exposed. This includes sustainability risks. Anyway, as we see sustainability related matter developing in future years, the calibration of capital requirements should be reviewed regularly and changed if needed to reflect properly the changes in the level of risk.

Regarding the implementation of a forward-looking approach, undertakings should be given sufficient flexibility to reflect their specific business model and integrate sustainability risks in their relevant processes (e.g. in the ORSA) and policies (like UW, investment and risk management).

With respect to long term scenario analysis and stress testing, EIOPA’s expectations need to be clarified. In particular, we stress that:

It is unclear how to separate the effects of sustainability risks (or climate change risk) from other factors.

While historical data might not be enough to predict climate change risks, forward-looking company data (pathways) is not available in a systematic manner and is not of sufficiently high quality.

There are no agreed key scenario assumptions and no consensus on how to project key variables, including insurance uptake/exposures and vulnerabilities into the future, for instance for a period 2030-2040. One approach could be to combine past data with appropriate quantitative climate change modelling and scenario analysis for an assessment of the full range of future risks.

* Question 3:
Do you agree that long-term scenario analysis in risk management, governance and ORSA should enable insurers to develop a forward-looking approach with regard to sustainability risks, and in particular climate change risks?

- (●) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

Long-term scenario analysis in risk management, governance and ORSA should enable insurers to develop a forward-looking approach with regard to financially material sustainability risks. We find that there is a need to speed up the development of methodologies and metrics to ensure consistent measurement of many of the climate and environmental issues. However, undertakings need sufficient flexibility to develop a forward-looking approach to deal with sustainability risks within the ORSA. ORSA is an important tool for insurance undertakings and enough flexibility should be allowed so that it can remain their own tool and, in that way to ensure the best suitability for the possible new risks.

The analysis of sustainability risks is dependent on the company-specific strategy and risk assessment. Therefore, the measurement and quantification of the effects of sustainability risks should consider undertakings' differences with respect to the materiality of climate change effects.

With regard to proportionality, it should be possible for insurers with low exposure to climate change risks not to prepare complex scenario analyses.

This considered, it would be helpful for undertakings to have access to a standardized set of quantitative scenarios and allow each insurer to decide how to incorporate sustainability risks in risk management, governance and ORSA, in line with its specific business profile. Flexibility is even more important given that long-term scenario analysis in risk management, governance and ORSA have a shorter time horizon compared to the climate change. Therefore, it seems important that any standardized set of scenarios would not harm the diversity of insurance business models.

Long-term scenario analysis should be used as a tool in strategic business planning and the corresponding risk management strategy. In particular sustainability risks, including climate change risks, should be included in the planning process where relevant.

* Question 4:
What are your views on incorporating a standardised set of quantitative climate change scenarios in the ORSA, e.g. derived from the IPCC representative concentration pathways (RCP) - which are likely to evolve over time? Can you please elaborate on which scenarios you would use and which time span should be covered by such scenario analysis, specifying your approach for the valuation of assets, liabilities and your own solvency assessment (for standard formula and internal model users)?

We believe it will be helpful to have access to a standardized set of quantitative scenarios.

However, it is key to be aware of the issues with the scenario development, including the lack of consensus among experts regarding the choice of scenarios and their evolution in the future. Defining a standardised set of quantitative scenarios for all countries across the EU is even more challenging and requires further consideration. The issues climate change might raise will be different from country to country and the dependencies, on both social and economic side, are hard or even impossible to capture with the knowledge currently available. The key issue with integration of such tools is the identification of climate change risks. Establishing a link between meteorological phenomena (including climatic changes) and the economic impact on the balance sheet of an insurer can be extremely difficult, even with detailed information on a specific insurance portfolio.

Regarding the time horizon in ORSA, this is defined as the period for which a business plan is established, i. e. typically 3 to 5 years. The ORSA includes a projection of the financial and solvency situation over this time period, complemented by a discussion of risks attaching to particularly important exposures of the entity for which the ORSA is prepared. As such, the time horizon of climate change scenarios is longer than the current ORSA time horizon. A requirement to include long-term scenario analysis in ORSA therefore constitutes a new element, which extends the scope of ORSA to cover extremely long time periods, for which any quantitative analysis is only possible when incorporating expert judgement. As a natural consequence, the level of comparability between different companies can be expected to be low.

As background evidence, we refer to the CDP questionnaire in 2018 which shows that a small sample of European insurance undertakings already use a variety of climate scenarios (e.g. RCP) and for different purposes, but it's not evident that they are commonly used in the ORSA. A high number of companies responded that they don't use scenario analysis to inform their business strategy.

We encourage EIOPA to develop a quantitative set of scenarios, while taking proportionality principle into account but also allowing each insurer to decide if it wants to incorporate a quantitative climate scenario in its ORSA and if it wants to use the standardized scenarios or its own scenarios. For instance, for small and less complex insurers, EIOPA's proposals for a forward-looking approach with regard to sustainability risks and the incorporation of a standardized set of quantitative scenarios in the ORSA seems overly prescriptive and disproportionate. Also, for any ORSA requirements to result in comparable outcomes, a standardized climate scenario may not be sufficient, but needs further conceptual work to achieve its desired goal.

Valuation of assets and liabilities

Valuation of assets

* Question 5:
Do you agree that the principles of valuation of assets of Solvency II allow for the consideration of sustainability factors?

- (●) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

We fully agree with the valuation hierarchy of Solvency II (Art. 10 in the Delegated Regulation). The general valuation principles of Solvency II allow for integration of all material risks, including financially material sustainability risks.

In a deep liquid and transparent market, market asset prices reflect all known and quantifiable information, including information on sustainability risks. In addition, the prudent person principle already envisages to address explicitly sustainability risks in the assessment of investments, as long as they are financially relevant for the undertaking. Therefore, the consideration of sustainability factors can be part of a general risk /return assessment of assets. However, as already argued in our comments on EIOPAs technical advice on the integration of sustainability risks and factors, a consideration of sustainability factors must not result in a contradiction or limitation of the principle of freedom of investment (Art.133 of the Solvency II Directive). Also, it has to be ensured, that a consideration does not contradict the requirement to act in the best interest of existing stakeholders of the company including the policyholders.

Any change in these principles would be a step away from using current market values in Solvency II. Also Solvency II refers into IFRS standards and uses its definitions on market valuations so one cannot change without another in the current setting. More importantly, there is no better alternative for asset valuation. The issue lies in the genuine uncertainty about sustainability issues, not least climate change. This considered, we appreciate continued improvement in the quality and scope of public disclosure on sustainability risks, but we note that this will not be enough to reduce all uncertainties.

In addition, we find that:

- The current Solvency II framework can easily and efficiently address most of the sustainability risks through existing valuation methodologies.
- The credit ratings might also take into account sustainability measures in the limitations of available data and this will be reflected in the valuation of Solvency II assets.
- The impact on assets valuation is already factored into the “market value” of those assets at any point in time by the market.
- Additional stress tests will pose a significant administrative burden for small and less complex (re) insurance companies.

* Question 6:
How in practice could the valuation of assets adequately (better) reflect sustainability risks?

We reiterate that the principles of sustainability should be highlighted in the market value trend and we agree that improved public disclosures can better incorporate sustainability factors in market prices.

EIOPA notes that improved public disclosure of sustainability risks is of crucial importance to ensure that market prices can factor in sustainability. We agree with this observation and would urge EIOPA to consider how this may be promoted via the insurance regulation. Anyway it is important to recognize that insurers are entirely dependent on the existing market standard for disclosure in those sectors they invest in. Therefore insurers as investors can’t request from investees a more detailed disclosure than investees are obliged to provide by law or what is current practice in ESG ratings. There are a series of gaps and barriers that complicate the identification and assessment of climate change risks on a company-wide scale:

- As for climate, corporate disclosure is still in its infancy. This impairs data availability and quality. Concerning the data which is available, there are significant differences between different data providers and ESG rating agencies. For instance, carbon footprint might be the most standardised of the ESG metrics after all, and the differences in ESG ratings are probably much larger when it comes to other areas than carbon

footprint.

- There is a lack of clear definitions and rules for the classification of sustainable activities as well as valid scenarios and knowledge on expectations for future technological development and demand. Standardization and oversight in some general level on data providers and ESG agencies could be helpful to improve data quality.
- The identification and valuation models are recent; related methods are not yet stabilized: the choice of data necessary for valuation depends on the chosen method, which could consequently evolve with the progresses made in methodologies.
- The collection of data will usually be outsourced to data providers and ESG-rating agencies which entails considerable costs and creates further dependencies. As a background, under Solvency II, insurers have had the following experience with rating agencies for several years. The fact that they are dependent on external ratings for determining their capital adequacy creates a dependency in the oligopolistic market of rating agencies which enables rating agencies to impose considerable (often more than 5%) annual cost increases on insurers. Oligopolistic structures are also already emerging in the ESG market. There are methods and data available for doing forward looking screening of portfolios such as CDP data and the Climetrics methodology, developed by CDP, or Carbon Delta.

In particular, insurers are required under Solvency II to i) have an effective risk management system, and ii) only invest in those assets whose risks can be properly identified and managed. We therefore consider that insurers ought to be proactively using their rights as asset owners to push companies to disclose the information they (or their advisers) need to make informed investment decisions. Given the importance of this information, we believe such actions form part of an “effective risk management system” as required under Solvency II. As such, EIOPA may consider including this as an example of good practice similar to those elaborated for the valuation of liabilities.

We highlight that identification and assessment of climate change risks on a company-wide scale is complicated:

There is a lack of clear definitions and rules for the classification of sustainable activities.

Climate-related corporate disclosure is at its early stages of development, which in turn negatively impacts data availability and quality.

Models and methodologies that consider sustainability in asset valuation are new and there is no consensus on the validity of used scenarios, including climate change trends and future technological developments.

Even when data are available, there are significant data inconsistencies between data providers and ESG rating agencies, e.g. on carbon footprint. Moreover, such data is expensive.

It is important to bear in mind that some (re)insurance undertakings, like captives and really small insurers, might not be considered as institutional investors and as such may not bear the same level of stranded assets risk because of transition risks. There would consequently be no value from neither a regulatory nor operational perspective to consider new valuation techniques based on sustainability applicable to captives.

* Question 7:
Should prudential disclosure requirements (e.g. Articles 263 and 296 of the Delegated Regulation) be amended to explicitly include sustainability considerations?

- (●) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

We don’t find a unanimous answer to this question.

On the one hand, the current requirement in Art. 263 and 296 are sufficient and do not represent a barrier to consider sustainability considerations. In fact, they require insurers to consider the valuation uncertainty and to state the assumptions underlying the valuation approach, which might also include sustainability considerations. Therefore, no changes are required to the articles - sustainability considerations, including on sustainability risks, should be treated at the same level as other relevant considerations for the valuation of assets. On the other hand, expressly making reference to sustainability considerations and explicitly including sustainability considerations might be beneficial and ensure that all insurers take this into account in sufficient manner and start actions.

We note the questions about including sustainability disclosures in the SFCR and would like to raise our concerns about the current effectiveness of SFCRs, which contain extensive information and are rarely read by external stakeholders. We believe that external sustainability information should be disclosed elsewhere as the SFCR is not the right format to publish sustainability considerations. The SFCR is a report which contains information about the solvency and financial situation. This is why we are critical of amending the SFCR by including general sustainability information. We propose aligning the SFCR reporting to the above target groups in future to increase its impact:
i) A brief narrative report should enable the average policyholder to acquire an overview of an insurer’s key information. It would include an overview of a company’s solvency and financial situation or transactions planned for the future, which could change the company's business position.
ii) The more detailed quantitative report for the professional public would contain more detailed information and key figures, for example to support a professional’s decision-making process or to be relayed to policyholders in an appropriate format by consumer protection groups. In order to increase its impact, the SFCR should be focused on the key target groups.
Public disclosure should be streamlined and focused on material information for policyholders and the professional public.

* Question 8:
Should other enhancements / changes to the current regulations be envisaged regarding the consideration of sustainability factors in the valuation of assets?

- ○ Yes
- ◉ No
- ○ n/a

* Please elaborate.

We find that no other enhancements / changes to the SII regulation are needed. Requirements on improved disclosures need to be addressed to a broader group of companies to facilitate the consideration of sustainability risks in the valuation of assets.

Rather than suggesting new requirements on asset evaluation, we encourage EIOPA to focus on improving data quality and to collect reliable information and sustainability parameters for the investments. Also, we see that policymakers should instead facilitate and legislate the costs of the so-called externalities, as without, the capital market cannot function in favour of sustainability.

* Question 9:
Do you have additional views and evidence to be considered with regard to the exposure to physical risks?

We have no additional evidence, but we highlight that some physical risks might be covered by an insurance policy. The current available methodologies do not take into account the insurance mitigation to assess the physical risks and therefore are more appropriate to assess a gross physical risk than the impact of a financially material physical risk net of mitigating actions.

We also note that so called green-labelled assets may be equally exposed to physical risks as brown-labelled assets. In certain cases, green assets may also be exposed to physical risks to a great extent (e.g. offshore windpower).

Generally, any investment in sustainable technology at a too early stage and prior to its general adoption carries a risk of resulting in loss or partial loss of investment.

* Question 10:
Do you have additional views and evidence to be considered with regard to the exposure to transition risks?

We agree with EIOPA that the exposure to transition risks is sector-specific and depends on the exposure to carbon intensive activities (risk of stranded assets). We appreciate EIOPA's initiative to identify and quantify potential transition risk as the data availability and quality is the biggest barrier to considering transition risks in investment management.
Furthermore, we would like to point out that green assets can also be exposed to transition risks due to the establishment of sectoral climate-related policies (e.g. development of solar energy equities in the past 10 years).
The anticipation of transition risk is not straight forward due to secondary effects within a complex network of cause and effect. Examples from secondary effects can be found in the following:

- how different industries can stop using fossil fuels,
- if competition changes significantly in some industries creating even monopolies,
- if the general opinion towards that particular industry changes a lot or if the raw materials used generates new kinds of issues to deal with.

We find that the current available methodologies for transition risk (as the alignment to a 2°c scenario) are often not sufficiently reliable to be used as a risk management or investment tool.

We note that liability risks, which need to be considered in any scenario of societies and economies transitioning into more sustainable activities, have not been considered in the consultation paper. For instance, in the context of climate change, such risks are sometimes described as transition risks. However, this terminology does not make sense for other sustainability issues (e.g. environmental pollution, corruption, human rights). We therefore consider that EIOPA should be including liability risks in its discussion of sustainability. These can potentially be significant (see for example Clyde & Co's recent report on climate change liability risks for directors and officers).

Valuation of liabilities

* Question 11:
Do you agree with the good practices EIOPA is suggesting for undertakings to apply for integrating sustainability in the valuation of liabilities?

- (●) Yes
- ( ) No
- ( ) n/a

* Would you have further suggestions? Please elaborate.

We find the first two “good practices” appear reasonable. However, more clarity is needed on what EIOPA expects concretely with “develop and use forward looking cat modelling”. With respect to stress-testing and scenario analysis, even though the rationale to do this is highly welcomed, we believe that maximum flexibility should be given to insurers. Given the great uncertainties in this area, good practice should be based on high-level principles that allow for flexibility.

We note that there may be a number of reasons why undertakings do not include climate-change related risk in their Best Estimate. Therefore, while some of the suggestions might be reasonable and the need for forward-looking valuation of liabilities becomes even more important, insurers should be able to develop their own good practices, e.g. based on their exposures and other specificities.

In general, we agree with EIOPA that it should be good practice to ensure historical loss data is up-to-date, consider possible events not captured by undertaking’s historical loss dataset, develop and use forward-looking catastrophe modelling and apply stress-testing or scenario-analysis, when determining the "best estimate" for the insurance liability as required by Solvency II. It is worth noting that Solvency II best estimate refers to the expected value of the range of possible outcomes. As such, existing requirements already ensure this "best practice".

We also highlight that in some cases stress-tests and scenarios analysis are unlikely to provide new information. For example, climate change will likely have a limited impact on the settlement and the ongoing adjustment of claims involving personal injury. We also support the good practice elaborated by EIOPA at paragraph 7.41 although we consider that it should also include a reference to the use of best available science.

* Question 12:
What is your view on adopting a forward-looking modelling approach in the calculation of the best estimate to assess climate change-related risks?
Please elaborate.

Generally, we find that all best estimates should already capture the relevant sustainability risks and forward-looking approaches which are available for best estimate calculation. However, we believe that forward-looking modelling is difficult and overly complex for some insurers to implement. Help can be provided via outsourcing, by data and model providers, but this should not be the mandatory approach for insurers that lack the expertise.

Given that climate change reduces the reliability of historical data, we consider that a forward-looking element is important for assessing climate-related risks. If insurers rely on historical data alone, they will always be behind the curve. The Solvency II "best estimate" takes this aspect into account by referring to the expected value of the range of possible outcomes. As such forward-looking approaches are already used for calculating the best estimate. The impact of particular scenarios on the best estimate is determined by their likelihood within the set of all scenarios. Additionally, the best estimate refers to liabilities arising from existing contracts, which may have durations that are not long enough for climate risks to have an impact. As such we agree with EIOPA that it is important for all climate change considerations to remain proportionate to the scale and type of exposures faced by the undertaking.

We find that using some sustainability related principles in the valuation of liabilities might trigger some difficulties with the existing DA:

o Art 18. The 'loss side' of the contract boundaries might become even more important if there are new future risks that might affect the policyholders in the future and if those cashflows are not taken into account because of contract boundaries. For instance, in many health insurance contracts, contract boundaries close the future cashflows and the company options are only on closing the whole LOB, which certainly would not happen in a short time. The sustainability issue increases the importance for a longer maturity perspective and this might need to be brought into contract boundaries also.

o Art 19. Definitions on data accuracy and appropriateness will not be met if bringing the need to take climate change risks into account in the valuation. The requirement, for instance, on how and with what process expert judgement can be part of the valuation process might need to be relaxed. This could be fixed with bringing some additional points into art 21.

o Art 29 and 30 are really demanding as they stand now and certainly already take into account climate change, having that wide scope. Anyway, these might be the articles to modify the legal requirement for taking into account expected future sustainability requirements in liability calculation somehow. Both requirements on uncertainty and dependencies are absolutely hard to meet when there is no data available. And yet these will need both models and parameters behind them.

o If it would be considered that sustainability related matters are not represented accurately enough in the market information, then the requirement of market consistency would be stretched. The assumption in DA is that future uncertainties are in market prices and therefore in the current market information. This would hit especially Art 22 (3), Art 24 and Art 40. If for instance climate risks would be needed to bring into liability valuation, then it would be extremely difficult to comply with these articles if the definition of market consistency would not be changed somehow. Also, the asset side and the liability side of the balance sheet would contradict each other, which would obviously not work.

o Risk free rate and especially UFR (art. 43 – 48) might also be under pressure if bringing new and substantial long-term uncertainties into the requirements for liability valuation. UFR keeps inside both GDP growth and inflation which might both be seriously affected in some of the climate risk scenarios (e.g. global warming going above 2 degrees).

* Question 13:
What would you consider to be proportionate good practices for such a forward-looking modelling approach in the calculation of the best estimate?

We agree with EIOPA that the principle of proportionality should be reflected in the calculation of the best estimate via a forward-looking modelling approach.

In this regard, EIOPA refers to the size and maturity of the undertakings' obligations. In our view, not only size and maturity, but also other factors should be taken into account, for example the level of risks connected to those obligations. We also find that climate change modelling should only be relevant for the best estimate of liabilities with a sufficiently long duration. The use of generally recognized climate change models in reserving should be sufficient to ensure that "good practices" have been met.

We find that EIOPA's idea that the duration of the insurance contract (or an asset, e.g. a corporate bond) could affect the market price or best estimate is a good idea in theory as this might be the outcome in many scenarios. Anyway:

- In order to include the way duration (or the contract lifetime) changes the risk profile into the liability, valuation would need a good sense of understanding on how the volatility profile of the scenarios affecting the future cashflows might change in the future.
- Some consideration might be needed to justify the long-term growth expectations behind the models. Some of the IPCC scenarios don't opt for long term growth, rather the declining of the GDP in time. Inflation, on the other hand, might be more volatile, even having an effect on the ECB target.
- Duration and its impact on the risk profile might already be in the market values of some assets and surely will change a lot in future. The difficulty will be to understand in which ways this works. Is longer duration always a sign of a higher risk profile? Does this change amongst different industries and asset classes?

* Question 14:
Do you agree that climate risks may affect the technical provision calculation for the life insurance?

- (●) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

In principle, climate risks may impact some assumptions used in calculation of life technical provisions. Climate change is expected to have significant impacts on the health and mortality of the population. Climate change is also anticipated to have significant consequences for the economy. As such, it may impact both insurers' liabilities and assets. This is especially the case considering the longer-term nature of life insurance business. However, in many areas, this is probably going to be a less significant risk in Europe in comparison with other continents.

* Do you agree that the two main assumptions/areas where climate may impact the calculation of life technical provisions are the Economic Scenario Generators and the mortality rates? What about morbidity rates?

- ( ) Yes
- (●) No
- ( ) n/a

* Please elaborate.

We find that there are several areas of assumptions that might be affected due to climate change but it is not straightforward.

Current predictions of climate impacts would also suggest morbidity rates will be affected. For instance, climate change is expected to facilitate the spread of certain vector-borne diseases such as malaria. A further example is the propensity of climate change and pollution to lead to a higher instance of respiratory disease. Again, we believe that best available science should be used to inform potential impacts. Future developments of mortality rates are already considered in the calculation of the best-estimate life technical provision but might need to be reviewed. Anyway, mortality rates are influenced by several aspects and climate is probably not the most important one in the near future. Furthermore, we do not see a big impact to morbidity rates with relevance to life and invalidity insurance issues.

Economic Scenario Generators are a technical tool that is used to systematically ensure that the financial options and guarantees implicitly included in life insurance policies (such as for example minimum interest rate guarantees on paid premiums) are valued consistently with actually traded stand-alone financial options available in the derivatives market. This consistency is a fundamental requirement of Solvency II as a market value based regime. The economic scenarios for valuation of liabilities are determined such that they reproduce the current market value of traded financial options (as the average over all scenarios). Then these scenarios are applied to the pay-out pattern of life insurance policies and the average over all scenarios gives the market value. To the extent that the market price of traded derivatives incorporates climate change effects those effects are automatically reflected in the best estimate of life insurance liability valuation. However, it is not straight-forward how scenarios themselves should be amended for any expected effects of climate change. Doing this will result in modelled prices that are inconsistent with current asset/derivative market values and as such put into question the market-based approach of Solvency II best estimate calculation.

Question 15:
Is climate change relevant for Economic Scenario Generators?

- ○ Yes
- ◉ No
- ○ n/a

* If not, please elaborate.

We believe that climate change is not substantially relevant for Economic Scenario Generators (ESG) and that it is not clear how the ESG should be changed to better incorporate climate change considerations. On one hand, the core principle of Solvency II is a market-adjusted valuation of technical liabilities. Therefore, the calibration of Economic Scenario Generators is based on the currently prevailing level and volatility of the asset/derivative market. As such the effect of climate change is implicitly accounted for to the extent it has impacted asset/derivatives market values. Other than that, there is currently no quantitative basis on which to include climate change in the calibration of Economic Scenario Generators.
On the other hand, we also consider that climate change is relevant for these scenarios as it is expected to have a significant impact on the global economy through economic/financial losses. Climate change has several elements with financial relevance, such as physical and transition risks, but also presents opportunities such as those occurring from resilience, competitiveness, and sustainable business models. Again, we note that academic research is a good starting point for understanding potential consequences. For instance, a paper published in Nature, in 2015, projected that there was a 51% chance of climate change reducing the World's GDP per capita by more than 20% by 2100, and a 12% chance of reducing it by more than 50% (http://web.stanford.edu/~mburke/climate/BurkeHsiangMiguel2015.pdf). Similar studies were published by CDP (Climate change report for 2018) bringing an outcome from the world 500 biggest companies by market cap that some 6% of their current equity value might be affected in future just because of climate change.

Finally, for the real-world scenarios used for SCR calculation climate change is currently not included in the calibration of the input volatilities. Given that there is clear Internal Model framework behind required time series input we would currently see no quantitative basis how to include climate change in the real-world scenarios. When it comes to other internal uses of real-world scenarios, like those used for ORSA purposes, we find it useful that insurers and model providers could incorporate scenarios that take climate change into account somehow.

* Question 16:
Is the impact of climate change relevant on the mortality rates?

- ( ) Yes
- (•) No
- ( ) n/a

* If no, please elaborate.

We believe that climate change is not substantially relevant for Economic Scenario Generators (ESG) and that it is not clear how the ESG should be changed to better incorporate climate change considerations. On one hand, the core principle of Solvency II is a market-adjusted valuation of technical liabilities. Therefore, the calibration of Economic Scenario Generators is based on the currently prevailing level and volatility of the asset/derivative market. As such the effect of climate change is implicitly accounted for to the extent it has impacted asset/derivatives market values. Other than that, there is currently no quantitative basis on which to include climate change in the calibration of Economic Scenario Generators.
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Investment and underwriting practices

Investment practices

* Question 17:
Do you identify other relevant practices to include sustainability risks in (re)insurers' investment strategy and decisions?

We consider that stewardship is another important practice in managing sustainability risks. This was previously highlighted by EIOPA in their technical advice to the EU Commission on integration of sustainability risks.

Financial regulators such as the UK's FCA are advancing the debate on the minimum stewardship expectations of financial services firms which invest for clients and beneficiaries should be (see Discussion Paper DP19/1). This topic is equally relevant to the present discussion of (re)insurers' investment strategies.

ESG integration is often used in active strategies, but also in passive. Often a combination of ESG research providers and in-house research is used for decision making. Instead of outright exclusion, in many cases engagement is used, where investors aim to influence the investee companies to develop in a more sustainable way. Some investors use time frames, e.g. after two years, if no development has taken place, the last resort will be exclusion.
For passive investments, several insurance companies rely on ESG indexes which are often at least partly tailor made to align with the companies' investment policy, by e.g. MSCI.

Overall, we note that increased transparency and targeted information on companies are crucial prerequisites to include sustainability risks in the investment strategy.

* Question 18:
Do you have any further views on the analysis of returns on sustainable assets?

We find that sustainable investments are subject to the same targets and measures of expected return as any other investments. Insurers' approach to investing is the same for sustainable assets and other investments. Insurers have a duty of diligence and care for their policyholders, and this duty applies to all types of assets they invest in. The investment assessment is multifactorial. The matching of assets and liabilities, the risk-return profile and the level of market risk are among the key factors that are taken into account when deciding on the asset allocation. Sustainability is becoming increasingly relevant in insurers' strategic asset allocations.

* Question 19:
To what extent do you align your investment strategy and decisions with your underwriting practice and decisions in respect of sustainability risks?

For consistency between the valuation of assets and liabilities, insurers must ensure the climate change scenarios assumed in the valuations of assets and liabilities are consistent. For example, if an insurer uses the market value of assets then it must use the climate path implied by the asset values in the valuation of its liabilities.

One description of an approach to aligning investment and underwriting in terms of sustainability risks can be found from Allianz (https://www.allianz.com/en/sustainability/business-integration/esg-approach.html). They have defined ESG processes in order to capture investments and underwriting. E.g. the ESG Referral Process which identifies potentially critical transactions in 13 sensitive business areas considered material by Allianz. All potentially sensitive business is screened on a transaction-by-transaction basis and referred for a detailed ESG assessment, if necessary. This is applicable on the investment (non-listed) side as well as on the insurance business.

*

Question 20:
Which good practices do you identify to deal with transition and physical risks in (re)insurers asset portfolios?

Insurers have a duty of diligence and care for their policyholders. The prudent person principle requires addressing sustainability risks in the assessment of investments, if they are financially relevant. We believe that the consideration of sustainability factors should be part of a general risk/return assessment of investments. This considered, key risk management strategies to deal with risks include diversification and a global investment strategy. Also, the inclusion/exclusion of policies, good practice in dealing with transition and physical risk and stewardship strategies should all play a role here. In addition to this, engagement practices are more suitable for risk mitigation and allow for a good knowledge of investees.

With regard to analysis of risk and good practices we find several tools available:

- ClimateWise has published physical and transition risk frameworks for (re)insurers
- The Bank of England has recently released a framework for assessing the financial impacts of physical risk.
- Regular meetings with executive management to discuss future risks, including climate change.
- Work with scenarios and evaluate impact.
- Include climate factors in risk management systems to support all stages of decision making.
- Measure carbon asset risks and alignment to decarbonization strategies across all investments.
- Conduct physical risk analysis of assets and debt, including risks of loss of resources.
- Assess regulatory risks.
- Help portfolio managers make better informed decisions by providing them with data and tools to integrate climate issues.
- Many European insurance companies support the quest for better climate disclosure by signing CDP's investor request.

Underwriting practices

* Question 21:
Do you consider "impact underwriting" as described in the opinion to be a relevant way to take into account sustainability in underwriting policy?

- (●) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

We appreciate EIOPA explanation of "impact underwriting" and we invite EIOPA to describe further this concept, highlighting more precisely what is meant with it and how this would be beneficial in a Solvency II context.

This said, we see that "Impact underwriting" could be relevant in cases where risk mitigation and loss prevention could make a significant difference. In this respect, a distinction should be made between retail clients and companies / local authorities. Insurers have limited leverage with individual customers as in this case the prevention is mostly individual. In the case of companies and local authorities, insurers might have more impact as they implement risk mitigation and adaptation strategies. Therefore "impact underwriting" is more relevant in this case. Regarding natural catastrophes, prevention should be collective and be implemented by local authorities.

We also consider that from a climate change perspective, this may assist in both mitigating and adapting to climate change. This has benefits for society, but also insurers by keeping markets commercially insurable. To enforce the proportionality principle, specific provisions should be applied for the underwriting policy, including the possibility for an exemption from new sustainability rules. Within the concept of “impact underwriting”, it is also important to consider the underwriting concentration of captive (re)insurance companies, i.e. the fact that their strategic objective is to (re)insure only risks arising from their group’s activities. As such, they heavily rely on the sustainability profile of their group’s activities and should not get additional capital requirements.

We highlight the goal setting as one specific topic to consider. A possible understanding of sustainability in underwriting is about the identification and management of ESG risks directly relevant and/or linked to the profitability of the insurance portfolio. Impact underwriting could have a different objective: aiming to achieve social, environmental and finally political goals. These goals are not necessarily always in alignment with insurance principles and mechanisms, and thus could potentially undermine the idea of risk identification, mitigation and pricing. Especially on pricing, higher price underwriting for “climate-risky” businesses – at least in the short term – would set an incentive for businesses to shift to sustainable business models and help to shift finance overall to sustainable and resilient business. Insurance companies could apply Science Based Targets as a tool to measure 1 year (short term performance and risk), but integrate this into a 2050 net-zero strategy of their underwriting and investment portfolios.

* Question 22:
(a) Do you explicitly consider risk mitigation and adaption strategies addressing climate change in your products?

- ○ Yes
- ◉ No
- ○ n/a

* Please elaborate.

The consideration of climate risk mitigation and adaptation strategies is usually company specific. A generalization of such practices should be carefully evaluated to avoid conflicts with general insurance mechanisms.

Climate risk mitigation and adaptation strategies are generally considered as part of a company’s overall risk appetite and strategic engagement in a market or industry. Engagement with clients or exclusion of certain economic activities from portfolios from a sustainability perspective might be driven by other than underwriting and profitability considerations.

By their nature, insurers cover for financial losses of their clients. Underwriting by itself cannot mitigate a risk, it can only price a risk (technical and market price). Insurers are only indirectly involved; risk creation and mitigation happen at clients’ operations.
Desirable technologies that serve climate risk mitigation or adaptation towards a low-carbon economy are not necessarily within an insurer's risk appetite or profitable from a risk/ return perspective. However, insurers can be involved in new markets e.g. new technologies with only limited historical data. In these cases, insurers take the risk of inaccurate pricing whilst helping the industry in risk mitigation and adaption.

We find that frequently reviewing the product terms and conditions, and adjusting if necessary, is one good practice of what can be done in the short term in the case historic experience or trend analysis suggest so.

For instance, R&D teams can be used to monitor the developments regarding climate change and then be given an advisory role in the product strategy. In that respect the R&D team would do detailed testing of available Cat models to make sure any trend is properly reflected. Where needed, external models can also be adapted, or internal models developed.

Some insurance companies also mention that innovative work is ongoing to meet customers' demand for products that respond to the new needs caused by the transition to a low carbon economy. However, there is little guidance in the data on how this is done. Some have also included an ESG value add rating to the product approval process for any new insurance products.

* (b) What would be the main benefits/obstacles of the generalisation of such a practice?

-

* (c) Which measures would you recommend to assess the risk mitigating effect of such underwriting?

-

* Question 23:
Do you identify other good practices than those described above?

- (●) Yes
- ( ) No
- ( ) n/a

* Please describe.

We consider that in order to manage sustainability risks such as climate change, insurers must adapt their underwriting practices. In part, this may mean reflecting ESG risks in pricing. However, this practice may ultimately just lead to insurers being priced out of the market. It is therefore not a sustainable long-term strategy on its own.

To be sustainable, underwriting must include further considerations. Chiefly, underwriters must recognise that underwriting policy shapes real-world behaviour. This might need to be leveraged as part of insurers' risk management system to protect against mid to long-term risks such as climate change. Also strategic commitment to relevant economic activities is highly important, which can be for instance involvement in research programmes and education of clients in sustainable investments/ pension/insurance.

* Question 24:
What are your views on climate change potentially widening the protection gap for natural catastrophe (re) insurance?

We see that this may happen in some markets and in extreme cases due to higher frequency and cost of claims. According to the Geneva Association, the protection gap is one of the most pressing issues facing societies. Furthermore, it is anticipated to grow as a result of climate change. This is not only detrimental to society, but also to insurers as insurable markets shrink. In our view, the only way to prevent this is through i) climate change mitigation, and ii) climate change adaptation. Underwriting and investment policy can be deployed to support both these objectives.

The widening of the protection gap might also have an impact on the future offering of insurance products,

as the need for insurance cover changes, but also the ability to offer products for the new needs does. For instance, the larger corporate customers will need the local insurer and the re-insurance company to be willing and able to offer products that meet the new demands. Insurers should aim for a long term, sustainable level of premiums. A wide protection gap will have serious impact on the financial system in general when catastrophes occur. This is one of the reasons why a number of insurers already cooperate with local governments in public-private sector partnerships to share their expertise in risk awareness and management, e.g. to provide affordable insurance and high penetration rates.

While climate change is expected to increase the protection gap, the industry should be able to deal with this issue. For Europe this trend might not be too concerning in the near future (e.g. next 10 years). The consequences of improved risk assessment techniques, tools and data and higher resolutions might have a stronger impact on the short-term protection gap than climate change by itself.

Climate change may lead to increased demand for insurance against weather related damage. We do not see reasons for these events in most cases not being insurable as such, as the abovementioned advanced analytical methodologies provide ever better foundations for sound weather-related insurance product developments. However, where the protection gap is mainly caused by economic mismatches in high risk areas, which for these regions do not allow a self-financing insurance offering, climate change may lead to a further widening of this economic gap over time. The main problem will not be that some risks will no longer be insurable, but that households and businesses may no longer be able to stay in their current location and may have to relocate.

* Question 25:
Do you have evidence on Solvency II impacting the insurance protection gap (e.g. for natural catastrophe risks) in light of climate change?
Please elaborate.

We do not have any evidence on this.

The increased pressure to improve Nat Cat Risk assessment (esp. at the point of Underwriting, which is also the inherent interest of the re/-insurance industry) and recent and anticipated progress in this domain might lead to more geographic/ localized risk avoidance and premium changes - these could widen the protection gap. EIOPA could consult with governments, monitor this development in the future and eventually intervene, if need be, but focus should not only be on the insurance regulatory side.

Capital requirements

Market risk

* Question 26:
(a) Do you support the views on the treatment of sustainability risks in the market risk module?

- (●) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

Yes. We agree that in principle the current Solvency II framework does not represent a barrier to investments in sustainable assets. We also agree with EIOPA's acknowledgement in point 9.15 that investing in a sustainable manner often requires long-term engagement. Therefore, any barriers to follow a long-term investment strategy also represent barriers to investing sustainably.

In general, there is no clear available evidence that shows risk differences between green assets or brown assets that would justify a different calibration of capital requirements. In this respect, we support EIOPA's view that any differential treatment of investments should be based on a proven difference in the underlying risks (point 9.16). One additional concern is that special capital requirements for "green" assets would drive a green investment niche and therefore would not help shift trillions of financial flows to sustainable investments.

Overall, we agree with EIOPA that the current design of Solvency II capital requirements should remain risk-based and on a 1-year time horizon. Introducing a separate risk module for sustainability risks is not necessary as they already materialise through existing risk categories.

* (b) Do you have further evidence which should be considered?

- ○ Yes
- ◉ No
- ○ n/a

* Please elaborate.

No. We agree with EIOPA that no clear conclusions can be drawn as to the difference in risk profile of sustainable and non-sustainable assets. If there is any evidence that green or brown assets are exposed to different risks than other assets of the same asset class, than such differences should be taken into account in the measurement of capital requirements. In fact, the prudent person principle requires insures to consider financially relevant sustainability risks in their investment portfolio. This aspect is already stressed in EIOPA´s technical advice on the integration of sustainability risks and factors in Solvency II.

We also reiterate that the classification of assets for prudential reasons should be based on their specific exposure to physical and transition risks. The ESG factors need to be considered together and on a case by base approach. In certain cases, the so called "green" assets may also be exposed to physical risks to a great extent. Therefore, it is key to look at the risk exposure of the specific assets

* Question 27: Property risk
Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in property risk?

- ◉ Yes
- ○ No
- ○ n/a

* Please elaborate

We see that future evolution of climate change is undoubtedly a long-term trend and will be factored into the SCR by the regular recalibration of volatility factor for relevant line of business. We believe that using IPD indices with substantial weights on the UK real estate market is inappropriate. UK data do not capture the specificities of other real estate markets in the EU and are highly volatile compared to them. This considered, we agree with EIOPA that more transparency can help address real estate exposure to physical

and transitional climate risks (e.g. long-term nature of property investments).

As a solution, EIOPA states that a comparable IPD total return index and a sustainable investment index are needed. While such indices may be a useful source of information, both a clear definition of green /sustainable property and more granular data would be needed in order to calculate a different risk profile for a subset of the property risk. Such an approach would also be challenging for several reasons, eg:

- The difficulty to capture both physical risks and energy efficiency
- The geographical differences throughout Europe
- The lack of data at market and asset levels

* Question 28: Equity risk

(a) Do you have comments on the analysis of risk differentials for listed equity?

- Yes
- (•) No
- n/a

* Please elaborate.

No. We agree with EIOPA that equity prices are multifactorial and therefore sustainability risks and factors are difficult to isolate and that the necessary long-term data required for analysing potential risk differences does not exist.

Due to existing issues, we believe that it is premature to differentiate capital requirements for sustainable listed and unlisted equity at this stage, even though it might be possible in the future. Equally important, a binary green/brown approach is not a precondition for insurers adopting efficient asset allocations against climate change considerations.

In general, despite the focus on climate change of the EC call for opinion, we regret that the current discussions completely ignored the social and governance aspects, which are pillars of sustainability. The risk analysis needs to be done on a case by case basis and consider sustainability risks holistically. This will enable insurers to be efficient in their role of investors and potential partner of changes.

* (b) Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in listed equity risk capital charges?

- Yes
- (•) No
- n/a

* Please elaborate.

-

* (c) Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in unlisted equity risk capital charges?

- Yes
- (•) No
- n/a

* Please elaborate.

-

* (d) Which data sources or research conducted would be relevant to consider for unlisted equity risk capital charges?

-

* Question 29: Spread risk
(a) Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in spread risk capital charges?

- (•) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

On one hand, we note that it is easier to identify sustainable fixed income assets, e.g. green project bonds, than sustainable equity assets.

* (b) Which data sources or research conducted would be relevant to consider for the integration of sustainability risks in spread risk capital charges?

In line with a holistic approach to sustainability, we invite EIOPA to include in its analysis other investments than green bonds, eg social bonds.

* (c) What are your views on the methodology for a green bond index?

EIOPA's proposed methodology appears reasonable. We agree with the limits of the proposed analysis in terms of available data for a reliable calibration. The other key issue is that sustainability risks might affect the spread through other means or variables, which should be reliably captured.

* (d) Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in unrated debt capital charges?

No.

* (e) Which data sources or research conducted would be relevant to consider for the integration of sustainability risks in unrated debt capital charges?

-

*

Question 30:
Do you agree that climate change should be captured in a forward-looking manner in the ORSA for market risk especially by incorporating a quantitative approach based on a standardised set of climate change scenarios?

- ( ) Yes
- (•) No
- ( ) n/a

* If no, please elaborate.

Even though it is of utmost importance to integrate climate-related financial risk into the yearly ORSA, in a forward-looking manner, the direct incorporation of a quantitative approach based on a mandatory and a standardised set of climate change scenarios would be inappropriate. Each company's ORSA and planning time horizons are unique. This is also true for a company's exposure to climate change and sustainability factors in general.

For this reason, it is more natural for each company to focus on the impact of such factors on its profile based on general principles rather than on a prescribed set of scenarios with a prescribed time span. While it will be helpful to have access to a standardised set of quantitative scenarios, undertakings should be given sufficient flexibility to reflect their specific business models in their ORSA.

Uniform requirements, e.g. a set of compulsory quantitative climate change scenarios for the ORSA, would be in contrast with the basic idea of a company-specific risk and solvency assessment. For this reason, such scenarios should remain flexible enough to allow each company to decide for itself how to incorporate sustainability risks in its ORSA.

Natural catastrophe underwriting risk

* Question 31:
Do you agree that regular recalibration of the parameters for the natural catastrophe risk module of the standard formula will allow to capture climate related developments, including the impact of climate change?

- (•) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

Climate change does not happen as a sudden event, but it is expected to evolve over time. Recalibration of the standard parameters on a regular basis should aim at capturing climate related developments. Recalibration will allow to define more relevant parameters as models become more precise to estimate the impacts on the medium to short term.

The recalibration process should be transparent with respect to the data used and the methods applied.

Regular review of the Solvency II calibration for continued appropriateness should be effective to avoid missing any quantifiable impact of climate change on the NatCat risk situation. Calibration should only be amended based on statistically significant evidence that current risk factors are no longer applicable.

* Question 32:
Would you advise changing the design of the natural catastrophe risk module of the standard formula to capture climate related developments, including the impact of climate change?

- ( ) Yes
- (•) No
- ( ) n/a

* If no, please elaborate.

> Regular recalibration of natural catastrophe risk parameters using recent data will capture climate related developments sufficiently well since they are gradual changes that occur over a long-time horizon. Therefore, we are sceptical about changing the design of the natural catastrophe risk module of the standard formula.

* Question 33:
Do you agree that climate change should be captured in a forward-looking manner in the ORSA for natural catastrophe underwriting risk especially by incorporating a quantitative approach based on a standardised set of climate change scenarios?

- ( ) Yes
- (•) No
- ( ) n/a

* If no, please elaborate.

> Even though it is of utmost importance to integrate climate-related financial risk into the yearly ORSA in a forward-looking manner, e.g. considerations on natural catastrophe risk in relation to climate changes, we find it reasonable only as long as these risks are expected to have a material impact on an insurer's balance sheet. However, in line with the response to question 31, we note that each ORSA is company-specific with differences in time horizons and exposures to sustainability factors.
>
> As finding a meaningful standardised set of quantitative scenarios might be difficult, we suggest EIOPA should focus on the development of general principles rather than a prescribed set of quantitative scenarios. It is key that there is flexibility on how each company integrates sustainability risks in its ORSA.
>
> This considered, a standardized set of climate change scenarios would help companies to better integrate climate change development related to natural catastrophe risk. For instance, the impact of climate change on storms depends on the scenario. Therefore, a standardised set of climate change scenario would be useful as long as each insurer has flexibility to decide whether and how to incorporate a climate scenarios /tools in its ORSA.

* Question 34:
How do you take into account the long term view of climate-related developments, including the impact of climate change for the management of your natural catastrophe risks?

> no comments

Internal models

* Question 35:
Do you agree the rules relating to internal model design and calibrations do not prevent internal model undertakings from accounting for sustainability factors, with particular regard to the climate risk that existing insurance and reinsurance obligations are exposed to?

- (●) Yes
- ( ) No
- ( ) n/a

* Please elaborate.

We agree that internal model design and calibrations do not prevent internal model undertakings from accounting for sustainability factors of the climate related risk that they are exposed to. In fact, some insurers take into account the climate-related evolution of some variable included in the internal models, eg pandemics evolution in the calculation of their provisions.

* Question 36:
Could you provide further explanation/examples on how sustainability factors, with particular regard to the climate-change risks are taken into account in your internal model?

No comments