IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Advice on the Consultation paper on the Report on biodiversity risk management by insurers

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European Insurance and Occupational Pensions Authority

Questions to stakeholders

General comments (Adding to Q1 or Q14)

We welcome the opportunity to contribute to EIOPA's Consultation paper "*On a Report on Biodiversity Risk Management by Insurers*". We recognize EIOPA's efforts in integrating new and emerging risk categories within the insurance micro-prudential framework of the insurance sector. Moreover, for what concerns biodiversity, this assessment was mandated by the Solvency II review process, and specifically by Art. 304(c)3 which asks EIOPA to "*assess which actions should be taken to ensure that insurance and reinsurance undertakings duly consider these risks*." However, while emphasizing the need to assess all risks to ensure the sector's proper capitalization, we argue that biodiversity-related risks constitute a highly specific category of risk, distinguished by an exceptionally complex evaluation process.

The quantification of biodiversity risks remains highly complex due to the lack of reliable data and insufficient scientific evidence. The absence of standardized metrics and historical datasets makes it challenging to assess their financial impact accurately. Moreover, the specific nature of these risks and their interconnection with other environmental factors further complicate their measurement and integration into risk models.

As recognized by EIOPA, the key challenge arises because this risk category indirectly affects assets and liabilities. The most significant losses related to biodiversity risks stem from their ability to amplify potential damage caused by natural catastrophes, such as floods, earthquakes, and other events. Consequently, their materiality and quantification in terms of financial impact are often closely linked to risks arising from natural catastrophes, which are further intensified by climate change. This interconnection makes it particularly difficult to distinguish between climate change and biodiversity risks, and assessing biodiversity-related risks in isolation could lead to the issue of double counting — for instance, incorporating increased potential losses due to biodiversity loss risk both within the higher capital requirements related to climate change and as a separate biodiversity risk.

If, for certain companies, biodiversity risks hold specific and independent relevance from climate change-related risks — such as when an undertaking is particularly exposed to risks in the agricultural sector — we underline that the Own Assessment required by ORSA would already, at the actual state of play, mandate an evaluation of their materiality and, if found significant, an assessment of their financial impact. Such an assessment should be left as much as possible to the company's discretion, as it is based on its business and risk management system.

In conclusion, while we acknowledge the rationale behind EIOPA's proposed framework — which emphasizes assessing materiality before analysing financial impacts — we maintain that this approach is already inherently embedded within the Own Assessment framework of ORSA. ORSA, in fact, mandates that companies conduct a comprehensive evaluation of all potential emerging risks, taking into account the specific characteristics of their business, including targeted risks such as those associated with biodiversity loss.

From a broader perspective, we retain that significant efforts should be directed toward streaml ining, harmonizing and simplifying the various requirements established by European regulations, avoiding an excessive information burden that would increase costs for companies without adding, in the end, significant value for the policyholders.

Chapter 2. Defining biodiversity and risk drivers for insurers

2.1 Definition of biodiversity risk

*** QuestionQ1: In your view, should biodiversity risks be assessed together with climate risks, or subject to a dedicated risk assessment? Please explain.**

- Assessment together with climate risks
- Subject to a dedicated risk assessment
- <u>Other</u>

Please provide your comments to Q1.

Although the biodiversity and climate risks seem similar, the roots are very different. Furthermore, the speed of changes in biodiversity could be even faster than climate change. At the same time, as EIOPA rightly states, the biodiversity risk is probably narrower when it comes to consequences. However, costs are difficult to predict. Calculations of costs due to climate change are relatively advanced, although still premature. In the case of biodiversity, we are still struggling to measure.

There are pros and cons for assessing biodiversity risks together with climate risks or separately. Below, we outline the main perspectives and considerations:

1. **Simplicity and Practicality:** At this stage, it is important to avoid overcomplicating the risk assessment process. Given the many uncertainties surrounding biodiversity risk, ensuring that any approach remains simple and easy to implement is crucial. The key priority should be establishing understandable and practical models rather than striving for perfect methodologies in a rapidly evolving field with limited data and experience.
2. **Interdependencies vs. Separate Assessment Phases:** The interdependencies between climate and biodiversity risks should be recognized, but it should also be acknowledged that, due to the lack of biodiversity-related data and the complexity of relevant metrics, insurers may initially need to separate the two analyses. Climate risk assessment may be more quantitative, while biodiversity risk assessment may remain qualitative in the early stages.
3. **Integrated Approach:** The climate-biodiversity nexus exhibits self-reinforcing feedback loops, and an integrated approach ensures consistency in firms' strategies, operating models, and capabilities. The Taskforce on Nature-related Financial Disclosures (TNFD) anticipates the market moving towards integrated reporting, reinforcing the case for a

combined assessment framework. Additionally, given the current difficulties in assessing biodiversity risks, we believe that integrating biodiversity assessment into existing climate risk models would be more practical for undertaking.

Considering the diverse perspectives, a hybrid approach could be considered, where biodiversity risks are assessed alongside climate risks where possible, reflecting their interdependencies. Given practical challenges, a phased approach may be appropriate, with climate risk assessment remaining more quantitative initially while biodiversity risk assessment develops over time with improved data and methodologies. Insurers should be flexible to adopt an integrated or separate assessment based on their material exposures and risk profile.
Biodiversity risks should be the subject of a dedicated risk assessment. Both climate and biodiversity risks should be approached with the Enterprise Risk Management (ERM) methodology within the process adopted at the company level by the Risk Management function. Indeed, risk managers must evaluate if/how biodiversity impacts their company's business model (materiality). Biodiversity risks may share a cause with other types of climate risks (i.e. natcats, temperature increase, etc.), but their implications for the business will ultimately be different from climate physical risks (e.g., business interruption) or transition risks (e.g., innovation risks). For this reason, insurance firms should do separate evaluations to cover the residual exposure resulting from the risk assessment for biodiversity risks specifically.

*** QuestionQ2: Would you agree that for financial risk assessment purposes, insurers could be guided by identifying their exposure of investments or liabilities to (i) economic activities that are dependent on biodiversity and ecosystem services and (ii) economic activities that impact biodiversity and ecosystems ('biodiversity footprint')?**

- Yes
- <u>No</u>

2.2 Biodiversity risk drivers for insurers

*** QuestionQ3: Do you agree with the description of the transmission of biodiversity risk to insurers' assets and liabilities? Please explain.**

- <u>Yes</u>
- No

Please provide your comments to Q3.

Chapter 4. Biodiversity risk assessment in Solvency II

4.2 Materiality assessment

*** QuestionQ4: Do you identify relevant market practices of undertakings in describing their narrative on the impact of biodiversity risks to their business? Please share them below.**

*** QuestionQ5: Please share relevant approaches, tools and practices for undertakings to perform sectoral and/or geographical biodiversity exposure risk assessment.**

*** QuestionQ6: Please share relevant approaches, methodologies and reference to relevant data for assessing underwriting risk exposure to biodiversity losses.**

4.3 Financial risk assessment

*** QuestionQ7: Please share relevant approaches, tools and practices for undertakings to perform a financial risk assessment for biodiversity risk. Please provide reference to potential scenarios and models.**

*** QuestionQ8: Please share references to relevant scenarios for assessing the financial risks of biodiversity loss for specific lines of business or exposures (e.g. agriculture, health, …)**

*** QuestionQ9: Please share references to relevant scenarios for integrated climate-biodiversity financial risk assessment.**

4.4 Targets and actions

*** QuestionQ10: Please share relevant examples of targets set by insurance undertakings to manage biodiversity risks. Where possible, please identify how these targets relate to global or EU biodiversity and nature conservation or restoration targets.**

*** QuestionQ11: Please share relevant examples of actions which insurance undertakings can take to mitigate prudential biodiversity-related risks, including through nature-based**

investment and underwriting strategies.

*** QuestionQ12: Please share reference to relevant approaches to integrate biodiversity or nature-related data into cat modelling.**

5. Conclusions

*** QuestionQ13: Do you agree on these preliminary conclusions? Which additional practices should be highlighted?**

We agree with the preliminary conclusions outlined in the consultation and support the emphasis on fostering convergent practices in biodiversity risk assessment. In particular, we welcome the guidance on conducting materiality assessments of biodiversity risks, aligning with similar approaches for climate risk scenarios. Ensuring consistency in these methodologies will help insurers integrate biodiversity risks effectively within their broader risk management frameworks.

However, we note an additional aspect that needs to be considered further. Biodiversity risks – or better – nature-related risks encompass a range of distinct but interrelated issues, including biodiversity and species loss, water scarcity, deforestation, and pollution. Recognising this complexity could be valuable in developing meaningful risk assessment frameworks.

Finally, we highlight the importance of avoiding the double counting of risks when assessing biodiversity alongside climate risks.

Any other comments

QuestionQ14 Do you have any other comments on the consultation paper?

<u>Yes</u>

No

First, sequencing matters: Unless relevant sectors of the so-called real economy (e.g. agriculture, forestry, chemicals) do not address biodiversity data, the financial sector shall not be required to assess a risk where the underlying data is unavailable. Translation is needed as well; even when this data is available, appropriate tools and metrics to translate this data into financial risks are missing.

Second, we note that the terminology of 'biodiversity' in the consultation paper could be seen as ambiguous. It appears that EIOPA is using this term broadly to encompass all nature-related risks other than climate, including water risks, which are often considered separately (as in the ESRS and EU Taxonomy). To avoid misunderstandings, EIOPA could clarify this broader use of 'biodiversity' and consider using 'nature-related risk' as a more appropriate overarching term.

Third, we would caution against imposing overly ambitious requirements at this early stage of biodiversity risk management, given that relatively few insurers are actively engaged in this area. While we recognise the importance of integrating biodiversity risks into insurers' risk frameworks, we would suggest an incremental approach that aligns with climate risk efforts and broader sustainability considerations.

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