



EIOPA REGULAR USE
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EIOPA's response to the European Commission's consultation on the renewed sustainable finance strategy

Section I. Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

Section II. Questions targeted at experts

Question 6: What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years? [Box max. 2000 characters]

Beyond the need for a forward-looking approach to sustainability risk assessment on insurers' and pension funds' assets and liabilities, for example via scenario analysis in the OR(S)A, following three key challenges and opportunities appear:

- (1) The need for assessing interconnected risks attached to climate change/other systemic risks such as the COVID19 pandemic, terrorism or cyber attacks. The opportunity should be taken to create an open ecosystem of data on hazards, exposure, vulnerability and insurance coverage. Comparable information would enable sustainability assessments and modelling, based on relevant, solid data and sound statistical analysis. While such an ecosystem may have its cost, this has to be weighed against the benefits for a larger number of stakeholders, by improving the possibilities for comparable risk assessment, the implementation of prevention measures and avoiding greenwashing.
- (2) The need for appropriate sustainability disclosure, to retail investors at product level, using simple and standardised info, which can be layered in order not to overflow consumers, but also at entity level - on the adverse impact of insurers' investment decisions. The ongoing development of the taxonomy should not prevent disclosure standards from developing today.
- (3) The need for prevention measures to mitigate the risks and limit losses. Insurance pricing - considering actuarial risk-based principles - or contractual terms should incentivise consumers and businesses to invest in prevention. As institutional investors, insurers and pension providers should take a keen interest, and use possible tools, to impact on investees' economic activities towards more environmentally or socially sustainable practices. A key challenge is to measure the impact of prevention measures and to prevent greenwashing. Investment capacity of market participants following the current pandemic adds to the challenge of making sustainable investments/invest in prevention measures.

Question 7: Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making? Please provide a maximum of three examples. [Box max. 2000 characters]

We welcome COM action on integrating ESG risks and factors in Solvency II and IDD. Further initiatives to provide guidance on the concrete implementation may be relevant as regards to:

- (1) Promoting scenario analysis to translate climate change into financial risk assessment. Given that ESG risks carry significant externalities beyond a specific undertaking, the comparability of the risk assessment across financial market participants is important. Developing consistent parameters for scenarios for own risk and solvency assessments that could be used and adopted, as appropriate, by insurers.
- (2) While climate change is unfolding over a medium to long term, increasing costs of natural catastrophe risks are already impacting the (re)insurance industry today. The transition risk of revaluation of assets could arise suddenly, with important consequences, affecting potentially long-term illiquid investments. The industry should adopt a forward-looking approach in its risk assessment and business strategy.
- (3) The development of an open data eco-system on ESG risks and factors. If designed in a collective effort by private market participants and public authorities, feeding the data in a standardised and regular manner, this would help improving risk assessment, devising preventive measures and informing the need for residual risk transfer. The data could build on existing databases from the EU COM (e.g. Joint Research Centre) or European authorities (e.g. European Environment Agency). EIOPA is for example preparing the release of a pilot dashboard on the natural catastrophe protection gap, with the aim to promote the risk assessment and inform the policy discussion. The potential for collecting insured (physical, non-physical) loss data by EIOPA may contribute to such a joint initiative.

Question 10: Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

	Yes, institutional investors
	Yes, credit institutions
X	Yes, both
	No
	Don't know / no opinion / not relevant

EIOPA explanation to the answer:

Disclosure may contribute to preventing 'green-washing' by providing an estimate of the extent institutional investors / credit institutions have investment strategies consistent with the Paris climate agreement.

EIOPA supports the development of a standardised methodology to ensure comparability of results. A common methodology would contribute to a better understanding and allow comparison of the performance of the portfolios towards achieving sustainability goals, potentially also lowering compliance costs, where relevant guidance is provided. The disclosure would support a better visibility, and promote market discipline.

As a starting point, the Regulation on Sustainability-related Disclosures in the Financial Services Sector (EU) 2019/2088 (SFDR) requires financial market participants to disclose principal adverse impacts of investment decisions on sustainability factors. The ESAs published on 23 April draft Regulatory Technical Standards for public consultation with a list of indicators for adverse sustainability impacts, which include the annual change in carbon emissions/intensity. The RTS also includes the requirement for financial market participants to disclose, where relevant, the degree of their alignment with the objectives of the Paris Agreement, including at least forward-looking climate scenarios. The description shall specify the indicators used in the assessment of principal adverse

sustainability impacts to measure such adherence or alignment. Information on the change of annual carbon emissions as reported under the adverse impact indicators could be used for forward-looking scenarios. As proposed in COM’s draft delegated regulation under the Benchmark Regulation (EU) 2016/1011, the EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks should be consistent with a 7% annual decline in greenhouse gas intensities/emissions (consistent with a 1.5 degrees temperature scenario).

1. Strengthening the foundations for sustainable finance

In order to enable the scale-up of sustainable investments, it is crucial to have sufficient and reliable information from financial and non-financial companies on their climate, environmental and social risks and impacts. To this end, companies also need to consider long-term horizons. Similarly, investors and companies need access to reliable climate-related and environmental data and information on social risks, in order to make sound business and investment decisions. Labelling tools, among other measures, can provide clarity and confidence to investors and issuers, which contributes to increasing sustainable investments. In this context, the full deployment of innovative digital solutions requires data to be available in open access and in standardised formats.

1.1 Company reporting and transparency

In its Communication on the [European Green Deal](#), the Commission recognised the need to improve the disclosure of non-financial information by corporates and financial institutions. To that end, the Commission committed to reviewing the [Non-Financial Reporting Directive](#) (NFRD) in 2020, as part of its strategy to strengthen the foundations for sustainable investment. A [public consultation](#) is ongoing for that purpose.

The [political agreement](#) on the Regulation on establishing a framework to facilitate sustainable investment (‘Taxonomy Regulation’) places **complementary reporting requirements on the companies that fall under the scope of the NFRD.**

In addition to the production of relevant and comparable data, it may be useful to ensure open and centralised access not only to company reporting under the NFRD, but also to relevant company information on other available ESG metrics and data points (please also see the dedicated section on sustainability research and ratings 1.3). To this end, a **common database** would ease transparency and comparability, while avoiding duplication of data collection efforts. The Commission is developing a common European data space in order to create a [single market for data](#) by connecting existing databases through digital means. Since 2017, DG FISMA has been assessing the prospects of using Distributed Ledger Technologies (including blockchain) to federate and provide a single point of access to information relevant to investors in European listed companies ([European Financial Transparency Gateway](#) - EFTG).

Question 14: In your opinion, should the EU take action to support the development of a common, publicly accessible, **free-of-cost environmental data space for companies’ ESG information**, including data reported under the NFRD and other relevant ESG data?

X	Yes
	No
	Don’t know / no opinion / not relevant

Question 14.1: If yes, please explain how it should be structured and what type of ESG information should feature therein. [Box max. 2000 characters]

Regarding access to relevant data sets and Open Finance, EIOPA is supportive of creating a framework for seamless analyses of ESG data, when data is required to be publicly disclosed. EIOPA remains sceptical when it comes to sharing any confidential supervisory reporting data for any other purposes other than financial supervision conducted by the European System of Financial Supervision (ESFS).

E.g. the data space could collect the ESG information required to be disclosed on financial market participants websites according to Art. 10 of the Regulation on Sustainability-related disclosures in the financial services sector (2019/2088). However, users shall be warned on the limitations of comparability and reliability of ESG information currently publically disclosed. In light of climate change, an open eco-system for data on NatCat events in Europe (including exposure, vulnerability, economic and insured losses, insurance penetration and mitigating action at national level) would be of great value for assessing and taking measures to tackle the protection gap for climate risk, incl.:

- increase the awareness of the protection gap issues for different stakeholders (insurance industry, national supervisors, governments);
- identify at-risk regions;
- support pro-active prevention actions;
- promote science-based approach to protection gap management and risk-informed decision-making;
- develop synergies between EU and national policies to improve the protection gap management.

Information on the evolution of the cost for insuring natural catastrophes (premiums) is also of relevance, in order to assess the availability and affordability of insurance coverage in the future.

The purpose of gathering such data should be defined, taking into account the current stage of development of the taxonomy and future improvements. The solution should be cost-effective and consider which technical approaches for harmonising the collection of data would be most appropriate.

1.2 Accounting standards and rules

Financial accounting standards and rules can have a direct impact on the way in which investment decisions are made since they form the basis of assessments that are carried out to evaluate the financial position and performance of real economy and financial sector companies. **In this context, there is an ongoing debate around whether existing financial accounting standards might prove challenging for sustainable and long-term investments.** In particular, some experts question whether existing impairment and depreciation rules fully price in the potential future loss in value of companies that today extract, distribute, or rely heavily on fossil fuels, due to a potential future stranding of their assets.

Recognising the importance of ensuring that accounting standards do not discourage sustainable and long-term investments, as part of the 2018 Action Plan on Financing Sustainable Growth, the Commission already requested the European Financial Reporting Advisory Group (EFRAG) to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. EFRAG issued its [advice to the Commission](#) on 30 January 2020. Following this advice, the [Commission has requested the IASB](#) to consider the re-introduction of re-cycling through the profit or loss statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI).

Question 16: Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?

Yes

<input checked="" type="checkbox"/>	No
<input type="checkbox"/>	Don't know / no opinion / not relevant

Question 16.1: If yes, what is in your view the most important area? (Please select as many options as you like)

<input type="checkbox"/>	Impairment and depreciation rules
<input type="checkbox"/>	Provision rules
<input type="checkbox"/>	Contingent liabilities
<input type="checkbox"/>	Other

Please specify which other areas. [Box max. 2000 characters]

We are not aware of any IFRSs that may hamper the adequate and timely recognition or consistent valuation of climate or environmental risks.

1.3 Sustainability research and ratings

1.4 Definitions, standards and labels for sustainable financial assets and financial products

Question 29: Should the EU establish a label for investment funds (e.g. ESG funds or green funds aimed at professional investors)?

<input checked="" type="checkbox"/>	Yes
<input type="checkbox"/>	No
<input type="checkbox"/>	Don't know / no opinion / not relevant

If necessary, please explain your answer to question 29. [Box max. 2000 characters]

The Commission should monitor whether there is a demand from institutional investors for professional labels following the entry into force of the Taxonomy on the establishment of a framework to facilitate sustainable investment and of the Regulation on the Sustainability-related disclosures in the financial services sector. Should that be the case, the EU could encourage industry-led initiatives to establish a label for professional investors of a sufficiently high standard, at the same time recognising that this should not lead to lower standards of due diligence by professional investors or inhibit innovation in sustainable financial products.

The Regulation on Sustainability-related disclosures in the financial services sector will improve the information disclosed by funds that have a sustainable objectives or promote specific sustainable characteristics to investors. The establishment of "quality" labels aimed at professional investors could further help institutional investors in the selection of funds that have a specific sustainable objective.

The establishment of specific B2B sustainable labels for investment funds could help institutional investors review and assess the consistency and reliability of investment funds, by reassuring institutional investors about the nature of the funds in which they are investing. In particular, the use of labels could be helpful for institutional investors that lack the specialised in ESG investing resources and could ultimately

encourage them to expand their green investments in unit-linked products and pension schemes. The improved disclosure requirements would also help such investors conduct the necessary due diligence on sustainable products with or without labels.

Question 30: The market has recently seen the development of sustainability-linked bonds and loans, whose interest rates or returns are dependent on the company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach.

Should the EU develop standards for these types of sustainability-linked bonds or loans?

	1 – Strongly disagree
	2 – Disagree
	3 – Neutral
X	4 – Agree
	5 – Strongly agree
	Don't know / no opinion / not relevant

Question 30.1: If necessary, please explain your answer to question 30. [Box max. 2000 characters]

Some degree of standardisation should help ensuring that the objectives of sustainability-linked bonds are consistent with EU or global objectives on sustainable development.

Question 31: Should such a potential standard for target-setting sustainability-linked bonds or loans make use of the EU Taxonomy as one of the key performance indicators?

	1 – Strongly disagree
	2 – Disagree
	3 – Neutral
X	4 – Agree
	5 – Strongly agree
	Don't know / no opinion / not relevant

Question 31.1: If necessary, please explain your answer to question 31. [Box max. 2000 characters]

Consistency across EU rules on ESG is needed. The EU taxonomy should become the key reference for sustainability criteria with regards to the environment.

Question 33: The [Climate Benchmarks Regulation](#) creates two types of EU climate benchmarks - 'EU Climate Transition' and 'EU Paris-aligned' - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a broader 'ESG benchmark'.

Should the EU take action to create an ESG benchmark?

X	Yes
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	No
	Don't know / no opinion / not relevant

Question 33.1:

If yes, please explain what the key elements of such a benchmark should be. [Box max. 2000 characters]

<p>While the Climate Benchmarks Regulation has created two new types of environmental benchmarks, harmonisation of criteria for benchmarks focusing on social aspects is missing.</p> <p>The development of an EU ESG benchmark should:</p> <ul style="list-style-type: none"> - take into account environmental, social and governance aspects - consist of a defined and detailed methodology - include objective and measurable criteria for the selection or exclusion of underlying assets - target traceable impact of investee companies on sustainability - contain detailed and quantifiable rules in order to make adequate supervision of the Benchmark label possible - consider the environmental, social and governance sustainability risks investee companies are or could be exposed to. <p>See also our response to Q66.</p>
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Question 34: Beyond the possible standards and labels mentioned above (for bonds, retail investment products, investment funds for professional investors, loans and mortgages, benchmarks), do you see the need for any other kinds of standards or labels for sustainable finance?

x	Yes
	No
	Don't know / no opinion / not relevant

1.5 Capital markets infrastructure

1.6 Corporate governance, long-termism and investor engagement

The [Shareholder Rights Directive II](#) states that **directors' variable remuneration** should be based on both financial and non-financial performance, where applicable. However, there is currently no requirement regarding what the fraction of variable remuneration should be linked to, when it comes to non-financial performance.

Question 40: In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

X	Yes
	No
	Don't know / no opinion / not relevant

Question 40.1: If yes, please indicate what share of the variable remuneration should be linked to non-financial performance. [Box max. 2000 characters]

EIOPA does not support a mandatory threshold for the variable remuneration linked to non-financial performance for corporates and financial institutions but is more in favour of a principle-based framework.

However, EIOPA supports the principle of linking variable remuneration to non-financial criteria (consistently with EIOPA’s Opinion on remuneration and the Advice on integrating sustainability within Solvency 2).

For instance, where the criteria is 80% financial and 20% non-financial, supervisory authorities may come to the conclusion that the assessment framework is not appropriately balanced.

Non-financial criteria should not be negligible and should have a substantial value as indicators of creation of value for the undertaking, such as for example compliance with external and internal regulations, the efficiency of customer service management, the achievement of strategic goals (for example, Environmental, Social and Governance criteria, ethical aspects), behaviour including towards customers, turnover of staff, adhering to the values of the company, impact on the undertakings’ reputation, consumer satisfaction, adherence to the undertakings’ risk management policy, leadership, teamwork, creativity, motivation and cooperation with other business units, internal control and corporate functions among others.

Supervisory authorities should challenge the balance of the criteria if they are not consistent with a sound and effective risk-adjusted remuneration policy or do not sufficiently reflect the undertaking’s strategic objectives.

(See: [EIOPA opinion on remuneration.](#))

Question 41: Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors’ variable remuneration?

	Yes
X	No
	Don’t know / no opinion / not relevant

The Shareholder Rights Directive II introduces transparency requirements to better align long-term interests between institutional investors and their asset managers.

Question 42: Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further enhance long-term engagement between investors and their investee companies?

X	Yes
	No
	Don’t know / no opinion / not relevant

Question 42.1: If yes, what action should be taken? Please explain or provide appropriate examples. [Box max. 2000 characters]

It may be relevant to consider how small-medium undertakings can influence on their investee companies, as these often invest in collective funds.

Question 43: Do you think voting frameworks across the EU should be further harmonised at EU level to facilitate shareholder engagement and votes on ESG issues?

X	Yes
	No
	Don't know / no opinion / not relevant

Question 44: Do you think that EU action is necessary to allow investors to vote on a company's environmental and social strategies or performance?

X	Yes
	No
	Don't know / no opinion / not relevant

Question 44.1: If yes, please explain to question 44. [Box max. 2000 characters]

Harmonisation of voting frameworks across the EU could make sense in the context of the Capital Markets Union. As an example, an issue for IORPs is size and extent of influence. Asset managers may not all comply with all investors' ESG objectives often at the detriment of smaller shareholder/ IORPs. These IORPs may not have resources (or justification for the latter in the interest of members) to pay a proxy voter to 'bypass' the asset manager's vote when the latter is not in line with the IORP's ESG/responsible investment objectives.

2. Increasing opportunities for citizens, financial institutions and corporates to enhance sustainability

2.1 Mobilising retail investors and citizens

Although retail investors today are increasingly aware that their own investments and deposits can play a role in achieving Europe's climate and environmental targets, they are not always offered sustainable financial products that match their expectations. In order to ensure that the sustainability preferences of retail investors are truly integrated in the financial system, it is crucial to help them to better identify which financial products best correspond to these preferences, providing them with user-friendly information and metrics they can easily understand. To that end, the European Commission will soon publish the amended delegated acts of MIFID II and IDD, which will require investment advisors to ask retail investors about their sustainability preferences.

Question 49: In order to ensure that retail investors are asked about their sustainability preferences in a simple, adequate and sufficiently granular way, would detailed guidance for financial advisers be useful when they ask questions to retail investors seeking financial advice?

x	Yes
	No
	Don't know / no opinion / not relevant

Question 49.1: If necessary, please provide an explanation of your answer to question 49. [Box max. 2000 characters]

Guidance might help prevent mis-selling of ESG products and ensure suitability of the products. It should not be more detailed than existing guidance for the gathering of information related to customers' other preferences (e.g investment objectives and financial situation). An adequate level of granularity is that foreseen in art. 9 and 17 of delegated regulation (EU) 2017– 6229 (supplementing Directive (EU) 2016/97 with regard to conduct of business rules specific to insurance-based investment products). Granularity in the gathering of ESG preferences should grow hand in hand with the requirements for ESG disclosures and product classification.

The Insurance Distribution Directive (IDD) requires insurance intermediaries and employees of insurers selling products to possess appropriate knowledge and ability to complete their tasks and perform their duties adequately. They also must comply with continuous training and professional development requirements. Integrating sustainable finance literacy in the training requirements of insurance distributors selling ESG products should be required. For the time being, IDD aims at minimum harmonization. Consequently, some Member States decided to make the provision of advice (within the context of the suitability assessment) mandatory, while others chose to let their insurance distributors decide whether they will offer this advice to their clients or proceed through a non-advised sale. In markets where the provision of advice remains optional, too detailed standards for the assessment of ESG preferences could be a deterrent for distributors to perform the suitability assessment and recommend IBIPs with ESG characteristics. Where advice is mandatory, the global implementation cost of detailed guidance could be high since it is likely to be borne by the customer. In all cases, a too detailed guidance entails a risk of being counterproductive for channeling consumers' savings into more sustainable investments.

Question 50: Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?

	Yes
	No
X	Don't know / no opinion / not relevant

Question 51: Should the EU support the development of more structured actions in the area of financial literacy and sustainability, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals?

	1 – Strongly disagree
	2 – Disagree
	3 – Neutral
x	4 – Agree
	5 – Strongly agree
	Don't know / no opinion / not relevant

If you agree (scores 4-5), please choose what particular action should be prioritised:

	1 (strongly disagree)	2 (disagree)	3 (neutral)	4 (agree)	5 (strongly agree)	Don't know / No opinion
Integrate sustainable finance literacy in the					X	

training requirements of finance professionals						
Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability			x			
Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions			x			
Directly, through targeted campaigns			x			
As part of a wider effort to raise the financial literacy of EU citizens				x		
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities				X		
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals					x	
Other				x		

If you selected other (4-5), please specify what other action(s) should be prioritised. [Box max. 2000 characters]

Financial guidance can be useful but should be made available by providers, so that consumers can access that guidance when they contact the provider with the intention to purchase a product. Financial guidance can be useful if properly set up to reach out consumers. However, it is necessary that consumers are provided

with unbiased information because providers will likely recommend their products even if it is preferable for consumers to refrain from purchasing a certain product (see also the discussion about “over-insurance”).

Basic financial education should take place as early as possible, for example in schools. The reason is that financial literacy can take years and it might be too challenging for consumers with a specific problem or objective to reduce the information asymmetries resulting from a lack of financial education.

More specific financial education should be targeted at consumers in particular when they are willing to plan their finances and have a specific objective in mind (e.g. to make an investment, obtain insurance cover, purchase property etc.).

For occupational pensions, EIOPA highlights the role of the workplace for financial education, as it is the employer who often offers an occupational pension to the employee.

The integration of sustainable finance literacy in the training requirements of finance professionals should be proportionate to the complexity of the products sold to consumers.

2.2 Better understanding the impact of sustainable finance on sustainability factors

While sustainable finance is growing, there are questions on how to measure and assess the positive impact of sustainable finance on the real economy. Recently, tools have been developed that can be used to approximate an understanding of the climate and environmental impact of economic activities that are being financed. Examples of such tools include the EU Taxonomy, which identifies under which conditions economic activities can be considered environmentally sustainable, use-of-proceeds reporting as part of green bond issuances, or the Disclosure Regulation, which requires the reporting of specific adverse impact indicators.

Yet, an improved understanding of how different sustainable financial products impact the economy may further increase their positive impact on sustainability factors and accelerate the transition.

Question 52: In your view, is it important to better measure the impact of financial products on sustainability factors?

	1 – Not important at all
	2 – Rather not important
	3 – Neutral
	4 – Rather important
X	5 – Very important
	Don't know / no opinion / not relevant

Question 52.1: For scores of 4 to 5, what actions should the EU take in your view? [Box max. 2000 characters]

The measurement of the impact of investments on sustainability factors should be standardised to avoid greenwashing. The current focus on disclosure of metrics and methodologies is not sufficient, as consumers might not be able to assess, based on the disclosed information, the impact on sustainability factors and on the transition to a low-carbon economy.

The double materiality in sustainable finance reflects that there is not only a need to measure the impact of sustainability risks on the balance sheet of undertakings, but also the impact of investment or underwriting

on environmental or social risks and factors. This does not legally require insurers or IORPs to invest or, insurers, to underwrite, with positive impact on ESG, with disregard to risk-based or actuarial principles.

2.3 Green securitisation

2.4 Digital sustainable finance

Question 57: Do you think EU policy action is needed to maximise the potential of digital tools for integrating sustainability into the financial sector?

X	Yes
	No
	Don't know / no opinion / not relevant

Question 57.1: If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider?

Please list a maximum of three actions and a maximum of three existing initiatives. [Box max. 2000 characters]

Digital solutions have a great potential for the insurance sector and sustainable finance: access to appropriate data is key. Balanced, forward-looking and secure approaches to Open Insurance include innovation facilitators, enabling technologies such as AI/Big Data, Cloud Computing and Blockchain/DLT as well as new business models. From a consumer angle, Open Insurance is about accessing and sharing consumers' insurance services-related data (e.g. data on the insured object, coverages and ESG preferences) with other insurers/intermediaries/third parties to build applications and services. This includes (1) Insurance Policy Information Services requiring insurers to provide other insurers/intermediaries or third-party providers seamless access (via standard APIs) to insurance policy information and (2) improved switching services encouraging consumers to compare the market, better understand their investments/insurance cover and ESG through up-to-date information on costs, performance and risk compared to other products available on the market. However, third parties should not share personal data like searches data with insurance companies implying it is acceptable to use those data for risk calculation of insurance products. From an industry angle, this could require insurers/intermediaries to make standardised insurance product information available to the public (e.g. consumers/third parties) to facilitate like-for-like comparison of products (e.g. cost, fees, product features, via public comparison websites and aggregators). These measures would allow for a comprehensive view on all the information individuals/ advisors/providers may need for the financial planning process, and contribute to European financial services market integration.

2.5 Project Pipeline

2.6 Incentives to scale up sustainable investments

While markets for sustainable financial assets and green lending practices are growing steadily, they remain insufficient to finance the scale of additional investments needed to reach the EU's environmental and climate action objectives, including climate-neutrality by 2050. For instance, companies' issuances of sustainable financial assets (bonds, equity) and sustainable loans currently do not meet investors' increasing interest. The objective of the European Green Deal Investment Plan, published on 14 January 2020, is to mobilise through the EU budget and the associated instruments at least EUR 1 trillion of private and public sustainable investments over the coming decade. The purpose of this section is to identify whether there are market failures or barriers that would prevent the scaling up of sustainable finance, and if yes what kinds of public financial incentives could help rectify this.

Question 66: In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments?

	1 – Not functioning well at all
x	2 – Not functioning so well
	3 – Neutral
	4 – Functioning rather well
	5 – Functioning very well
	Don't know / no opinion / not relevant

Question 66.1: If necessary, please explain your answer to question 66. [Box max. 2000 characters]

[EIOPA's Advice on Potential undue short-term pressure from financial markets](#) recommends developing reliable benchmarks for long-term (LT) performance, emphasising ESG and facilitating accessibility of such benchmarks with an extended target period to the public cross-sectorally to promote LT investments in financial markets. The uptake of sustainable investments suffers from a lack of reliable information on LT value and risks. LT performance benchmarks would be more appropriate for insurers and IORPs, as well as their customers/members, who focus on LT value creation rather than immediate shareholders' interests or excessively short-term profitability objectives. Such benchmarks complement key information required by various regulations (IORP II, PRIIPs), providing transparent and objective references for comparing and assessing members' and clients' options for retirement or LT savings products. E.g. Art. 41 IORP II Directive requires IORPs to ensure that prospective members are informed about the relevant options/features of the schemes and whether/how the investment strategy takes ESG factors into account. Where members bear investment risk or can take investment decisions, prospective members should receive information on past performance, taking into account a LT perspective. It would be instrumental for publicly available LT performance benchmarks would allow IORPs and (re)insurance undertakings to plan for measures related to sustainability risks potentially affecting their business models. It would also allow assessing on a more LT basis the remuneration practices for assets managers operating in financial markets and contribute to ensuring also a more consistent cross-sectoral treatment. The development of investments of a LT-return type, incl. sustainable investments, would benefit from transparency and reliable information as well as from adequate mechanisms reducing investors' concerns (e.g. greenwashing) as well as limiting the debt financing costs.

- 2.7 The use of sustainable finance tools and frameworks by public authorities
- 2.8 Promoting intra-EU cross-border sustainable investments
- 2.9 EU Investment Protection Framework
- 2.10 Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an internationally coordinated response. To complement the work done by the Network of Central Banks and Supervisors for Greening the Financial system (NGFS) on climate-related risks and the Coalition of Finance Ministers for Climate Action mainly on public budgetary matters and fiscal policies, the EU has launched together with the relevant public authorities from like-minded countries the International Platform on Sustainable Finance (IPSF). The purpose of the IPSF is to promote integrated markets for environmentally sustainable investment at a global level. It will deepen international coordination on approaches and initiatives that are fundamental for private investors

to identify and seize environmentally sustainable investment opportunities globally, in particular in the areas of taxonomy, disclosures, standards and labels.

Question 76: Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

	1 – Highly insufficient
	2 – Rather insufficient
	3 – Neutral
x	4 – Rather sufficient
	5 – Fully sufficient
	Don't know / no opinion / not relevant

Question 76.1: For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions? [Box max. 2000 characters]

COM leadership on the Green Deal, incl. the sustainable finance and the climate adaptation strategies are important drivers for delivering on environmental goals as well as prevent regulatory arbitrage. The development of taxonomy criteria for social aspects will further promote the sustainability agenda also at global level.

Work by international organisations such as UNEP-FI, UN SIF, or NGFS are also important drivers in the work on sustainability. We welcome the establishment of the international Platform on Sustainable Finance (IPSF) as a step in the right direction for coordination at global level.

Question 77: What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs?

Please list a maximum of three proposals. [Box max. 2000 characters]

At global level, the NGFS and the Sustainable Insurance Forum have managed to involve the private sector successfully by (1) inviting them to roundtables/discussions in key areas of such as the green versus brown risk differential, (2) inviting their comments as experts in their areas of expertise and (3) targeting some activities directly to the private sector e.g. the NGFS Handbook for Institutions .

We believe that the Commission could take an important leadership role, that includes promoting new topics of interest for the global community, and offering transparency and good communication to private market participants, also at globale level. The discussion on solutions to the pandemic crisis, for example, also requires a strong global coordination.

3. Reducing and managing climate and environmental risks

3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments

Question 82: In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called “brown taxonomy”) at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?

<input checked="" type="checkbox"/>	Yes
<input type="checkbox"/>	No
<input type="checkbox"/>	Don't know / no opinion / not relevant

Question 82.1:

If your answer to question 82 is yes, what would be the purpose of such a brown taxonomy?

Please select all that apply.

<input checked="" type="checkbox"/>	Help supervisors to identify and manage climate and environmental risks
<input type="checkbox"/>	Create new prudential tools, such as for exposures to carbon-intensive industries
<input checked="" type="checkbox"/>	Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities
<input type="checkbox"/>	Identify and stop environmentally harmful subsidies
<input checked="" type="checkbox"/>	Other

If other, please specify what would be the other purpose(s) of such a brown taxonomy. [Box max. 2000 characters]

In order to differentiate between the risk profile of different assets, it might be useful to have a taxonomy, which not only considers economic activities with a positive aspect to the environment but also which considers the current economic activities with negative environmental impacts. The brown taxonomy will be relevant for developing criteria for significantly harmful emission levels, which will help investors, companies, issuers and project promoters to understand the necessary speed and depth of the transition task ahead.

If your answer to question 82 is no, please explain why you disagree. [Box max. 2000 characters]

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Question 83: Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?

x	Yes
	No
	Don't know / no opinion / not relevant

Question 83.1: If yes, what should be the purpose of such a taxonomy? [Box max. 2000 characters]

To enable a transition to a sustainable economy and carbon neutrality, it is crucial that investors are able to assess the impact on sustainability of investments in specific activities. While the green and a future brown taxonomy are the first building blocks of the framework to facilitate sustainable investments, these will not capture activities which lie in between or are not aligned with taxonomy. Those activities may benefit in particular from attention as they are likely to benefit from stewardship activities that would nudge them through adaptation measures, towards more sustainable solutions.

We recognise that this is an important challenge, but being able to assess an activity, also on a scale of adversity/sustainability rather than in a binary manner, may prove to be an incentive for mitigation and adaptation. However, this would require to first have gathered sufficient data and experience on activities which are clearly green or brown. In addition, as the taxonomy evolves over time, new activities would be also considered to be part of the green or brown taxonomy as the thresholds will evolve over time.

3.2 Financial stability risk

The analysis and understanding of the impact of climate-related and environmental risks on financial stability is improving, thanks in particular to the work done by supervisors and central banks,¹ regulators and research centres. However, significant progress still needs to be made in order to properly understand and manage the impact of these risks.

Question 84: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system.

What are in your view the most important channels through which climate change will affect your industry? Please select all that apply.

X	Physical risks, please specify if necessary
X	Transition risks
X	Second-order effects
X	Other

If physical risks, please specify, if necessary, what are these physical risks. Please provide links to quantitative analysis when available. [Box max. 2000 characters]

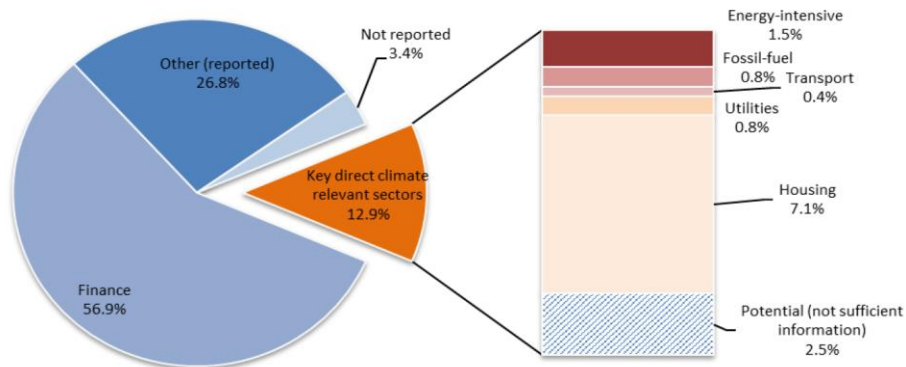
Physical risks from climate change arise from a number of factors, and relate to specific weather events (such as heatwaves, floods, wildfires and storms) and longer term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise, and rising mean temperatures). Some examples of

¹ See for instance the [Network of Central Banks and Supervisors for Greening the Financial System \(NGFS\)](#).

physical risks crystallising include: increased frequency, severity or volatility of extreme weather events impacting property and casualty insurance; and increased frequency and severity of flooding leading to physical damage to the value of financial assets or collateral held by banks, such as household and commercial property.

If **transition risks**, please specify, if necessary, what are these transition risks. Please provide links to quantitative analysis when available. [Box max. 2000 characters]

Transition risks can arise from the process of adjustment towards a low carbon economy. A range of factors influence this adjustment, including: climate change-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences, or evolving evidence, frameworks and legal interpretations. EIOPA is investigating the key financial risks embedded in insurers' asset portfolios in relation to the transition to a low-carbon economy (EIOPA FS Report December [2018](#)). In 2020, EIOPA is carrying out a focused analysis to further complete the assessment of the sensitivity of insurers' balance sheet to climate-change related financial risks². The work is a learning exercise which aims to support future work and possible future stress-testing.



Source: EIOPA Financial Stability Report. December 2018

If **second-order effects**, please specify, if necessary, what are these second-order effects. Please provide links to quantitative analysis when available. [Box max. 2000 characters]

In addition to the cost of the direct (physical) losses and of the transition to a low carbon economy, non-damage business interruption is an important risk that arises from systemic (catastrophe) events, and which seems not to be sufficiently covered today. Private corporations use insurance coverage to stabilise their income in the event of a catastrophe due to the impossibility to carry out operations. Depending on the trigger event it may affect insurers' ability for diversifying risks, either between different regions or countries (geographic) or between different economic sectors (cross-sectoral). The scope of business interruption effects stemming from non-climate related catastrophes (e.g. cyber or terrorism attacks, pandemic events, etc) could potentially be broader if those events force longer and more general lock downs of the economic activity.

Increasingly frequent and severe natural catastrophe events may lead to similar impacts. Climate events cross national borders, and with it the economic impact, mainly due to high economic integration between EU Member States, potentially adding around an extra 25-30 % impact at EU level. Damages caused by natural

² [Discussion paper – EIOPA 2020 sensitivity analysis climate related risks](#)

catastrophes may put additional strain on public finances where, in the absence of sufficient coverage via insurance and reinsurance solutions, the government is called to step in to provide relief and potentially compensation (incl. emergency response and financial aid), but will also need to restore damaged government property and infrastructure. (See: [EIOPA Discussion Paper on protection gap for natural catastrophes](#)).

If **other**, please explain through what other channel(s) climate change will affect your industry? Please provide links to quantitative analysis when available. [Box max. 2000 characters]

Liability risks come from people or businesses seeking compensation for losses they may have suffered from the physical or transition risks from climate change outlined above. Liability risks are of particular relevance to insurance undertakings given these risks can be transferred by means of liability protection, such as Directors & Officers and Professional Indemnity insurance. These are likely to fall under three different categories: failure to mitigate; failure to adapt and failure to disclose.

Question 86: Following the financial crisis, the EU has developed several macro-prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system.

Do you consider the current macro-prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?

	1 – Highly insufficient
x	2 – Rather insufficient
	3 – Neutral
	4 – Rather sufficient
	5 – Fully sufficient
	Don't know / no opinion / not relevant

Question 86.1: For scores of 1-2, if you think the current macro-prudential policy toolbox for the EU financial sector is not sufficient to identify and address potential systemic financial stability risks related to climate change, what solution would you propose?

Please list a maximum of three solutions. [Box max. 2000 characters]

EIOPA is of the view that the toolbox should be broadened for the insurance sector more generally, to cover the different sources of systemic risk. The review of Solvency II offers a good window of opportunity. EIOPA is making a comprehensive proposal (see item 11, of EIOPA's [Consultation Paper](#) on the Opinion on the 2020 review of Solvency II – currently under revision), which would set the ground and provide authorities with additional tools that could be useful. Some general observations:

- (1) A comprehensive analysis of which macroprudential instruments could be used to address the risks related to climate change, is missing.
- (2) Some very preliminary thoughts on the issue considering tools for Pillar 2 and 3 (for Pillar 1 we think it is too premature): Pillar 2: use of e.g. stress-testing, sensitivity analysis and a consistent set of quantitative parameters for scenarios to assess those risks or channel those concerns via the ORSA where appropriate and the application of the prudent person principle (PPP) in the context of the supervisory dialogue; Pillar 3: foster a change in the strategy by disclosing relevant information.

Insurers manage large volumes of assets on behalf of policyholders and they can therefore play an important role in the transition to a sustainable economy. At the same time, insurance companies have underwriting liabilities exposed to sustainability risks. In addition, the (re)insurance sector plays a key role in managing risks arising from natural catastrophes through risk-pooling and influencing risk mitigating behaviour. The [Solvency II Directive](#) sets out the prudential framework for insurance companies. The Commission requested [technical advice](#) from the European Insurance and Occupation Pensions Authority (EIOPA) on the integration of sustainability risks and sustainability factors in Solvency II. The Commission also [mandated EIOPA](#) to investigate whether there is undue volatility of their solvency position that may impede long-term investments, as part of the 2020 Review of Solvency II. EIOPA is expected to submit its final advice in June 2020.

In September 2019, EIOPA already provided an [opinion](#) on sustainability within Solvency II. EIOPA identified additional practices that should be adopted by insurance companies to ensure that sustainability risks are duly taken into account in companies’ risk management.

On that basis, the Commission could consider clarifications of insurers’ obligations as part of the review of the Solvency II Directive. Stakeholders will soon be invited to comment on the Commission’s inception impact assessment as regards the review. The Commission will also launch a public consultation as part of the review.

Question 87: Beyond prudential regulation, do you consider that the EU should take further action to mobilise insurance companies to finance the transition and manage climate and environmental risks?

x	Yes
	No
	Don't know / no opinion / not relevant

Question 87.1: If yes, please specify which actions would be relevant. [Box max. 2000 characters]

Already today, a protection gap for covering the risks arising from climate change (increased frequency and severity of natural catastrophese), exists. To finance and manage climate change and environmental risks, innovative solutions and insurance products may be needed. This should be in the interest of the insurance industry. Relying on annual repricing may not a sustainable solution for society when facing increasing systemic risks, at the risk of insurance becoming unaffordable. Further innovation is required in risk prevention, and product design which aims at reducing the losses caused by natural catastrophes. For example, insurers should aim at lowering insured losses by incentivising prevention measures on property, and develop insurance coverage also for “new” NAT CAT perils (e.g. wildfire, drought) or non-pshyical damage business interruption. The use of digital solutions for data collection and open access to data can play an importan role here. Where risks are becoming “uninsurable”, options may be considered for improved risk sharing among different layers (insurance, reinsurance, capital market, national or EU public authorities), building on risk assessment across public and/or private actors and investment in prevention.

Asset managers

Traditionally, the integration of material sustainability factors in portfolios, with respect to both their selection and management, has considered only their impact on the financial position and future earning capacity of a portfolio's holdings (i.e., the 'outside-in' or 'financial materiality' perspective). However, asset managers should take into account also the impact of a portfolio on society and the environment (i.e., the 'inside-out' or 'environmental/social materiality' perspective). This so-called “double materiality” perspective lies at the heart of the [Disclosure Regulation](#), which makes it clear that a significant part of the financial services market must consider also their adverse impacts on sustainability (i.e. negative externalities).

Question 91: Do you see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?

X	Yes
	No
	Don't know / no opinion / not relevant

Question 91.1: If yes, what solution would you propose? [Box max. 2000 characters]

Besides considering the impact of ESG risks on the insurance company or pension fund, EIOPA is of the view that it is relevant to consider the impact an insurer or pension fund can have on environmental or social factors, through its investment or, for insurers, underwriting decisions.

The resilience of the real economy and the stability of the financial system, fuelled by integrating sustainability considerations in the investment/underwriting strategy and decisions, has the potential to impact on the risk-return characteristics of an investment portfolio, or the loss ratio of the underwriting portfolio, as other factors.

EIOPA advised for the prudent person principle in Solvency II to be complemented with the requirement for undertakings to assess the potential long-term impact of their investments on sustainability factors. We have noted that the COM draft proposal for revision of the Solvency II Delegated Act 2015/2035 as regards the integration of sustainability risks in the governance of (re)insurance undertakings, has implemented this “double materiality”. The IORP II Directive states that “within the prudent person rule, Member States shall allow IORPs to take into account the potential long-term impact of investment decisions on environmental, social, and governance factors”.

The stewardship approach of pension funds or insurers is an essential element for acting on negative externalities. This may include undertakings’ active engagement with investees to achieve sustainable investment outcomes through voting strategies or other investment strategies such as for example exclusions (negative screening), norms-based screening, ESG integration, best-in-class (positive screening), sustainability themed investments or impact investing.

Pension providers

Pension providers’ long-term liabilities make them an important source of sustainable finance. They have an inherently long-term approach, as the beneficiaries of retirement schemes expect income streams over several decades. Compared with other institutions, pension providers’ long-term investment policies also make their assets potentially more exposed to long-term risks. Thus far, the issues of sustainability reporting and ESG integration by EU pension providers have been taken up in the areas of institutions for occupational retirement provision (IORPs) (“Pillar II” - covered at EU level by the [IORP II Directive](#)) and private voluntary plans for personal pensions (“Pillar III” – covered at EU level by the [PEPP Regulation](#)) already in 2016 and 2017, respectively. The Commission will review the IORP II Directive by January 2023 and report on its implementation and effectiveness.

However, according to a [stress test](#) on IORPs run by EIOPA in 2019 and assessing for the first time the integration of ESG factors in IORPs’ risk management and investment allocation, only about 30% of IORPs in the EU have a strategy in place to manage ESG-related risks to their investments. Moreover, while most IORPs claimed to have taken appropriate steps to identify ESG risks to their investments, only 19% assess the impact of ESG factors on investments’ risks and returns.³ Lastly, the study provided a preliminary quantitative analysis of the investment portfolio (with almost 4 trillion Euros of assets under management, the EEA’s Institutions for Occupational Retirement Provision (IORPs) sector is an important actor on financial markets) which would indicate significant exposures of the IORPs in the sample to business sectors prone to high greenhouse gas emissions.

³ The analysis shows that the preparedness of pension schemes to integrate sustainability factors is widely dispersed and seems correlated to how advanced national frameworks were. IORP II directive sets minimum harmonisation and was expected to be transposed in national law by January 2019 (and hence could not necessarily be expected to be implemented by end-2018 for the EIOPA survey for the 2019 stress test).

In 2017, the Commission established a High-level group of experts on pensions to provide policy advice on matters related to supplementary pensions. In its [report](#), the group recommended that the EU, its Member States and the social partners further clarify how pension providers can take into account the impact of ESG factors on investment decisions and develop cost-effective tools and methodologies to assess the vulnerability of EU pension providers to long-term environmental and social sustainability risks. The group also pointed out that, in the case of IORPs which are collective schemes, it might be challenging to make investment decisions reconciling possibly diverging views of individual members and beneficiaries on ESG investment. Moreover, in 2019, EIOPA issued an [opinion](#) on the supervision of the management of ESG risks faced by IORPs.

Question 92: Should the EU explore options to improve ESG integration and reporting beyond what is currently required by the regulatory framework for pension providers?

x	Yes
	No
	Don't know / no opinion / not relevant

Question 92.1: If yes, please specify what actions would be relevant, in your view. [Box max. 2000 characters]

The IORP II Directive requires IORPs to take into consideration ESG factors and risks in the following areas: the system of governance (Art. 21), the investment policy (Art. 19 and 30, the risk-management system and the ORA (Art. 25 and 28) and the information to be provided to prospective members (Art. 41). However, the Directive (Art.19) does not mandate IORPs to take into account the potential long-term impact of their investment decisions on ESG factors within the Prudent Person Rule (PPR).

EIOPA's [Opinion on the supervision of the management of ESG Risks faced by IORPs](#), stresses that ESG risk management cannot be considered in isolation from the consideration of ESG factors in the system of governance, investment policy and information provision to members and beneficiaries. Taking into account ESG factors to reduce the risk exposure of IORPs toward ESG risks can also help IORPs in the pursuit of sustainability goals. Conversely, considering the long-term impact of investment decisions on ESG factors can contribute to mitigating IORPs' exposures to ESG risks. It is EIOPA's view that national competent authorities should encourage IORPs to take into account the potential long-term impact of investment decisions on ESG factors in order to support society's sustainability goals. In this context, a step that could further improve ESG integration by IORPs may be to mandate IORPs to take into account the long-term impact of their investment decisions on ESG factors within the PPR by amending the provision of Art.19 of IORP II without prejudice to the objective of providing occupational retirement benefits, also having regard to the principle of proportionality.

In terms of IORP II disclosure provisions, a further improvement would be to have a standardised ESG quality label presentation to make the information more friendly to members and consumers. More detailed information should be made available in additional layers.

Question 93: More generally, how can pension providers contribute to the achievement of the EU's climate and environmental goals in a more proactive way, also in the interest of their own sustained long-term performance? How can the EU facilitate the participation of pension providers to such transition? [Box max. 2000 characters]

Any proactive approach with respect to IORPs should be in line with the objective of providing occupational retirement benefits and complying with the prudential requirements set in the IORP II Directive. The importance of IORPs' stewardship role through the Shareholders Rights Directive (SRDII) should be strengthened. The following measures or initiatives could be explored:

- encourage the development of 'cooperation platforms' where experienced IORPs can share their practices with less experienced;

- encourage IORPs of similar types or with similar ESG objectives to "team up" and form partnerships to influence investee companies in the context of their stewardship role e.g. IORPs investing in the same collective investment fund;

In that respect, there is a role for competent authorities/EIOPA and pensions funds' associations to encourage and possibly facilitate the development of these platforms / partnerships. Large IORPs are more likely to influence investee companies. For small and medium-sized IORPs it is a challenging, if not impossible task: in other words size matters. Initiatives such as a taskforce or consortium bringing together IORPs with common interests / objectives to influence investee companies or regrouping ESG knowledge/practices, can be encouraged.

Question 94: In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members' and beneficiaries' ESG preferences in the investment strategies and the management and governance of IORPs?

x	Yes
	No
	Don't know / no opinion / not relevant

Question 94.1: If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration? [Box max. 2000 characters]

In its [Opinion on the use of governance and risk management documents in the supervision of IORPs](#), EIOPA states that in assessing IORPs' compliance with the Prudent Person Rule (PPR), national competent authorities (NCA) should review the relevance & financial materiality of incorporating ESG factors in the investment policy (if applied by the IORP) and IORPs' explanation of how the inclusion of ESG factors complies with the PPR. The membership structure may drive some ESG considerations: PPR compliance necessitates an investment policy geared to the membership structure of the IORP (Recital 45 of IORP II). Mandating IORPs to take into account the potential long-term impact of their investment decisions on ESG factors (question 92) would require further consideration on how IORPs integrate members' ESG preferences in relation to PPR compliance. IORPs should however retain flexibility on how to gauge and articulate these preferences in the investment policy, also having regard to the proportionality principle (EIOPA's Opinion, para 6.5-6.7). Gauging IORPs members' ESG preferences is essential for justifying the integration of ESG factors, in particular for non-financial (e.g. ethical) reasons. For some IORPs this may be more challenging depending on the membership's characteristics. How to tackle the approach to ESG factors when members have different ESG preferences and return objectives or how to formulate a consistent set of ESG preferences? For instance, Defined Contribution (DC) IORPs could adopt a target date fund approach with variable ESG preferences by cohorts, develop a method (e.g. fuzzy multicriteria decision-making) to integrate multiple ESG criteria or integrate behavioural research (e.g. social norm) to formulate consistent ESG preferences. Gauging members' ESG preferences and integrating ESG factors may improve member engagement with the scheme and retirement planning.

- 3.3 Credit rating agencies
- 3.4 Natural capital accounting or “environmental footprint”
- 3.5 Improving resilience to adverse climate and environmental impacts

Climate-related loss and physical risk data

Investors and asset owners, be they businesses, citizens or public authorities, can better navigate and manage the increased adverse impacts of a changing climate when given access to decision-relevant data. Although many non-life insurance undertakings have built up significant knowledge, most other financial institutions and economic actors have a limited understanding of (increasing) climate-related physical risks.

A wider-spread and more precise understanding of current losses arising from climate- and weather-related events is hence crucial to assess macro-economic impacts, which determine investment environments. It could also be helpful to better calibrate and customise climate-related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU’s economy and society to the unavoidable impacts of climate change.

Question 99: In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU?

X	Yes
	No
	Don’t know / no opinion / not relevant

Question 99.1: If yes, for which of the following type of data should the European Commission take action to enhance its availability, usability and comparability across the EU?

Please select as many options as you like.

X	Loss data
X	Physical risk data

If loss data, please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related loss data across the EU? [Box max. 2000 characters]

In order to better understand and monitor the impact of climate change on the insurance sector, it is key to have access to climate-related loss and physical risk data across the EU. It will be of importance that these data follow similar standards so that they can be compared between different Member States. Access to climate-related NatCat insured loss data, paired with the move towards an open-source data ecosystem would have the following advantages:

- reduce dependency on data from commercial providers. Data from commercial provides makes it difficult to understand what is captured in the data. Commercial data may not be used in a sufficiently transparent manner for public policy measures;
- allow timely and more accurate impact assessments based on up-to-date and available information on insured losses, enabling informed supervisory actions;
- monitor, assess and measure systemic risk in view of providing a high level of protection to policy holders and to beneficiaries!
- provide evidence for calibration of extreme catastrophe events for EU-wide stress tests exercises, supporting a forward looking monitoring of insurance and reinsurance market developments;

- monitor the increase in claims for climate-change related events, to assess impact on availability and pricing of insurance products, for consumer protection purposes.

The collection of other insured loss data related to non-physical, non-climate related events would in addition be useful for assessing protection gap issues for other systemic (catastrophic) events such as earthquakes and pandemics or cyber risks and:

- achieve better alignment with the mandate of EIOPA towards the insurance and reinsurance sectors, which is not limited to climate-related NatCat;
- support market developments for non-physical damage insurance coverage as a key element in securing financial stability in the event of catastrophe events;
- learn lessons from the current pandemic.

If physical risk data, please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related physical risk data across the EU? [Box max. 2000 characters]

See response to question 99.1.

Financial management of physical risk

According to a [report](#) by the European Environmental Agency, during the period of 1980-2017, 65% of direct economic losses from climate disasters were not covered by insurance in EU and EFTA countries, with wide discrepancies between Member States, hazards and types of policyholders. The availability and affordability of natural catastrophe financial risk management tools differs widely across the EU, also due to different choices and cultural preferences with regards to ex-ante and ex-post financial management in case of disasters. While the financial industry (and in particular the insurance sector) can play a leading role in managing the financial risk arising from adverse climate impacts by absorbing losses and promoting resilience, EIOPA has [warned](#) that insurability is likely to become an increasing concern. Measures to maintain and broaden risk transfer mechanisms might hence require (potentially temporary) public policy solutions.

Furthermore, the ongoing COVID-19 outbreak is highlighting the growing risk arising from pandemics in particular, which will become more frequent with the reduction of biodiversity and wildlife habitat. [UNEP's Frontiers 2016 Report on Emerging Issues of Environment Concern](#) shows that such diseases can threaten economic development.

In this context, social and catastrophe bonds could play a crucial role: the former to orient use of proceeds towards the health system (e.g. IFFIM first vaccine bond issued in 2006), and the latter to broaden the financing options that are available to insurers when it comes to catastrophe reinsurance. Such instruments would help mobilise the broadest possible range of private finance alongside public budgets to contribute to the resilience of the EU's health and economic systems, via prevention and reinsurance.

Question 100: Is there a role for the EU to promote more equal access to climate-related financial risk management mechanisms for businesses and citizens across the EU?

X	Yes
	No
	Don't know / no opinion / not relevant

Question 100.1: If yes, please indicate the degree to which you believe the following actions could be helpful:

	1 (not at all helpful)	2 (rather not helpful)	3 (neutral)	4 (rather helpful)	5 (very helpful)	N.A.
Financial support to the development of more accurate climate physical risk models					x	
Raise awareness about climate physical risk					x	
Promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe					x	
Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage					x	
Reform EU post-disaster financial support					x	
Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events				x		
Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks					x	
Regulate by setting minimum performance				x		

features for national climate-related disaster financial management schemes						
Create a European climate-related disaster risk transfer mechanism				x		
Other						

If financial support, please explain why you think it would be useful for the EU to provide financial support to the development of more accurate climate physical risk models. [Box max. 2000 characters]

The insurance sector uses commercial cat models to model climate risk. However, these models do not include forward-looking approaches, modelling the risk for the next 12 months. Models which can simulate losses for different climate scenarios can raise awareness in the insurance sector but also for governments/cities. These models should be available open source and be flexible enough for governments, cities and insurers to plug-in their own exposure. The JRC is doing interesting research related to climate change. It would be important to ensure that this research can be used by the private and public sectors.

An important preliminary step at EU level could be to implement an open access solution to climate-related disaster loss data, from and to public and private actors. Various actors across the EU seeking data from commercial providers on an individual basis limits the potential for using the data in a transparent manner for public policy measures. It is also difficult to understand what is captured in the various data sets. The combination/comparison of different data in one single data space could improve the development of more holistic solutions, addressing potentially systemic risks across EU, leading to more informative and transparent risk models which actually improve the understanding of risks.

Open access to the data, and the establishment of a platform for discussing risk assessment, risk prevention and residual risk transfer solutions for catastrophe risks generally, could provide an very relevant contribution to tackling the losses of increasingly frequent and severe climate-related extreme weather events. EIOPA is currently collecting data from various sources on the hazard/exposure/vulnerability to natural catastrophes in order to project the protection gap across Member states. The work reveals the difficulty in collecting, comparing data and shows that various gaps limit the analytical potential if not based on common assumptions and data.

If raise awareness, please explain why you think it would be useful for the EU to raise awareness about climate physical risk. [Box max. 2000 characters]

In order to ensure the resilience of our society, it is extremely important to raise awareness about climate physical risk. This can incentivise risk prevention by citizens. Channelling information on the development of climate change physical risks improves the trust in the information and improve the acceptance.

The EU has a very relevant role here: two good sources of information are for example: the regular reports from the European Environment Agency, incl. the latest "State of Environment Report "(SOER 2020) and the COM Joint Research Centre Peseta projects, incl. the latest Peseta IV report on Economic analysis of selected climate impacts. If widely distributed and made easy to understand for a wide range of people, they can help in raising awareness.

EIOPA's pilot dashboard on the natural catastrophe protection gap (release 2nd half 2020), also aims to raise Member States' awareness about their exposure and vulnerability to natural catastrophe hazards and

physical risks. Such a tool can contribute to raising the awareness of supervisors and policymakers, but also of civil society, to the (physical) risks of natural catastrophes.

If promote ex-ante “build back better” requirements, please explain why you think it would be useful for the EU to promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe. [Box max. 2000 characters]

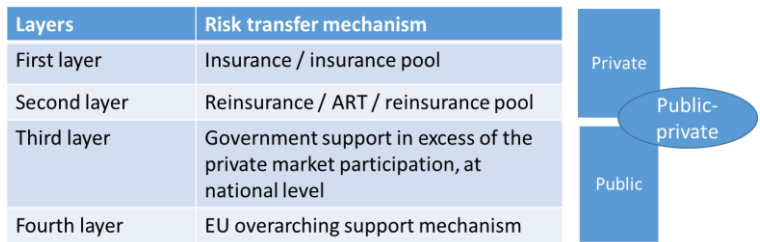
Prevention measures for climate change are not being systematically considered by insurers in the design and pricing of their products. Insurance supports risk sharing (i.e. by pooling risks) and can contribute to limiting the impact (i.e. losses) of a catastrophic event (=adaptation measures), based on its knowledge and expertise in modelling and pricing risk. Prevention measures ensure “risk ownership”, i.e. people are being made aware that they have skin in the game, and by taking certain measures, they can reduce their exposure. For example, insurers can incentivise policyholders to “build (back) better” by providing premium discounts, based on actuarial risk-based principles, to policyholders who protect their property against physical damages (e.g. floods reduction measures). Such measures can reduce the insured loss and improve the potential for recovery after a disaster. Other measures can be taken to limit non-physical losses arising from natural catastrophes, for example if insurers require business contingency planning against risks impacting on business continuity.

Climate change does not stop at borders. Prevention measures could benefit from being discussed and implemented across the EU in a coordinated manner to achieve a measurable impact. This could be an important element of the COM climate adaptation strategy. At the same time, some adaptation measures are dependent on public sector initiative (e.g. building codes). A EU signal to insurers to reinforce public (EU/national) risk prevention measures, could be an important step to increasing the buy-in for and visibility of such measures, also at national level. EIOPA has launched an analysis on the pricing and underwriting practices of insurers in light of climate change. This analysis will support the identification of good practices by insurance companies to enhance adaptation by their policyholders, i.e. the concept of “impact underwriting” (Discussion paper for consultation end ’20).

If facilitate public-private partnerships, please explain why you think it would be useful for the EU to facilitate public-private partnerships to expand affordable and comprehensive related insurance coverage. [Box max. 2000 characters]

The current pandemic shows that market solutions may not be sufficient in dealing with risks of a systemic nature. Today only 35% of the losses from climate-related events are insured in Europe (See [EIOPA discussion paper on the protection gap for natural catastrophes](#)). There are limits to achieving a broad insurance penetration, particularly where more systemic risks affect entire economic sectors with broader consequences, in terms of welfare and financial sector stability. Damages caused by Nat Cat may put additional strain on public finances where, in the absence of sufficient coverage via (re)insurance solutions, the government is called to step in to provide relief and potentially compensation (incl. emergency response and financial aid), and also needs to restore damaged government property and infrastructure. Coherent solutions across the (re)insurance sector, and between private and public actors at national and/or EU level could promote risk assessment, risk prevention as well as risk transfer to increase society’s resilience to withstand risks of a systemic nature and, where possible, expand affordable and comprehensive insurance coverage. The first layer of risk transfer is the primary insurance market, the second reinsurance or capital markets (via Alternative Risk Transfers), and the third layer involves national governments (e.g. as reinsurer of last resort, or as unlimited backstop for losses above a certain threshold). A fourth layer of support, at European level, could be considered particularly given the cross-border impact of systemic catastrophes on the European internal market. Different elements and potential unintended consequences (e.g. moral hazard,

distortion of risk perception) have to be considered in establishing such risk transfer mechanism, incl. scope for diversification, level of public intervention, scope of coverage (multi-peril or single peril), trigger for risk transfer, any conditions attached to public intervention.



If support the development of alternative financial products, please explain why you think it would be useful for the EU to support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events. [Box max. 2000 characters]

Where the (re)insurance market lacks capacity to cover risks, solutions for transferring residual risk (after risk prevention measures) to the capital market, via alternative risk transfer mechanisms, could contribute to spreading the risk and freeing up underwriting capacity from insurers. Parametric-triggered solutions for insurance could contribute to improving disaster risk management. Whereas conventional insurance indemnifies the policyholder for the loss it incurs from an insured event; parametric insurance would pay a fixed amount upon the occurrence of an (“objective”) triggering event (e.g. earthquake magnitude). Loss adjustment would not longer be needed, improving speed of pay out. However, there can be significant basis risk when the trigger for the payment is not well correlated with the actual loss suffered, potentially creating moral hazard. Where a nat cat risks causes systemic disruption, the correlation with financial market risk may also provide critical. Parametric triggers are difficult to link to risk management achievements at company level, since they are based on an external parameter that applies to all insured. We note a variation on CAT bonds, the so-called resilience bonds the bond would take the expected impact of a planned investment for climate adaptation into account, resulting in a lower premium, saving money to invest in the adaptation. Dividend from a resilience bond can be used to capitalise even less infrastructure-based types of resilience programmes, like community-building exercises that strengthen disaster response by encouraging neighbours to look out for one another (<https://www.bbc.com/future/article/20170515-resilience-bonds-a-secret-weapon-against-catastrophe>).

If advise Member States, please explain why you think it would be useful for the EU to advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [Box max. 2000 characters]

With regard to the national natural disaster insurance, the coverage of NAT CAT risks by insurance varies widely across Member States. The added value of a EU approach in advising Member States on their natural disaster insurance coverage could be that information, experience from and reference to other EU best practices can be collected and conveyed in a structured and efficient manner. This may create incentives for national or regional pooling systems across EU Member States. The need for initiatives for additional EU support could then also be better monitored, for example in the framework of the Union Civil Protection Mechanism.

If regulate by setting minimum performance features, please explain why you think it would be useful for the EU to regulate by setting minimum performance features for national climate-related disaster financial management schemes. [Box max. 2000 characters]

An important element in securing future affordability and availability of risk transfer solutions for climate-related disasters will be the integration of prevention / adaptation measures across all layers of risk owners. Disaster-related financial support could be made conditional upon the implementation (and a level of effectiveness) of prevention measures, and disaster-related financing itself can be subject to adaptation requirements. Minimum performance standards for adaptation can be useful to set the expectations, while sufficient scope should be left for designing appropriate measures that respond to the particularities of the hazard, vulnerability or exposure of a region or Member State.

If create a European climate-related risk transfer mechanism, please explain why you think it would be useful for the [EU to create a European climate-related disaster risk transfer mechanism](#). [Box max. 2000 characters]

Where the private market does not have the (temporary) capacity to cover risks arising from a disaster, a EU solution, as a backstop to national solutions, in an overall shared resilience solution, where risk assessment and prevention are being pursued by private and public actors may have the following benefits:

- (1) Climate change related risks do not stop at the border; EU regional hotspots may require coordinated action among Member States;
- (2) In the absence of private market solutions across the EU, an EU solution may contribute to an orderly means of sharing risk, and strengthen EU solidarity in the face of systemic resilience gaps;
- (3) An EU solution may achieve potentially more diversification across Member States, even potentially covering multiple perils.

Critical to such a transfer mechanism, is that the insurance sector retains “skin in the game”, i.e. is incentivised to assess, manage, monitor risk and prevent insured losses. The type of transfer mechanism would require further analysis.

Question 101: Specifically with regards to the insurability of climate-related risks, do you see a role for the EU in this area?

x	Yes
	No
	Don't know / no opinion / not relevant

Question 101.1: If yes, which actions you would consider to be useful?

In particular, is there scope for EU action to **improve the offer of products and services for climate-related disaster risk reduction, enhance insurers’ potential to promote increased resilience of their policyholders** beyond a mere compensatory role?

For instance, [EIOPA in its opinion on sustainability on Solvency II](#) talks about “impact underwriting which includes the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities without disregard for actuarial risk-based principles of risk selection and pricing”.

x	Yes
	No
	Don't know / no opinion / not relevant

Question 101.2:

If yes, please explain which actions and the expected impact (high, medium, low). [Box max. 2000 characters]

Future solutions should build on the experience of insurers to put a price on risks and on the opportunity for preventive measures. This pricing of risks and opportunities is reflected in insurance contracts' terms and conditions (e.g. exclusions and deductibles) and, obviously, in the level of premia. The practice of developing products and services which reduce sustainability risks and have a positive impact on ESG issues, encourages better risk management. Such "impact underwriting" can be done via measures involving the public sector as well as business and retail clients, building on the underwriting and risk expertise of (re)insurance undertakings, via the integration of ESG considerations in the underwriting strategy and decisions; the development of new products addressing risks stemming from climate change and promoting risk mitigating behaviour; adjustments in the design and pricing of the products using forward-looking pricing assumptions; risk consulting services to clients for prevention purposes, especially for business clients; and, engagement with public authorities to promote risk awareness, risk assessment, disaster resilience and climate mitigation/adaptation strategies.

Promoting prevention via insurers' pricing and underwriting strategy, could e.g. amount to requiring business' contingency planning for limiting the insured loss of business interruption caused by NAT CAT events or requiring flood resilience measures to limit the damage and loss from a flood. These measures have the potential of actually lowering the risk, if risk-based and considering actuarial risk-based principles. This should be clearly part of the business model of insurers, at the risk of being literally being priced out of the market (affordability of insurance). It is also important to be able to measure the real impact of these prevention measures to avoid the risk of greenwashing.