

RTS on Sustainability risk management and sustainability risk plans

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SUSTAINABILITY RISK PLANS – EIOPA’S APPROACH

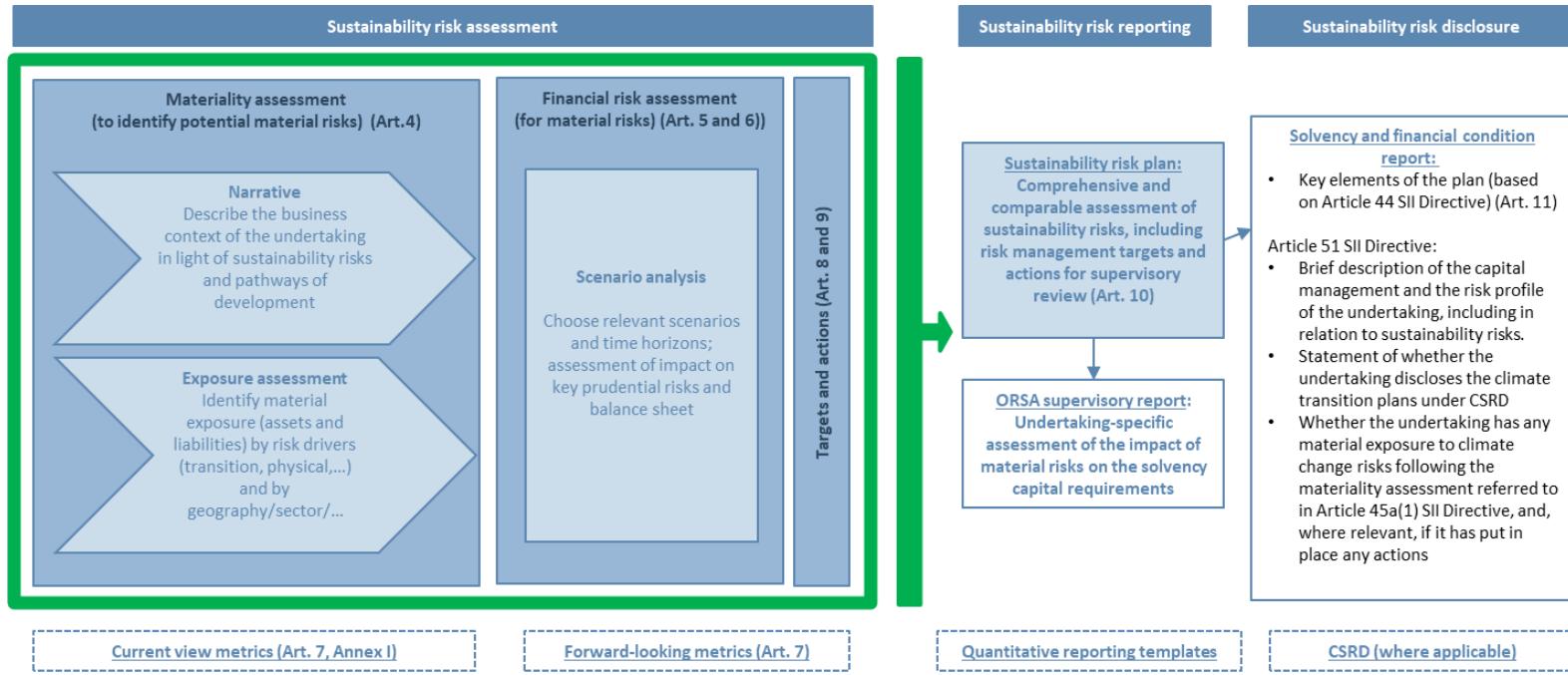
Consultation on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans
(4 December 2024 – 26 February 2025)

Article 44 Solvency II Directive: requires undertakings to develop and monitor the implementation of specific plans to monitor and address the financial risks from sustainability factors. EIOPA to draft RTS on minimum standards and methodologies

EIOPA approach: limit the burden on undertakings and establish a coherent and proportionate approach to sustainability risk management

1. Build on the existing prudential requirements and integrate the sustainability risk plans into undertakings' existing risk management practices, including the ORSA and regulatory reporting and disclosure
2. Consistency with sustainability reporting requirements under CSRD
3. Proposal for a list of minimum binding metrics from existing 'standard practice' for reporting on current financial risk.
4. Proportionality measures for small and non-complex undertakings

MAIN ELEMENTS OF SUSTAINABILITY RISK PLAN



SOLVENCY II AND SUSTAINABILITY RISK MANAGEMENT

➤ The RTS aim not to add requirements which an undertaking would not already be expected to implement as part of SII risk management.

- The **Solvency II Directive and Delegated Regulation** already set out requirements for the identification, measurement, management, and monitoring of sustainability risks. (Articles 44(2), 45(2) and 45a of the Solvency II Directive and Article 262(1)(a) of the Solvency II Delegated Regulation)
 - The risk management function shall identify and assess emerging and sustainability risks.
 - Investment policy: when identifying, measuring, monitoring, managing, controlling, reporting, and assessing risks arising from investments, undertakings shall take into account the potential long-term impact of their investment strategy and decisions on sustainability factors
 - Actuarial function: opinion to be expressed by the actuarial function shall at least include conclusions on the effect of sustainability risks
 - Remuneration policy: shall include information on how it takes into account the integration of sustainability risks in the risk management system
 - EIOPA Supervisory Handbook Chapter on the Supervision of climate change risks: supervisory expectations on risk management (Pillar 2)

RELATION OF THE SUSTAINABILITY RISK PLANS WITH THE ORSA

- The RTS enable for the materiality risk assessment contained in the sustainability risk plan to provide information on why the undertaking considers certain risks not to be material.
- Where material sustainability risks are identified as part of the materiality risk assessment, these will be subject to financial risk assessment in the ORSA.

- **ORSA in Solvency II:** undertakings assess the impact of material risks on their solvency position and the appropriateness of the assumptions underlying their Solvency Capital Requirement, through stress and scenario analysis over the short-, medium- and long-term horizon.

- **ORSA and climate risk:**

- Undertakings shall conduct a materiality assessment of their exposure to climate change risk. The undertaking shall demonstrate the materiality of its exposure in the ORSA and where the risk is material (except for small and non-complex undertakings), the undertaking shall conduct at regular intervals (at least every 3 years) the analysis of the impact of at least two long-term climate change scenarios on its business (Article 45a Solvency II Directive).

- EIOPA Opinion on the supervision of the use of climate change risk scenarios in ORSA

- EIOPA Application guidance on climate change materiality assessments and climate change scenarios in ORSA

RELATION OF THE SUSTAINABILITY RISK PLANS WITH TRANSITION PLANS

- The RTS do not specify elements for transition plans as defined under CSDDD or CSRD: the risk plans primary focus is on prudential risks, including those caused by the transition.
- But they consider that targets and actions in the undertaking's transition planning are relevant to consider for risk management purposes, and vice versa. There should be a read-across, at a minimum, between the sustainability risk and the transition plans.
- Good understanding of the transition plans, actions and targets is important for supervisors to be able to understand and eventually challenge the financial risk assessment performed under the sustainability risk plans.

- Risks arising from its transition planning : developing transition trajectories under CSDDD allows insurers to monitor their contribution to the transition, as well as requires them to manage the ensuing changes to their portfolios and the (prudential) risks arising from these changes, in addition to the transition risks from the general economy.
- Financial risks arising from impacts on sustainability factors (such as legal, operational, reputational or market and underwriting risks) (double materiality): the measures to reduce these financial impacts can also contribute to transition targets. For example, reducing investments in a certain economic activity to reduce, for example, reputational risk, eventually can contribute to the transition target set out in the transition plan.
- Credibility of transition plans / risks of non-alignment with transition plans: the lack of credibility of a transition plan may also cause risks to an insurer, when disclosed. This can cause reputational or legal risks, which can impact the undertaking from a prudential risk perspective.

RELATION WITH REPORTING AND DISCLOSURE IN SOLVENCY II

- The RTS aim to align the frequency of performance of materiality risk and financial risk assessment, as well as submission of the plan to the supervisor with the timelines of the performance of the ORSA and the regular supervisory reporting timeframes, respectively.
- The RTS clarifies that the elements of the sustainability risk plan are to be publicly disclosed jointly with the existing disclosure requirements under article 51 of the Solvency II Directive, as part of the Solvency and Financial Condition Report (SFCR)

Under Solvency II, undertakings are (already) required to: **Report** a Regular Supervisory Report (RSRS) including the ORSA supervisory report to supervisors and **publicly disclose** a Solvency and Financial Condition Report (SFCR) (Article 51 Solvency II Directive, as amended), incl.:

- a brief description of the capital management and the risk profile of the undertaking, including in relation to sustainability risks as well as a statement of whether the undertaking discloses transition plans under CSRD
- an indication of whether the undertaking has any material exposure to climate change risks following the materiality assessment referred to in Article 45a(1) [ORSA requirement on the climate change scenario analysis], and, where relevant, if it has put in place any actions
- on an annual basis the quantifiable targets included in the [sustainability risk] plan (Article 44(2d) of the Solvency II Directive)

RELATION WITH SUSTAINABILITY REPORTING UNDER CSRD

- To limit the burden on undertakings arising from the requirement to disclose elements of the sustainability risk plans under Article 44(2b) of the Solvency II Directive, the RTS align the disclosure requirements with the requirements set out in Articles 19a and 29a of the CSRD.
- The RTS sets out a minimum list of binding metrics to help (i) in promoting risk assessment, (ii) improve comparability of risks across undertakings, (iii) promote supervisory convergence in the monitoring of the risks and (iv) enable relevant risk disclosures.
- The RTS map how the elements of the Sustainability Risk Plan can be used for ESRS disclosures for undertakings reporting sustainability risks under CSRD.

- Article 44 (2b) of the Solvency II Directive requires that where an undertaking discloses information on sustainability matters in accordance with the CSRD, the methodologies and assumptions sustaining the targets, commitments and strategic decisions disclosed under the CSRD shall be consistent with the methodologies and assumptions included in the sustainability risk plans.
- **Consultation:** we seek views from stakeholders and further engagement with EFRAG on the relevance of the metrics and how the requirements set out in the Articles of the RTS will enable undertakings that are subject to CSRD, to feed relevant information on sustainability risks into the disclosures required by ESRS, thereby limiting possible burden.

PROPORTIONALITY

- The RTS aim to be sufficiently principle-based to allow for evolving insights on risk management of sustainability risks. (climate, biodiversity, social, governance)
- The RTS also include specific proportionality measures for small and non-complex undertakings, including simplified approaches for financial risk assessment, or limited disclosure requirements

- The Solvency II Directive already stipulates that while all undertakings shall perform assessments of the materiality of exposure to climate change risks on the business of the undertaking, small and non-complex undertakings are not required to specify long-term climate change scenarios nor to assess their impact on the business of the undertaking (Article 45a Solvency II Directive).
- The RTS stipulate that SNCU's and captive (re)insurers may use qualitative approaches for their financial risk assessment.
- The RTS also apply the same limitations to public disclosure on elements of the sustainability risks plan as those which apply to the public disclosure requirements under CSRD.

THANK YOU!

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