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MEETING DOCUMENT

| From: To: | General Secretariat of the Council Financial Services Committee Financial Services Attachés |
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| Subject: | FSC 19 February 2025 - Item 4 - EIOPA sustainability - presentation |

EIOPA's update on sustainability

Financial Services Committee, 19 February 2025

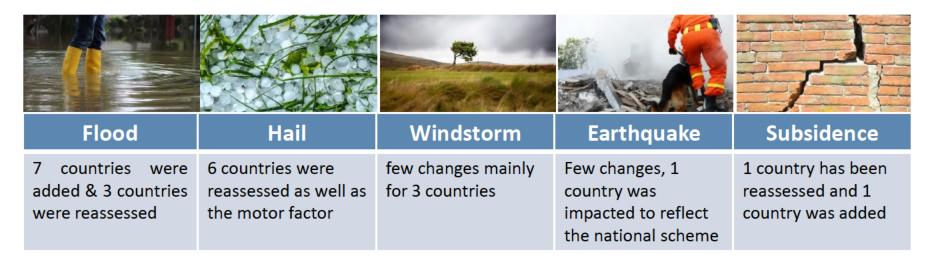


OPINION ON THE (RE)ASSESSMENT OF NATURAL CATASTROPHE RISK IN THE STANDARD FORMULA

- Natural catastrophes are becoming more frequent and more severe across Europe due to climate change.
- Insurers' capital requirements for natural catastrophe underwriting risk should continue to reflect the
 expected impact of climate change this is to ensure the continued protection of policyholders and
 the stability of the EU's insurance market.
- The Solvency II review also includes a mandate to EIOPA to undertake a reassessment. If this
 reassessment identifies a significant discrepancy between the reassessment and current factors, the
 mandate requires a recalibration in Article 304a(2).
- EIOPA published in January 2025 its <u>Opinion on the 2023/2024 Reassessment of the Nat Cat Standard</u> Formula EIOPA.



MAIN CHANGES PROPOSED IN THE OPINION



The paper also consider perils such as wildfires, coastal flood and droughts to be monitored going forward.



RAISING AWARENESS ON RISKS AND PREVENTION MEASURES FOR NATURAL CATASTROPHE RISKS

| EIOPA's work related to the natural catastrophe protection gaps | | |
|---|--------------------|--|
| <u>Dashboard</u> | Understand/monitor | |
| Impact Underwriting | Mitigate | |
| <u>Demand aspects</u> | Cover | |
| <u>Layer approach</u> | Transfer | |

All stakeholders looking for solutions to address the insurance protection gap for natural catastrophes do agree that there is the **need to increase the risk and prevention awareness** among policyholders.



A BLUEPRINT FOR AN AWARENESS TOOL FOR NATCAT RISKS



- Exposure to Nat Cat risks: show homeowner's risk score regarding natural hazards.
- Risk prevention: describe hazard-related prevention measures per type of peril.
- Risk-based benefits of prevention measures: provide information that measures can be reflected in the premium.
- Financial literacy: increasing consumers' awareness about the benefits of adequate insurance coverage.

Consultation on a blueprint for an awareness tool for natural catastrophe risks and prevention measures - EIOPA



MANAGEMENT OF SUSTAINABILITY RISKS

- Article 44 of the 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 should draft RTS on minimum standards and methodologies.
- EIOPA wishes to limit the burden for undertakings and establish a coherent and proportionate approach to sustainability risk management.
 - 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.
 - Consistency with sustainability reporting requirements under CSRD.
 - Proposal for a list of minimum binding metrics from existing 'standard practice' for reporting on current financial risk.
 - Proportionality measures for small and non-complex undertakings.

Consultation on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans - Solvency II Review - EIOPA



MAIN ELEMENTS OF SUSTAINABILITY RISK PLAN

Sustainability risk reporting Sustainability risk disclosure Sustainability risk assessment Financial risk assessment Materiality assessment (to identify potential material risks) (Art.4) (for material risks) (Art. 5 and 6)) Solvency and financial condition report: Sustainability risk plan: Key elements of the plan (based Comprehensive and Narrative on Article 44 SII Directive) (Art. 11) comparable assessment of Describe the business Targets and actions (Art. 8 and 9) sustainability risks, including context of the undertaking Article 51 SII Directive: risk management targets and in light of sustainability risks Brief description of the capital actions for supervisory Scenario analysis and pathways of management and the risk profile review (Art. 10) development of the undertaking, including in Choose relevant scenarios relation to sustainability risks. and time horizons: Statement of whether the assessment of impact on undertaking discloses the climate Exposure assessment key prudential risks and Identify material ORSA supervisory report: transition plans under CSRD balance sheet Undertaking-specific Whether the undertaking has any exposure (assets and liabilities) by risk drivers assessment of the impact of material exposure to climate (transition, physical,...) material risks on the solvency change risks following the capital requirements materiality assessment referred to and by geography/sector/... in Article 45a(1) SII Directive, and, where relevant, if it has put in place any actions Current view metrics (Art. 7. Annex I Forward-looking metrics (Art. 7) Quantitative reporting templates CSRD (where applicable)



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