

## SUSTAINABLE FINANCE: WHAT PROSPECTS IN EUROPE?



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### Sustainable finance: a past, current and future supervisory priority for EIOPA

Global economic losses stemming from natural catastrophes are rapidly increasing. The frequency and severity of natural catastrophes is accelerating, to a large extent fuelled by climate change. In 2024, natural catastrophes have cost the world an estimated €274 billion, with about €124 billion insured.

Europe is on the front line of climate change, experiencing fast warming and rising economic losses. Inaction carries immediate and escalating economic costs, threatening growth, financial stability, and economic resilience. The business models and solvency of (re)insurers and pension funds face growing threats from natural catastrophes. At the same time, Europe continued to face a persistent and widening insurance protection gap against natural catastrophes, undermining economic resilience and financial stability.

#### Stronger supervision of sustainability is key to unlock Europe's economic resilience.

The (re)insurance and occupational pensions sectors have an important role to play in supporting the transition to a more sustainable and resilient economy. As significant long-term institutional investors within the EU financial system, undertakings are particularly well positioned to channel long-term capital into sustainable projects. This long-term perspective also enables an alignment of incentives that can be used through their stewardship role, leveraging their influence to encourage companies to operate responsibly and support sustainable value creation.

Making use of the comprehensive data regularly collected from solo insurance undertakings and groups in the European Economic Area (EEA), EIOPA showed that in 2024 the share of green investments in the portfolios of EEA insurers has edged higher. EIOPA's analysis revealed that 4.5% of insurers' direct corporate bond and equity investments were aligned with the Taxonomy. When considering only non-financial exposures, the share of Taxonomy-aligned investments was 10.7%, up from 5.7% in 2022. An additional 20.5% of direct corporate bond and equity investments were eligible for the taxonomy (this percentage was 48.6% when considering only non-financial exposures).

Concerning the reform of the sustainable finance disclosure framework, EIOPA strongly supports the objectives of simplification and burden reduction, as also reflected in its public statement of April 2025 "Bolder, Simpler, Faster: EIOPA's views for better regulation and supervision".

However, simplification should not come at the expense of the availability of key sustainability information, needed by (re)insurers and occupational pension funds for a sound risk assessment and impact of sustainability risks. Taking into account the reduced scope of undertakings required to report on the ESRS, EIOPA considers that it will be important to ensure that (i) the reporting requirements under the ESRS are proportional to the size and nature of the companies in the scope of the ESRS, and (ii) to ensure proportionality and coherence of those requirements with the future voluntary standards for companies outside of the scope of the ESRS, including most insurance undertakings. For EIOPA it is also important that the ESRS ensure consistency with Solvency II as well as interoperability with international standards.

To conclude, natural catastrophe resilience is a source of economic strength and supports Europe's long term competitiveness. The EU and its economy are insufficiently protected against natural catastrophe risks. Enhanced resilience can minimise business disruptions and ensure business continuity, also across supply chains.

EIOPA's focus on sustainability risks is driven by a risk-based assessment of impacts to its prudential, consumer protection and financial stability mandates. EIOPA continues developing work aiming to address sustainability risks and the natural catastrophe insurance protection gaps, as an integral part of its supervisory, regulatory and risk monitoring activities.

Data gaps and modelling limitations still constrain effective assessment, monitoring and supervision of natural catastrophe risks. Improving the accessibility, consistency and quality of information is a crucial first step. Forward looking models are vital to improve the accuracy of risk assessments beyond reliance on historical information.

This work is driven by the threats that sustainability risks pose to consumers, to the undertakings operating in the sectors under EIOPA's supervision and financial stability. Left unchecked, climate-driven sustainability risks pose a substantial threat to our economy and way of living.