Sensitivity analysis of climate-change related transition risks: EIOPA’s first assessment

NEWS
DATE:
15 Dec 2020

The European Insurance and Occupational Pensions Authority (EIOPA) published today its sensitivity analysis of climate-change related transition risks in the investment portfolio of European insurers.

The report explores current holdings of corporate bonds and equity that can be related to key climate-policy relevant sectors such as fossil fuel extraction, carbon-intensive industries, vehicle production and the power sector. It also quantifies potential climate-change related transition risks and presents insights into possible impacts on these investments as economies transition away from fossil fuel-dependent energy production and carbon-intensive production.

While the report represents an initial assessment, intended to inform future work in this relatively new field, the results still illustrate that losses on equity investments in the high-carbon sector can be high, in particular driven by investments in fossil fuel extraction, especially oil and gas. While the overall impact on the balance sheets of the insurance sector is counter-balanced both by investments in renewable energy and the fact that insurers' portfolios are generally well diversified, EIOPA is working with national supervisors and expects insurers to follow up on the risks identified.

"Sustainable finance will remain a strategic area for EIOPA in coming years. The role of (re)insurers in addressing climate change is more important than ever. EIOPA expects the industry to manage and mitigate sustainability risks and adopt a sustainable approach to their investments based on principles of stewardship. This will not only support the insurance sector, but also contribute to making sure the financial sector plays a positive role in combatting climate change by channelling funds to more sustainable initiatives" said Gabriel Bernardino, EIOPA's Chairman.

Research related to climate-change and the role of the financial sector is constantly evolving. A set of methodological choices were employed in the preparation of this report, and it is important to note that other approaches exist that might be equally suitable, or complementary to the ones considered in this report. With time, the available methodologies are expected to converge and standards should evolve to ensure comparability and consistency. In the meanwhile, EIOPA considers this report as a contribution towards the assessment and understanding of transition risks at the European level, rather than a final, conclusive assessment.

Download the report

EIOPA's sustainable finance agenda

The sensitivity analysis is part of EIOPA's broader sustainability agenda to integrate environmental, social and governance (ESG) risk assessment in the regulatory and supervisory framework. EIOPA is committed to supporting the European insurance and occupational pension sectors in their transition to climate neutrality and to deliver on the 'Green Deal' initiated by the European Commission.

EIOPA’s work on sustainable finance is driven by three objectives: (i) insurers should manage and mitigate ESG risks, (ii) insurers and pension funds should reflect policyholders and pension scheme members’ preferences for sustainable investments and (iii) insurers and pension funds should adopt a sustainable approach to their investments based on principles of stewardship. This reflects the important role insurers and pension funds can play in enabling climate change mitigation and adaption. A key element to foster sustainable growth and to channel funding in economic activities enabling and contributing to environmental, social and governance-related objectives, is to improve data availability and therewith the public disclosure of relevant metrics by reporting entities as well as improving transparency on risks arising from climate change.