

Sustainable finance: From policy to practice

Opening speech by Gabriel Bernardino at the Fourth roundtable on sustainable finance

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Ladies and gentlemen

Introduction

First of all, let me wish you a warm welcome to today's roundtable.

This is our fourth sustainable finance roundtable and I am pleased to see that we have had so much interest in this event. Pleased but not surprised.

Not surprised because it's clear that sustainability has become one of the top priorities for all of us, from politicians and policy makers to the citizens.

And I think it's fair to say that we could not have picked a better time for today's event: Within the last few days, we have had the one year anniversary of the launch of the EU Green Deal and the five years since the signing of the Paris Agreement.

The ambitious targets set out in both show just how important the sustainable finance agenda is, how far we have come, but also the urgency in doing more and doing it fast.

Setting the sustainability agenda for supervisors

We placed sustainability for the insurance and pensions sector on our strategic agenda in 2018.

It was a sound decision.

In elevating the discussion on sustainability, our aim was to put sustainability on the map of the insurance and pensions supervisory community.

We wanted to raise awareness on the powerful role that insurers and pension funds have in mitigating the impact of climate change and facilitating the transition to a more sustainable and resilient economy. After all, they are both managers of large parts of society's risks as well as being important long-term investors.

We also wanted to draw attention to the indisputable fact that risks associated with sustainability – in particular climate change – also affect the insurance and pensions sector and put at risk the long-term sustainability of insurance and pension fund business models.

This makes sustainability more than a corporate social responsibility. Instead, sustainability also becomes a risk management issue, making it essential that the sector assess and manage the prudential and conduct risks to which it is exposed.

Our work therefore has been driven by these two perspectives: the impact of the sector on sustainability factors; and the impact of sustainability risks on insurers and pension funds.

Since 2018, we have been setting out supervisory expectations towards industry.

Our advice and Opinion on integrating environmental, sustainable and governance – or ESG – risks in Solvency II and the Insurance Distribution Directive, and on the supervision of the management of ESG risks by institutions for occupational retirement provision set out how the sector should improve on its governance and risk management practices to deal with sustainability risks, starting with climate change.

We have also incorporated climate change-related risks into our stress tests. In 2018, as part of our insurance stress test, we included a succession of natural catastrophes in our stress scenarios and, in 2019, as part of the occupational

pensions stress test, we included a first analysis on the exposures of IORPs to ESG risks. And, earlier this year, we consulted on methodological principles for climate change stress testing and will further develop our approach in the coming year.

We have also started investigating protection gaps and how we can increase society's resilience to the threats that we are facing: not just climate change, but also cyber risks and, of course, pandemic risk.

Throughout, we have worked closely with stakeholders, through events like these, as well as through consultations and regulatory dialogues. Exchanging views with civil society, academics, consumers and industry is essential to our work and lead to better outcomes.

We have also stepped into the international arena. Climate change does not stop at the borders and the systemic impact of the risks we are facing require international cooperation. EIOPA is a member of the Sustainable Insurance Forum and the Network for Greening the Financial System.

And, of course, closer to home, our work supports the European Commission in achieving its sustainable finance goals: from contributing to the development of the EU taxonomy, to the European Green Deal and helping to make the recovery a sustainable recovery.

Looking back, we should be pleased with just how much we have achieved in the last few years. And it's fair to say that we can expect to achieve more in the coming years.

From policy to practice

This is in part due to the momentum that is driving the sustainability agenda globally. It is a momentum that we feel here at EIOPA and one that we want to harness as we move to put policy into practice.

The agenda of today's roundtable gives a clear indication of the areas we want to drive forward, by going deeper and developing more concrete solutions for implementation.

Through the concepts of stewardship and impact underwriting, we have already

outlined how insurers can reduce risks, or limit losses or exposures and support a fair transition to a sustainable economy.

We now want to go further and identify how we can ensure the availability and affordability of insurance in light of climate change. Our discussion paper on non-life underwriting and pricing – published just last week for consultation– looks at how the insurance industry can reflect prevention measures in the design and pricing of products to incentivise policyholders to reduce risks.

Supervising the use of climate scenarios in the own risk and solvency assessment, or ORSA is also on our agenda – and indeed today's agenda. We want to look at how undertakings should best apply scenarios to assess their exposure to climate change.

Our aim is to support the sector, by providing guidance and proportionate measures to assess their risk. Our consultation is still open and I am sure that today's panel will give you a good perspective on the opportunities and challenges.

We are also further developing our work on protection gaps.

Gaps in the insurance coverage for natural catastrophes are widening. Today, you will hear about our pilot dashboard for assessing the drivers of the natural catastrophe protection gap, to make sure we have the right tools at hand when deciding on potential measures in light of climate change. We are looking forward to hear your response to this initiative.

Climate change may also impact the pension protection gap. If pension fund investments are impacted by climate change transition risk, for example, old age retirement provisions will suffer, increasing pensioner poverty and affecting society's resilience. There is work to do here, too.

Besides governance and risk management, EIOPA will be analysing capital requirements for insurers. We have launched the discussion on methodologies for including climate change in the natural catastrophe standard formula in Solvency II and today we will present to you the key elements of our analysis.

Improving data availability and identifying key performance indicators for

insurers' non-financial reporting regarding sustainability are essential to foster sustainable growth and to channel funding in economic activities.

We are therefore currently consulting on proposals to require the disclosure of key performance indicators on sustainability. We want to have more information on the indicators that depict the extent to which the insurer or reinsurer carries out taxonomy-relevant activities – in relation to its non-life gross premiums written and the extent to which the insurer or reinsurer helps funding taxonomy-related activities – in relation to its total assets.

Common standards for identifying sustainable economic activities are also essential to incentivise responsible investment and prevent greenwashing. They will also allow for evidence-based risk assessments.

Today, you will hear about the results of EIOPA's in-depth analysis on the sensitivity of insurers' investments to climate-change related transition risks. With changes in technology and regulation, some investments of the insurance and pension sector may become stranded. Such risks can materialise even in the shorter term and addressing them is important to ensure financial stability. The risk assessment can also incentivise insurers to take a stewardship approach in their investments, as a means to manage their risk.

We also have a duty to make sure consumers – policyholders and pension beneficiaries – are informed about the ESG profile of their investments, so that consumers can make informed decisions.

We are working with our fellow supervisory authorities – the European Banking Authority and the European Securities and Markets Authority – to develop ESG disclosures under the Sustainable Finance Disclosure Regulation.

Our recent consultation highlighted the challenges involved in achieving a disclosure that is easily understood by consumers and, at the same time, is aligned across financial market participants, who have different needs and regulatory requirements.

But, if we want to better engage consumers in how their money is invested, we must provide them with clear and transparent information. The momentum that I talked about earlier means that more and more consumers have an appetite for

this information.

These are the priorities from our sustainable finance agenda – all ready for your discussion today.

In conclusion

Looking ahead, it's clear that sustainability will remain a cross-cutting strategic area of activity at EIOPA.

As we move from policy to practice, we need to embed sustainability in our supervisory priorities.

The issue has always been important. But now it is becoming a more pressing issue and this means that we must also accelerate our activity and the scope of our ambition.

We need to further deepen our concepts and further consolidate the framework for assessing and managing sustainability risks, supported by supervisory scrutiny and monitoring of market developments.

Above all, we need to continue to work together. The risks associated with sustainability are too big to be tackled alone and that is why we – at EIOPA – value events like today's roundtable. Through consultation and dialogue, we can – together – create solutions that will foster a strong and, above all, sustainable insurance and pensions sector in Europe.

Thank you all for joining me today. I hope you enjoy today's Roundtable.