



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

NEWS

DATE:

19 Apr 2021

The European Insurance and Occupational Pensions Authority (EIOPA) issued today an Opinion on the supervision of the use of climate change scenarios in the Own Risk and Solvency Assessment (ORSA) addressed to national supervisory authorities. In this Opinion EIOPA sets out expectations on the supervision of the integration of climate change risk scenarios by insurers in their ORSA.

The (re)insurance industry will be impacted by climate change-related physical and transition risks. However, only a minority of insurers assess climate change risks in the ORSA using scenario analysis, usually limited to a short-term time horizon. Therefore, EIOPA considers it essential to foster a forward-looking management of these risks to ensure the long-term solvency and viability of the industry.

National supervisory authorities should expect insurers to integrate climate change risks in their system of governance, risk-management system and ORSA, similar to all risks undertakings are or could be exposed to. In the ORSA, insurers should do an assessment to identify material climate change risk exposures and subject the material exposures to a risk assessment.

Climate change risks should be assessed not only in the short term but also in the long term using scenario analysis to inform the strategic planning and business strategy. Insurers should subject material climate change risks to at least two long-term climate scenarios, where appropriate:

- a climate change risk scenario where the global temperature increase remains below 2°C, preferably no more than 1.5°C, in line with the EU commitments; and
- a climate change risk scenario where the global temperature increase exceeds 2°C.

The Opinion follows a risk-based and proportionate approach, recognising that methodologies are still developing and insurers need to gain experience. Insurers are expected to evolve the sophistication of the scenario analyses, taking into account the size, nature and complexity of their climate change risk exposures. The Opinion provides practical guidance on how to select and use climate change scenarios.

EIOPA expects national supervisors to collect qualitative and quantitative data to perform a supervisory review of the analysis of short and long-term climate change risks in the ORSA. Instruments for data collection should be the regular supervisory reporting, most notably the ORSA supervisory report. EIOPA will start monitoring the application of this Opinion by the national supervisory authorities two years after its publication.

[Download the opinion](#)

Background

EIOPA is mandated by Article 29(1)(a) of its [Regulation](#) to issue Opinions to national competent authorities to enhance supervisory convergence. This Opinion is delivered on the basis of the [Solvency II Directive](#), in particular in relation to Articles 41, 44, and 45, the [Commission Delegated Regulation](#), in particular in relation to Articles 262 and 306 and EIOPA's [Guidelines on own risk](#)

and solvency assessment.