

Sustainable finance priorities: A snapshot

Opening remarks by Petra Hielkema at the fifth sustainable finance roundtable

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Thank you all for joining today's roundtable on sustainable finance. It is our fifth event and I am pleased that we had so much interest – around 1000 people registered for the event.

I think this interest reflects not only the appeal and importance of our work at EIOPA, but more generally the importance of the topic for the insurance and pensions sectors.

These days there are very few of us who have not been touched by the effects of climate change in the recent past – and unfortunately, some more severely than others. We see at close hand the impact that climate change has on human, social and economic life.

And I think all of us at today's roundtable recognise the importance that the insurance and pensions sectors can play in strengthening our response as a society and fostering resilience.

Everything that you will hear today represents actions and activities designed to address sustainability risks, so that insurers and pension funds can continue to offer relevant and affordable risk management solutions against natural catastrophes or old age poverty. So that people can be sure that insurance will be available to them at a price they can afford.

And you will hear a lot today. We have a packed agenda with great speakers and

here I would like to thank my colleagues at EIOPA for putting together such an engaging event and I would also like to thank all our speakers who will make sure that our discussions are both lively and informative.

Now, before we get started with the first sessions, I would like to take some time to highlight some of EIOPA's key priorities and underline the importance of implementation as we tackle these challenges.

A snapshot of our priorities

To coincide with today's roundtable, we are also setting our [sustainable finance priorities for the coming three years](#).

And I say that these are our priorities, but really they are broader than that. You will see them reflected in those of the European Commission and indeed being discussed at global level.

We have settled on seven areas of focus. Most are on the agenda today and so rather than I explain all seven to you, I will highlight a small number and send you to the neat summary that we have produced and you will find on our website.

Protection gaps

Let me start with protection gaps.

At EIOPA, we have a fundamental contribution to analysis of protection gaps and we are going to continue our work so that we can raise risk awareness and improve risk assessment, risk prevention and adaptation measures.

In identifying the causes of gaps, we can usefully engage in developing options to address these gaps.

Last year, you heard about the first EU-wide dashboard on the insurance protection gaps for natural catastrophes. In the coming year, we will complete our pilot dashboard and engage in analysis on consumer behaviour towards coverage for natural catastrophes and other climate-related risks. We will build on our earlier work on protection gaps with regard to pandemic risks and engage with the Commission, industry and public stakeholders in a climate resilience dialogue.

With our access to good data and technical expertise, we can establish where the gaps are and identify their drivers. And, with this as our basis, we can further the discussion on closing gaps.

Focussing on the risk management role of insurers

Another priority is to further integrate sustainability throughout all pillars of the prudential insurance and pension frameworks.

Following our initial focus on governance and risk management, we will now turn to Solvency II Pillar I aspects and work on the review of capital requirements for natural catastrophe underwriting. We will analyse the prudential treatment of investments associated with environmental and/or social objectives and climate-resilient insurance products.

We will also assess the application of sustainability in the prudent person rule for IORPs.

Gradually, we will amend Pillar III supervisory reporting under Solvency II to include reporting on sustainability risks.

We remain committed to address risks and opportunities to insurers' liabilities, to secure the availability and affordability of insurance in light of climate change.

In fact today, we will launch our pilot exercise on impact underwriting to seek out good practices in offering climate-resilient insurance products, to incentivise climate adaptation.

You will hear more about this exercise later today and I sincerely hope that you will sign up to our pilot exercise.

The 'S' in ESG

The two examples that I have given so far relate to climate change.

But we shouldn't only be talking about climate change. When we talk about ESG – which we do a lot – there are three words: Environmental, social and governance.

It's time to give attention to the S in ESG.

We need to give more consideration to the social aspects of sustainable finance.

Of course there is much less available data for the social side than environmental, but that does not mean it is less relevant. Because eventually, social issues will become prudential issues.

We see that there is still considerable work to be done to develop a social taxonomy at the European level and we will continue to engage with the Platform on Sustainable Finance, and our sister European supervisory authorities to further develop social indicators.

What I have outlined here is a snapshot of our upcoming work, but I know that you will find out more about our seven areas of activity throughout the course of the day.

Implement, implement, implement

Now, I would like to turn to the topic of implementation.

Because we have moved on from asking ourselves IF we should do something, and now we are defining HOW we do it.

And this applies to us all: industry, supervisors and us at EIOPA.

Let me start with industry.

We are asking a lot from you. This is because sustainability issues pose a risk to both sectors' assets and liabilities.

It is true that not all insurers and pension fund providers will be touched in the same way. Some insurers may experience increasing claims from damage caused by extreme weather events; some pension funds or insurers may be facing losses on their investments as a result of these same catastrophes.

Also some insurers and pension funds are or will be more advanced in tackling these risks than others.

What I would like to stress is that climate change is not just an issue for the 'big players', but the big players can lead the way. They can share their good practices with smaller players who then would not have to start from scratch but can get a step ahead by learning from others. At the same time small players

may prove to be more agile to innovate and adapt to sustainability preferences of consumers, thereby also showing good practices that could be shared.

And we at EIOPA are here to facilitate this sharing of knowledge. In quantitative terms, we can collect data, analyse it from a pan-European perspective and share it through dashboard and other publications. And in qualitative terms, we can foster discussion and listening. Together, through sharing, we can quickly know what works and what does not.

Besides this, EIOPA is also here to provide guidance. Take the Own Risk Solvency Assessment, or ORSA. Later this month, we will release application guidance for (re)insurers' climate risk materiality assessment and scenario analysis in ORSA. This is another thing that you will hear about today, as well as our plans to consult and engage with industry on this early on in 2022 in a pilot exercise.

Now to supervisors.

Because we are also asking a lot from the supervisory community.

And while we are gaining a solid footing on sustainability through regulatory frameworks, we also need good supervisory frameworks to make sure that regulation is doing its job.

And as we build from policy to practice, we must also as a supervisory community look at the 'how'. Here we want to achieve convergence from the start, because the more aligned we are as supervisors, the better the outcome for policyholders and beneficiaries.

Because just as there are challenges for industry, so there are challenges for supervisors.

While the industry is facing the challenge of integrating sustainability preferences in insurance and pension products, supervisors will be facing the challenge of fighting greenwashing. This is another area that you will hear more about today: the implementation of disclosure requirements arising from the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation and the challenges linked to this.

But, as with industry, we are here to provide national supervisors with guidance and share best practices. Through our supervisory toolkit, in particular through Opinions and Supervisory Statements, we can set out our expectations on what requires supervision and how.

And EIOPA will continue to engage continuously and deeply with the supervisory community, because this is also one of our roles: to foster a common approach to supervision and to enhance the capacity of supervisors.

Finally, let me say some words about our own role at EIOPA.

First and foremost, our mission is to protect the public interest, by helping to ensure the short-, medium- and long-term stability and effectiveness of the financial system for the EU's economy, businesses and people.

In a nutshell, our role is risk assessment and risk prevention.

And to this role we bring our ability to facilitate the sharing of good practice, our guidance and our access to data at the European level.

On this last point, we will support the modelling and management of climate change risks, by positioning ourselves as a potential open source data hub providing relevant aggregate data, such as for example climate-related insured loss data, in a transparent and easily accessible manner.

As you know, data and models on climate-related risks are crucial to improve the accuracy of climate risk assessment for the industry and supervisory community. And as an insurance supervisor, it is our natural instinct to see how we can improve the collection of uniform and comprehensive insured loss data. This will take some time and further discussion, but we are on our way.

EIOPA also has another role: to keep the discussion focused and evidence-based. Climate change, sustainability – these are emotional subjects.

And emotion nearly always results in rash not rational decision-making.

Here EIOPA can be relied upon to provide evidence based advice so that policy making is informed and issues do not fade away when something more emotive comes along.

And linked to this role, we can also make sure that issues are addressed not just at European level, but also at global level.

For this reason, EIOPA places great importance in building synergies and contributing to global standard-setting. Climate does not stop at borders. And so as a member of the Network for the Greening of the Financial System (NGFS), the Sustainable Insurance Forum (SIF) and the International Association of Insurance Supervisors (IAIS), EIOPA will continue to actively contribute to developing convergent practices for the supervision and management of sustainability risk from an early stage.

In conclusion: Inaction is not an option

There's a great line in Apollo 13 - a film about a failed mission to the moon. The flight director charged with bringing the astronauts safely back to earth pronounces that 'failure is not an option.'

I won't compare this meeting or even EIOPA to mission control, but I feel that the sentiment is similar. In fact, I would even adapt the famous Apollo 13 quote to 'inaction is not an option.'

Because without question, we need to act. And we need to act now.

We cannot wait for the perfect solution before we start acting; we need to acknowledge that different solutions are emerging as we speak and will continue to inform our discussions.

We need to persevere and we need focus.

And this is why we have picked seven areas to focus on. But we know that there will always be new ideas and new challenges to face.

And also, we know - and we have always said - that insurers and pension funds can play a very important role in contributing to manage and reduce sustainability risks.

So let's look at today as one action in the many that we will be taking to create stronger sectors, stronger supervision and above all a stronger society.

And with that, I would like to thank you again for joining today's roundtable. I know that the day will be filled with good discussions and interactions.

Thank you very much.

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