



EIOPA publishes third paper on methodological principles of insurance stress testing climate risks

NEWS

DATE:

27 Jan 2022

The European Insurance and Occupational Pensions Authority (EIOPA) published today its [third paper](#) in a series of papers on the methodological principles of insurance stress testing. The methodological paper focuses on the climate change component and is a further step in enhancing EIOPA's stress testing framework.

In particular, the paper sets out methodological principles that can be used to design bottom-up stress test exercises that aim to assess the vulnerability of insurers to climate risks. Although the emergence of climate risks is relatively recent compared to other insurance-specific and financial risks, incorporating them has rapidly become a priority for policymakers and supervisors alike.

Hence, any climate change stress test at this stage should be considered as part

of a learning curve for industry and supervisors that is bound to evolve in the future. Already now, climate stress testing is an important tool to:

- raise awareness of climate-related risks,
- understand how insurers assess such risks,
- enhance risk management capabilities,
- evaluate potential spillover effects to other parts of the financial sector and to the real economy.

Amid the increasing consideration given to climate risks by the insurance industry and by supervisors at a European and global level, and in the absence of a commonly adopted climate stress testing framework for the insurance sector in the European Union, the paper presents conceptual approaches to the assessment of the climate risks for insurers under adverse scenarios.

The paper also took into account the feedback provided by stakeholders during the public consultation.

[DOWNLOAD THE PAPER](#)

Background

In 2019, EIOPA initiated a process to improve its methodology for bottom-up stress testing. The [first paper](#) of the series set out the methodological principles of insurance stress testing while the [second paper](#) focused specifically on methodological principles that can be used to design exercises assessing insurers' vulnerability to liquidity shocks.

Sustainable finance is a strategic priority area for EIOPA and the methodological principles for insurance stress testing of climate risks are part of a broader set of activities in this field (see [EIOPA's work on sustainable finance](#)). The principles presented in this paper draw lessons from earlier work by EIOPA on sustainable finance, such as the [sensitivity analysis of climate-change transition risks](#).