

IRSG

# INSURANCE AND REINSURANCE STAKEHOLDER GROUP

**Advice on Consultation Paper on draft  
opinion on the supervision of the use of  
climate change risk scenarios in ORSA  
(EIOPA-BoS-20/561)**

**IRSG-20-44**

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# 1. SUMMARY ON IRSG ADVICE ON CLIMATE SCENARIOS IN ORSA

The IRSG welcomes EIOPA's consultation which seeks to bring both clarity and tools to NCAs and the insurance industry to enable risks associated with climate change and its impact on insurance business models and services offered for consumers to be effectively addressed. The IRSG believes it is important to foster forward-looking management of climate change risk as well as other risks that are fundamental for the insurance sector and for consumers who are dependent on insurance products. We agree that insurers should consider the management of climate change risks which are expected to have a future material impact on their business model and balance sheet. The assessment of climate risk impacts in ORSAs should foster a good discussion and learning process between insurers and supervisors. Simple and bold scenarios, which are relevant for and proportionate to a company's risk profile, can be a useful tool to assess the impact of climate change risks. Anyway, even though climate change is a fundamental issue, any new requirements should not go beyond the primary and foremost objective of any insurance supervisory regime which is to ensure that (re)insurance companies are able to pay all their debts, and especially the liabilities from insurance contracts (i.e. expected claims and associated expenses) on time.

We consider that quantitative climate change scenario analysis should only be included in the ORSA where climate risk is material and the needed reliability can be reached. Qualitative assessment should be used to judge whether the needed level of significance is reached for the need for quantitative scenarios, taking into account geographical specificities related to climate change risk, level of uncertainty on scenarios, and reflecting the undertaking's individual risk situation. Qualitative assessments would need to meet certain level of details to justify not quantifying the scenarios.

Where considered necessary, quantitative scenarios in the ORSA should generally be aligned with a company's strategic planning time horizon, as this is the horizon to which companies tend to apply rigorous analysis and governance, and over which projected outcomes are likely to be most realistic. Use of detailed projections relating to longer term scenarios is likely to be much less reliable, and informative. This is an "awareness" exercise more than an effective tool for risk management or strategic planning. This is why we question the value of very long term quantitative analysis of impacts, e.g. order of magnitude of decades, at least for companies which can regularly change product prices in response to evolving circumstances. The cost and resource commitment to prepare quantitative calculations would be significant with limited benefit for company or supervisor, and qualitative analysis of these very long term impacts may be sufficient.

Generation of scenarios which are appropriate concerning climate change is a difficult task and should not be overly regulated. Insurers should have freedom to decide on the focus areas and technicalities needed in light of the nature, scale and complexity of their business, and associated

risks. We would particularly emphasize that climate change related outcomes are non-linear, and both economies and the markets will constantly adapt to them. Decision makers will need to take into account both short and long term KPI's, model risk is inherent in emerging calculations, and strong qualitative support is essential. The above aspects need to be taken carefully into account in the scenario work, which will require the application of relevant guidance, information and new skills to be effective.

The IRSG is of the opinion that ORSA should remain solely as the company's own analysis, as it currently is, albeit potentially with additional supports, background materials and tools as outlined above relating to risks associated with climate change. No separate regulatory treatment is needed in the context of the ORSA, as the process should already cover all relevant risks for the ORSA timeframe. It is not appropriate or effective for reasons set out above to have standardized 'one size fits all' quantitative scenarios to be included in the ORSA for all companies. We also consider that any additional macro-prudential assessments of climate risk impacts which are deemed necessary should be assessed in other ways than via new ORSA requirements.

The IRSG also brings out that the possible ORSA climate scenario analysis has no implication on capital requirements, as per Article 45 (7) of the SII Directive clarifying that the ORSA should not serve to calculate a capital requirement. We note also that good and strong governance of the ORSA implies that assessments which are meaningless or too uncertain should not be included in the ORSA and that the principle of proportionality should be taken properly into account. The ORSA is not a tool designed for disclosure, and climate-related disclosure is rightly addressed elsewhere.

## 2. ANSWERS ON SPECIFIC QUESTIONS

Climate change risk scenarios in ORSA (EIOPA-BoS-20/561)		
#	Question	Answer
Q.1	Do you agree that it is important to foster a forward-looking management of climate change risk by insurance undertakings? Please explain.	<p>Yes.</p> <p>We welcome EIOPA's paper as a sensible set of directions. The ORSA framework has the required flexibility to allow climate risk to be considered, where material, in a forward-looking manner. This also reflects the Task Force on Climate –Related Financial Disclosures’s (TCFD) recommendation to integrate scenario planning into risk management. Such analysis could also serve several objectives: identifying risks, helping to define climate strategy, contribution to the objectives of the Paris Agreement and on transparency towards supervisors and possibly also in some ways to other main stakeholders.</p> <p>It is also important that companies should have the flexibility to conduct the ORSA assessment of climate change related risks in a way that the outcome is most meaningful for them. To achieve a meaningful and proportionate approach, the Opinion should be clear and incontrovertible on the fact that:</p> <ul style="list-style-type: none"> <li>• the ORSA should remain the company's own analysis. The decision to perform forward looking analysis on climate change risks in the ORSA should remain at the discretion of the specific insurer. It is therefore vital that insurers have the maximum flexibility in applying the most appropriate tools and assumptions to their own risk management frameworks, and in line with their own specific business profile.</li> <li>• the link between the ORSA and the strategic planning time horizon is paramount, to ensure a solid governance of the implementation of scenarios. Going beyond the strategic</li> </ul>

		<p>planning time horizon can be promoted but NSAs need to acknowledge that the lower the level of reliability of the projections in longer term scenarios, the fewer the insights and follow up actions which can be taken from such exercises.</p> <ul style="list-style-type: none"> <li>• the appropriateness of qualitative climate scenario analysis is fully acknowledged and highlight that they are as relevant as quantitative assessment, notably when the level of uncertainty is too important or the availability of data too scarce to derive reliable figures.</li> <li>• this Opinion sets no supervisory expectation in terms of standardisation of scenarios and acknowledge that own risk assessments are more meaningful for firms than prescribed compliance exercise.</li> <li>• The own assessment of climate financial risks is based on each company own tools and processes and, where scenario analysis is used, on their own scenarios.</li> <li>• The ORSA climate scenario analysis has no implication on capital requirements, as per Article 45 (7) of the SII Directive clarifying that the ORSA should not serve to calculate a capital requirement</li> <li>• The good and strong governance of the ORSA implies that no meaningless or too uncertain assessments are included in the ORSA.</li> <li>• The ORSA is not a tool designed for disclosure and that climate-related disclosure is rightly addressed elsewhere.</li> <li>• The clear recognition in the Opinion that firms can perform such scenario analysis at the level, group or solo, which makes more sense from a risk perspective.</li> <li>• No separate regulatory treatment is needed in the context of the ORSA, as the process should already cover all relevant risks. The prescriptiveness in the ORSA processes should be avoided for the following reasons: <ul style="list-style-type: none"> <li>○ The uncertainties and limitations that exist on forward-looking climate risks analyses.</li> <li>○ Materiality of climate risks differs across entities and may change over time. Insurance companies that do not identify significant climate risks in their risk profile should not be forced to use climate scenarios.</li> <li>○ Insurers should have the flexibility to rely on the tools they consider the most appropriate to manage those</li> </ul> </li> </ul>
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		<p>risks. The ORSA is not necessarily the most appropriate tool for managing climate change risk.</p> <ul style="list-style-type: none"> <li>• As with any risk an insurer is exposed to, the ORSA can already be used as a suitable place for insurers to report on any material exposure and how it is monitored and managed. We would caution against prescriptiveness in the ORSA processes, which are already assessed by the relevant supervisory authorities</li> <li>• For non-life undertakings climate change impacts in the insurance liabilities are de facto captured and evaluated within the risk modelling that is accomplished under the core process to premium and reserves settings by which any evolution of the features of the risk drivers' behaviors are automatically included. Capturing the trends out of the most recent experience is a core feature of the process.</li> <li>• A proportionate approach is needed since the materiality of climate risks differs across entities and may change over time.</li> <li>• Insurers should have the flexibility to rely on the tools they consider most appropriate to manage those risks. The ORSA is not necessarily the most appropriate tool to perform this forward-looking management of climate change risk. For instance, some insurers already include disclosures on management of climate risk and forward-looking climate scenarios analysis in a CSR (corporate social responsibility) or climate report.</li> </ul> <p>We also believe that the European stress testing exercise might be a useful tool to assess potential vulnerabilities via incorporation of a forward-looking approach based on standardised scenarios in order. At the same time, it is important that climate-related scenarios are appropriately designed.</p>
<p><b>Q.2</b></p>	<p>Do you agree that Annex 2 provides a balanced view of the costs and benefits of the draft Opinion? Please explain and provide any suggestions.</p>	<p>No.</p> <p>The IRSG believes it is difficult to claim that “the costs are outweighed by the benefits of undertakings considering short and long-term climate change risks in their ORSA” as stated by EIOPA in Annex 2. The benefits are very difficult to assess due to the uncertainty of the results in such long term horizon and the</p>

		<p>necessary simplification of hypothesis to perform such exercise. Plus, the benefits could come from other tools as climate stress testing without adding any constraint in the ORSA.</p> <p>We are of the view that the costs actually outweigh the benefits when approaches in an ORSA are not proportionate to the insurance undertakings' concerned own risk profile on the one hand, and when scenarios extend to terms that go beyond business plans strategic horizons and beyond the remits of what is needed for key management decisions on the other hand. This is all the more a strong concern that the impacts of climate change and climate change itself are not fully grasped. There are also numerous dependencies on future political decisions on a regional but also global level, that reveal the intricacies of potential contradictory approaches and behaviors that may ruin the value of forced far reaching scenarios. We think that the path that climate and society at large is following and will follow is actually unfolding at a pace providing enough inputs that can be captured in good time through insurance undertakings' due risk management processes. At macro prudential level, EIOPA can conduct every 2 or 3 years' stress tests with a dedicated climate risk focus. On costs, it shall also be taken into consideration that all analyses will rely very much on external scenarios and tools and the level of uncertainty will remain quite high.</p> <p>The remarks on benefits are high-level and it does not consider that climate scenario analysis is not only picked up within the ORSA, for instance the supervisors from France and UK have brought this up in more wide context e.g. via stress tests and also some insurance groups are using economic scenarios complemented with climate change scenarios. The ORSA is an important part, but only one element of the broader management of risk and opportunities linked to climate change through the risk management framework, business and strategic planning and corporate and social responsibility. The ORSA is one tool and the cost analysis should be considered holistically all the resources</p>
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		<p>deployed beyond across insurance groups’ business units and functions.</p> <p>While we agree with the statement that 'climate change is having an impact on the frequency and concentration of extreme weather events and natural disasters', we would note that the impact will differ greatly depending on the geography and perils examined. This is recognised by EIOPA in its <i>Discussion Paper on Methodology on potential inclusion of climate change in the Nat Cat standard formula</i> and should be acknowledged in the context of this opinion as well.</p> <p>EIOPA's concerns on insurability is acknowledged, but it cannot be for any individual company's ORSA to address an issue which is the result of collective action.</p> <p>EIOPA and supervisors can obtain the most meaningful insights on the impact of climate change on the insurance sector out of companies’ bespoke ORSA analysis. The differences in practice and approaches are the results of differences in business mix, risk profile and risk appetite. Allowing for different practices and scenarios will yield more accurate results than aiming for standardization in ORSA analysis. The CRO Forum has highlighted the strong limitations of standardised supervisory climate stress test in EIOPA’s consultation on the matter. As a general rule, the more standardised the exercise, the less granular it should be. Granularity and complexity (e.g. non-linear dependencies) is rather for internal climate studies, generally more insightful for firms as a result than standardised scenario analysis and potentially for supervisors as well.</p>
<p><b>Q.3</b></p>	<p>Do you agree that undertakings should in their ORSA not only assess climate change risks in the short term, but also in the long-term to inform</p>	<p>Yes.</p> <p>European insurers should (or could) assess climate change risks in both short and long term in their ORSA. However, we find that the opinion is strongly outbalanced on the consideration of the long-term. The importance of the short-term management of climate</p>

<p>strategic planning and business strategies? Please explain.</p>	<p>risks should not be understated: while the effects of climate risks are probably more severe in the long-term, the risks should be addressed in the short term.</p> <p>There should be a cautiousness in adding a greater prescriptiveness to the ORSA. Focusing on how to assess climate change risks, the inclusion of climate change scenario analysis in the ORSA should be subject to the materiality of climate risks for the insurer. Based on this materiality assessment, the insurer should be able to decide how to consider climate change risks in their ORSAs (e.g. via a long- or short-term assessment or a qualitative versus a quantitative assessment) and the definition of long-term, which usually would go over the strategy period of say 3 years.</p> <p>The appropriate level of granularity of the assessment, as well as whether it is quantitative or qualitative, may vary depending on the risk being addressed - the consensus today seems to be that life business will be impacted to a far lesser degree compared to assets and P&amp;C and over a far longer time horizon, according to the TCFD reports of a wide range of players – and whether a short- or long-term view is taken. In principle, the longer the horizon, the more qualitative the analysis should be.</p> <p>It is highlighted that identifying climate signals in the hazard statistics and to estimate expected losses from the <u>current</u> climate risks is already a very sophisticated task for the most advanced modelers. Yet it is an important first step to assess <u>current</u> climate risks as it provides an economic basis for the assessment of future climate change risks.</p> <p>Furthermore, it should be clarified in the Opinion that the most relevant horizon in the context of the ORSA is related to the strategic and business planning, which is the near future and focused on the actionable time horizon. Beyond this time horizon, a more qualitative approach is preferred as there are limited capabilities in the market for projecting changes in a firm’s economic position based on factors (apart from climate) such as</p>
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		<p>changing customer behavior, resilience measures, technology and governmental policy responses. For example, trying to assess the potential impact of a changing climate in 2050 and beyond, thus very long-term, on current exposure could be useful in raising awareness, but given the operational overhead of carrying out these studies, a qualitative assessment of potential pathways grounded in intelligence from climate model is arguably more prudent.</p> <p>The importance of these longer-term qualitative assessments, that are beyond the immediate business planning horizon, should not be overstated and should not constrain or distract from a focus on granular quantitative assessments on the business planning horizon.</p> <p>We also remind that sophistication in modelling should not be a goal in itself but should produce meaningful results. Furthermore, regardless of how sophisticated models are, without good quality data, good quality analysis would still be challenging if not meaningless. EIOPA expects that the scope for long-term analyses will expand including sophistication of quantitative scenario analyses. It should be clarified that this should still serve the aim of producing meaningful results that are helpful to support decisions, rather than increased modelling for the purpose of advancing sophistication. For this reason, EIOPA should refrain from specifying a timeline. Similarly, we caution against moving faster than what data vendors and modelling can facilitate. While there are providers who support e.g., a 1.5-degree scenario today, the data quality is not high, and modelling relies on a number of key assumptions and is subject to a number of weaknesses and limitations.</p>
<p><b>Q.4</b></p>	<p>Paragraph 3.3 specifies that the time horizon of the long-term scenario analysis could be longer</p>	<p>No.</p> <p>The ORSA should be kept the company’s own assessment and scenario analyses should be kept at the discretion of the insurer based on its own risk assessment. Also the need to use a</p>

	<p>than the time horizons currently considered by undertakings in their ORSA, for example a magnitude of decades may be appropriate. Is this explanation in your view adequate or should the explanation be more or less specific? Please explain.</p>	<p>magnitude of decades is absolutely not adequate considering the huge complexity and massive uncertainty of the entire subject and risk drivers. We believe the risk management due processes that insurers have in place already allow them to capture right in time what is needed to inform key management decisions and run insurance undertakings in a safe and adequate manner. Anyway, it shall be kept clear that such long-term scenarios will have a relatively different information role, given their long term time horizon and increasing level of uncertainties over time.</p> <p>We also believe that supervisory expectations should be aligned with the increasing complexity and difficulty in performing scenario analysis with longer time horizons. It is not clear how the climate change scenario analysis and the business plan are interconnected in the long term. Uncertainty with respect to climate, exposure and vulnerability can be extremely strong over a horizon of decades and insurers can gradually adapt their strategy on climate change.</p> <p>The scenario analysis with a time horizon of decades is best addressed via qualitative indications. This is because quantitative modelling of long-term horizons would have to select only a limited number of highly uncertain outcomes, which could be misleading.</p> <p>While the time horizon decision is related to the exposure to climate change risks in the short, medium and/or long term, shorter time horizons of up to 5 years are likely more adequate for the ORSA. Long term scenarios should be applied in a proportionate manner depending on the business model and specific risks of the insurer. Therefore, each undertaking should be able to decide the appropriate time horizon to use in its ORSA.</p>
<p><b>Q.5</b></p>	<p>Do you think that the examples in Annex 3 and Annex 4 cover the main transition and physical risks to which undertakings may be</p>	<p>Yes</p> <p>We find that the draft paper provides a comprehensive overview on the main climate change related risks and on the main transmission channels. As EIOPA notes, climate change can affect both sides of the balance sheet and can materialise through</p>

	<p>exposed? If not, please provide suggestions for additional examples of risks.</p>	<p>established risk categories. It is for this reason, that companies must be given enough flexibility to determine what risks are relevant for them, including risks not reflected in the overview. Also more room should be left to management actions and mitigation effects such as the possibility for insurers to change terms and conditions and/or policy underwriting criteria, the increasing resilience of exposures at risk.</p> <p>EIOPA seems to focus on the negative impacts on the balance sheet, but there might be counterbalancing arguments and some developments that could results in a more nuanced impact on the actual balance sheet risk from climate related events.</p> <p>In addition, annex 3 and annex 4 mention that climate change is having an impact on the frequency and <i>concentration</i> of extreme weather events and natural disasters. In this context, it is unclear what is meant by "<i>concentration</i> of extreme weather events". We would propose to use the terms frequency and <i>severity</i> unless the intention was to refer to spatial and temporal clustering of events. If the intention was the latter, we would like to point out that current science would not support such a generalized statement (Annex 2.5) except maybe for very specific perils and regions.</p> <p>Furthermore, annex 3 &amp; annex 4 make a link between pandemic risks and climate change without evidence supporting it. It is noted that in its most recent report published on the 23<sup>rd</sup> of November 2020, the Financial Stability Board made no reference to pandemic when assessing the implications of climate change for financial stability<sup>1</sup>. We suggest removing the example of "pandemic" as it is not a direct climate-related physical risk.</p> <p>In relation to risks stemming from climate change, we find that also risk of disruption to the financial system should be properly dealt with. This risk is well outlined in a recent paper on the topic<sup>2</sup>. The same paper</p>
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<sup>1</sup> <https://www.fsb.org/wp-content/uploads/P231120.pdf>

<sup>2</sup> [https://www.finance-watch.org/wp-content/uploads/2020/06/Breaking-the-climate-finance-doom-loop\\_Finance-Watch-report.pdf](https://www.finance-watch.org/wp-content/uploads/2020/06/Breaking-the-climate-finance-doom-loop_Finance-Watch-report.pdf)

		<p>covers also the limitations of climate stress tests, which for the moment are effectively often scenario-based analysis, and when this concern about the approach would actually come into being.</p>
<p><b>Q.6</b></p>	<p>Do you agree that the long-term scenario analysis should at least distinguish two scenarios, where appropriate:</p> <ul style="list-style-type: none"> <li>- a scenario where the temperature increase remains below 2°C, preferably no more than 1.5°C, and</li> <li>- a scenario where the global temperature increase exceeds 2°C?</li> </ul> <p>Please explain.</p>	<p>No.</p> <p>The IRSG believes that the specification of fixed scenarios is not appropriate for the ORSA. The ORSA should remain company specific and undertakings should retain full flexibility to reflect differences in time horizons, company specificities and risk exposure.</p> <p>Prescriptive standardised scenarios are contrary to the principle of the ORSA that should reflect the company’s own risk analysis. Each company is better placed to choose the most appropriate scenarios and related specifications. Depending on the risk exposure, a given proposed scenario might not be relevant while another set of scenarios might be more useful, e.g. qualitative scenarios based on social and political reactions to climate change in a specific region where the insurer manages some strategic business.</p> <p>This considered, suggestions on scenarios that could be used are welcome. This will help achieve a common view on how to deal with climate risks and to have higher quality of the scenario assessment. In this respect, it is key not to multiply the number of quantitative scenarios to be used and, given the great uncertainties in this area, to keep them simple and based on high-level principles that allow for flexibility. Supervisors should focus on such general principles rather than on a prescribed standardised set of long-term scenarios with a prescribed time span. Climate change is only one of many risks to be dealt with. In fact, insurers should investigate, and stress test all major risks.</p> <p>Anyway, more background material and tools to help insurers to build their own customized scenarios might be useful, in case climate change risks are seen material. Some insurers might have a lack of resources to take the needed step to include such new</p>

		<p>scenarios into their analysis and could benefit of such a help. Also some benchmark scenarios could be provided for this use but the number of scenarios to explore should be very limited on the one hand because of the already very disputable nature of the alleged content of the scenarios and aligned with some widely spread consensus such as the Paris Agreement or the Intergovernmental Panel on Climate Change (IPCC) reflections. These kind of benchmark scenarios would form the basis of explorations at macro prudential stress test exercise level. We also underline that it is paramount that the nature and horizons of climate investigations be left to insurance undertakings decisions, definitions and choices at micro prudential ORSA exercise level.</p> <p>Finally, it is also essential for a specific insurer to have the tools and risk management processes in place that enable continuous monitoring. Also, it's important to update the risk drivers that impacts its own risk profile, irrelevant of whether these evolutions can or cannot be directly related to a specific defined level of climate change in temperature. We believe this pragmatic approach is most relevant and useful as well as reflective of the way risks are adequately managed rather than running high level views of climate changes in temperature that still fall far short of what is needed to model an impact at the level of granularity of an insurance undertakings risk drivers and dependencies.</p>
<p><b>Q.7</b></p>	<p>Do you agree that scope, depth and methodologies of undertakings' quantitative (scenario) analyses of climate change risks should be expected to evolve, considering that undertakings need to gain experience and build</p>	<p>Yes.</p> <p>We find that this is definitively true for all risks and remains valid for Climate risk, where proper understanding and modelling of risks is needed.</p> <p>We would emphasize the six factors that needs to be taken carefully into account in the scenario work and that it will require both information and new skills to do it properly:</p> <ol style="list-style-type: none"> <li>1. Non-linear path. The phenomenon is non-linear and should be dealt to allow this</li> </ol>

<p>technical capacity? Please explain.</p>	<ol style="list-style-type: none"> <li>2. Constant adaptation. Both economies and the market will constantly adapt into the change which will make the transition process hard or even impossible to properly estimate</li> <li>3. Short &amp; Long term decisions together. Investor having both short and long term KPI's need to balance between these and making decisions constantly, which will obviously effect on any management action assumption</li> <li>4. Model risk. The attempt to quantify the relationship between climate change and the markets has a number of obstacles and contains a material model risk in it</li> <li>5. Qualitative support. A holistic qualitative analysis is needed to complement any quantitative result and make it understandable or justified.</li> <li>6. It is possible to use climate risk scenarios to help the decision making but the earlier aspects are fundamental to keep in mind</li> </ol> <p>An informative and practical example of a multi-period strategic asset allocation process under climate change analysis can be found from UN Principles for Responsible Investments I 8/2020<sup>3</sup>.</p> <p>There are also many uncertainties on the way climate change will impact economic and social systems and the interconnection between sectors and sub-sectors. It is therefore difficult to translate such impacts through the macroeconomic and financial hypothesis and shocks commonly used in traditional ORSA scenario analyses. It does not only depend on experience and technical capacity but also on scientific consensus on impacts and clear political trajectories given by public authorities. Also, undertaking already take into account climate change risk through other tools. In France for example, there is a stress-testing like exercise proposed to the market by the supervisor that helps some insurers to gain experience and build technical capacities.</p>
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<sup>3</sup> <https://www.unpri.org/asset-owner-resources/strategic-asset-allocation-adopting-a-dynamic-multi-period-world-perspective/6223.article>

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<p><b>Q.8</b></p>	<p>Do you have suggestions to improve the guidance provided in Annex 5 to assist competent authorities in supporting undertakings to apply</p>	<p>Yes.</p> <p>The ORSA should be kept as the company's own assessment and scenario analyses should be kept at the discretion of the insurer based on its own risk assessment. This considered, we also have the following suggestions:</p>

	<p>scenario analysis in their ORSA? If yes, please provide your suggestions.</p>	<ul style="list-style-type: none"> <li>• The first guideline should be that an insurer' examination of climate risk should be proportionate to its size, complexity and vulnerability. The list of suggestions to include different elements in the scenarios is very long. We believe annex 5 is beyond the scope of the ORSA and seems too detailed for this context and for this purpose.</li> <li>• Competent authorities should initially encourage and challenge (re)insurers to make a first step on the assessment of climate related risks (identification, qualitative impact on both short term, ie 1-3 years, and longer term, ie 5 or more years).</li> <li>• Competent authorities should be aware that translating the results of climate change risk scenarios into financial impacts could be potentially misleading, if not all variables are clearly considered. Given all the associated uncertainties, there is a risk of making decisions based on evidence that is in fact hardly significant, where professional judgment and consideration of future business environment (changes in portfolios, conditions, rates, economy, etc.) alone would be more valuable.</li> </ul> <p>Data quality and science-based target initiatives (pathway analysis) are also worth considering as important to improve and develop reliable scenarios. As data science is developing among insurers, it is providing valuable enhanced insights in risk analysis and management, strengthening the quality and reliance of risk management processes. Assets are priced in markets well aware of climate issues. Market prices necessarily factor climate implications in ways that are certainly meaningful. In this respect, we think it is important to support and encourage all asset owners to develop and ask for better data incorporating a number of dimensions and scopes.</p>
<p><b>Q.9</b></p>	<p>Do you agree that competent authorities should encourage larger undertakings to disclose climate-related information, in line with</p>	<p>Yes.</p> <p>We think transparency of climate-related information is key for a number of reasons: to increase awareness of the effect of climate change, to enhance resilience of business models, achieve better understanding of climate change, improve identification of climate</p>

	<p>the Commission's Guidelines on non-financial reporting on climate-related information? Please explain.</p>	<p>risks and their transmission channels, etc. In fact, various insurers already publish a dedicated climate report and most European insurers already provide some form of sustainability risk disclosures, e.g. following the TCFD recommendations.</p> <p>While requirements to disclose information on climate risk should be regulated through the review the non-financial reporting, competent authorities can already encourage larger undertakings to disclose climate-related information via non-financial reporting, especially when reporting is publicly available. In addition, they can play a role in facilitating the availability of ESG information, which is a key challenge for insurers.</p> <p>Information disclosed should of course be consistent with the ORSA. However, the ORSA itself is not the appropriate mechanism to provide climate-related reporting. Disclosing ORSA specific information about the risk exposures, including climate change risk, should remain at the discretion of each company. While ORSA is used for internal purposes, in particular for its own risk assessment and management, external reports are intended to inform stakeholders. There is a danger that the different objectives and requirements will be mixed up.</p>
<p><b>Q.10</b></p>	<p>Does the draft Opinion strike the right balance between setting common expectations and allowing undertakings to do their own risk assessment? If not, please explain in what areas the draft Opinion could benefit from more or less consistent approaches.</p>	<p>No.</p> <p>As stated before, ORSA is the company's own analysis and should remain this way. Climate stress testing would be more appropriate in the objective of setting common expectations and standardized scenarios. The insurer should decide of the best way to undertake such an exercise, both in terms of time horizon and granularity. In its attempt to assess climate change impacts under the ORSA, an insurer must rely on its own views and understanding. This is all the more necessary as there are strong unknowns and uncertainties in the evolution and impacts of climate change which may produce very different outcomes. Additionally, most items are interdependent and some approaches appear artificial.</p>

		<p>A proportionate approach is needed since the materiality of climate risks differs across entities and may change over time. Insurance companies that do not identify significant climate risks in their risk profile should not be forced to use climate scenarios.</p> <p>We are of the view that the costs actually outweigh the benefits when on one hand, approaches in an ORSA are not proportionate to the insurance undertakings' own risk profile and on the one hand, when scenarios extend to terms that go beyond business plans strategic horizons and beyond the remits of what is needed for key management decisions.</p> <p>This is all the more a strong concern that the impacts of climate change and climate change itself are not fully grasped.</p> <p>We also caution about creating too high expectations about the power of highly uncertain scenario analysis to create input for decisions. The focus should be on integrating climate change in existing risk management processes and tools, e.g. to address potential gaps that might currently exist.</p>
<p><b>Q.11</b></p>	<p>Do the expectations put forward in the draft Opinion achieve a proportionate approach to climate change risk analysis in ORSA, fitting small-, medium- and large-sized undertakings? If not, please provide your suggestions to improve proportionality of the draft Opinion.</p>	<p>No.</p> <p>First of all, the principle of proportionality in Solvency II focuses on the nature, scale and activity of the risks inherent to an insurer business, and not simply to its overall size. In any case, there is not much distinction made between small-, medium- and large-sized undertakings. While each insurer should decide whether the ORSA is the right instrument to capture climate change risks that can materialise over a longer time frame, the Opinion sets the expectations on small undertakings too high. It cannot be expected that small and medium sized undertakings have the same resources for performing the same sophisticated analyses as other undertakings.</p>

		<p>Moreover, the burden and costs would be disproportionate for undertakings of all sizes for which the targeted risk is non-material. A simple and proportionate approach is needed. For companies with no material exposure to climate risk, this means that it should be possible not to prepare scenario analyses at all. A qualitative assessment, with the possibility to use scenario analysis, should be sufficient in this case and equally valuable for the analysis in the ORSA.</p> <p>Considering that the purpose of the ORSA is to model the undertaking's own risks, it is of utmost importance to allow undertakings to develop and apply own risk assessment methodologies without introducing uniform requirements that cannot take into account geographical specificities related to climate change risk and reflect the undertaking's individual risk situation adequately.</p> <p>Finally, we find that the issue is less the proportionality in relation to company size, rather the materiality assessment of climate change risks and the relevance of the flexibility to select scenarios and appropriate quantification in line with an insurer's own practices and modelling. As stated before, while we agree that climate change is a key risk across our industry, EIOPA's efforts to improve its assessment and ensure a proper integration of climate change analysis in the ORSA should not come at the cost of increasing prescriptiveness in the ORSA process. Undertakings should have the flexibility of appropriately addressing climate risks according to their own ORSA process.</p>
<p><b>Q.12</b></p>	<p>Do you have any other comments on the draft Opinion? If yes, please provide these other comments.</p>	<p>Yes.</p> <p>We would highlight that it is worth reminding that climate risks materialize over a long-term horizon, which exceeds the three-year period generally used under ORSAs or other solvency monitoring tools that might be thought of, including macro prudential stress tests. One simple solution may be to perform climate risk analyses which will be adjusted on an ongoing basis and simply report this in</p>

		<p>the ORSA with an update if any is needed each year, or obviously in case of a significant change in risk profile.</p> <p>EIOPA should also highlight that the results of climate scenario analyses might not be fit for the solvency assessment for the following reasons:</p> <ul style="list-style-type: none"><li>• There are many uncertainties relating to climate change itself, which are difficult to rationalise through the macroeconomic and financial hypothesis and shocks commonly used.</li><li>• Climate scenarios analyses should therefore not be used to assess the solvency of insurers as this might result in ill-informed market signals and be inconsistent with a stable transition to greater financial sustainability.</li><li>• EIOPA should make of use of the right means to achieve its goals. Scenario assessments are not always the best solution. “What if” assessments and qualitative analysis can be equally useful.</li></ul> <p>We also find that it is important to make it clear that climate risk analysis is a forward looking analysis of an emerging/future risk, distinguishing itself from the solvency calculation, that for example already exists for Catastrophe modelling under Solvency II.</p>
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