



IN BRIEF

# SUSTAINABLE FINANCE ACTIVITIES 2022-2024

## EIOPA'S PRIORITIES TO ADDRESS SUSTAINABILITY RISK

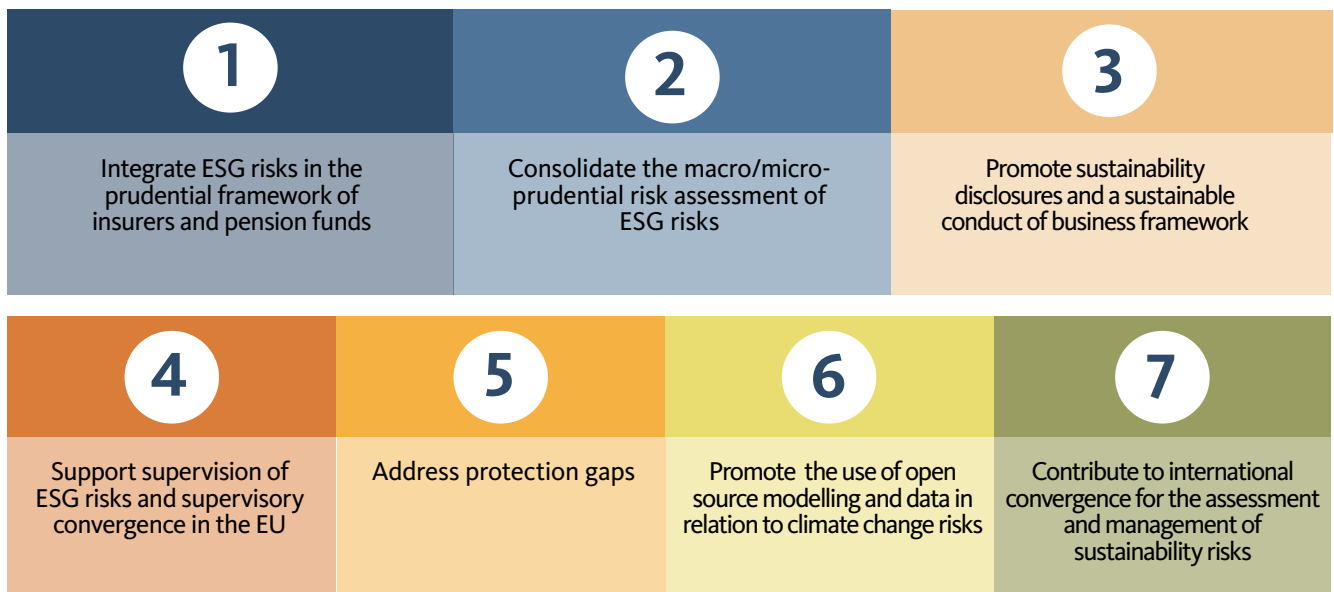
The insurance and pensions sector can play an important role in the mitigation and adaptation to climate change or sustainability risks, through their investments, products and services. Integrating sustainability considerations in the behaviour of consumers and insurance and pensions providers' business contributes to better risk management. Over a longer term, this should secure a sustainable insurance and pensions sector, providing relevant and affordable risk management solutions for EU citizens.

As a supervisory authority, EIOPA's mission is to protect the public interest, by helping ensure the short-, medium- and long-term stability and effectiveness of the financial system. Through its work on sustainable finance, EIOPA aims to ensure that (re)insurers and occupational pension funds integrate sustainability risks in their risk management, to protect consumers and secure financial stability.

## KEY AREAS OF ACTIVITY

The activities reflect the need for global action to enable decisive progress on the transition to a more sustainable economy. While continued emphasis is being put on climate-related initiatives, other elements of environmental, social and governance (ESG) risks will deserve enhanced attention, and increasing consideration will be given to social aspects.

The key areas of activity build on EIOPA's deliverables on sustainable finance since 2018, and are reflected in the EU Commission's priorities included in the Strategy for Financing the Transition to a Sustainable Economy and Climate Adaptation Strategy, as well as recent regulatory initiatives.



# 1

## INTEGRATE ESG RISKS IN THE PRUDENTIAL FRAMEWORK OF INSURERS AND PENSION FUNDS

Following an initial focus on governance and risk management, EIOPA will deepen its analysis of the prudential 'Pillar 1' capital treatment of natural catastrophe liabilities, investments associated with environmental and/or social objectives, or associated substantially with harm to such objectives, and climate-resilient insurance products. EIOPA will assess the application as part of IORPs' fiduciary duty as part of IORPs' fiduciary duty. Supervisory reporting under Solvency II will be gradually revised to include reporting on sustainability risks. This should ensure the integration of sustainability in all pillars of the prudential frameworks.

### KEY DELIVERABLES

- › Proposals for supervisory reporting of climate risks in Solvency II
- › Analysis of prudential treatment under Solvency II of assets and/or activities associated with environmental and / or social objectives or associated substantially with harm to such objectives
- › Report on underwriting practices and prudential treatment of the integration of climate change-related adaptation measures in non-life insurance products
- › Analysis on the integration of sustainability considerations in IORPs fiduciary duty.
- › Reassessment of the natural catastrophe risk standard formula capital charges



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Report on non-life underwriting and pricing in light of climate change  
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Methodological paper on potential inclusion of climate change in the Nat Cat standard formula.  
> [Read more](#)

# 2

## CONSOLIDATE THE MACRO/MICRO-PRUDENTIAL RISK ASSESSMENT OF ESG RISKS

Global, cross-sectoral coordination and scientific input on relevant climate change scenarios are essential to assess the sectors' resilience to sustainability risks. Following EIOPA's pilot exercise on transition risk, EIOPA will conduct an analysis on climate change-related physical risks for insurers.

The IORP 2022 stress test is foreseen to include ESG-related aspects, and EIOPA will release methodological principles for climate change insurance stress testing. Continuous engagement with the ECB and the ESAs will lay the basis for future coordinated climate stress testing.

### KEY DELIVERABLES

- › Methodological principles of insurance stress testing- climate change.
- › Report on physical risk analysis
- › Participation to a potential cross-sectoral climate change stress test exercise



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Report on the sensitivity analysis of climate-change related transition risks  
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Financial stability dashboard includes ESG risks  
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### 3

## PROMOTE SUSTAINABILITY DISCLOSURES AND A SUSTAINABLE CONDUCT OF BUSINESS FRAMEWORK

The sustainable finance ecosystem relies on transparent communication on the sustainability or taxonomy compliance of financial products and activities. EIOPA will engage in providing further guidance on sustainability-related disclosures and reporting. 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.

### KEY DELIVERABLES

- › Guidance on disclosures and reporting under the Sustainable Finance Disclosure Regulation and Taxonomy Regulation
- › Advise EU COM on measures to address greenwashing
- › Guidance on the application of sustainability-related provisions in the insurance sales process



### LEARN MORE

Final Report with draft Regulatory Technical Standards (RTS) on product-related taxonomy disclosures

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Advice on RTS on the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector

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Advice on KPI for environmentally sustainable activities by insurers or pension funds under Article 8 of the taxonomy regulation

> [Read more](#)

### 4

## SUPPORT SUPERVISION OF ESG RISKS AND SUPERVISORY CONVERGENCE IN THE EU

Climate change and social challenges impact the longer term sustainability of insurers and pension funds' business models as well as consumers' demand for risk solutions.

EIOPA will provide guidance on the supervision of climate-related risks and engage with (re)insurers on climate risk materiality assessment and scenario analysis in ORSA. Climate risk discussions will take place in supervisory college meetings and, gradually, EIOPA will start monitoring the offer of sustainable products.

### KEY DELIVERABLES

- › Supervisory handbook on the supervision of climate-related risks in Solvency II Pillar 2
- › Application guidance on the supervision of the use of climate change risk scenarios in ORSA, with voluntary pilot exercise on running climate change materiality assessment and using climate change scenarios in ORSA
- › Cost and Past Performance analysis on ESG products
- › Guidance on the supervision of ESG conduct risks, including greenwashing



### LEARN MORE

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

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## 5

### ADDRESS PROTECTION GAPS

Protection gaps are costly to society. EIOPA's work on protection gaps aims to raise risk awareness and inform, with technical analysis, the discussion on measures to improve risk assessment, risk prevention and adaptation measures, as well as incentives for appropriate product design and risk transfer for climate change and pandemic risks. EIOPA will complete the first EU-wide dashboard on the insurance protection gap for natural catastrophes and engage in analysis on consumer behaviour towards coverage for natural catastrophes or climate-related risks.

#### KEY AREAS OF ACTIVITY

- › Complete the dashboard on insurance protection gap for natural catastrophes
- › Analysis of consumer behaviour and contractual terms and conditions with regards to natural catastrophe insurance coverage



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Pilot dashboard on insurance protection gap for natural catastrophes

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Issues paper on shared resilience solutions for pandemics

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## 6

### PROMOTE THE USE OF OPEN SOURCE MODELLING AND DATA IN RELATION TO CLIMATE CHANGE RISKS

Data and models on climate-related risks are crucial to improve the accuracy of climate risk assessment for the industry and supervisory community. EIOPA aims to support the modelling and management of climate change risks, by positioning itself as a relevant open source data hub providing relevant aggregate data, such as for example climate-related insured loss data, in a transparent and easily accessible manner.

#### KEY AREAS OF ACTIVITY

- › Analyse opportunities for the use of open source nat cat modelling tools
- › Develop ways to improve the collection of uniform and comprehensive insured loss data



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EIOPA supervisory technology strategy

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## 7

### CONTRIBUTE TO INTERNATIONAL CONVERGENCE FOR THE ASSESSMENT AND MANAGEMENT OF SUSTAINABILITY RISKS

There is a need for global convergent practices on the supervision and management on sustainability risk from an early stage. 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 seeks to build synergies and contribute to global standard-setting. Climate change will also figure prominently on the agenda of EIOPA's bilateral dialogues with third countries.

#### KEY AREAS OF ACTIVITY

- › EU-US dialogue climate-related projects on climate risk financial oversight and climate risk and resilience
- › Active and leading participation in the Network for Greening the Financial System (NGFS), the Sustainable Insurance Forum (SIF) and the International Association of Insurance Supervisors (IAIS) in the context of sustainable finance



#### LEARN MORE

NGFS Guide for Supervisors: integrating climate-related and environmental risks into prudential supervision

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SIF/IAIS application paper on the supervision of climate-related risks in the insurance sector

> [Read more](#)