

Public Call for Evidence for an Opinion on sustainability within Solvency II

Responding to this call for evidence

EIOPA welcomes responses to the call for evidence concerning an Opinion on sustainability under Solvency II.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Comments are welcome via this online survey by **Friday 8 March 2019**.

Contributions received via other means than the EU on-line survey tool or after the deadline will not be processed.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the tool for comments.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on public access to documents.

Contributions will be made available at the end of the public consultation period.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied.

EIOPA, as a European Authority, will process any personal data in line with Regulation (EC) No 45/2001 on the protection of the individuals with regards to the processing of personal data by the Community institutions and bodies and on the free movement of such data. More information on data protection can be found on [EIOPA website under the heading 'Legal notice'](#).

Reasons for the call for evidence

On 28 August 2018, the European Commission issued a [call to EIOPA for an Opinion on sustainability within Solvency II](#).

The call for Opinion follows a previous [call for Technical Advice to EIOPA and ESMA](#) on potential

amendments to, or introduction of, delegated acts under Solvency II and the Insurance Distribution Directive with regard to the integration of sustainability risks and factors.

The call for Opinion pertains to both the asset and liabilities side of the balance sheets of (re)insurance undertakings. It focuses on a number of areas, ranging from practices with respect to climate change in investment policies, valuation of assets, risk structures of assets with respect to climate change, underwriting policies, inclusion of climate risks in technical provisions and the Solvency II risk framework for natural catastrophe events.

The present call for evidence aims at collecting market data to analyse the how sustainability risks affect (re)insurers investments, with particular focus on climate change and aims at collecting market practices on insurance underwriting. In its call for Opinion, the European Commission asks EIOPA to assess whether Solvency II presents any inherent incentives and/or disincentives to sustainable investment, including but not limited to investments in unrated bonds and loans, unlisted equity and real estate.

To support the analysis, National Competent Authorities will collect information from individual undertakings within their jurisdiction, via a separate request for information. The responses to that request for information will not be published.

Next steps

Based on the feedback received, EIOPA will prepare the draft Opinion to the European Commission for consultation during the second half of 2019.

1. Definitions

Sustainability risks

Sustainability risks are operationalised via the concepts of environmental, social and governance risks. Sustainability risks could affect both the investments and the liabilities of insurance and reinsurance undertakings. Currently the assessment of environmental factors, in particular climate change, is most advanced in theory and practice.

Climate risks will be the main, though not exclusive, focus of call for evidence.

Environmental, social and governance (ESG) factors

[Reference is made to the European Commission proposal "on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341", in Article 2(o) "sustainable investments".]

- Environmental: factors that contribute to an environmental objective. Such objectives include climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention and control and protection of healthy ecosystems. [See Article 5, Commission Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, COM(2018) 353 final.]

- Social: factors that contribute to a social objective, and in particular to tackling inequality, an investment fostering social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities;
- Governance: factors that contribute to good governance practices, and in particular companies with sound management structures, employee relations, remuneration of relevant staff and tax compliance;

Physical risks

Risks arising from increased damage and losses from physical phenomena associated with both climate trends (e.g. changing weather patterns, sea level rise) and events (e.g. natural disasters, extreme weather). Climate trends and shocks could pose economic disruptions affecting insurers, the economy, and the wider financial system. At the macro-economic level, losses from physical risks may affect resource availability and economic productivity across sectors, the profitability of firms and individual assets, pose supply chain disruptions, and ultimately impact insurance market demand. Losses arising from physical risks, especially when uninsured, may have cascading impacts across the financial system, including on investment companies and banks.

Transition risks

While the transition to a low-carbon economy may create opportunities, it may also create risks (e.g. credit, liquidity) and/or significantly constrain economic growth, especially in the case of too sudden or too late policy changes. Transition risks are arising from disruptions and shifts associated with the transition to a low-carbon economy, which may affect the value of assets or the costs of doing business for firms. Those risks may be motivated by policy changes, market dynamics, technological innovation or reputational factors (see figure below). Key examples of transition risks include wrong assessments of climate-induced risks and opportunities and policy changes and regulatory reforms which affect carbon-intensive sectors, including energy, transport and industry. Policy and regulatory measures may affect specific classes of financial assets (such as real estate portfolios), in addition to those affecting capital markets.

Liability risks

These pertain to risks that industries, companies and possibly individuals may be held liable for contributing to climate change or climate change-related events, or fail to disclose the climate impact of their operations.

Email address - It will only be used to request clarifications if necessary on the information supplied

Q1. Do you agree with these definitions? If not, please provide the definitions you usually use when defining climate change related-risks, from existing legislation or of other sources you refer to?

Q2. What types of gaps and barriers (information, data, scenarios), if any, are currently complicating the identification and assessment of climate change risks?

Q3. What types of data inputs do you use to inform your analysis of climate-related risks (for both assets and liabilities)?

2. Assets and sustainability risks

2.1. Identification of the assets subject to sustainability risk

Climate change can pose risks as well as bring opportunities for investments.

Climate change impacts on environmental system (oceans, marine environment, coastal zones, freshwater systems, ecosystems of forests, soils) as well as on society (human health, agriculture, energy, transport, tourism, climate migration...). Climate change will affect the frequency and severity of certain extreme weather- and climate-related events, such as droughts, heat waves and heavy precipitation events [See European Environment Agency, Climate change, impacts and vulnerability in Europe 2016. An indicator-based report. EEA Report No 1/2017.].

This may in turn induce changes in consumer expectations, the development of new technologies dealing with climate change, adaptations in policies and regulation enabling the transition towards a lower carbon economy and may drive changes in investment behaviour.

Q4. Which impacts of climate change or the transition to a low-carbon economy do you consider to pose the greatest risks on investments for insurers? Which would create opportunities? Which other impacts of climate change should we consider? Please specify.

Oceans, marine environment

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Please comment:

Coastal zones

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Please comment:

Freshwater systems

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Please comment:

Ecosystems (forests, soils)

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Please comment:

Human health

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Please comment:

Agriculture

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Please comment:

Energy

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Please comment:

Transport

- Major risk
- Major opportunity
- Minor risk
- Minor opportunity
- No risk
- No opportunity

Please comment:

Tourism

- Major risk
- Major opportunity
- Minor risk
- Minor opportunity
- No risk
- No opportunity

Please comment:

Climate migration

- Major risk
- Major opportunity
- Minor risk
- Minor opportunity
- No risk
- No opportunity

Please comment:

Other, please specify:

Q5. With regard to drivers of investment behaviour, please specify if they represent a risk or an opportunity of investment for insurers, as well as their importance. Do you think that additional drivers need to be considered? If yes, please specify.

Changes in consumer expectations

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

New technologies

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Policies and regulations enabling the transition towards a lower carbon economy

- Major risk Major opportunity
- Minor risk Minor opportunity
- No risk No opportunity

Other, please specify:

Physical risk

Q6. Which drivers of physical risk do you consider have the greatest impact on assets in the geographical areas where you invest? Are there geographical differences between the markets in which you invest? If yes, please specify.

Transition risk

Q7. Which drivers of transition risk do you consider have the greatest impact on assets in the geographical areas where you invest? Are there geographical differences between the markets in which you invest? If yes, please specify.

Green/brown assets

Q8. Do you consider that green assets need to be distinguished from other assets in order to implement an efficient asset allocation regarding climate change impacts? If yes, which criteria do you consider relevant for classifying assets as “green”?

Q9. Do you consider that brown assets need to be distinguished from other assets in order to implement an efficient asset allocation regarding climate change impacts? If yes, which criteria do you consider relevant for classifying assets as “brown”?

2.2. Impact of sustainability risks, with particular regard to climate risks on valuation of assets and on market risks

Q10. What are the transition risks that you consider most relevant to have an impact on asset valuation?

- | | |
|--|--|
| <input type="checkbox"/> Change in investors' expectations and preferences | <input type="checkbox"/> Demand for more transparency |
| <input type="checkbox"/> Policy changes | <input type="checkbox"/> Rise in the cost of energy or CO2 |
| <input type="checkbox"/> Technological trends | <input type="checkbox"/> Change in consumers' preferences |
| <input type="checkbox"/> Reputational factors | |

Other, please specify:

Q11. What trends or events caused by climate change, potentially leading to physical risks on assets do you consider most relevant to have an impact on asset valuation?

- Trends / temperature rise
- Trends / changing/extreme weather patterns
- Trends / sea level rise
- Trends / higher CO2 concentrations
- Trends / higher global emissions (other than CO2)
- Trends / trends on biodiversity/animal migration
- Trends / displacement / climate migration
- Trends / Other
- Events / windstorms
- Events / flood
- Events / hail
- Events / heat waves
- Events / drought
- Events / subsidence, landslides
- Events / freeze, snowfalls, avalanches
- Events / Other

If 'Other' was chosen please specify.

Q12. How do sustainability risks affect the valuation of financial assets in investment portfolios over the short, medium and long term?

Q13. How do transition and physical risks affect the valuation of financial assets in investment portfolios, over the short, medium, and long term?

Q14. Which are, in your view, the types of assets whose valuation is most subject to transition risks? Do you consider unrated bonds and loans, unlisted equity and real estate to be affected? What about other assets?

Q15. Can sustainable investments be viewed as good investment opportunities? In particular, should sustainable investments be subject to similar targets and measures of expected return as other investments? If not, please provide examples of investment targets and measures of expected return for sustainable investments.

Q16. Can you provide evidence on how the carbon footprint is taken into account in the pricing of an asset? Would other methods also be relevant for the pricing of an asset? Please elaborate and distinguish asset classes where possible.

Q17. Can you provide evidence that green assets or brown assets have a significantly different risk profile than other assets? Please elaborate.

Q18. Do you have evidence that green assets, or assets with a lower exposure to physical and transition risks, have a different market risk profile than other assets? If yes, please elaborate on the evidence and on how market risk structures differ. Please identify the relevant assets/asset classes.

Q19. Do you have evidence that brown assets, or assets with a higher exposure to physical and transition risks, have a different market risk profile than other assets? If yes, please elaborate on the evidence and on how market risk structures differ. Please identify the relevant assets/asset classes.

Q20. Do you have evidence demonstrating that either assets that are considered green or have a lower exposure to physical and transition risks, or assets that are considered brown or that have a higher exposure to physical and transition risks, are correlated in a significantly different manner than those correlations provided in the standard formula in Solvency II? If yes, please elaborate on the evidence and on how correlations differ. Please distinguish between asset classes.

2.3 Practices for asset allocation

Q21. Please rank the following investment criteria according to importance on a scale from 1 (highest importance) to 7 (lowest importance):

Table

	Please rank from 1 - 7
Profit expectation in short term	
Profit expectation in medium term	
Profit expectation in long term	
Matching assets and liabilities	
Level of market risk associated with assets (including climate risks)	
Risk-return profile	
ESG factors (risks and opportunities)	

Other, please specify:

Q22. When deciding on asset allocation, which information do you mostly take into account (modelling of expected returns, of expected cash-flows, ratings of the assets...). Is the approach different for sustainable investments? if yes, please elaborate.

Q23. Which strategy do you pursue in reducing sustainability risks in your investments? Do you consider the strategy of exclusion/ investment decrease in any economic sector/ geographical area appropriate to reduce the potential sustainability risks? Please elaborate.

Q24. Please choose the key sustainability (ESG) factor(s) which you pursue in investing in sustainable assets (multiple choices allowed).

- Environment (including climate change) factors
- Social factors
- Governance factors

3. Liabilities and sustainability risks: risk identification and impacts

EIOPA identified the following Lines of Business as subject to climate risks, in accordance with Annex I of the Solvency II Delegated Regulation:

Insurance:

- LoB 4. Motor vehicle liability insurance
- LoB 5. Other Motor insurance
- LoB 6. Marine, aviation and transport insurance
- LoB 7. Fire and other damage to property insurance

LoB 8. General liability insurance

LoB 12. Miscellaneous financial loss insurance (bad weather)

Reinsurance:

Proportional non-life reinsurance to the LoB mentioned above:

LoB 16. Proportional reinsurance Motor vehicle liability

LoB 17. Proportional reinsurance Other Motor

LoB 18. Proportional reinsurance Marine, aviation and transport insurance

LoB 19. Proportional reinsurance Fire and other damage to property insurance

LoB 20. Proportional reinsurance General liability insurance

LoB 24. Proportional reinsurance Miscellaneous financial loss insurance (bad weather)

Non-proportional non-life reinsurance:

LoB 27. Non-proportional Marine, aviation and transport reinsurance

LoB 28. Non-proportional property reinsurance

Non-proportional reinsurance for LoBs 5-7, 9-12

Q25. Do you consider that other lines of business than those outlined above are materially exposed to physical and transition risks? If so, please list them and outline the particular climate-change related exposures of those LoBs.

Physical risks

Q26. Which key physical risk factors do you consider to impact most on underwriting in the geographical areas where you operate? Are there geographical differences between the markets in which you operate?

- Trends / temperature rise
- Trends / changing/extreme weather patterns
- Trends / sea level rise
- Trends / higher CO2 concentrations
- Trends / higher global emissions (other than CO2)
- Trends / trends on biodiversity/animal migration
- Trends / displacement / climate migration
- Trends / Other
- Events / windstorms
- Events / flood
- Events / hail
- Events / heat waves
- Events / drought
- Events / subsidence, landslides

- Events / freeze, snowfalls, avalanches
- Events / Other

If 'Other' was chosen please specify.
Specify also the potential geographical differences.

Q27. How do physical risks – including an increasing frequency and severity of extreme weather events – affect your organisation’s underwriting business performance, in terms of market demand, claims burden, or other factors? Please explain how, over what timeframes and across which business lines. If you do not consider that physical risks affect your underwriting business performance, please explain why.

Transition risks

Q28. What are the key transition risk factors that you anticipate to potentially impact most on underwriting markets in the geographical areas where you operate?

Q29. How do transition risks – including economic, social, technological, regulatory or policy factors stemming from climate change – affect your organisation’s underwriting business performance, in terms of market demand, claims burden, or other factors? Please explain how, over what timeframe and across which business lines. If you do not consider that transition risks affect your underwriting business performance, please explain why.

Liability risks

Q30. Does your organisation consider that it may be exposed to liability risks stemming from climate change, either now or in the future? For example, unintended exposure to climate risks through professional and corporate indemnity policies. If yes, what steps might your firm take to monitor, reduce, or mitigate these risks? If no, please explain.

Sustainability risks

Q31. How do sustainability risks, other than induced by climate change (incl. other environmental, social and governance risks) affect your undertaking's underwriting business performance?