

AMICE response to the EIOPA consultation paper on a draft opinion on sustainability within Solvency II

Challenges on integrating sustainability risks in prudential Pillar 1 requirements

Q1: Do you agree that no change in the time horizon for capital requirements would be required to integrate climate change considerations? Please elaborate.

We agree that the time horizon should not be changed and that complementary tools such as scenario analysis and stress testing would be more appropriate to capture impacts of climate change. EIOPA already spelled out in its paper the reasons for this. In our view, if the time horizon were to change, the Solvency II calibration would have to be reassessed, the possibility to include future management actions would have to be analysed as would the modelling of potential options and directions and the new developments.

The current Solvency II framework already foresees the integration of any new evidence available by updating the parameters in the calculation of the best estimate of the insurance liabilities. Similarly, if a new catastrophic event occurred re/insurers would have to assess it and change policies where deemed necessary.

Q2: Do you agree that insurers should consider sustainability risks, and in particular climate change risks, in a forward-looking manner? If yes, how should this be incorporated into current or new requirements? If not, please elaborate.

Yes.

We agree that re/insurers should consider sustainability risks and in particular climate change risks in a forward-looking manner through the adoption of long-term scenario analysis. Sustainability risk is mainly an emerging risk which has to be dealt with firstly via pillar 2 requirements such as the ORSA and contingency plans if needed. If the emerging risk becomes more tangible, the insurer would revisit their terms and conditions, reserving and pricing policy and would integrate the emerged risk within its risk appetite statement. We believe that there are significant aspects of this proposal which are already captured in the current regulatory regime. In our view no new provisions are needed in order to address sustainability risk.

Q3: Do you agree that long-term scenario analysis in risk management, governance and ORSA should enable insurers to develop a forward-looking approach with regard to sustainability risks, and in particular climate change risks? Please elaborate.

Yes, see also the previous answer. However, sustainability risk is a risk which could materialise over the course of many years and possibly decades. Given that the ORSA projects the solvency positions

over a planning horizon of 3 to 5 years, many assumptions would have to be made in order to work out long-term scenarios. Assumptions have to be made regarding behaviour of consumers, on the technological innovations, etc. This would be very challenging and the resulting outcome could be very diverse. Merely referring to scenarios as presented by the various supranational organisations is not sufficient.

Embedding long term scenario analysis in risk management, governance and ORSA processes should enable insurers to develop a forward-looking approach with regard to sustainability risks, and in particular climate change risks. Applying consistent scenarios would help insurers to assess the climate change related risks they are exposed to and to inform business planning and strategy. We believe that it is essential that Member States develop physical impact scenarios, consistent with latest research and detailed for the main risk events (e.g. flood, heatwaves, sea level rise...) so that insurers can assess their own risk exposure starting from a common framework.

Q4: What are your views on incorporating a standardised set of quantitative climate change scenarios in the ORSA, e.g. derived from the IPCC representative concentration pathways (RCP) - which are likely to evolve over time? Can you please elaborate on which scenarios you would use and which time span should be covered by such scenario analysis, specifying your approach for the valuation of assets, liabilities and your own solvency assessment (for standard formula and internal model users)?

Standardised set of scenarios

See also our previous answer. A standardised set of quantitative climate change scenarios should not be included in the ORSA. The ORSA is entity specific and should remain focused on the local scenarios specific for the (emerging) risks of the insurer itself. For this reason, a standardized climate change scenario should not be included in the ORSA report as climate change risks are of different nature across insurers and jurisdictions. If EIOPA is of the opinion that a standardised set of scenarios should be developed, this could be part of a (macroprudential) stress test scenario.

The nature of such scenarios should be qualitative since quantitative scenarios subject to many different assumptions would deliver uncertain outcomes. In our view, some flexibility should be given as a too standardised set of scenarios would not provide any meaningful information.

Naturally, EIOPA could come up with a standardised set of scenarios including assumptions on consumer behaviour and trends on technological innovation to assist smaller re/insurers.

Time horizon

The time horizon used by insurers would depend on which part of the climate risk they are facing, and on how quickly the region in which they are operating, would be affected by that particular climate change. For certain changes, a shorter long-term horizon could be used: for example, more severe and concentrated downpours could have a shorter time horizon than the impact of rising sea levels. Again, this should be based on the situation of each and every re/insurer.

To facilitate the process, EIOPA could in any case provide some standardised data as to when certain impacts/effects could be felt by society. Such data which may be submitted by national authorities could guide the necessary length of the time horizon.

Valuation of assets and liabilities

Valuation of assets

Q5: Do you agree that the principles of valuation of assets of Solvency II allow for the consideration of sustainability factors? Please elaborate.

Yes, the current framework does allow the inclusion of sustainability risk to a sufficient manner.

However, there is not much market practice in including sustainability risk where a quoted price is not available in an active market.

In principle, if a quoted price is available in an active market, one should assume any emerging views on sustainability are included in the pricing of the financial instrument. If the risks, as voiced by EIOPA, are emerging and become more tangible, this would be seen in the development of the pricing. Also, if an asset were to be seen as stranded, then this would be seen in the quoted price.

The supervisory authorities should refrain from stating that a certain quoted asset is “brown” or “stranded” because this would induce a “self-fulfilling prophecy” and would act in a procyclical manner regarding the issue of stranded assets.

If no quoted price is available and only limited data exists, it would be appropriate to include sustainability considerations. However, again how? If an insurer suspects that a class of asset is becoming stranded or runs the risk of becoming stranded, the insurer’s investment policy and/or prudent person principle should take appropriate action.

Q6: How in practice could the valuation of assets adequately (better) reflect sustainability risks?

See answer to question 5.

Delegated Regulation) be amended to explicitly include sustainability considerations? Please elaborate.

No.

We suggest that EIOPA takes into account the work being conducted by the TEG on non-financial reporting. Sustainability should be a key element of the investment strategy and reputational profile of an insurance company and should be properly reflected in the non-financial reporting. Furthermore, sustainability risks should already be included in solvency requirements, that cover all the risks faced by insurers. For these reasons, ad-hoc sustainability considerations should not be included in the prudential disclosure requirements.

It would be justified to request insurers to disclose the manner in which they cope with sustainability risks in their various policies if deemed to be present. This information should at first be qualitative.

Q8: Should other enhancements / changes to the current regulations be envisaged regarding the consideration of sustainability factors in the valuation of assets? Please elaborate.

No, there is no need as EIOPA already explained in this paper.

Q9: Do you have additional views and evidence to be considered with regard to the exposure to physical risks?

In our opinion dealing with physical risks is at the core of all insurance activities. If these risks become too great for the sector to cover, reinsurance or other risk mitigating measures should be considered. The chance of a tail-risk event is significantly reduced through reinsurance or any other risk mitigation measure and its impact insured. Re/insurers would be the first ones to detect trends in evolving risks and the most recent evidence should be considered in re-calibrating these risks both in the Solvency II standard formula and internal models. The SCR review could also be carried out more frequently. However, the natural catastrophe insurance schemes vary across Europe. For example, there are countries where NatCat insurance is mandatory, whereas in other jurisdictions it is not. Further analysis would have to be conducted.

Q10: Do you have additional views and evidence to be considered with regard to the exposure to transition risks?

Transition risk is a very intangible risk type. It would be therefore very difficult to substantiate this risk.

In our view, transition risk should be assessed in the ORSA and if found to be material, within the prudent person principle and investment policies. It can also be considered that insurers would help with the transition to a low-carbon economy as prevention of claims/damages would improve their capital position even more.

Valuation of liabilities

Q11: Do you agree with the good practices EIOPA is suggesting for undertakings to apply for integrating sustainability in the valuation of liabilities? Would you have further suggestions?

EIOPA suggests in the paper that undertakings should apply good practices such as ensuring that historical loss data is up-to-date, the consideration of possible events not captured by the undertaking's historical loss data set, forward-looking catastrophe modelling and stress-testing or scenario analysis.

However, any good practices should be applied in a very proportionate manner and based on the actual risk covered, the terms and conditions which govern the insurance contracts and the insurance contracts' contract boundary. For most lines of business those practices would not be applicable based on the nature of the risk.

Moreover, insurers are requested to disclose their claims triangles, which should be based on up-to-date historical data. The consideration of possible events not captured by the undertaking's historical loss data set is part of the so-called incurred but not reported liabilities.

Catastrophe models are not available for all perils that are sensitive to climate risk, e.g. precipitation, and the development of own catastrophe models is not feasible for most undertakings. Most undertakings are dependent on the availability of catastrophe models in the market and in particular on vendor models.

To conclude, determining the impact of a scenario is a start but including these outcomes into the valuation also requires that the chance is known and that the climate risk modelling is highly reliable and predictable.

We would suggest instead a combination of experience data with scientific expertise to deal with climate change in Pillar 2 rather than dealing with emerging risks in the valuation.

**Q12: What is your view on adopting a forward-looking modelling approach in the calculation of the best estimate to assess climate change-related risks?
Please elaborate.**

In paragraph 7.40 of the paper, EIOPA states that undertakings should, as a minimum, use historical loss data (corrected for possible events not in the data) combined with scientific literature and, where appropriate, the output of forward-looking models when calculating their best estimate. However, the assessment of climate change related risks in the best estimate should only be done if there is an exposure to climate risks/sustainability risks– i.e they should be explicitly addressed in the terms and conditions of the insurance policy.

For life insurers, climate risk could even have a positive impact.

It is worth highlighting that more than 2000 (full time equivalent) scientists collaborating in IPCC are working on a predictive climate model for decades and still do not know exactly the effects of feedback loops and tipping points.

Forward-looking evaluations depend on the availability of quantitative trend analysis concerning short and medium term, acknowledged by IPCC and scientists. Furthermore, the third part vendor models should include climate components for Continental Europe too, because until now they have only completed studies related to America and the UK.

Q13: What would you consider to be proportionate good practices for such a forward-looking modelling approach in the calculation of the best estimate?

A forward-looking modelling approach is only needed provided climate change has any material impact while the cover of the insurance contract is in force or has influence over the entire run off of the outstanding claims or future cash flows.

The question of whether future cash flows are to be adjusted also depends on the reliability of the future developments. The future predication of possible impacts on cash flows should not be based on implausible scenarios.

Life insurance would normally be influenced over the longer term, but the impact could be twofold: positive and negative. For non-life insurance with a long duration (i.e. liability line of business) the coverage period and terms and conditions which do apply have to be considered.

Q14: Do you agree that climate risks may affect the technical provision calculation for the life insurance? Please elaborate.

Yes, that could have an effect. However, the impact would be difficult to estimate. For example, given that climate change could lead to warmer summers. the mortality rates could be generally higher; but the extent to which this will affect mortality tables will be difficult to assess.

It is worth noting that mortality rates can affect insurers in two opposite ways. A death at a certain moment triggers a certain liability (for example paying for a funeral or paying a widow's pension), but it also releases other liabilities (such as the technical provisions for the pension payable to the deceased in the future).

Q14: Do you agree that the two main assumptions/areas where climate may impact the calculation of life technical provisions are the Economic Scenario Generators and the mortality rates? What about morbidity rates? Please elaborate.

No.

For morbidity rates, the impact would be very difficult to establish and for general assumptions to be changed, a trend has to be recognised.

Q15: Is climate change relevant for Economic Scenario Generators? If yes, how could climate change be included in Economic Scenario Generators? Please elaborate.

Yes, it could be relevant, especially for life technical provision valuations; given the very long-time horizon of the projections for the valuation of the life liabilities, a trend in actuarial scenarios should be considered to include climate change impacts.

**Q16: Is the impact of climate change relevant on the mortality rates? If yes, how could climate change be included in mortality rates? If no, please elaborate.
Investment and underwriting practices**

Yes, we believe it could be relevant. see answer to question 14. However, including climate change in mortality rates would be very difficult and probably unreliable. Alternatively, re/insurers could develop scenarios around this topic in their ORSA projections which may assess the vulnerability towards climate change.

Investment and underwriting practices

Investment practices

Q17: Do you identify other relevant practices to include sustainability risks in (re)insurers' investment strategy and decisions?

Sustainability risk is included in the prudent person principle and the risk assessment employed by insurers.

Q18: Do you have any further views on the analysis of returns on sustainable assets?

Firstly, the taxonomy is focused on the definition of sustainable investments and it is therefore crucial that the taxonomy is finalized before amending the current framework. Sustainability is a very popular word, a container concept and a marketing term subject to rapidly changing public opinion. Something which is deemed sustainable today could and probably would become unsustainable tomorrow. So, speaking of sustainable assets is not precise enough. It should be something like a currently customer-perceived relative sustainable asset to indicate the transiency and subjectivity of the perception on top of its relative nature. Something is often perceived as sustainable only when compared with something else and it becomes more complex if more factors enter into the equation. For example, using gas is more sustainable than using coal; but diesel fuel emits less CO₂ than gasoline, though most diesel cars

emit more pollutants than gasoline cars. And the geographical location also plays a role. In the countryside pollutants will settle out without harming the population. Furthermore, in certain areas fossil fuel is the only option. Implementing a framework on a rapidly moving target is very difficult.

Secondly, it would be necessary to pay attention to the effects that any new legislation on sustainability could have on the prices of ESG assets. New rules, taxonomy and sustainable assets' classification criteria could lead to a misalignment between market prices and fundamentals. This misalignment could also create a distortion of the market expectations, and lead to speculative practices and speculative bubbles.

Additionally, there are controversial results regarding sustainable asset returns. This consultation paper in particular shows that there is no clear evidence on ESG asset returns, and other researchers' and institutions' analyses are provided in absence of a clear ESG Taxonomy.

Finally, insurers are long term investors. They match their promises to policyholders – cashflow liabilities which normally have a longer duration than the assets. From this perspective insurers are sustainable investors.

Q19: To what extent do you align your investment strategy and decisions with your underwriting strategy and decisions in respect of sustainability risks?

The practice around sustainability is aligned. Investment strategies are not established in isolation but are part of structured ALM-processes. Any impact of sustainability on the insurance liabilities and other liabilities of an insurer will have their impact on the assets backing the liabilities.

Statements from insurers and/or commitments to initiatives ensure certain investments are avoided, such as investments in tobacco companies or the weapon industry. Sustainability considerations are another limitation in the investment possibilities/opportunities.

Q20: Which good practices do you identify to deal with transition and physical risks in (re)insurers asset portfolios?

Please note that the transition risk mentioned only considers one transition (from carbon energy sources to renewables) and yet is one of many possible future transitions.

The industry had already experienced various technological transitions in the past (from analogue to digital photography; from landline telephones to mobile and smart phones; medical transitions like no cure for infectious diseases to vaccination, anti-biotic medicine and immune enforcing treatments increasing life expectancy). In the near future some other transitions are expected such as transport moving to autonomous ability, using artificial intelligence and robots.

Usually, the faster the transition the greater the risk. Slow transitions are translated into trends (like longevity). Ultra-fast transitions could be regarded as disruptive events (almost catastrophe events).

From a transitional perspective, such a trend is a catastrophe in slow-motion. These risks could be examined in subsequent ORSAs. It concerns emerging risks so there is no need to examine them all at once. The ORSA is the right place to examine these transitions in scenarios, including possible countering management actions and future loss absorbing capacity (by capital accumulation through capital generation). For disruptive events, the ORSA is also the right instrument to assess the real vulnerabilities.

If the aim is to encourage sustainable investments there is the need to conceal returns and sustainability considerations. Or, alternatively, the insurance sector must consider the recent amendment of the Capital Requirement Regulation (Article 501). Based on this, the EBA shall assess on the basis of

available data and the findings of the High Level Expert Group on Sustainable Finance of the EC, whether a dedicated prudential treatment of assets exposed to activities associated substantially with environmental and /or social objectives, in the form of different capital charges, would be justified from a prudential perspective.

Underwriting practices

Q21: Do you consider “impact underwriting” as described in the opinion to be a relevant way to take into account sustainability in underwriting policy? Please elaborate.

Yes.

Impact underwriting as mentioned by EIOPA should be part of the normal underwriting cycle and should be analysed by the actuarial function holder. Any emerging risk should be considered, not only assessing the impact on the capital requirements, but also how the terms and conditions of the insurance products deal with these emerging risks.

Q22:

(a) Do you explicitly consider risk mitigation and adaption strategies addressing climate change in your products? Please elaborate.

N/A

(b) What would be the main benefits/obstacles of the generalisation of such a practice?

A benefit of combining adaptation strategies with products can be the risk reduction effect. Combining risk mitigation with products can be done from a social corporate responsibility perspective, but can lead to adverse selection and therefore to an increased risk profile.

(c) Which measures would you recommend to assess the risk mitigating effect of such underwriting?

Currently the “terms and conditions” are not a relevant parameter within the Solvency II standard formula where the best estimate and premiums are used as volume factors. Any restrictions or other measures included in terms and conditions (if the market has been made aware of these terms and conditions in an explicit manner) should be accepted as risk mitigation. If so, insurers would be incentivized to adopt those strategies.

A first possible mitigation strategy consists of shortening the contract time boundaries: the possibility to frequently reprice these risks could help insurers to adequately consider underlying trends.

Secondly, the undertaking should define contractual deductibles and limits to reduce exposures; however, EIOPA should consider those elements in the procedure to calculate the SCR.

In any case, reinsurance will remain the main risk mitigation tool even if future climate patterns modify the costs of reinsurance covers. Furthermore, concerning property policies, underwriters should encourage policyholders to increase resilience and reduce potential damages. For this purpose, the insurer should recognise incentives and apply reductions in prices. Another way is to consider some form of public sector subsidy.

Another way to pursue this aim is to avoid risk concentration and to use geographical diversification; indeed, future impacts of climate risks would not affect worldwide areas with the same intensity.

Q23: Do you identify other good practices than those described above?

N/A

Q24: What are your views on climate change potentially widening the protection gap for natural catastrophe (re)insurance?

Public-private partnerships can be a good way to combine the role of the public government with the infrastructure of the insurance industry. Especially for flood risk this could work well, but try to avoid a “one size fits all” strategy. Every country/region is different.

Q25: Do you have evidence on Solvency II impacting the insurance protection gap (e.g. for natural catastrophe risks) in light of climate change? Please elaborate.

The outcome of the review of the standard formula shows that some of the new parameters introduced could enlarge this protection gap if reinsurance covers are too expensive or not available at all; Insurers may not be able to cover the same number of risks.

Capital requirements

Market risk

Q26: Market risk:

(a) Do you support the views on the treatment of sustainability risks in the market risk module? Please elaborate.

Yes.

In our view, the current calibration should neither be adjusted for sustainability risk nor should the methodology be changed.

(b) Do you have further evidence which should be considered? Please elaborate.

N/A

Property risk

Q27: Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in property risk capital charges?

Sustainability risk is already included in the economic value of property. There is no clear evidence how “more sustainable housing” would translate into more or less volatile market prices and risks. We have to bear in mind that the capital requirements are based on the one-year horizon assumption; if sustainability risk were to be integrated, the scenarios would assume that the market would suddenly

differentiate between sustainable and non-sustainable properties. This could only happen if an overwhelming majority of properties had already been transformed according to the proposed sustainability considerations. The remaining small portion of properties not transformed could be considered as riskier.

Equity risk

Q28: Equity risk:

(a) Do you have comments on the analysis of risk differentials for listed equity?
Please elaborate.

We do not think that an analysis of risk differential for listed equity is needed. For listed equities, one has to assume that the markets would price any relevant sustainability considerations into the economic valuation.

(b) Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in listed equity risk capital charges? Please elaborate.

There is no need as the market would already take care of this. Unsustainable listed equities would see a different development of the share prices, if appropriate. Any integration would need a very concrete and unambiguous taxonomy. Furthermore, this taxonomy is expected to change rapidly as public opinion (and the opinion of politicians) changes. The integration of any change in taxonomy would be very difficult and the treatment will always lag behind.

(c) Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in unlisted equity risk capital charges? Please elaborate.

No.

No changes are needed as there is no evidence that one particular category (if established and possible) would be riskier than the others over a 1-year time horizon.

(d) Which data sources or research conducted would be relevant to consider for unlisted equity risk capital charges?

N/A

Spread risk

Q29: Spread risk:

(a) Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in spread risk capital charges? Please elaborate.

No.

There is no need to differentiate if data only shows a different behaviour of spreads. But the issue is that there is no clear and unambiguous taxonomy to identify the appropriate bonds and loans.

(b) Which data sources or research conducted would be relevant to consider for the integration of sustainability risks in spread risk capital charges?

N/A

(c) What are your views on the methodology for a green bond index?

We do not believe that there is need for a different index. We concur with EIOPA that good quality data input would be needed first before developing a green bond index for calibration purposes. The problem derived from potential “green washing” and the fact that green bond issuances have only been available in greater volume since 2017 may impede the assessment of whether green bonds are more or less risky than normal bonds, whether green bonds have a greater risk of default and whether they would behave differently from a normal bond or loan issued by a wide variety of issuers.

(d) Do you have additional views and evidence to be considered with regard to the integration of sustainability risks in unrated debt capital charges?

There is no need to differentiate if data only shows a different behaviour of spreads. But the issue is that there is no clear and unambiguous taxonomy to identify the appropriate bonds and loans.

(e) Which data sources or research conducted would be relevant to consider for the integration of sustainability risks in unrated debt capital charges?

N/A

Q30: Do you agree that climate change should be captured in a forward-looking manner in the ORSA for market risk especially by incorporating a quantitative approach based on a standardised set of climate change scenarios? If no, please elaborate. If yes, which scenarios/tools could be used for quantitative assessments and which time span would you apply?

The projections done within the ORSA consider the business planning horizon which typically only extends to 3 to 5 years. However, climate change scenarios often present impacts on a longer time period. Furthermore, these scenarios consider many uncertainties. A standardised set of quantitative scenarios is contrary to the objectives of the ORSA; it would not allow the assessment of the risk profile of individual insurers in an appropriate manner. In order to provide a level playing field for all insurers across Europe a multitude of standardised scenarios would be needed.

In our view, a qualitative scenario/assessment of climate change on the market risk module would be more appropriate. However, the impact of climate change on specific types of assets would be very uncertain and would depend on a broad range of variables including the ability of the management of those companies which the insurer has invested in to adapt to climate change and the extent to which innovation can be seen.

Natural catastrophe underwriting risk

Q31: Do you agree that regular recalibration of the parameters for the natural catastrophe risk module of the standard formula will allow to capture climate related developments, including the impact of climate change? Please elaborate.

Yes, especially for hail and flood as these perils are sensitive to climate risk. We support a regular recalibration of these risks but they should be evaluated not more frequently than every 5-10 years.

One should also consider whether all climate related risks are really captured by the perils which are identified in the Solvency II framework. As an example, forest fires are not individually captured as a natural catastrophe event, but implicitly included within the Man-made fire risk sub-module. We query whether the current design of this sub-module really captures the consequences of a forest fire in an appropriate manner.

Q32: Would you advise changing the design of the natural catastrophe risk module of the standard formula to capture climate related developments, including the impact of climate change? If no, please elaborate. If yes, please provide an alternative method.

In our view a regular recalibration should be sufficient. However, this new calibration should avoid huge changes in parameters from one year to another. Indeed, undertakings develop business plans considering also the absorption of capital requirement and they do not want a great volatility due to regulatory modifications.

See also answer to question 31.

Q33: Do you agree that climate change should be captured in a forward-looking manner in the ORSA for natural catastrophe underwriting risk especially by incorporating a quantitative approach based on a standardised set of climate change scenarios? If yes, which scenarios/tools could be used for quantitative assessments and which time span would apply?

No, we do not agree. In our view a qualitative scenario would be more coherent as the time horizon of climate change is too long to be able to produce a quantitative scenario which is reliable and therefore useful. Nowadays there is significant uncertainty concerning possible scenarios which must be included in insurers' analyses; for this reason, EIOPA should define the macro – areas on which stresses have to be applied and give undertakings guidelines to develop a quantitative framework.

Q34: How do you take into account the long-term view of climate-related developments, including the impact of climate change for the management of your natural catastrophe risks?

Climate-related developments can be seen from a short-term and long-term perspective. For the short-term the impact would be analysed on an annual basis at least in order to assess the appropriateness of any reinsurance cover and whether the terms and conditions and the calibration are still appropriate. Following any natural catastrophe event, the event is analysed and assessed against the various models used. Where deemed appropriate the additional measures are taken by de AMSB and the actuarial function holder will address this in their annual reporting.

For the longer term, the climate risks are assessed in the context of the Product and Review Procedure (PARP) and the ORSA. We query how non-life insurers can help in preventing the effects of climate change in relation to the insurance cover and minimizing any damages from a climate related event. Natural catastrophe risk is also considered from the perspective of the policyholder. See the answer to question 23 regarding risk mitigation techniques.

Internal Models

Q35: Do you agree the rules relating to internal model design and calibrations do not prevent internal model undertakings from accounting for sustainability factors, with particular regard to the climate risk that existing insurance and reinsurance obligations are exposed to? Please elaborate.

Yes, we agree that the rules do not prevent these factors.

Q36: Could you provide further explanation/examples on how sustainability factors, with particular regard to the climate-change risks are taken into account in your internal model?

See answer to question 35.

Currently, many developments are taking place regarding climate change, including the behaviour of consumers and policyholders, and public interest for sustainability (including climate change). All these developments would have an impact on the business of insurers and the manner in which the capital position is determined.

However, not all developments in the area of sustainability can be introduced very easily as the actual impact on the modelling and calibration is uncertain. One example can describe this situation: many consumers are investing in solar panels on their roofs; one would tend to think that the damage from a severe hailstorm would increase because of this. In practice, it is the opposite as replacing a solar panel is less costly than repairing a damaged rooftop. However, a badly installed solar panel increases the risk of fire.

We believe that any spotted trend needs to be analysed before any decisive changes are introduced in the modelling and calibration of an internal model.