

EIOPA Consultation Paper on Application guidance on running climate change materiality assessment and using climate change scenarios in the ORSA

Q1: Do you agree that the first two chapters provide a clear picture on the inclusion of climate risk scenarios in the ORSA to a high-level reader?

- Yes

Please explain

Climate change is considered as an important risk affecting society. A lot of research is being conducted by universities, meteorological institutions and commercial modelling companies to assess the impact of climate change. However, Climate change is not a new risk but rather a long-term risk which has always entailed changes and volatility and that insurers in general and P&C insurers in particular have long been dealing with and closely monitoring. We also believe that this risk is not so much leading to a new class or category within the risk management framework and Solvency II, but rather modifying the exposure of the different risks and perils already identified in the prudential framework.

The EIOPA's application guidance on ORSA outlines expectations on running climate change materiality assessment and using climate change scenarios and builds up on tools, methodologies, and data developed by different providers namely the 2DII, the Network for Greening the Financial System (NGFS), and RMS, among others. We appreciate that the paper clearly states that the guidance provided is not binding and would not be used as a supervisory convergence tool. We deem it paramount that insurers remain the own designers of their own ORSAs. They get inspiration from a lot of sources often directly linked to the data they collect and use in their day-to-day core underwriting but also investment and wider risk management processes. They could also get inspiration from background material provided by EIOPA where relevant but this should entirely be left to their own appreciation.

The EIOPA's consultation is an interesting step forward as it provides a comprehensive gathering of information and presents the defined risks that are expected to be impacted by climate change. However, the decision to perform a forward-looking analysis on climate

change risks in the ORSA should remain at the discretion of a specific insurer and be relevant to its own risk situation. The insurer should also decide of the best way to undertake such an exercise, both in terms of time horizon and granularity.

We would like to reiterate that insurers have the ability to identify and assess their own risks in accordance with their risk management processes and tools, their climate expertise (typically P&C insurers) at the pace and robustness needed for their governance, strategic and business monitoring.

In addition, EIOPA and CAs are better placed to assess the resilience of the insurance sector to adverse climate developments and explore climate change risks across the insurance industry sector through Stress Tests based on a common climate scenario with key parameter settings or sensitivity analyses which could form the basis for considering risks to certain sectors. In this sense, we find particularly useful the [EIOPA's Report on Sensitivity Analysis of climate-change related transition risks report](#) which assesses the exposure of the European insurance sector to firms and technologies in sectors that are likely to be affected by the energy transition and emission reduction.

Alignment in scope and timing of implementation

The EIOPA's Opinion on the supervision of the use of climate change risk scenarios in ORSA should be aligned with the proposed amendments to the Solvency II Directive as adopted by the European Commission, namely with the new Article 45a on climate scenario analysis by which insurers will have to identify any material exposure to climate change risks and, where relevant, to assess the impact of long-term climate change scenarios on their business. Insurers classified as low-risk profile undertakings are exempted from scenario analyses.

We fear that the lack of data will challenge most of the requirements included in EIOPA's Opinion. Only when the CSRD and SFRD and other relevant pieces of legislation are up and running, (re) insurers will be in a position to assess and quantify the impacts of transition and physical risks in their balance sheet. We call on EIOPA to postpone the application of this guidance and to align the entry into force date with that of the amendments to the Solvency II review.

Q2: Do the examples in “Chapter 3 – Materiality assessment” address the main transition and physical risks to which undertakings may be exposed?

- No

Please explain

The guidance primarily focuses on the materiality assessment in the context of climate change. The materiality assessment section and the examples presented should encourage (re)insurers to make a first step on the assessment of climate related risks. We appreciate the explanations provided in this guidance and that it covers both qualitative and quantitative aspects being a very valuable piece of work in the long run, however, the materiality assessment is still quite complex as it requires data, which in most cases is not available yet or is under development, and an assessment of different tools and methodologies. The references are very high-level and SMEs will struggle to understand as to how climate variables for both physical and transition risk will be translated into actual risk drivers of an undertaking’s risk profile to drive the financial impact.

Furthermore, there is not a common definition on what constitutes a material climate risk, particularly at product / liability and asset-class level. Thus, a comprehensive qualitative assessment of materiality by undertakings should suffice in the short-term.

Q3: Do you consider the scenario analyses proposed in “Chapter 3 – Climate change scenarios” easy to apply for small and mid-sized insurers?

- No

Please explain

We firmly reject externally high-level all factored-in global climate scenarios for use in ORSAs. These pre-defined scenarios are providing a false comfort in the capacity to predict the future of climate and they are not tailor-suited to the individual specific situation of an insurer and not practicable for his own risk drivers and projection horizons. These scenarios are more relevant for raising awareness and dealing with high level communication issues, a typical macro prudential stance such as in EIOPA’s global market triennial stress tests.

At micro prudential level such as in ORSAs, approaches must be fit with each specific insurer’s risk profile and be useful and operational for the insurance undertaking own risk management processes, strategy and horizon. At that level, bottom-up approaches built on the knowledge and monitoring of insurance undertakings’ own risk drivers should be favoured. In other words, high-level standard scenarios appear too disconnected from the input needed for an insurance undertaking’s specific needs and risk profile. In ORSAs, scenarios must be left to be designed by insurers as the key target is to translate them into specific detailed operational risk drivers changes; there is no need to directly connect the assessment of the risk drivers and the stresses to apply to specific levels of the global world temperature of GHG emissions as this is largely artificial, unreliable and out of reach.

Q4: Is there any relevant aspect not covered by the previous questions, with a particular focus on alternative methodologies / approaches?

We deem the following approach as practical:

- for non-life liabilities, the core business of P&C insurers, the exposures to climate risks have always been closely monitored and insurers are best placed to identify trends in the data they collect, provided that those trends exist and are observable. Insurers are therefore able to define bespoke stresses in their ORSAs.
- as far as assets are concerned (common topic for life & non-life insurers), we urgently need to wait for all the information that will be provided under CSRD, SFDR and Taxonomy reports. Insurers will have tangible elements on which to base a vision, provided that the climate really has a legible impact on the value of assets. Unfortunately, a fact is also that financial markets are far too devious and volatile, based on speculation of all kinds. Financial markets and their toolkits lead to continued intrinsic turmoil that produces an illegibility in prices, that, according to fine observers does not allow the world economy to make appropriate decisions. If

markets' volatility is such that prices do not convey essential information for rooted action it is certainly even less so about climate, that likely plays a limited role in all the speculations and interactions and volatility at work.