

To: Economics & Finance Committee, Solvency II WG, Corporate Reporting - Investments & Sustainable Finance WG, Sustainability WG, Public Affairs & Communications Committee

## EIOPA recommends prudential treatment for insurers' fossil fuel assets to cushion against transition risks

### Latest developments

On 7 November, EIOPA published ([here](#)) its final Report on the prudential treatment of sustainability risks within Solvency II, recommending **additional capital requirements** for fossil fuel assets on European insurers' balance sheets to accurately reflect the high risks of these assets. The report covers three distinct areas:

#### Market risk of stocks and bonds exposed to the transition

- EIOPA proposes higher capital requirements for fossil fuel-related assets due to elevated transition risks, suggesting up to a 17% increase for stocks and a 40% increase for bonds.

#### Adaptation measures in non-life underwriting

- EIOPA analysed to what extent preventive, climate-related adaptation measures that policyholders can implement directly may lower insurers' underwriting risks, suggesting further analysis when higher-quality data becomes available for more reliable conclusions.

#### Social risks

- EIOPA notes that social risks can impact insurers' balance sheets and may be assessed in future ORSA processes, but due to limited data and risk models, no specific prudential treatment is advised.

In parallel, EIOPA has sent a letter to the European Commission (EC) ([here](#)), in which EIOPA highlights diverse views within its Board of Supervisors (BoS) on the proposed measures, with some members fully supportive, but others having expressed concerns about the methodology, data, and/or broader implications, especially regarding a potential capital surcharge on fossil fuel-related assets under Solvency II.

The report follows a [mandate](#) given by the EC to EIOPA to assess the potential for a dedicated prudential treatment of assets and activities associated with environmental or social objectives, or those that harm such objectives.

In its response to the EIOPA consultation paper on the prudential treatment of sustainability risks ([here](#)), the industry reaffirmed its commitment to sustainability in line with the EU Green Deal and Solvency II review. However, regarding market risk for stocks and bonds exposed to transition, the industry expressed a preference for no change, as the evidence put forward by EIOPA was considered insufficient to justify a dedicated prudential treatment for sustainability risks.

### Next steps

- EIOPA submitted its recommendations to the EC, which will review the report.