

## EU Sustainability related requirements for (re)insurers *In force & Upcoming*

### SUSTAINABILITY REQUIREMENTS IN PRUDENTIAL REGULATION

#### Solvency II

In force

#### 1. DR 2021/1256 amending DR (EU) 2015/35 as regards the integration of sustainability risks in the governance of (re)insurance undertakings

Since August 2022, Solvency II has contained specific provisions on the management of sustainability risks.

'sustainability risk' is defined in Solvency II as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential negative impact on the value of the investment or on the value of the liability".

The changes already introduced create the following requirements for insurers:

- (Re)insurers are required to reflect sustainability risks in their **risk management/ORSA, underwriting and reserving and investment portfolio**. (DR Art 260)
- Actuarial function is required to consider sustainability risks in its assessment of the uncertainty associated with estimates made in the **calculation of technical provisions**. (DR Art 272(6))
- **Remuneration policy** is required to include information on its consistency with the integration of sustainability risks (DR Art 275)
- As part of the Prudent Person Principle under Solvency II, undertakings are required to consider the impact of their **investment strategy and decisions on sustainability factors** – hence including on nature-related factors (Art 275a).

#### 2. EIOPA opinion on the supervision of the use of climate change risk scenarios in ORSA (published 19 April 2021)

EIOPA's opinion effectively requires undertakings to:

- to integrate climate change risks in their system of governance, risk-management system and ORSA
- to assess climate change risk in the short term
- to assess the long-term risks of climate change using scenario analysis to inform the strategic planning and business strategy
- to identify material climate change risks for their business. Materiality of exposures to climate change risks to be assessed through a combination of qualitative and quantitative analyses.
- to subject material climate change risks to at least two long-term climate scenarios, where appropriate:
  - a climate change risk scenario where the global temperature increase remains below 2°C, preferably no more than 1.5°C, in line with the EU commitments; and
  - a climate change risk scenario where the global temperature increase exceeds 2°C.

From April 2023, EIOPA will start monitoring the application of the opinion and undertakings will be expected to perform climate scenario analysis.

	<p><b>3. Climate related reporting in SII (amendments to ITS on reporting and disclosure –to be published in OJEU is imminent)</b></p> <p><u>From Q4 2023, EIOPA has introduced the following climate related reporting in the SII QRTs (quantitative reporting templates):</u></p> <ul style="list-style-type: none"> <li>• S.06.04 - climate change related risks to investments <ul style="list-style-type: none"> <li>• Climate change-related transition risk - KPI</li> <li>• Climate change-related physical risk - KPI</li> <li>• For both elements also a justification for not reporting</li> </ul> </li> <li>• S.14.02 – Non-life obligations analysis <ul style="list-style-type: none"> <li>• For the products commercialised under this product category/LOB, which proportion (measured by gross written premiums) covers climate related perils? (0-100)</li> <li>• If the product covers climate-related perils, does the product design make allowance for risk-prevention measures? (Yes/No/Not applicable)</li> </ul> </li> </ul>
Upcoming	<p>Under the <b>SII 2020 Review</b>, the EC has proposed the following changes:</p> <ul style="list-style-type: none"> <li>• (re)calibration of NATCAT risk module of the SCR (Dir Art 304a): <ul style="list-style-type: none"> <li>• EIOPA is asked to regularly review, and at least every three years, the scope and the calibration of parameters of the standard formula pertaining to natural catastrophe risk.</li> <li>• EIOPA is requested to take into account the latest available relevant evidence on climate science and the relevance of risks in terms of the risks underwritten by (re)insurance undertakings that use the standard formula for the calculation of the non-life catastrophe sub-module of the SCR.</li> </ul> </li> <li>• Requirements for (re)insurers to include climate stress testing in their ORSA. 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. <ul style="list-style-type: none"> <li>• In case the exposure to climate change risks is considered material, the (re)insurer has to specify at least the following two long-term climate change scenarios: <ul style="list-style-type: none"> <li>• a long-term climate change scenario where the global temperature increase remains below two degrees Celsius;</li> <li>• a long-term climate change scenario where the global temperature increase is equal to or higher than two degrees Celsius.</li> </ul> <p>These scenarios are reviewed at least three-yearly and are updated when necessary.</p> </li> </ul> </li> <li>• EIOPA mandate on dedicated prudential treatment for green/brown assets (Dir Art 304a) <ul style="list-style-type: none"> <li>• EIOPA is mandated to explore by 2023 a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives.</li> <li>• EIOPA shall submit a report on its findings to the Commission by <i>28 June 2023</i>. And, where appropriate, the report shall consider a possible prudential treatment of exposures related to assets and activities which are associated substantially with environmental or social objectives or which are associated substantially with harm to such objectives and be accompanied by an assessment</li> </ul> </li> </ul>

	of the impact of the proposed amendments on insurance and reinsurance undertakings.
<b>SUSTAINABILITY RELATED DISCLOSURES</b>	
<b>CSRD</b>	
In force	<p>From 2025 (for FY2024), the <b>Corporate Sustainability Reporting Directive (CSRD)</b> requires all large and listed insurance companies to report on</p> <ul style="list-style-type: none"> <li>• the risks and impacts of ESG factors on their financial statement</li> <li>• the risks and impacts of their activities on ESG factors (so-called double materiality approach) using sustainability reporting standards.</li> </ul> <p>This represents the preparation of 1000+ datapoints that insurance companies will have to report according to 12 sector-agnostic European Sustainability Reporting Standards (ESRS), with additional sector-specific datapoints expected in the coming years with the development of sectorial ESRS.</p>
<b>CSDDD</b>	
Upcoming	<p><b>Corporate Sustainability Due Diligence Directive (CSDDD)</b>, currently discussed by the co-legislator, introduces human rights and environmental due diligence requirements (identify, prevent, mitigate and bring to an end adverse impacts), as well as the adoption of a transition plan in line with the Paris Agreement objectives.</p> <ul style="list-style-type: none"> <li>• Where appropriate, an identification and explanation of decarbonisation levers within the company's operations and value chain, including the exposure of the company to coal-, oil- and gas-related activities, as referred to in Articles 19a(2), point (a)(iii), and 29a(2), point (a)(iii), of Directive 2013/34/EU</li> <li>• How the company's business model and strategy take account of the interests of the company's affected stakeholders and of the impacts of the company on climate change</li> <li>• The time-bound targets related to climate change set by the company for scope 1, 2 and, where relevant, 3 emissions, including, where appropriate, absolute emission reduction targets for greenhouse gas for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence, and a description of the progress the company has made towards achieving those targets</li> </ul> <p><b>CSDDD - Article 15 Combating climate change - as proposed by Council -</b> requires Member States to ensure that companies in scope shall adopt a plan, including implementing actions and related financial investment plans, to ensure that the business model and strategy of the company are aligned with the objectives of the transition to a sustainable economy and with the limiting of global warming to 1.5C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119), and where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities, as referred to in Dir 2013/34/EU Art 19a(2)(a)(iii).</p> <ul style="list-style-type: none"> <li>• This plan shall in particular identify on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.</li> <li>• MS shall ensure that, in case climate change is or should have been identified as a principal risk for, or a principal impact of, the company's operations, the company includes greenhouse gas emission reduction objectives in its plan.</li> </ul> <p><i>Note this Article is not subject to the Council's proposals for a member state option on whether the downstream part of the value chain is covered</i></p>

<b>Taxonomy regulation</b>	
In force	<p>From 2024, the <b>Taxonomy Regulation</b> requires insurers falling under the scope of the CSRD to assess and report whether their investments and underwriting activities are aligned with a number of technical criteria established in the EU Taxonomy. In particular, they must prepare and disclose:</p> <ul style="list-style-type: none"> <li>• <b>An Investment KPI:</b> The proportion of the investments of (re)insurance undertakings associated with taxonomy-aligned economic activities in relation to their investments</li> <li>• <b>An Underwriting KPI:</b> The proportion of the 'non-life gross premiums written' corresponding to taxonomy-aligned insurance activities in relation to total non-life gross premiums written</li> </ul>
<b>SFDR</b>	
In force	<p>From 2021, the <b>Sustainable Finance Disclosure Regulation (SFDR)</b> requires insurers to provide a large number of pre-contractual, website and periodic disclosures:</p> <ul style="list-style-type: none"> <li>• <b>Entity level disclosures:</b> Integration of sustainability risks into investment decisions, consideration of principal adverse sustainability impacts</li> <li>• <b>Product level disclosures</b> for sustainable products <ul style="list-style-type: none"> <li>• SFDR templates require to deliver to consumers at least 5 pages of pre-contractual documents for an ESG product, and up to 60 pages for the annual, periodic information.</li> <li>• Many open questions on how to do this in practice and this comes on top of other EU legislative requirements, so that, for a sustainable insurance-based investment product sold online, EU rules require insurers to provide consumers with 339 pieces of pre-contractual disclosures.</li> </ul> </li> </ul>
<b>OTHER DIVERSITY &amp; INCLUSION REQUIREMENTS</b>	
<b>EU Directive on gender balance in corporate boards</b>	
In force	<p>The EU Directive on gender balance in corporate boards, by 30 June 2026, requires large, listed EU companies to have transparent board appointment procedures and to have:</p> <ul style="list-style-type: none"> <li>• 40% of the underrepresented sex among non-executive directors in the board, or</li> <li>• 33% of the underrepresented sex among all directors in the board.</li> </ul>
<b>Directive on pay transparency</b>	
	<p>The Directive on pay transparency, aimed at closing the gender pay gap. The political agreement is now only subject to formal approval by the co-legislators and after publication in the Official Journal, Member States will need to transpose into national law within 3 years. Key elements:</p> <ul style="list-style-type: none"> <li>• Employees will have the right to request information from their employer on their individual pay level and on the average pay levels, broken down by sex, for categories of workers doing the same work or work of equal value. This right will exist for all employees, irrespective of the size of the company.</li> <li>• Employers with at least 100 employees will have to publish information on the pay gap between female and male workers.</li> <li>• Where pay reporting reveals a gender pay gap of at least 5% and when the employer cannot justify the gap on basis of objective gender-neutral factors, employers will have to carry out a pay assessment, in cooperation with workers' representatives.</li> <li>• Member States should establish penalties for infringements, including fines, and workers who have suffered gender pay discrimination can receive compensation.</li> </ul>