

Comments to EIOPA opinion on the use of climate change scenarios in the ORSA

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General Comments

Insurance Europe agrees that it is **important to foster a forward-looking management of climate change risk, as well as other risks**. It is beneficial that all insurers consider the management of climate change risks which are expected to have a future **material impact on** them.

The industry recognises that simple and bold scenarios can be useful to assess climate change risks, but scenario definitions and methodologies should remain relevant for each company's risk profile. Therefore, climate change scenario analysis should be included in the Own Risk & Solvency Assessment (ORSA) only if climate risk is material.

Insurance Europe has the following comments:

- **The ORSA is the company's own analysis and should remain this way.** No separate regulatory treatment is needed in the context of the ORSA, as the process should already cover all relevant material risks. It is worth noting that European insurers are already at the forefront of climate change in the way in which they manage risks and pay claims, as well as in how they consider climate change in product development, asset allocation and other business areas.
- **The decision to perform forward looking analyses on climate change risks in the ORSA should remain at the discretion of the specific insurer,** taking into account geographical specificities related to climate change risk and reflecting the undertaking's individual risk situation adequately. Each company should decide individually:
 - The most appropriate report to present its analysis on climate change risk.
 - How the analysis is performed: eg qualitative or quantitative, time horizon, etc.

- Prescriptiveness in the ORSA processes should be avoided for the following reasons:
 - **Uncertainties and limitations** that exist in the climate risks analyses. A standardised set of quantitative scenarios should not be included in the ORSA, as it creates a number of issues including the lack of consensus among experts regarding the choice of scenarios and their evolution in the future.
 - **The materiality of climate risks differs across entities and over time.** Insurance companies without significant climate risk exposure should not be forced to use climate scenarios and should maintain full flexibility to reflect differences in time horizons and company specificities.
 - **Quantitative scenarios with time horizons longer than 10 years risk being unreliable and not useful to assess balance sheet impacts,** as financial planning is not usually performed over the very long term. When an insurer performs climate change scenarios, **a shorter time horizon of up to five years is likely more adequate for its ORSA.** A qualitative approach would often be a more reasonable and appropriate approach to inform strategic planning and business strategies.
 - Given the many uncertainties relating to climate change, climate scenario analyses might not be fit for the solvency assessment. The **ORSA is not necessarily the most appropriate tool to achieve** forward-looking management of climate change risk via standardised scenarios. Other tools may be more appropriate for an insurer to manage its risks.
- The **European stress testing exercise** may eventually become a better tool to incorporate a forward-looking approach based on standardised scenarios, provided its design and the calibration of the scenarios are appropriate (see [Insurance Europe response](#))
- **The European Insurance and Occupational Pensions Authority's (EIOPA) opinion should allow for and encourage the application of proportionality.** Specifically:
 - For insurers with negligible exposure to climate risk, the opinion sets the burden too high and should make it possible for such companies not to prepare scenario analyses at all. In those cases, a qualitative assessment, with the possibility to use scenario analysis, should be sufficient in this case and equally valuable for the analysis in the ORSA.
 - Size of business might not be a determining factor here, but rather the business line, or the investment profile. A geographic diversification component should also be included to reflect the actual risk profile.
- **Scope, depth and methodologies are expected to evolve** as the undertakings expand the application of existing methodologies and new sophisticated methodologies are developed. **Regulators can also help accelerate this process** by publishing more and better data over time as well as developing technical information.

*Question 1: Do you agree that it is important to foster a **forward-looking management of climate change risk** by insurance undertakings? Please explain.*

Yes. Insurance Europe agrees that it is **important to foster a forward-looking management of climate change risk**.

It is beneficial that all insurance companies consider the management of **climate change risks which are expected to have a material impact**. To this end, the specificities of climate change vis-a-vis other risks should be properly accounted for (see also Q12).

European insurers are already at the forefront of climate change in the way they manage risks and pay claims. Climate change analysis could serve several objectives: identifying risks, helping to define climate strategy, contribution to the objectives of the Paris Agreement, transparency, etc. Therefore, the forward-looking management of climate change risk is important not only to strengthen the risk management framework of the insurance undertaking, but also for developing the strategy at executive management level. In fact, climate change may influence strategic decisions in key areas, including product development, perspective asset allocation, business in geographical areas and reputational risk.

This considered, **the ORSA is the company's own analysis and should remain this way. Therefore, the decision how to perform in practice the forward-looking analysis on climate change risks in the ORSA should remain at the discretion of the specific insurer**. It is therefore vital that:

- Insurers have the maximum flexibility in applying the most appropriate tools and assumptions to their own risk management frameworks, and in line with their own specific business profile.
- Beyond differences from one insurance undertaking to another, differences also across sub-risks (life, nonlife, health, assets, etc) of an undertaking are accounted for in terms of the required scope, complexity, method (eg quantitative or qualitative) and frequency (eg yearly, every five years, etc) of this forward-assessment assessment. It should be possible to reflect these differences in an appropriate and proportionate management by the insurer.
- Where changes in claims payments are caused by extreme weather events, such as for many P&C short-term contracts, risk mitigation techniques can be used to deal with the related impact. In addition, insurers can take into account changes in trends caused by climate change via yearly adaptations of premiums.

No separate prescriptive regulatory treatment is needed in the context of the ORSA, as the process should already cover all relevant risks. As with any risk an insurer is exposed to, the ORSA can already be used as a suitable place for insurers to report on any material exposure and how it is monitored and managed. Insurance Europe would caution against prescriptiveness in the ORSA processes, which are already assessed by the relevant supervisory authorities, for the following reasons:

- The uncertainties and limitations that exist on forward-looking climate risks analyses.
- Materiality of climate risks differ across entities and may change over time. Insurance companies that do not identify significant climate risks in their risk profile should not be forced to use climate scenarios.
- Insurers should have the flexibility to rely on the tools they consider the most appropriate to manage those risks. The ORSA is not necessarily the most appropriate tool to perform this forward-looking management of climate change risk via standardised prescriptive scenarios.

Finally, the insurance sector acknowledges that EIOPA is currently investigating climate change scenarios in the context of the European stress testing exercise. The insurance industry believes that the European stress testing exercise might eventually become better suited to incorporate a forward-looking approach based on standardised scenarios in order to assess potential vulnerabilities and the resilience of the insurance sector (macro-prudential perspective). However, Insurance Europe would like to reiterate that the first few exercises could only be exploratory due to the current limitations in data availability and climate modelling expertise.

Climate-related stress testing should also be appropriately designed and calibrated. It should be clear that and results are not fit for solvency assessment (see [Insurance Europe response](#)).

*Question 2: Do you agree that Annex 2 provides a balanced view of the **costs and benefits** of the draft Opinion? Please explain and provide any suggestions.*

No. While it is **a good overview, it is difficult to claim that “the costs are outweighed by the benefits of undertakings considering short and long-term climate change risks in their ORSA”** as stated by EIOPA in Annex 2.

The industry notes that:

- **The benefits are very difficult to assess due to the uncertainty of the results** with such a long-term horizon and the necessary simplification of hypotheses to perform such exercise. The consequences of climate change are far-reaching and not entirely predictable by an insurance company, especially in terms of the social impact and economic effects. In practice, current models are not yet sufficiently developed to be used as intended by EIOPA. The certainty of scenario results is affected by missing data issues, the academic nature of many models for projecting climate change and significant variation in their assumptions and outcomes. This significant uncertainty comes with the difficulty to directly reflect the outputs of these models (including changes in temperatures and precipitation) in expected claims, underwriting strategies etc.
- **The costs of such assessment include personnel time, use of external data providers, development of methodologies.** The industry highlights that the modelling of climate change can be extremely complex and, as a consequence, expensive (as proven by the fact that the IPCC modelling is still under construction despite it being under development for decades). For this reason, it is important that **models and analysis on climate change risk are introduced gradually**, with a focus on simplicity to ensure a proper benefit-to-cost balance.
- As uncertainties with respect to climate, exposure and vulnerability are larger in the very long run (eg the affordability of insurance premiums can change greatly over time), **quantitative scenarios longer than five to 10 years are less useful and may result in higher costs than benefits. The longer the time horizon, the more qualitative in nature this should be** (see [Insurance Europe comments](#) on the methodology on climate stress testing).
- The single analyses of an undertaking can reveal different results, leaving little ground for meaningful decision-making.
- In the analysis of costs and benefits, EIOPA should take into account that:
 - There might be **a number of tools to achieve its goals**: eg more frequent reviews of non-life catastrophe risks in the standard formula capital requirements to timely capture the potential effect of increased climate change risks.
 - **Climate change stress tests in the context of the European stress testing exercise** is already being considered by EIOPA and could also help create awareness about climate change. The benefits can definitely outweigh the costs if the stresses are not performed too frequently. Despite its limitations and provided its design and calibration are adequate, the industry notes that the outcome of such assessments could be useful also for an insurer’s ORSA.

*Question 3: Do you agree that undertakings should in their ORSA not only assess **climate change risks in the short term, but also in the long-term** to inform strategic planning and business strategies? Please explain.*

Yes, European insurers recognise the importance of fostering a forward-looking management of climate change risks by insurance undertakings. However, **the focus of the opinion on the long-term should not overshadow the importance of the short-term management of climate risks**. While the effects of climate risks are probably more severe in the long-term, the risks should be addressed in the short-term. Therefore, both short-term and long-term climate change risks might be relevant to the ORSA.

There should be a cautiousness in adding greater **prescriptiveness to the ORSA**. The inclusion of climate change scenario analysis in the ORSA should be subject to the **materiality of climate risks** for the insurer. Based on the materiality assessment and on its own **assessment of current solvency relevance**, the insurer should be able to decide how to consider climate change risks in their ORSAs (eg via a long- or short-term assessment or a qualitative versus a quantitative assessment) and have flexibility to reflect differences in time horizons and company specificities. Therefore, the definition of long-term should be decided by each undertaking. In addition, while the industry agrees that the appropriate level of precision may vary depending on whether a short- or long-term view is taken, it also notes that it is also subject to data issues and considerations.

Regarding how to consider the climate change risks in the long-term, the industry has the following comments:

- **Quantitative scenarios with time horizons longer than five to 10 years risk being unreliable for use in strategic planning and business strategies**, as strategic planning is not usually performed over the very long-term (time horizons are usually not longer than 10 years). For example, quantitatively projecting balance sheets decades onwards (eg with a 10-year time horizon) is unlikely to provide meaningful information because:
 - It would be very difficult to include reactive management actions to any observed trends affecting investments and liabilities.
 - It would not account for asset reallocation strategies which are currently being carried out in the shorter term.
 - This ignores the fact that adaptability is key when considering long-term risks and that some risks can be dealt with gradually as the system will adapt (premiums will rise, coverage will decrease, reserving will adapt to different trend estimates, and so forth). Sudden changes in the long-term are not predictable, which makes their inclusion in a scenario not very valuable.
- **A qualitative approach would often be a more reasonable and appropriate approach**. While there is a risk that such an assessment would not contribute towards strategic planning and business strategies (and instead just be a box-ticking exercise for compliance reasons), the ORSA process should enhance the management of the undertaking. Therefore, it is important that each undertaking can include the types of analyses that are relevant to them.
- A quantitative long-term projection should be considered in the context of the premium volume exposed to climate change risk compared to total business volumes, as well as the required time to take measures against potential negative developments. If an undertaking can take fully effective measures within a short time-horizon, then a short-term assessment is adequate.
- From an investment perspective, a climate change risk-assessment in the short, but also in the long-term could be an advantage. However, there are challenges in quantifying a risk that has never occurred before, for short-term and especially for the long-term-view. This applies above all to transition risks, the occurrence of which depends on a variety of circumstances (political decisions, regulations, etc.). Even if these primarily materialise in the long term, a short-term occurrence due to regulations or political decisions cannot be ruled out. Yet, these instances are hardly covered by models and it is hard to achieve a differentiated assessment of the portfolio risk based on justifiable assessment going beyond a sectoral view.

EIOPA expects that the scope for long-term analyses will expand, including the sophistication of quantitative scenario analyses. It should be clarified that this should still serve to produce meaningful results for informed decision-making, rather than advancing sophistication per se. For this reason, EIOPA should refrain from specifying a timeline.

*Question 4: Paragraph 3.3 specifies that the **time horizon** of the long-term scenario analysis could be longer than the time horizons currently considered by undertakings in their ORSA, for example **a magnitude of decades** may be appropriate. Is this explanation in your view adequate or should the explanation be more or less specific? Please explain.*

No. The need to use a magnitude of decades is not adequately explained in paragraph 3.3. The industry is of the view that undertakings should be able to decide on the appropriateness to use longer time horizons for scenario analysis than those considered in their ORSA. The time horizon decision is related to the exposure to climate change risks in the short-, medium- and/or long-term. In this respect, the supervisory expectations should be aligned with the increasing complexity and difficulty in performing scenario analysis with longer time horizons.

The industry takes the view that:

- A **time horizon of up to five years is likely more adequate for the ORSA**. As mentioned under Q3, most insurers do not generally use horizons longer than 10 years. Long-term scenarios should be applied in a proportionate manner depending on the business model and specific risks of the insurer. Dependent on the insurer and the way climate affects its business, climate change stress tests could be performed with more adequate frequency: eg not necessarily on a yearly basis (this might also depend on the Intergovernmental Panel on Climate Change (IPCC) issuing major updates more frequently). This would allow insurers to build a good understanding of the potential volatility of climate related risks in the short-term and how to manage it. The frequency of the stress should be coherent with new available insights on the topic and the pace of change of both climate and insurers' balance sheets.
- **The ORSA should continue to represent the undertaking's own view of its risk profile, and the capital and other means needed to address these risks**. The undertaking should decide for itself how to perform this assessment given the nature, scale and complexity of the risks inherent in its business. Therefore, each undertaking should be able to decide the appropriate time horizon to use in its ORSA.
- It is not clear **how the climate change scenario analysis and the business plan are interconnected** in the long-term. Uncertainty with respect to climate, exposure and vulnerability can be extremely strong over a horizon of decades and insurers can gradually adapt their strategy on climate change. The **scenario analysis with a time horizon of decades is best addressed via qualitative indications**. This is because quantitative modelling of long-term horizons would have to select only a limited number of highly uncertain outcomes, which could be misleading. This will also ensure that the results of a long-term analysis are meaningful, given the high level of uncertainty.
- When there are no material climate transition risks affecting insurers in the coming years, transition risks will not necessarily be considered in the ORSA or visible in the scenario analysis run by insurers in the coming years. Moreover, scenarios would need to include assumptions on future business environment, which could be difficult to identify given the uncertainties related to such long-term horizon.

The industry recognises that a magnitude of decades would have to be considered to understand climate change risks, possibly including transition risks as the Paris Agreement and European and international objectives are set for 2030 and 2050. However, there needs to be a distinction between financially related scenarios and "pure" climate scenario which have a different nature and objective.

*Question 5: Do you think that the examples in Annex 3 and Annex 4 cover the main **transition and physical risks** to which undertakings may be exposed? If not, please provide suggestions for additional examples of risks.*

Yes.

Insurance Europe shares the view on the main climate change related risks and on the transmission channels laid down in the draft paper. Climate change can affect both sides of the balance sheet and, as EIOPA noted, it can materialise through established risk categories.

Companies must be given the flexibility to determine what risks are relevant for them, which may include risks not reflected herein. Focusing on the examples, the industry also notes that:

- With respect to life underwriting risk, most life insurers are exposed to both mortality and longevity risk. With respect to the effect of higher temperatures, the direction of change is not always clear as an increase of mortality due to heat waves may be (partly) compensated by the lower mortality thanks to milder winters. The combined effects of longevity and mortality and the combined effects of heat waves and milder winters depend on the exposures to longevity and mortality risk in different age groups.
- Physical risks do not only affect the liabilities side of the balance sheet, but also items in the asset side (in addition to transition risk).
- Apart from risks resulting from climate change, it is an essential part of the industry's strategy to monitor emerging risks, including wider environmental risk than pure climate risk.
- EIOPA focuses on negative impact on the balance sheet, but items in Annexes 3 and 4 only describe changes in physical variables, and there might be counterbalancing arguments and some developments that could result in a more nuanced impact on the actual balance sheet risk from climate related events. EIOPA could consider:
 - The possibility for insurers to change terms and conditions and/or policy underwriting criteria which could include preventive measures for climate risks which could have a mitigating effect.
 - The impact of climate related developments can have an adaptation effect on underwriting risk and against changing weather-related events. For example, business owners who experienced weather related events in the past might have adopted resilient solutions.
 - The list of physical risks should be a general, non-binding, reference, since local effects may vary widely, sometimes even leading to a reduction in specific acute risks in some areas. Furthermore, only risks for which there is a clear scientific consensus should be included.

*Question 6: Do you agree that the long-term scenario analysis should at least distinguish **two scenarios**, where appropriate:*

- *a scenario where the temperature increase remains below 2°C, preferably no more than 1.5°C, and*
- *a scenario where the global temperature increase exceeds 2°C?*

Please explain.

No. The industry does not consider the specification of fixed scenarios to be appropriate, as the ORSA should remain company specific.

The industry notes that:

- **Undertakings need to maintain full flexibility to reflect differences in time horizons, company specificities and risk exposure** (the measurement and quantification of these risks is necessary only when these effects are financially material for the undertaking, which depends on company-specific elements). It is more natural for each company to choose the most appropriate scenarios and related specifications according to its own company specificities.

- **Climate change scenario analysis should be included in the ORSA only if the insurer considers climate risks as material.** A standardised set of quantitative scenarios should not become an impediment to carry out a company specific ORSA and scenarios should remain relevant for each company's risk profile.
- **Prescriptive scenarios are contrary to the principle of the ORSA that should reflect the company's own risk analysis.** Depending on the risk exposure, a given proposed scenario might not be relevant while another set of scenarios might be more useful, eg qualitative scenarios based on social and political reactions to climate change in a specific region where the insurer run some strategic business.
- **Considering the objective of the ORSA, these specific scenarios should not be regulated by the authorities.** While the insurance industry acknowledges that proposed scenarios are consistent with the Paris Agreement on climate change, supervisors should focus on general principles rather than on a prescribed standardised set of long-term scenarios with a prescribed time span. In practice, while many companies will use the NGFS and IPCC scenarios given their global scope and ongoing interest, these standardised scenarios should be useful guidance rather than a fixed set of prescriptive conditions.

This considered, the industry welcomes suggestions on scenarios that could be used and on the transposition of climatic scenarios into economic quantitative scenarios. This will help achieve a common view on how to deal with climate risks and to have higher quality of the scenario assessment. In this respect, it is key not to multiply the number of quantitative scenarios to be used and, given the great uncertainties in this area, to keep them simple and based on high-level principles that allow for flexibility. Climate change is only one of many risks to be dealt with. In fact, insurers should investigate, and stress test all major risks.

The industry has the following comments on scenarios suggested by EIOPA:

- Models for projecting climate change are predominantly academic in character. These models differ significantly in the outputs of their results due to missing data and are of limited applicability to assess the effects of climate change on expected claims, underwriting strategies etc. Prevention and adaption measures are also hard to factor in. In short, current models are often not yet sufficiently developed to be used as intended by EIOPA. (See also answers to Q1, Q2 and Q3.)
- Despite the importance of forward-looking analysis, historical assessment should not be overlooked. Looking backwards can also provide valuable insights especially for those climate events which do occur on a more regular basis. For example, the claim pattern from an event several years ago could provide insights in adaptation of behaviour regarding new climate related events, changes in building codes/regulation, etc.
- The translation of different concentration pathways to effects on different perils is not always clear. Co-operation between insurers via the national associations and the national meteorological institutes can be helpful.
- It is essential that the scenarios are undertaking-specific and that uniform scenarios which focus on temperature are not mandatory. For example, the speed of change might be an even more relevant risk. If actors have time to adapt, then risk may remain relatively low, though some adaptations take a lot of time and ideas about long term trends and expectations have added value. However, if change comes suddenly then the shock might have devastating consequences to the economy.

*Question 7: Do you agree that **scope, depth and methodologies** of undertakings' quantitative (scenario) analyses of climate change risks should be expected to evolve, considering that undertakings need to gain experience and build technical capacity? Please explain.*

Yes. This is reasonable and relevant for all risks.

Scope, depth and methodologies are expected to evolve as the undertakings expand the application of existing methodologies and new sophisticated methodologies are developed. The work by universities, meteorological institutions and commercial modelling companies will also allow to improve the risk analyses.

This process of undertakings gaining experience and expanding the scope of their analysis and technical know-how can get even faster thanks to regulators. In fact, regulators play a major role by publishing more and better data over time as well as developing technical information to support the evolution of the undertakings' models. Ideally, the methodologies could be shared in order to maximise the trade-off between costs and benefits, minimise the time needed to implement effective strategies and even promote comparable approaches.

This considered, there are many uncertainties about the way climate change will impact economic and social systems and the interconnection between sectors and sub-sectors. It is therefore difficult to translate such impacts through the macroeconomic and financial hypothesis and shocks. As a consequence, **the evolution of scope, depth and methodologies of undertakings' quantitative (scenario) analyses of climate change risks will take place gradually over the years.** The progression on modelling expertise and tooling will probably not be the only way forward. Insurers might get insights on their vulnerabilities to climate change and timely adapt to identified risks not only using climate scenarios but also using other means.

In addition, although it is expected to place specific emphasis on the impact of climate-change-related risks in risk management processes, the degree of evolution should depend on the materiality of the risks for individual companies. Emphasis on sustainability risks notwithstanding, it would be very burdensome to require an explanation of non-materiality for every conceivable risk.

Last but not least, the incorporation of more "what-if assessments" and limited scenarios of specific events might be as useful as long-term quantitative assessments to determine impact of climate change and required mitigating actions.

*Question 8: Do you have suggestions to improve the **guidance provided in Annex 5** to assist competent authorities in supporting undertakings to apply scenario analysis in their ORSA? If yes, please provide your suggestions.*

The ORSA should be kept in the company's own assessment and scenario analyses should be kept at the discretion of the insurer based on its own risk assessment.

This considered, the insurance industry has the following remarks:

- The first guideline should be that **an insurer's examination of climate risk should be proportionate to its size, complexity and vulnerability.** National competent authorities (NCAs) tend to overreact in prescribing requirements and approaches. Guidelines could provide good help to their supervisory activities. The list of suggestions to include different elements in the scenarios is very long. Especially for small undertakings this is not doable, but also not necessary for horizons up to 10 years.
- **NCAs should encourage and challenge (re)insurers to make a first step on the assessment of climate related risks** (identification, qualitative impact on short term, ie 1-3 years, and longer term, ie five or more years, potentially including the volatility).
- **Data quality and science-based target initiatives** (SBTi) are key in scenario analysis and might be given more relevance as, without this information, it will be hard to improve and develop reliable scenarios. However, as both methods and data are under development, the industry understands that it is hard to provide clearer guidance. In this respect, it is important to support and encourage all asset owners to develop and ask for better data incorporating a number of dimensions and scopes.

- The guidance is primarily focused on **climate and macro-economic scenarios**. For physical risk, expectations on climate adaptation are essential, but also difficult to make. For example, sea levels will rise, but flood defences will be improved. Adaptation needs to be considered more closely as the evolution of the risk depends on the balance between these developments.
- There is no straightforward link between the (sudden) occurrence of **climate change effects and asset prices**. This means that assumptions/estimations will have to be made, which will also help achieve comparable outcomes. **Composition of asset portfolios** change over time, also to deal with changes in risks. This leads to difficulties in comparing year-on-year changes in the outcomes of the required analysis. Care should also be taken in order not to generate a “self-fulfilling prophecy” in the treatment of “brown” investments in all the assessment.
- Relying on **external models** is fine up to a certain point. However, if it leads to just a few models dominating the landscape, then over-reliance could emerge and that would increase systemic risk (like has happened with rating agencies). Diversification of approaches and models would therefore be better for financial stability and innovation.
- Similar analyses and examples of Annex 5 for non-life companies could be useful also for **life companies** and for non-financial risks, such as biometric risks.
- Given all the associated uncertainties, there is a risk of making decisions based on evidence that is in fact hardly significant, where professional judgment and consideration of future business environments (changes in portfolios, conditions, rates, economy, etc.) alone would be more valuable. For the longer term, more value may come from considering extreme but plausible outcomes qualitatively, for assessing possible strategic challenges and opportunities (see also Q7). In case financial impacts are calculated for the longer term (ie 2030 onwards), the risk is applying a non-reliable model.

*Question 9: Do you agree that competent authorities should encourage larger undertakings to **disclose climate-related information**, in line with the Commission’s Guidelines on non-financial reporting on climate-related information? Please explain.*

Yes, European insurers agree that transparency of non-financial information is needed, provided that it duly takes into account confidentiality principles and is meaningful. Transparency is also crucial for data availability and quality of climate-related information necessary for reporting.

In this respect, the industry is of the opinion that **potential requirements to disclose information on climate risk should be regulated through the ongoing process to review the non-financial reporting**. Competent authorities can also encourage larger undertakings to disclose climate-related information via non-financial reporting, especially when reporting is publicly available, and can have a role in facilitating the availability of ESG information: eg at asset level.

This would also enhance the confidence of policyholders in the financial institutions and would promote the awareness on climate change issues. If policyholders and potential clients were more informed on climate-related issues and the undertaking gained a good reputation on the market, this would in turn enhance the demand of insurance covers or, in any case, reinforce the perception of the goodness of the company’s reputation and brand.

The industry recognises that **climate-related disclosure is important for a number of reasons** (eg to improve awareness of the effects of climate change, the resilience of business models to the physical and transition risks, understanding of climate change risks, the comparability of the results of scenario analyses and risk identification and transmission channels, etc). In fact, various insurers already publish a dedicated climate report and most European insurers already provide some form of sustainability risk disclosures: eg following the TCFD recommendations.

With respect to the ORSA, insurers note that this is not the appropriate mechanism to provide climate-related reporting and that CAs should not be given discretionary power to require such disclosures via non-mandatory guidelines. While insurers agree that public disclosures of climate-related information should be consistent with that in the ORSA, disclosing ORSA specific information about the risk exposures, including climate change risk, should remain at the discretion of each company. While the ORSA is used for internal purposes, in particular for its own risk assessment and management, external reports are intended to inform stakeholders.

*Question 10: Does the draft Opinion strike the right **balance between setting common expectations and allowing undertakings to do their own risk assessment**? If not, please explain in what areas the draft Opinion could benefit from more or less consistent approaches.*

No. European insurers agree on the importance to consider climate risk scenarios in the ORSA. However, the opinion appears to be **too prescriptive by requiring a systematic and quantitative climate change scenario analysis in the ORSA.**

In this respect, the opinion should:

- Support a more differentiated approach to the topic. The choice of methods and scenarios depends on many aspects such as the individual risk, materiality, possibility of measures, availability of reinsurance etc. This should be clearly acknowledged by EIOPA and NCAs.
- Make it clear that **the undertakings have freedom on whether and how to include climate change risks in their own risk assessment.** The ORSA is the company's "own" analysis and should remain such.
- **Not stipulate how climate change scenario analysis is performed, nor what time horizon should be used in the analysis, as the use and identification of scenarios depend on the undertaking's assessment of the materiality of exposures** to climate change risks. Therefore, the opinion should elaborate on the concept that insurers are not obliged to comply with NCAs' general expectations of what to include in the ORSA when there is no materiality.
- **Consider that other tools are available to set common expectations** about the management of climate change risks. In particular, when talking about standardised scenarios, **climate stress-testing would be more** appropriate to achieve the objective of setting common expectations.
- Furthermore, the opinion should be clearly stated as non-binding and not as binding expectations.

*Question 11: Do the expectations put forward in the draft Opinion achieve a **proportionate approach** to climate change risk analysis in ORSA, fitting small-, medium- and large-sized undertakings? If not, please provide your suggestions to improve proportionality of the draft Opinion.*

No. First of all, the principle of proportionality in Solvency II focuses on the nature, scale and activity of the risks inherent to an insurer's business, and not simply on its overall size. In any case, **there is not much distinction made between small-, medium- and large-sized insurers.** While each insurer should decide whether the ORSA is the right instrument to capture climate change risks that can materialise over a longer time frame, the opinion sets the expectations on small undertakings too high. It cannot be expected that small and medium sized undertakings have the same resources for performing the same sophisticated analyses as other larger undertakings.

Moreover, the burden and costs would be disproportionate for undertakings of all sizes for which the targeted risk is non-material. A simple and proportionate approach is needed. Considering the resources and the data required for the development of such complex analysis, reinsurance companies, pools of insurers or associations could support carrying out this task in cooperation with science.

Considering that the purpose of the ORSA is to model the undertaking's own risks, it is of the utmost importance to allow undertakings to develop and apply **own risk assessment methodologies without introducing uniform requirements** that cannot take into account geographical specificities related to climate change risk and reflect the undertaking's individual risk situation adequately. **For companies with no material exposure to climate risk, this means that it should be possible not to prepare scenario analyses at all.** A qualitative assessment, with the possibility to use scenario analysis, should be sufficient in this case and equally valuable for the analysis in the ORSA.

In general, the industry reiterates that all undertakings should be given sufficient flexibility to reflect their specific business model and integrate sustainability risks in their relevant processes and business decisions. Proportionality means that, **when an undertaking's risk exposure is not material, it should not be expected to perform complex quantitative climate change risk analysis in its ORSA.** The opinion states this point with respect to materiality, but this should more clearly be elaborated to provide better supervisory guidance and avoid unnecessary burdens for insurers.

Proportionality should also consider a geographic diversification component. The opinion makes the implicit assumptions that small insurers are less geographically diversified than large ones with consequences on their exposure to climate change risk. This exposure to climate change risk is primarily related to portfolio concentrations rather than size.

*Question 12: Do you have any **other comments** on the draft Opinion? If yes, please provide these other comments.*

- Insurers note that EIOPA should strike the right balance regarding the recommendations of the use of climate change scenarios in the ORSA. Moreover, it should highlight that the results of climate scenario analyses might not be fit for the solvency assessment for the following reasons:
 - There are many **uncertainties relating to climate change itself**, its impact on the environment and its complex interactions with economic and social systems, which are difficult to rationalise through the macroeconomic and financial hypothesis and shocks commonly used.
 - **Climate scenarios analyses should therefore not be used to assess the solvency of insurers as this might result in ill-informed market signals and be inconsistent with a stable transition to greater financial sustainability.** Climate scenarios "differ fundamentally – in both nature and usage – from financial stability-oriented scenarios. While the latter are meant to capture plausible but low probability adverse scenarios, scenarios in a climate context represent probable representations of future evolution profiles of greenhouse gas concentrations and various adaptation/mitigation strategies associated with them (IPCC). The common use of the word 'scenario' should not obscure the differences in the practice of "scenario analysis" (source: Banque de France, Allen et al, Climate-Related Scenarios for Financial Stability Assessment: Application to France)
- Insurers should examine all (emerging) risks they are exposed to. EIOPA should:
 - Make use of the right means to achieve its goals. Scenario assessments are not always the best solution. Likelihood and severity of natural catastrophes should be estimated by experts in the field (such as (re)insurers) and used for recalibrating capital requirements.
 - Keep it as simple as possible. Adding granularity and complexity does not guarantee better results. It would probably only distract from overview and insight. Extensive use of approximations and simplifications could keep the workload in par with added value. Multi period stress testing is too demanding. In most cases a qualitative approach would suffice, at least as a starting point.
 - Keep the ORSA 'own'. Prescribing stress tests in a uniform format and narrative will unnecessarily narrow the assessments, excluding alternative narratives and possibly, ignoring local circumstances and vulnerabilities.



- Generally, the insurance industry would have appreciated a coordinated approach with NCAs to discuss aspects like feasibility, data availability, proportionality etc. The results of such a dialogue could have been better tailored to the industry needs.

Please also refer to the [Insurance Europe comments](#) on stress testing methodology.

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