

To: Solvency II WG, Long Term Investments & Sustainable Finance PG, Sustainability WG, Corporate Reporting WG
From: Prudential Team
cc:
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Subject: Key takeaways from the EIOPA Sustainable Finance conference

Summary

The secretariat has attended the EIOPA Sustainable Finance Conference on 7 December ([here](#)) and has collected the relevant key takeaways for each of the agenda items.

Key takeaways

Keynote - Clara de la Torre (EC)

- The European Commission is committed to close protection gaps: $\frac{3}{4}$ of all damages caused by extreme weather events are not insured. Those damages often take place in the most vulnerable parts of our society and economy.
- The Climate Resilience Dialogue gathers a wide range of stakeholders to work on closing the protection gap. Main goals are to develop more products aiming at closing protection gaps and to collect good practices.

Keynote - Petra Hielkema (EIOPA)

- Mrs Hielkema highlighted that climate change mitigation is not sufficient, financial institutions/companies and citizens need to adjust now in order to minimise its future impact.
- Adaptation goes beyond climate, there is a wider societal impact and the transition to a sustainable economy affects everyone in a different way. Against this background it is key to ensure inclusion.
- Supervisors' role is to identify, assess and ensure the management of risks to the financial sector, companies and consumers, concretely regarding natural catastrophes supervisors can help to collect and analyse data and improve risk awareness, EIOPA's dashboard on insurance protection gaps is a concrete example of this.
- In addition, supervisors set expectations on fair treatment of customers through product oversight and governance. EIOPA worked on identifying drivers of protection gaps and contributes to solutions. In this context Mrs Hielkema also mentioned the Climate Resilience Dialogue organised by the EC.
- The results of the IORPS climate stress test are expected to be published in the coming weeks.
- EIOPA has been working to detect common risk drivers and identify possible solutions to address protection gaps along three key dimensions: supply side (impact underwriting), demand side (behaviour analysis on consumer preferences) and macroeconomic implications. However, in some cases risk-based solutions are not enough to cover systemic climate-related risks and shared resilience solutions are to be established.
- Sustainability reporting, via SFDR and CSRD, is essential to ensure transparency for investors to make informed decisions to contribute to adaptation.

- Mrs Hielkema also emphasized the importance of technology for helping supervisors, financial institutions and consumers to adapt to environmental, climate and other societal changes.
- Finally, Mrs Hielkema warned for greenwashing practices, ie products being sold that are marketed as “green” while they are not. In that perspective, she also underlined the need to improve financial literacy to ensure financial inclusion.

Keynote - Charlotte Valeur (Blackstone Loan Financing)

- When it comes to discussing next steps in the area of climate change the importance of diversity of background of the participants to these discussions was stressed, in particular to also involve the younger generation as these discussions are very relevant for them.
- As a concrete example reverse mentoring was mentioned, which means that a junior person would mentor/share expertise with a person with a more senior profile.

Panel Discussion - Climate change and financial stability (Carolien/Guillaume)

Renaud Guidée, Axa, Group Chief Risk Officer. Chairman of the Net-Zero Insurance Alliance (NZIA)

Paul Hiebert, European Central Bank, Head of Division Systemic Risks and Financial Institutions

Vicky Saporta, International Association of Insurance Supervisors (IAIS), Chair of the Executive Committee. Prudential Regulation Authority and the Bank of England, Executive Director

Martin Spolc, European Commission, Head of Unit Sustainable Finance DG Fisma

Panel Moderator: Dimitris Zafeiris, EIOPA

- EC noted that it is finalising a ‘formal mandate to perform a climate stress test for the financial sector as a whole’ to the ESAs, to be issued early next year. The goal is to better understand and therefore anticipate how the financial sector under stress could jeopardise the achievement of EU emission reduction targets, and how to respond if such scenario materialises. The EC aims at producing advice on the outcome of this exercise by the beginning of the next EC mandate.
- Climate change will affect the whole balance sheet, both asset and liability side. What is unusual, both for NSA and industry, is the long-term time horizon. In addition, when it comes to climate change, historical data is less relevant to predict the future.
- Scenario analysis is a tool being used increasingly to address the challenge of transition risks. IAIS is working with the supervisory community to exchange best practices.
- Expectations of IAIS include: individual accountability of senior management for climate risks reporting to the board; integration of scenario analysis and stress testing in the wider enterprise risk management; disclosure of risks using TCFD.
- Regarding assessing the risk in different parts of the world, there is some commitment but there are different levels of understanding and how to put this commitment into practice.
- When it comes to relevance of the insurance sector, going forward, it is there to smooth losses. However, when it comes to the losses incurred by the sector, it remains to be seen whether this will lead to an increase in the protection gap going forward. There is also a trade-off between transition risk and physical risk.
- In addition, there is a need for international cooperation and when it comes to supervisory convergence, not only the IAIS and other supervisory bodies have a role to play but also the private sector has role to play regarding convergence on the risk assessment and looking at the financial system as a whole.
- Concerning policy actions, going forward, the supervisory community can help to assess risk and to raise awareness and enable risk transition process towards a green economy.

IORPs' fiduciary duty in light of sustainability considerations (Carolien)

Brendan Kennedy, Pensions Regulator and Chief Executive of the Pensions Authority

- The challenges of implementing sustainability:
 - How much?
 - How?
 - Information is the biggest challenge. Academics, NGOs, persons with different kinds of commercial and technical experiences, but IORPS managers need to find the right information.
 - Change: models and best practices will change over time.

The insurance regulatory framework for sustainability risks and factors (Carolien)

Fabian Regele, EIOPA, Expert on International and Sustainable Finance

- EIOPA presented the highlights of its recently published discussion paper on the prudential treatment of sustainability risks.
- The discussion paper is the first deliverable, EIOPA will follow a step-by-step approach, thereafter EIOPA plans to publish a consultation paper on empirical findings and potential policy implications.
- The paper covers three main areas:
 - Assets and transition risk exposures
 - Underwriting risks and climate change adaptation
 - Social objectives for assets and underwriting
- EIOPA encouraged all participants to provide feedback to the discussion paper by 5 March.

Impulse talk – Digital innovation for climate mitigation and adaptation (Oleksandra)

Dr. Lynn H. Kaack, Assistant Professor of Computer Science and Public Policy at the Hertie School

- Machine learning (ML) can be used to address climate change (mitigation and adaptation) in the following ways:
 - Improving forecasting: For example, ML can improve the integration of renewable energy into the power grid by better forecasting the output of renewable energy such as solar and wind; it can also improve transportation systems by forecasting the transportation demand, etc.
 - Improving operational efficiency: For example, ML can be used in systems that control heating and cooling and thus save energy; it can similarly be applied to reduce food waste by more closely controlling the system or the supply chain of food.
 - Accelerating scientific experimentation: For example, in medical applications of pharma or chemical operations, ML is used to propose new promising experiments which could speed up the experimental process in the lab; it can be used to develop better batteries or materials for next generation solar panels.
 - Predictive maintenance (already in use by industry): For example, ML can identify natural gas leaks, which helps with mitigation; ML can also detect faults early, which can result in more resilient infrastructure (e.g. maintenance of rail systems).
 - Approximating time-intensive simulations: For example, ML can be applied to climate science, but also in city planning, where there is a need for large simulations of wind flow into cities or even an engineering application of vehicles.
 - Gathering information: Examples include using satellite images to improve food security and gathering information from large scale unstructured sources to analyse corporate climate risk disclosures.
- Even though there are quite a few application areas that deal with specific problems, complex functions and large data sets where AI is helpful, many strategies don't need the technology at all. Therefore, ML should be integrated with existing processes and embedded in the institutional structures.

- ML can also be outperformed by simpler methods in some cases. As such, it is important to test it and to compare it to simpler methods (e.g. logistic regression).
- ML is neither good nor bad and there are also negative applications that are controversial.

Tackling insurance protection gaps for natural catastrophes (Oleksandra)

Marie Scholer, EIOPA, Senior expert on International and Sustainable Finance

Prof. Dr. David N. Bresch, Dep. of Environmental Systems Science, ETH Zürich

- There is a significant insurance protection gap for natural catastrophes. Looking at historical loss data, only a quarter of losses were insured in the past.
- With climate change, the insurance protection gap is expected to widen if no measures are taken.
- EIOPA has identified four pillars to address the insurance protection gap for natural catastrophes:
 - Understand the protection gap: To do so there is a need to be able to model the risk and get access to data. As regards the latter, EIOPA recently published an insurance gap dashboard that covers 30 European countries and 5 different perils. It includes the current view of protection, the historical view and views per each country and per each peril. The dashboard will be regularly updated.
 - Mitigate the risk: EIOPA stressed the importance of reducing the cause of climate change and adapting to its consequences. Therefore, EIOPA is currently working on a report on integration of climate change-related adaptation measures in non-life insurance products. The aim is to collect good underwriting practices and look into how adaptation measures can be better reflected in the capital requirements for non-life underwriting of risky solvency.
 - Insurance coverage: Looking at the lack of demand for protection, EIOPA underlined that consumers tend to underestimate disasters. Therefore, it is key to raise awareness about the risk among European citizens. Another factor is the complexity of the insurance contracts. To this end, EIOPA aims to promote contract simplicity and ensure that there is a customer-centric approach to the treatment of risk exclusions.
 - Transfer of risk: In close collaboration with the ECB, EIOPA has been looking at the macro-economic impact protection gap and concluded that there is an increasing need to think about public private partnerships.

Panel Discussion - Addressing the risk of greenwashing (Guillaume/Carolien)

Thierry Philipponat, Finance Watch, Chief Economist

Patrick Montagner, Autorité de Contrôle Prudentiel et de Résolution, First Deputy Secretary General

Catharina Richter, Allianz SE, Global Sustainability Head

Aleksandra Palinska, EUROSIF, Executive Director

Panel Moderator: **Marco Traversa**, EIOPA, Senior Expert on Conduct Oversight

- At this point of time, market participants have to work with incomplete data and based on the interpretation of a regulatory framework which is still ambiguous and evolving. In that context, it is necessary to create a constructive atmosphere where improvements can be discussed and best practices shared.
- Two conceptions of greenwashing: (1) are financial institutions doing what they say they are doing, and (2) is it impactful. Regarding (1), supervisors are important to ensure that this is the case, as consumers take it for granted. The real expectation from consumers is that his/her savings will have an impact on sustainability matters, and that needs to be demonstrated even though it is not easy.

- ACPR underlined that the call for advice from the EC will be the opportunity for all NCAs to express what they do not want to see on the market in relation to greenwashing
- Finance Watch called supervisors to provide a clear definition of what it means to be net zero to ensure consistency and clarity. This will also help supervision. In addition, taxonomy should be used as a transition tool to avoid greenwashing.
- ACPR focuses on the prejudice for the consumer and has been developing guidelines for communication that includes ESG related arguments with the regulation as it is written now. However, since the regulation is evolving, what can be accepted now might not be in the future.
- It is not about watering down the rules but calibrating them, eg. ensuring clarity on SFDR by setting criteria for article 8-9 in order to turn it into an ESG standard.
- EUROSIF welcomed the ESMA consultation on the use of ESG terms in funds' names but regretted that it only focuses on investment funds and does not apply to insurance and pensions products, in line with the SFDR which applies to all financial products.
- ACPR indicated that labels can be useful if they are informative enough for consumers.