

To: Solvency II Working Group, Long Term Investments & Sustainable Finance PG
From: Prudential Team
cc:
Date: 15 July 2021
Reference: ECO-SLV-21-202

Subject: Secretariat assessment of EIOPA proposals on inclusion of climate risk in Nat Cat

Summary

On 9 July, EIOPA published its *Methodological paper on potential inclusion of climate change in the Nat Cat standard formula* ([here](#)).

The secretariat has assessed the paper and considers EIOPA's proposed approach to incorporating climate change into the NatCat parameters to be broadly positive. It reflects much of the industry feedback provided to the discussion paper consultation earlier this year (see [ECO-SLV-21-063](#)).

As part of its proposal:

- EIOPA will formalise an approach to re-assess and, where material, recalibrate Nat Cat SCR parameters on a regular basis (every 3-5 years).
- EIOPA will monitor the need to expand the geographical scope of the existing perils affected by climate change (ie hail, flood and subsidence) and enhance its understanding of emerging climate-related perils (ie wildfires, droughts). Materiality will be a key consideration in its assessment.
- EIOPA notes that increased transparency is an important element for adequate consideration of climate change.
- EIOPA has not pursued its proposals to include a climate-risk loading factor or to reflect climate risk by recalibrating the correlation matrices.

Further details of the secretariat's assessment can be found below. **Should members have any feedback on the paper or the assessment, please send this to the prudential team by 30 July.**

Assessment

The secretariat notes the following positive aspects of EIOPA's proposed approach which are consistent with Insurance Europe's feedback to the discussion paper.

- + EIOPA agrees to formalise a transparent process to reassess the natcat parameters on a regular (ie 3-5 years) basis and to update these if the changes are material.
- + EIOPA agrees that adaptation measures should be considered in the recalibrations.
- + EIOPA's intention is to identify the impact of climate change by assessing to what extent the models used in the recalibrations consider climate change explicitly. Other techniques, such as sensitivity analysis of the existing models is also mentioned as a possible approach.
- + EIOPA will not pursue the proposal to include a loading factor to the country factor to reflect climate change risks. Nor will it pursue the idea to reflect climate change risks via changes to the correlation matrices.

- + EIOPA will monitor the emerging risks of the following perils to assess if they become sufficiently material to be included in the standard formula; drought, wildfire and coastal floods.
- + The inclusion of new countries to the existing list of perils due to the impact of climate change will be monitored by EIOPA and will be subject to the materiality threshold.

However, not all the feedback was taken into consideration.

- EIOPA proposes to include a forward-looking assessment of climate risk to cover the periods between the recalibrations (ie to reflect possibly climate risk 5-10 years post recalibration). This was not considered to be necessary by industry if recalibrations were conducted on a regular basis.
- EIOPA has revised the list of countries which it considers could have material exposure to the existing perils affected by climate risk. Some those highlighted as non-material by members have been removed from EIOPA's assessment but several remain. The revised list is as follows.
 - **Flood:** Denmark, Croatia, Ireland, Luxembourg, Netherlands and Sweden
 - **Hail:** Finland, Hungary, Norway and Poland