insurance europe

News Flash

Nº: **FLASH-24-352** Date: **19-11-2024**

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

"Fit-For-55" cross financial sector climate stress test results published

Latest developments

Today, the European Supervisory Authorities (EBA, EIOPA, and ESMA – the ESAs) together with the European Central Bank (ECB), released the results of the one-off "Fit-For-55" climate scenario analysis.

The analysis demonstrates that while transition risks alone are unlikely to threaten financial stability, their combination with macroeconomic shocks can increase losses for financial institutions and may lead to disruptions. These findings call for a coordinated policy approach to financing the green transition and the need for financial institutions to integrate climate risks into their risk management in a comprehensive and timely manner.

EIOPA's webpage here details the considerations for the insurance industry.

Background

The climate stress test was conducted against three **scenarios** developed by the European Systemic Risk Board (ESRB), with the support of the ECB. The scenarios incorporate transition risks as well as macroeconomic factors, under the assumption that the Fit-for-55 package is implemented as planned.

- **Baseline scenario**: Implementation of the Fit-for-55 package in line with ESCB's June 2023 forecasts, accounting for additional costs of the green transition..
- **First adverse scenario**: "Run-on-Brown" shocks, where investors divest from carbon-intensive firms, challenging their ability to secure financing for green initiatives.
- **Second adverse scenario**, "Run-on-Brown" shocks are amplified with other standard macro-financial stress factors.

In terms of **results**, under the baseline scenario, the financial system remains resilient, with limited overall losses. In adverse scenario 1, losses from "Run-on-Brown" shocks are manageable, affecting between 5.2% and 6.7% of exposures across sectors. In adverse scenario 2, combined transition risks and macroeconomic shocks result in substantial first-round losses (10.9% to 21.5% of exposures). However, mitigating factors such as banks' income, insurers' liabilities, and cash reserves in funds provide a cushion against these losses.

Next steps

The secretariat will analyse the report in further detail and discuss the results during the Solvency II Working Group on 21 November.

For more info

Prudential Team, prudential@insuranceeurope.eu