Memo for information

To: Solvency II WG, Long Term Investments & Sustainable Finance PG
From: Prudential Team
cc:
Date: 27-04-2022
Reference: ECO-SLV-22-180

Subject: For information - Data collection on the prudential treatment of climate-related adaptation measures in non-

Summary

On April 20 the secretariat attended the workshop on data collection on the prudential treatment of climate-related adaptation measures in non-life insurance organised by EIOPA. Members will find below an overview of the main comments and questions and answers raised during the workshop.

More information can be found here. For the slides of the workshop see ECO-SLV-22-179.

Should members have any questions or comments please write to prudential@insuranceeurope.eu.

Background

General information on data collection exercise

EIOPA launched a data collection to assess the potential for a dedicated Pillar 1 treatment of climate-related adaptation measures in Solvency II's standard formula for non-life underwriting risk. The focus of the data collection lies on the influence of climate-related adaptation measures on premium risk, and it is supplemented by qualitative questions on reserve risk and natural catastrophe risk.

NCAs will directly contact undertakings to participate in the data collection. Insurance and reinsurance undertakings participating in the data collection should submit results to their NCAs by 1st June 2022. After validating the submissions, NCAs will report this information to EIOPA.

Main points and Q&A raised during the workshop

General

- During the workshop, EIOPA highlighted the key conceptual and technical elements underlying the data collection and participants will have the opportunity to raise their views and questions.
- Data collection was launched on the April 6.
- Based on the mandate proposed in Art. 348 by the EC that requires EIOPA to look for any environmental or social related risk differential that could potentially lead to dedicated prudential treatment in Solvency II.
- The frequency and intensity of climate related losses can be expected to increase during the next decades with a high confidence level.
- Insurance coverage could become unavailable or unaffordable, or not priced correctly given the high volatility that Climate Change can produce on the claims.
- We should think more about Climate Change adaptation, reducing risk exposure.

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Questions/comments related to Slide 3

- The included lines of business affected by Climate Change and the considered adaptation measures are just examples, insurers could furnish to EIOPA further lines of business or measures if needed, only regarding non-life insurance.

- **Q1: Regarding the scope of data collection, concerning for example flood risk, certain underwriting practices like protection from local hazard schemes would be in or out of the scope?**

  A1: Legal or state requirements are not in scope. Focus is only on what the insurer or the policyholder can do to reduce risk exposure. If it is possible to relate data to such requirement implied by the underwriting strategy, then it fits into the data collection. Underwriting practices must be distinguished from adaptation measures.

- **Q2: What is the relation between this data collection and the pilot exercise on Climate Change adaptation in non-life underwriting and pricing?**

  A2: The pilot exercise, meant to study what insurers are doing in Europe in terms of climate change adaptation, which kind of products they have, how these products integrate adaptation measures, what are the effects on underwriting pricing, how insurers incentivize adaptation measures etc. Some insurance products seem to be well suited to face the challenges posed by Climate Change and can be used as a basis for data collection.

- **Q3: Are we talking about what have already been done or what could be done in future?**

  A3: Some adaptation measures exist since centuries; others are based on new technologies. To be in the scope of data collection, the measure must be implemented or being measurable as difference.

- **Q4: If there are different levels of adaptation measures for different policyholders, how this will be captured by the data collection, since the template does not show "in-between" options like "soft" or "hard" measures?**

  A4: the data collection will rely on the capability by insurers to make a judgement call about the splits to be presented.

Comments related to Slide 5

- An impact on standard deviation of reserve risk is not expected. If there is an impact it should be a secondary effect. In case insurers have data that proves an impact on the standard deviation of reserve risk, they are welcome to provide it separately in another collection or spreadsheet.
- On Nat Cat Risk, the data collection participants are not expected to provide very detailed data but, if they are willing to do so, they can.

Comments related to Slide 6

- The data will have to be divided in 2 pools, for example: 2 sets of data exposed in the same way to floods, in one pool all the properties are covered individually by water-dams and in the other they are not. This would permit to compare the volatility of the two sets.

Questions related to Slide 7

- **Q5: If data net of reinsurance cannot be provided, data gross of reinsurance can be still furnished alone? Would it be useful?**

  A5: Yes, raw data are the most important. If it is possible providing also adjusted data, this would be preferred.

- **Q6: Do you expect any impact of the provisioning method on the ultimate loss volatility and conclusion?**

  A6: An impact is expected, but it is expected of being of a second order of magnitude.

- **Q7: Could it be added explicitly in the appendix that in terms of adjustment the impact of inflation over the years could also be considered?**

  A7: Strong assumptions on long term risks like inflation are important. This information must be detailed and provided.

- **Q8: On a home insurance portfolio, the insurer sends a warning SMS to all the clients concerned, how can data be pooled in this case?**

  A8: In this case, the data cannot be separated to the extent that is useful for a comparison with or without adaptation measures, then they cannot be submitted. Data could be split, for example, if the insurer would miss some of the numbers to send the SMS to.

- **Q9: If all the policies have adaptation measures until a particular year, while after that year no adaptation measures would be there, would those data be still useful?**

  A9: In that case the data might still be useful, but they must be fit for comparison. They are useful if the data is cleaned from big events affecting a particular year and when it is comparable over the years.

- **Q10: If the introduction of adaptation measures is recent, you need to fill-in only the years for which is possible to divide the pool in two sub-pools?**

  A10: If there are years for which the pool can be split, then the years before without adaptation measures are not so relevant.

- **Q11: Do you have to fill a form for only 1 line of business?**

  A11: Insurers can provide pairs of pools for as many lines of business as they want. And an insurer can even provide more details for one LoB. There can be separation within the same pool, provided that the data would be comparable.