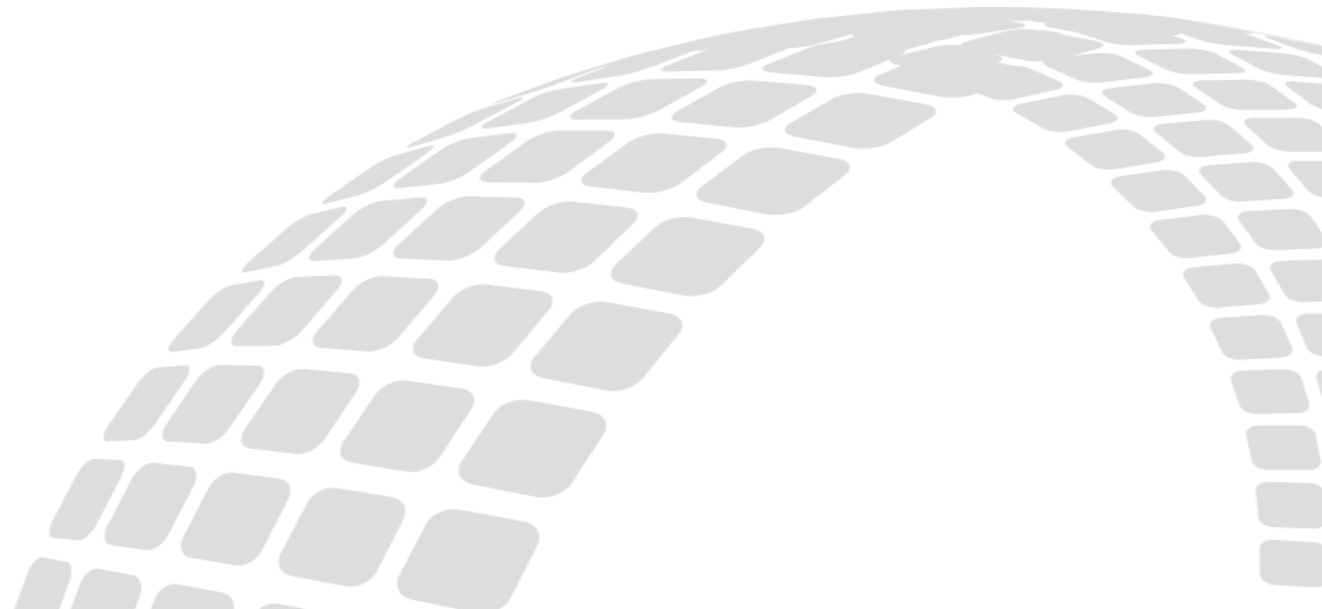


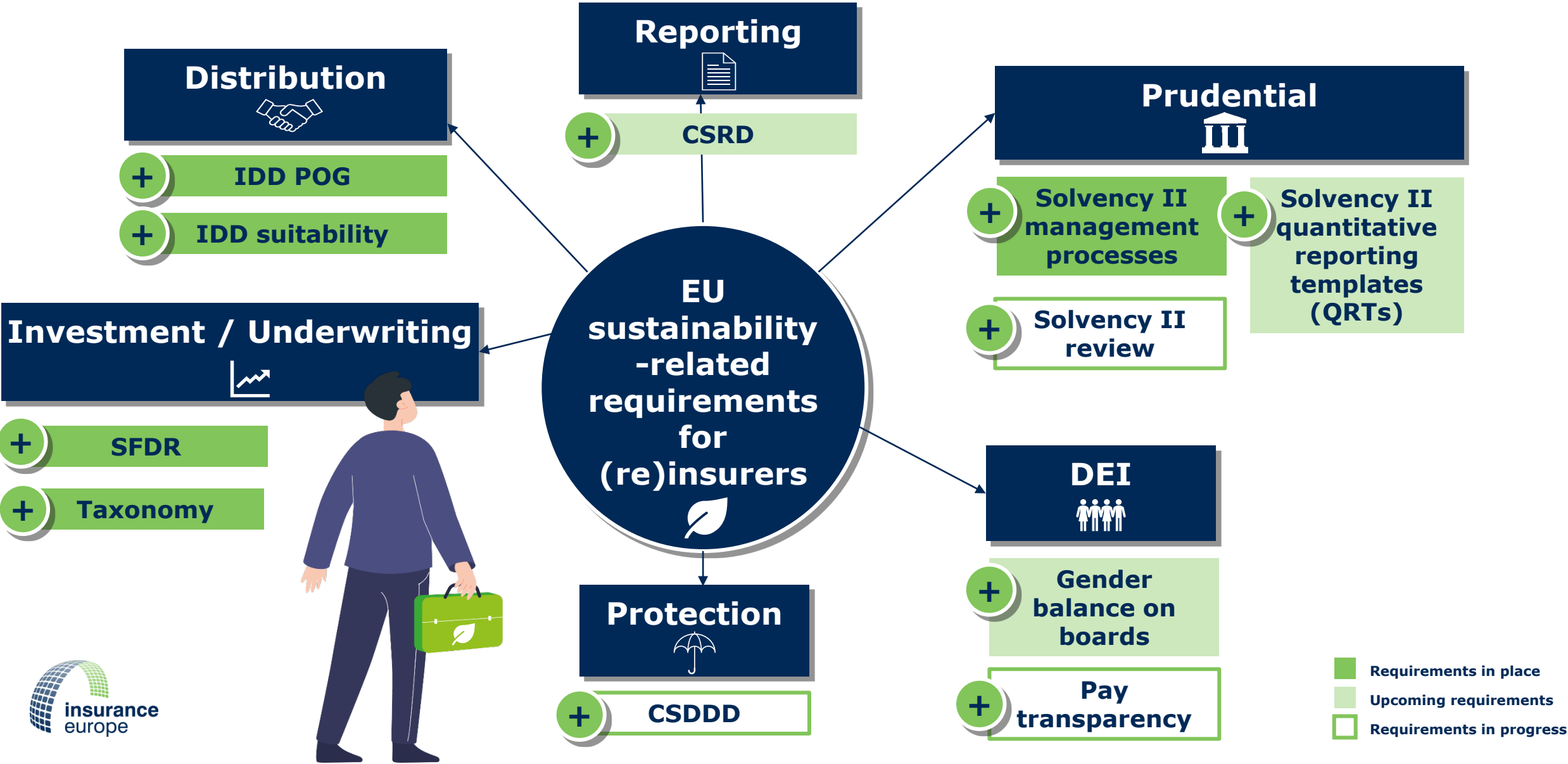


Sustainable Finance Landscape

Brussels, 23 November 2023



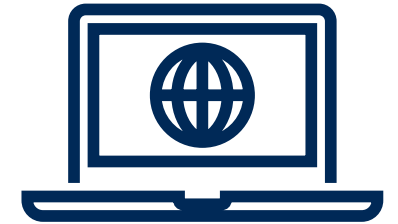
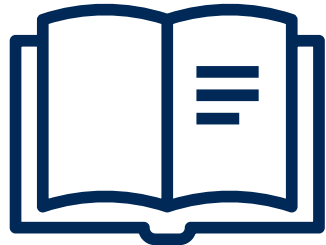
EU sustainability-related requirements for (re)insurers



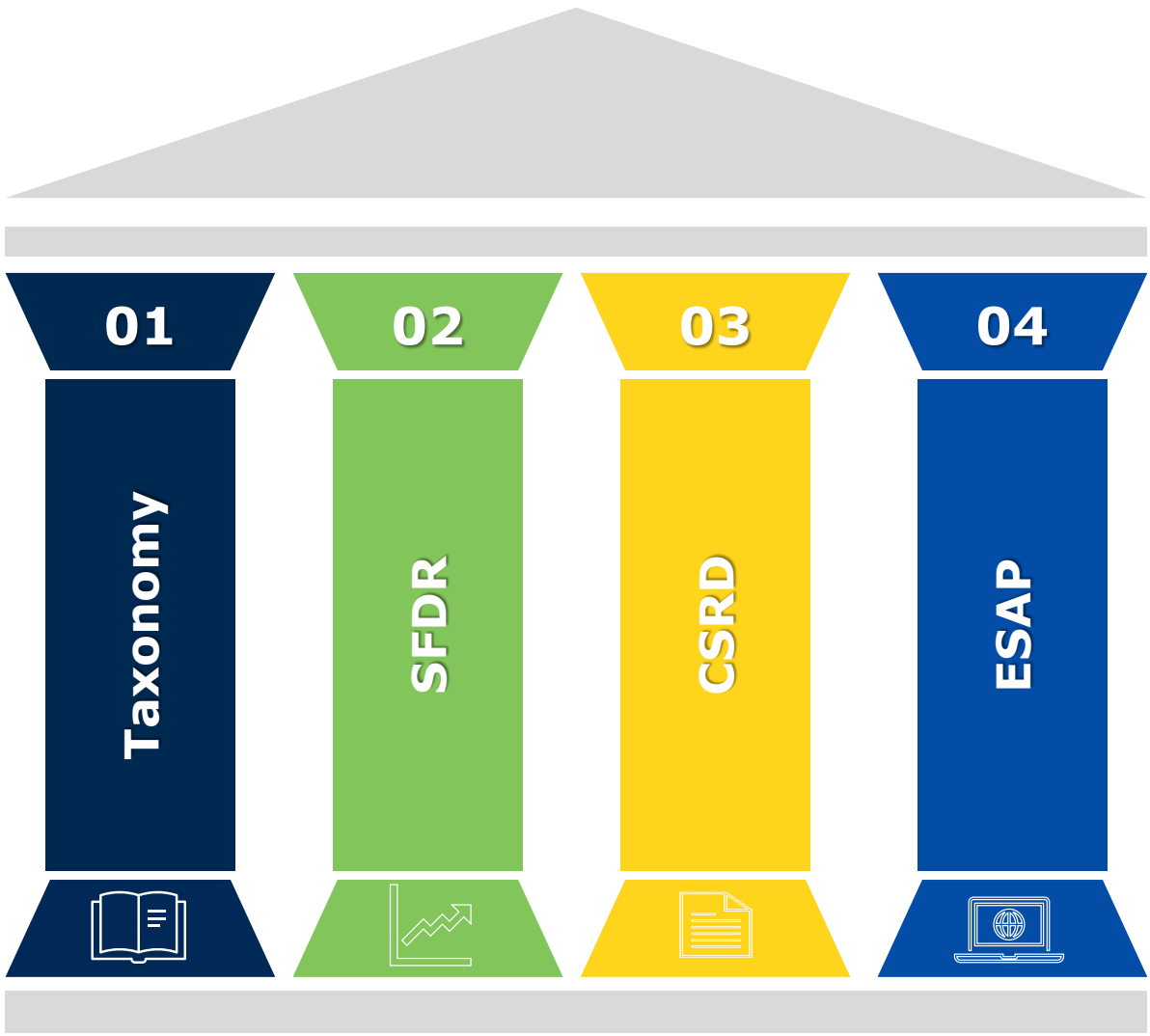
Agenda

- 1** Introduction to EU Sustainable Finance Landscape
- 2** Taxonomy Regulation
- 3** Sustainable Finance Disclosure Directive (SFDR)
- 4** Corporate Sustainability Reporting Directive (CSRD)
- 5** European Single Access Point (ESAP)
- 6** Sustainability covered across all three pillars of Solvency II
- 7** Insights in EIOPA's work in the area of sustainability
- 8** Annex – climate risks in the ORSA

Introduction to EU Sustainable Finance Landscape



Pillars of the Sustainable Finance Reporting Landscape

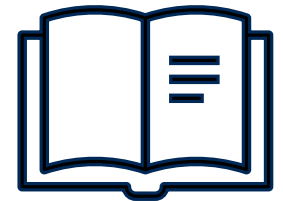


-  Taxonomy Regulation
-  SFDR
Sustainable Finance Disclosure Regulation
-  CSRD
Corporate Sustainability Reporting Directive
-  ESAP
European Single Access Point

Key Sustainable Finance Initiatives – Overview

	What ?		When ?
Taxonomy Regulation	Entity level disclosures (Art 8 Taxonomy via CSRD)	<ul style="list-style-type: none"> - KPI on taxonomy-aligned investments - KPI on taxonomy-aligned underwriting 	Some in 2022 (taxonomy eligibility) Full KPIs in 2024 (taxonomy-alignment)
	Product level disclosures (ESAs RTS via SFDR)	<ul style="list-style-type: none"> - Taxonomy disclosures for sustainable products (via the SFDR templates) 	1 January 2023 (same as level 2 SFDR)
SFDR	Entity level disclosures (via website reporting)	Indicators on negative impacts (external)	1 January 2023 (level 2)
	Product level disclosures (RTS via templates)	<ul style="list-style-type: none"> - Ad-hoc templates for sustainable products - Sustainability risks and negative impacts 	1 January 2023 (level 2)
CSRD	Entity level disclosures (management reports)	EU Sustainability Reporting Standards	<ul style="list-style-type: none"> • FY 2024: NFRD companies • FY 2025: Other large companies • FY 2026: Listed SMEs • FY 2028: non-EU companies with EU subsidiaries
ESAP	Electronic repository of public disclosures	Phase 1 : Short Selling Regulation, Prospectus Regulation and Transparency Directive Phase 2 (after 6 months): additional data including from SFDR, Credit Rating Agencies regulation and Benchmark regulation. Phases 3 and 4: 20 additional pieces of legislation, including the Capital Requirements Regulation, the Markets in Financial Instruments Regulation and the EU GBS	To be available from summer 2027

Taxonomy Regulation



EU Taxonomy - Overview

What is the Taxonomy?

- Effective as of July 12, **2020**.
- Establishes a **classification system that defines criteria for economic activities** to be aligned with a net-zero trajectory by 2050, **ensuring clear definitions of environmental sustainability**.
- **No mandatory investment** list or strict environmental requirements.
- Provides a **tool for investors to assess** the sustainability of their investments.
- Reflects **technological and policy** developments.
- Facilitates the **transition of polluting sectors**.

Purpose and Need

- To meet EU climate and energy targets for 2030 and the European Green Deal, **we must direct investments to sustainable projects**.
- A **common language and definition of 'sustainable'** are crucial for this purpose.
- Aims to **promote a shift towards sustainability** for EU's environmental goals.
- Key tool for **market transparency** by disclosures for financial market participants.
- Vital component of the **EU's sustainable finance framework**.

4 conditions that an economic activity must meet to qualify as environmentally sustainable



1

Make a “**substantial contribution**” to at least one of the six environmental objectives



2

“**Do no significant harm**” to any of the other five environmental objectives



3

Comply with **minimum safeguards**



4

Comply with the applicable technical screening criteria

Non-life insurance: underwriting of climate-related perils

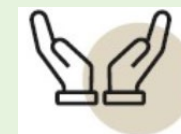
Contributing to climate adaption

Description

- Cover various non-life insurance categories: Include medical, income protection, workers' compensation insurance, motor vehicle liability insurance, and more.
- Considered "enabling activities" when meeting specific criteria.

Substantial contribution criteria

- Climate Risk Modeling and Pricing: Use advanced models and disclose risk considerations and incentivize risk reduction and provide post-event coverage information.
- Product Design: Reward preventive actions by policyholders and inform policyholders about preventive measures.
- Innovative Coverage Solutions: Tailor coverage to policyholder needs and include various risk transfer solutions.
- Data Sharing: Share loss data for climate research and Declare intention to share data if not already done.
- Post-Disaster Service Quality: Process claims fairly and efficiently and provide information on additional measures during major loss events.



Do not significant harm criteria

- Climate mitigation
- Water
- Circular economy
- Pollution prevention
- Biodiversity



Minimum safeguards

Alignment with International Guidelines:

- Procedures implemented by economic activities to ensure alignment with OECD Guidelines for Multinational Enterprises and
- UN Guiding Principles on Business and Human Rights.
- Includes adherence to fundamental labor rights and principles in international agreements.
- 'Do No Significant Harm' Principle:
 - Undertakings must follow the principle of avoiding significant harm, when implementing these procedures.



EU Taxonomy – Disclosure Obligations

KPIs OF INSURANCE AND REINSURANCE UNDERTAKINGS

KPI related to investments

This KPI shall present **the weighted average of investments that are directed at funding or associated with Taxonomy-aligned economic activities.**

The weighted average of the value of the investments is **based on the proportion of Taxonomy-aligned economic activities of investee companies** measured by the following:

for non-financial investees, turnover and CapEx KPIs as resulting from the calculation of the KPIs of the investee.

for asset manager investees, turnover and CapEx KPIs as resulting from the calculation of the KPIs of the investee.

for credit institutions investees, turnover and CapEx green asset ratio as resulting from the calculation of the ratio of the investee.

for investment firms-investees, as resulting from the calculation of the turnover based and CapEx based KPIs of the investee.

for insurance investees, as resulting from the calculation either of the turnover-based and CapEx based investments KPI combined, with the underwriting KPI of the non-life investee insurance undertakings in accordance with *Annexes XI and X**

KPI related to underwriting activities

Insurance undertakings other than life insurance undertakings shall calculate this KPI and present the **'gross premiums written'** non-life insurance revenue corresponding to Taxonomy-aligned insurance activities in accordance

The KPI shall **be depicted in percentage terms relative to** one of the following:

total **non-life insurance** gross premiums written

total **reinsurance** gross premiums written

total **non-life insurance** revenue

total **reinsurance** revenue

EU Taxonomy – Disclosure Obligations

As of January 2022	<ul style="list-style-type: none">• Non-Financial entities report Taxonomy eligibility for the previous calendar year*• Financial entities report Taxonomy eligibility for the previous calendar year*
As of January 2023	<ul style="list-style-type: none">• Non-Financial entities report eligibility and alignment for the previous calendar year• Financial entities report Taxonomy eligibility for the previous calendar year
As of January 2024	<ul style="list-style-type: none">• Non-Financial entities report eligibility and alignment for the previous calendar year• Financial entities report Taxonomy eligibility and alignment for the previous calendar year
As of January 2025	<ul style="list-style-type: none">• Financial entities may include estimates on Taxonomy alignment for DNSH assessments of third-country exposures subject to the 2024 review period
As of January 2026	<ul style="list-style-type: none">• Credit institutions include Taxonomy alignment of their trading book and fees and commissions for non-banking activities

SFDR

Sustainable Finance Disclosure Regulation



SFDR - Overview

What is the SFDR?

- It aims to **improve transparency for sustainable investments.**
- It requires financial institutions to **disclose sustainability information**, divided into three categories: "Article 6," "Article 8," and "Article 9."
- These categories help investors **understand the level of sustainability of the investment.**
- The regulation also introduces **asset-level considerations.**
- Disclosure requirements rolled out in two phases: **core disclosures in March 2021** and **enhanced disclosures in January 2023.**
- Regulators provide **ongoing guidance**, and the industry's understanding is evolving.

SFDR objectives

- It promotes sustainable growth and empowers clients to make informed sustainable investment choices.
- It achieves this by increasing transparency in financial markets and **establishing common reporting standards for environmental and social considerations.**
- This **prevents "greenwashing"** ensuring that financial entities can't merely claim products are sustainable without transparency.
- It helps investors compare investment options based on ESG factors, **allowing them to align their investments with their goals effectively.**

SFDR Disclosure requirements

ENTITY LEVEL				
REQUIREMENT	DISCLOSURE TYPE	SFDR ARTICLE	APPLICABLE FROM	
Integrate ESG factors into risk and advisory policies and disclose	Website	Article 3	10/03/21	
Integrate ESG factors into remuneration policies and disclose	Website	Article 5	10/03/21	
Measure and disclose the entity's Principal Adverse Impacts (PAIs)	Website	Article 4	30/06/23*	

*based on the period 01/01/22-31/12/22

PRODUCT LEVEL				
REQUIREMENT	FUNDS IMPACTED	DISCLOSURE TYPE	SFDR ARTICLE	APPLICABLE FROM
Integrate and disclose how ESG risk factors impact portfolio return	All	Pre-Contractual	Article 6	10/03/21
Disclose how PAI are integrated into all aspects of a product	All - Comply Or Explain*	Pre-Contractual Periodic Reports	Article 7	30/12/22
Confirm all marketing materials for in-scope products are aligned with the SFDR & EU Taxonomy	All - Comply Or Explain*	All Marketing Content	Article 13	01/01/22
Disclose the ESG characteristics promoted by the fund, investment strategy + policy, benchmark index + related index calculation methodologies	Funds that Promote ESG**	Pre-Contractual Periodic Reports	Article 8	01/01/22
Disclose ESG fund objectives, proof of alignment with EUT - Do No Significant Harm, impact measurement methodology, index methodology alignment with fund objectives	Funds that set ESG as an Objective**	Pre-Contractual Periodic Reports	Article 9	01/01/22

* all funds that promote ESG or set ESG objectives for the fund must comply
 ** the delay of the adaptation of the RTS to January 2023 will likely push-back the obligation for FMPs managing article 8 and 9 EU SFDR products to comply with the RTS detailed content and presentational requirements, and let them prepare their disclosure on a best effort basis until then.

SFDR product categorizations

"Article 6"

"Article 6" products either **integrate financially** material environmental, social and governance (**ESG**) **risk considerations into the investment decision-making process, or explain why sustainability risk is not relevant**, but do not meet the additional criteria of Article 8 or 9 products.

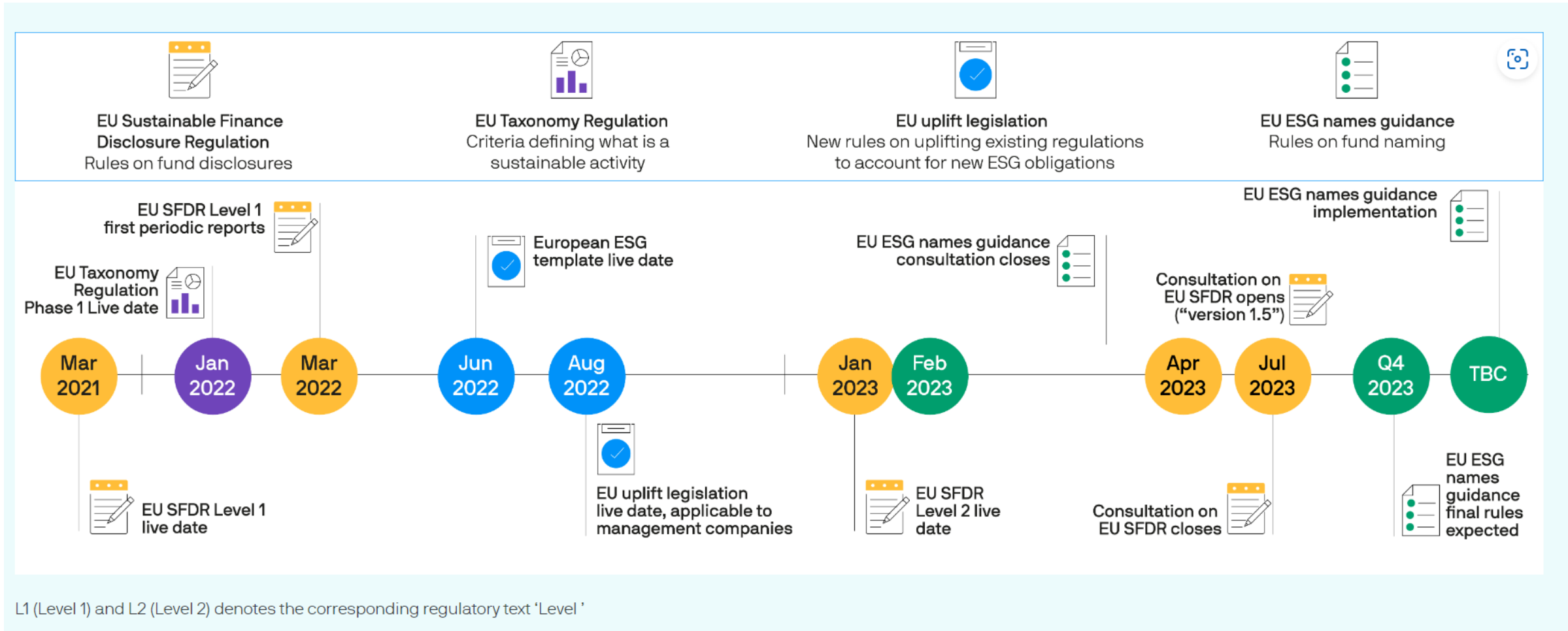
"Article 8"

"Article 8" products **promote social and/or environmental characteristics**, and may invest in sustainable investments, but do not have sustainable investing as a core objective.

"Article 9"

"Article 9" products have a **sustainable investment objective**.

Timeline of SFDR



CSRD

Corporate Sustainability Reporting Directive



CSRD – Overview

What is the CSRD?

- **Starting in 2025**, the European Union will require large and listed companies to **disclose information on risks and opportunities related to their ESG practices**, with a particular focus on the impact of their activities on people and the environment.
- The CSRD replaces the EU’s legacy ESG reporting program—the NFRD—and raises the bar for breadth and robustness in sustainability reporting, **covering categories beyond just carbon, including pollution, water, waste, and biodiversity.**
- The CSRD’s technical rules known as the ESRS lay out **what companies need to disclose and how.**

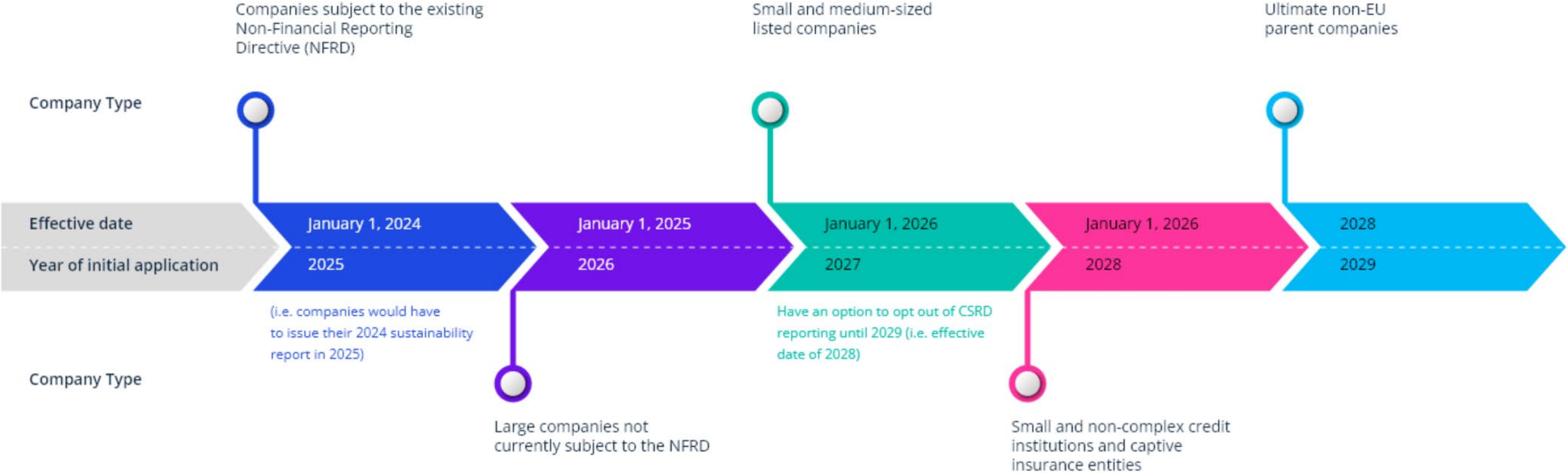
CSRD and ESRS

- The CSRD and the mandatory reporting standards ESRS create a new paradigm for sustainability reporting.
- **The ESRS are mandatory**, based on double materiality and it requires limited assurance as a first step.

Who do they apply to ?

- The CSRD will **broaden the scope of sustainability reporting obligations.**
- All companies covered by the CSRD (50 000 companies) **will be required to report according to the ESRS.**
- The CSRD covers all **listed companies on regulated markets** within the EU, including small and medium-sized enterprises but excluding micro-enterprises. It also applies to all large (listed or not) companies if they meet a specific threshold.

CSRD - Timeline for ESRS implementation



ESRS – 12 reporting standards



Total Data Points	1430
Narrative	850
Semi-Narrative	196
Numerical	384

What double materiality is

The ESRS are based on the concept of double materiality. This concept includes two different perspectives on materiality:

Impact Materiality

Identifying the impacts the company has on people or the environment over the short-, medium-, or long-term time horizons.
(The inside-out perspective)

The identified impacts are assessed based on:

Scale of the impact

Scope of the impact

Irremediable character of the impact

Financial Materiality

Identifying the risks and opportunities that trigger effects on the company's cash flows, development, performance, position, cost of capital or access to finance in the short-, medium-, or long-term time horizons.

(The outside-in perspective)

The risks and opportunities are assessed based on:

Likelihood of occurrence

The size of the potential financial effects

Consequences of not complying with CSRD



If a business is found to be non-compliant with the CSRD, the company is at risk of **significant administrative sanctions**.



The nature of the sanctions and the fine amount **will depend on the implementation in different Member States**.



The company will also risk a qualified audit report which would put the company **at risk of shareholder action against it**.



ESAP

European Single Access Point



Key areas

What is the ESAP?

- EU legislation **mandates transparency** through publication of financial and sustainability data.
- Introduced on November 25, 2021, **consolidating public financial and sustainability information** for EU companies and investment products.
- **Enhances company visibility for investors**, especially small companies in small markets.
- The aim of the ESAP is to offer an **EU-wide access to information on activities** or products provided by entities when this information relates to capital markets, financial services, or sustainable finance.
- The targeted information includes the information already submitted to a mandatory public disclosure enshrined in the related directive/regulation. However, information may be brought to the ESAP on a **voluntary basis**.

Timeline

- ESAP platform available **from summer 2027**.
- Phased implementation within **four years** for various regulations and directives.
- Three phases **gradually broaden the types** of information covered by ESAP.

Data Collection System

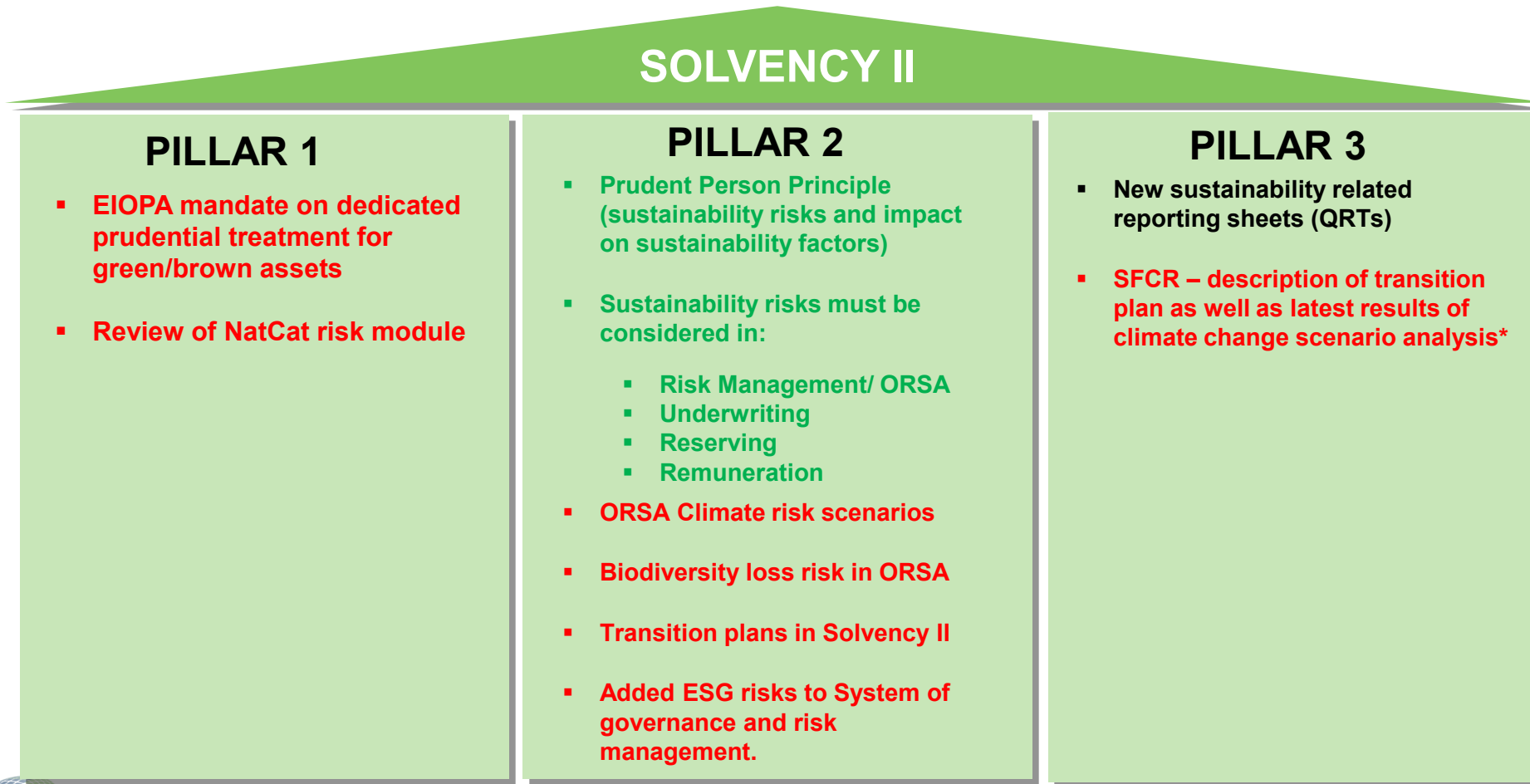
- Each member state **needs a collection body**.
- **ESMA will keep a list** of the collection bodies.
- This task can be delegated to **an external source**.

Sustainability in Solvency II

State of play

Solvency II covers sustainability across all Pillars

Existing SII requirements, together with already planned changes from the review and beyond will ensure sustainability is fully embedded.



Complemented by:
EIOPA climate stress scenario testing
+
Sustainability reporting
CSRD, CSDDD,
SFDR, Taxonomy

Legislative developments: timing

Changes following DR 2021/1256 (integration of sustainability risks in the governance of insurance and reinsurance undertaking)

- Entered into force on 2 August 2022

Proposals in the context of the SII 2020 Review, amending the Solvency II directive (2009/138/EC)

- Trilogue discussions are currently ongoing
- Tentative implementation timeline:
 - January 2025 – transposition
 - January 2026 – application

Sustainability in Pillar 1 – *Upcoming in SII Review*

1. (re)calibration of NATCAT risk module of the SCR (Dir Art 304a) *

- EIOPA is asked to review regularly, at least every 5 years, the scope and the calibration of parameters of the standard formula pertaining to natural catastrophe risk.

2. EIOPA mandate on dedicated prudential treatment for green/brown assets (Dir Art 304a) *

- EIOPA is mandated to explore by 2023 a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives
- EIOPA should monitor and report by 2023 on the evidence on the risk profile of environmentally or socially harmful investments.
- report should advise on changes to Directive/DR/ITS
- EIOPA may also inquire whether it would be appropriate that certain environmental risks, other than climate change-related, should be taken into account and how. Eg, if evidence so suggests, EIOPA could analyse the need for extending scenario analyses as introduced by this Directive
- *Note that EIOPA already initiated work in this area in December 2022 by means of a discussion paper*

* Almost certain as included in both Council and EP texts

Sustainability in Pillar 2 - *In force*

Level 2: Amendments to Delegated Regulation (DR 2021/1256 - integration of sustainability risks in the governance of insurance and reinsurance undertaking)

1. Introduction of **definitions** in the (DR Art 1, 55c-55e) of:
 - **Sustainability factors**
 - **Sustainability risks:** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential negative impact on the value of the investment or on the value of the liability.
 - **Sustainability preferences:** means a customer's or potential customer's choice as to whether and, if so, to what extent, one or more of the following financial instruments should be integrated into his or her investment...
2. (Re)insurers are explicitly required to **reflect sustainability risks** in their **risk management/ORSA, underwriting and reserving** and **investment portfolio**. (Changes to DR Art 260)
3. **Actuarial function** is required to consider sustainability risks in its assessment of the uncertainty associated with estimates made in the calculation of technical provisions.(DR Art 272(6))
4. **Remuneration policy** is required to include information on its consistency with the integration of sustainability risks (DR Art 275)
5. Implementation of **Prudent Person Principle** should take into account sustainability risks as well as long-term impacts of their investment strategy/decisions on sustainability factors. (New DR Art 275a)

Sustainability in Pillar 2 - *Upcoming in SII Review*

- **Level 1: Amendments to SII Directive** (*Dir 2009/138/EC*)

- **Climate change scenario analysis in ORSA (Dir Art 45a) ***

- Insurers will have to identify any material exposure to climate change risks and, where relevant, regularly assess the impact of long-term climate change scenarios on their business.
 - At least two long-term scenarios shall be specified:
 - where the global temperature increase remains $< 2^{\circ}\text{C}$
 - where the global temperature increase is $\geq 2^{\circ}\text{C}$
 - Scenarios shall be reviewed every 3 years
 - Low Risk Profile Undertakings are exempted

- **Transition plans** (*proposed by EP*)

- Insurers will have to prepare transition plans
 - Consistency with other cross-horizontal legislation regulating transition plans on all aspects is essential
 - *'Insurers to develop specific plans quantifiable targets and processes to monitor and address risks arising in Short/Medium/Long-Term ESG factors, including risks arising from the transition and process of adjustment to the regulatory objectives towards a sustainable economy in relation to ESG factors, in particular climate neutrality by 2050.'*

* Almost certain as included both in Council and EP texts

Sustainability in Pillar 2 - *Upcoming in SII Review*

■ **Level 1: Amendments to SII Directive** (*Dir 2009/138/EC*)

□ **Risk related to biodiversity loss** *

- EIOPA to assess to what extent insurers assess material exposure to biodiversity loss related risks in ORSA
- EIOPA to propose actions and to prepare a report to the EC with its findings.

□ **ESAs to develop guidelines on ESG stress testing, and ESAs to investigate how Social and Governance related risks could be integrated into stress test** *

□ **ESG risks were added to 'risk management' and 'system of governance'** (*proposed by EP*)

- AMSB members should be of good repute,
- Undertakings shall have in place an effective system of governance which takes into account short, medium, long term when assessing possible materialisation of ESG risks
- The risk management system to cover ESG risks relating to investment portfolio (management) and NSAs to ensure that ESG risks are considered over an appropriate set of time horizons.

□ **Prudent person principle** (*proposed by EP*)

- Includes explicit reference to long-term impact of investment decisions on ESG factors.

* Almost certain as included in both Council and EP texts

Sustainability in Pillar 3

■ Quantitative Reporting Templates (QRTs) – *In force*

EIOPA introduces the following climate related reporting in the SII QRTs (see recent amendments to the ITS on reporting and disclosure submitted to the EC):

- S.06.04 - climate change related risks to investments
 - Climate change-related transition risk - KPI
 - Climate change-related physical risk - KPI
 - For both elements also a justification for not reporting

- S.14.02 – Non-life obligations analysis
 - For the products commercialised under this product category/Line of Business, which proportion (measured by gross written premiums) covers climate related perils? (0-100)
 - If the product covers climate-related perils, does the product design make allowance for risk-prevention measures? (Yes/No/Not applicable)

■ SFCR (*proposed by EP*)

- Description of the latest climate change scenario analysis and results
- Description of the implementation of the transition plan, including targets and milestones

Overview of EIOPA Priorities & Work

- EIOPA's **4 priorities** to address sustainability risk, most relevant from a prudential perspective are:
 1. Integrate ESG risks prudential framework of insurers
 2. Consolidate the macro/micro prudential risk assessment of ESG risks
 3. Support supervision of ESG risks and supervisory convergence in the EU (including work on climate risk in the ORSA)
 4. Promote the use of open source modelling and data in relation to climate change risk

- Evolution of EIOPA's focus:
 - Over the past years EIOPA has focused on Pillar 2, ie governance and risk management
 - Focus shifted to Pillar 1, increased focus on prudential capital treatment of natcat liabilities, investments associated with environmental and/or social objectives, or associated substantially with harm to such objectives, and climate-resilient insurance products.
 - Regarding Pillar3, supervisory reporting under Solvency II will be gradually revised to include reporting on sustainability risks.

- Important upcoming date:
 - EIOPA's sustainable finance conference of 14 December.

Any questions ?



Annex:

Further information on EIOPA's sustainability work related to prudential perspective

Overview of EIOPA work per priority

1. INTEGRATE ESG RISKS IN THE PRUDENTIAL FRAMEWORK OF INSURERS

- April 2019 - Technical advice on the **integration of sustainability risks and factors in SII and IDD** ([here](#))
 - Sets out views on how sustainability risks should be integrated into the Solvency II framework.
- September 2019 – Opinion on **Sustainability within Solvency II** ([here](#))
 - Addresses the integration of climate-related risks in Solvency II Pillar I requirements.
- July 2021 – Methodological paper on potential **inclusion of climate change in the Nat Cat standard formula** ([here](#))
 - Paper discusses the methodology used so far for the Nat Cat SCR calibration and presents perils and elaborates on how to include climate change in the Nat Cat SCR calibration in the standard formula.
- July 2021 - Report on **non-life underwriting and pricing** in light of **climate change** ([here](#))
 - Investigates the opportunity for (re)insurers, as risk managers and underwriters, to contribute to climate adaptation and mitigation, supporting the insurability of climate change-related risk
- December 2022 – Discussion paper on **prudential treatment of sustainability risks** ([here](#))
 - EIOPA's first step in its approach to assessing whether a dedicated prudential treatment of assets and activities associated with environmental or social objectives under Solvency II would be warranted.
 - In terms of next steps, EIOPA intends to consult publicly on empirical findings and potential policy implications.
- February 2023 - Report on the **Implementation of Climate Related Adaptation Measures in Non-Life Underwriting Practices** ([here](#))
- March 2023 - **Call for Evidence** for the **reassessment of the Nat Cat SF SCR parameters**
 - EIOPA will thoroughly assess the evidence received and will draft a paper for public consultation by the first half of 2024, aiming to finalize it by the end of the same year.
 - Contingent upon the materiality of its findings, EIOPA may recommend a recalibration of specific parameters within the Nat Cat SF SCR.
- March 2023 - Draft **Amended** Implementing Technical Standards (**ITS**) on **supervisory reporting and disclosure** ([here](#))
 - Inclusion of reporting on sustainability risks in the QRTs

Overview of EIOPA work per priority

2. CONSOLIDATE THE MACRO/MICRO-PRUDENTIAL RISK ASSESSMENT OF ESG RISKS

- December 2020 – **Sensitivity analysis** of climate-change related **transition risks in the investment portfolio** of European insurers ([here](#))
 - Analyzes the potential financial impact of climate-related transition risks on the balance sheets of European insurers.
- January 2022 – **Methodological principles of insurance stress testing** – climate change component ([here](#))
 - Sets out methodological principles that can be used to design bottom-up stress test exercises that aim to assess the vulnerability of insurers to climate risks.
- May 2022 – Discussion paper on **physical climate change risks** ([here](#))
 - Report focuses on assessing the materiality of the insurance sector exposure to physical climate change risk under a financial stability perspective.
- 2023 – 2024 Participation in **EC’s one-off climate risk scenario analysis for the financial sector** ([here](#))
 - ESAs to assess, in cooperation with the ECB and the ESRB, the resilience of our financial system on the way to the EU’s targets for 2030.

3. SUPPORT SUPERVISION OF ESG RISKS AND SUPERVISORY CONVERGENCE IN THE EU

- April 2021 – Opinion on the **supervision of the use of climate change risk scenarios in the ORSA** ([here](#))
 - Sets out expectations on the supervision of the integration of climate change risk scenarios by insurers in their ORSA.
- August 2022 – **Application guidance on climate change materiality assessments and climate scenarios in the ORSA** ([here](#))
 - Providing non-binding guidance for materiality assessment in the context of climate change, climate change scenario design and specifications using concrete case studies.

4. PROMOTE THE USE OF OPEN SOURCE MODELLING AND DATA IN RELATION TO CLIMATE CHANGE RISK

- May 2023 – **Presentation and launch of CLIMADA open-source catastrophe model** ([here](#))
 - New and free software designed to offer a user-friendly interface for accessing the open-source cat model CLIMADA.

Concrete case - Climate risk in the ORSA

■ Regulatory Expectations

- EIOPA Opinion
- NSA expectations
- Further specified in review of the Solvency II directive (*Solvency II 2020 review*)

■ What is expected

- Undertakings need to be able to integrate climate change risks in their ORSA by describing and assessing the impact of these risks on the company's risk profile.
- Both on the short term and on the long term
- For physical risks and transition risks

■ By when

- Already in force
- EIOPA started monitoring the application of the opinion from Q2 2023.

■ EIOPA provided non-binding application guidance on how to reflect climate change in the ORSA

- Following slides provide a high level schematic overview of the EIOPA proposed approach

How to incorporate climate risk in the ORSA

Materiality Assessment

Is climate risk material
Yes/No

yes



Climate change scenario

Foresee at least two long-term climate change scenarios:

1. with temperature increase of max 2°C (preferably 1.5°C)
2. With temperature increase of higher than 2°C

No



Add **justification** in ORSA as to why it is not material

Climate risk in the ORSA

- EIOPA provided non-binding application guidance on how to reflect climate change in the ORSA (here) ([here](#))
- Brief schematic overview of the EIOPA proposed approach in the following slides

Materiality assessment

- Materiality Assessment should consider:
 - Combination of a **qualitative** and **quantitative** assessment
 - Both for **assets** and **liability** side
 - Both for **transition** and **physical** risk
 - For **short, medium** and **long-term**

- Process for a materiality assessment looks as follows:



Materiality assessment – Example Non-Life Insurer

■ Belgian Non – Life Insurer

- Combination of a qualitative and **quantitative** assessment
- Both for Assets and **Liability** side
- Both for Transition and **Physical** risk
- For **short/medium** and **long-term**

■ Process for a materiality assessment looks as follows:



- Where would you be exposed to climate risk?
 - Several business lines but fire and other damage to property insurance would be exposed to climate risk
 - Business in Belgium
 - Office in Brussels
- Strategic outlook?
 - Want to expand this line of business in the future
- Time horizon?
 - Short, medium and long term

Materiality assessment – Example Non-Life Insurer

■ Belgian Non – Life Insurer

- Combination of a qualitative and **quantitative** assessment
- Both for Assets and **Liability** side
- Both for Transition and **Physical** risk
- For **short/medium** and **long-term**

■ Process for a materiality assessment looks as follows:



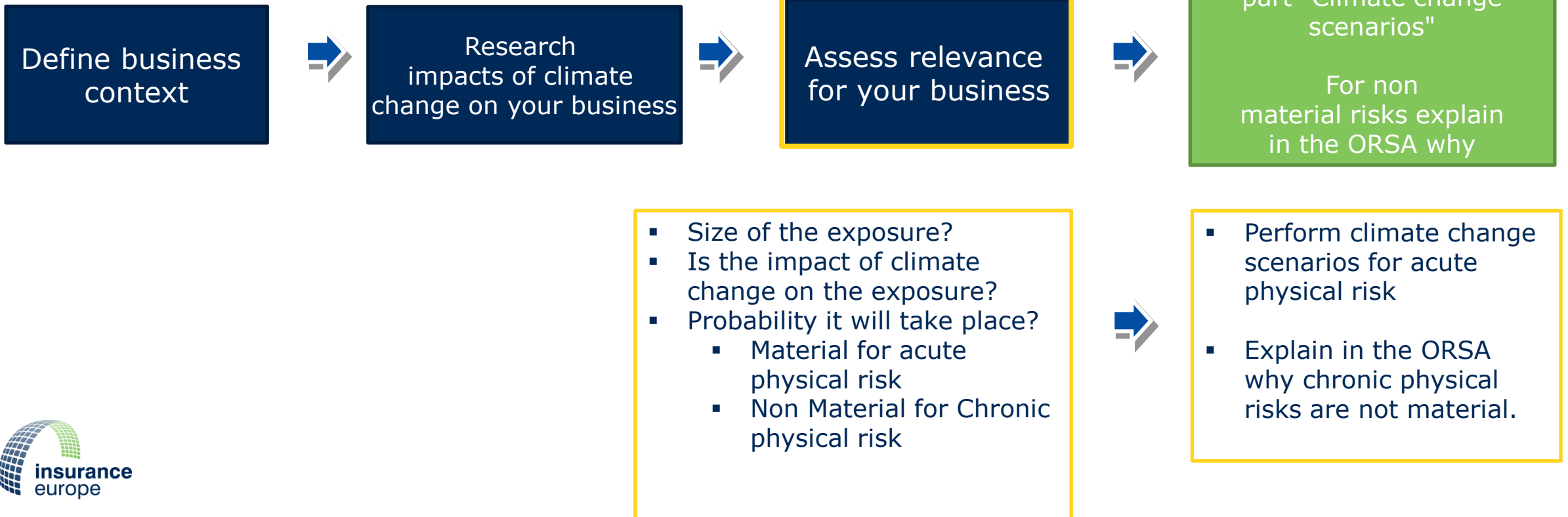
- Possible impacts of climate risk on the exposure?
 - For Belgium, higher frequency and severity of floods is expected in short medium and long term
 - Office is in Brussels so not sensitive to rises in sea levels
- Acute/Chronic Physical risk?
 - Only the impact of acute physical risk
- Impact on products
 - Higher loss ratios for the line of business fire and other damage to property insurance

Materiality assessment – Example Non-Life Insurer

■ Belgian Non – Life Insurer

- Combination of a qualitative and **quantitative** assessment
- Both for Assets and **Liability** side
- Both for Transition and **Physical** risk
- For **short/medium** and **long-term**

■ Process for a materiality assessment looks as follows:



Challenges when incorporating climate risk in the ORSA

■ **Uncertainty**

- Due to the long-term horizon over which climate change and the associated risks materialise there is more uncertainty, and many assumptions have to be made, eg regarding climate variables, economic variables

■ **Forward looking & Data**

- Data gathering, historical data is often not appropriate and sufficient forward-looking data is not readily available.
- Data availability, eg data on location
- Data consistency and comparability

■ **Time horizon**

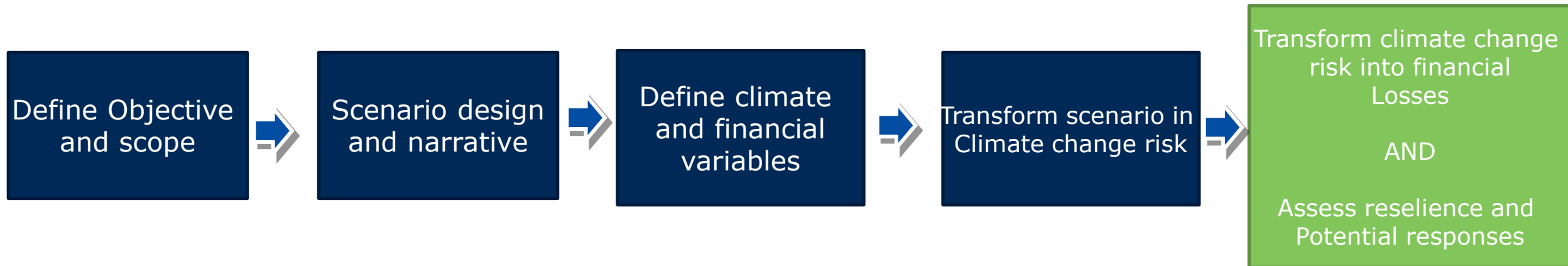
- Climate risk time horizon could be longer than the usual 'business' time horizons currently considered by undertakings in their ORSA

■ **No agreed established methodology**

- In exploratory stage - many possible approaches and methodologies, for the materiality assessment as well as for the climate change scenarios. Expert knowledge and judgement is required.

Climate change scenario

- Climate change scenarios should consider:
 - Assets and Liability side
 - Transition and Physical risk
 - The relevant time horizon (short/medium of long term)
- Process for climate change scenario looks as follows:



Advantages for companies

Insurance undertakings incorporating climate risk in the ORSA will:

1

be compliant with a **legal obligation**, and be able to react swiftly to requests from the supervisor.

2

gain a better **insight** in the **relevant sustainability aspects** for their business and have a **good understanding of your risks**.

3

have the **ability to determine and implement** an appropriate and targeted **ESG risk mitigation strategy**.

4

have right **tools** to **inform and support** your **management** in deciding on **suitable management actions** and **investment decisions**.

5

be ready for the future and be able to take advantage of potential innovation opportunities.

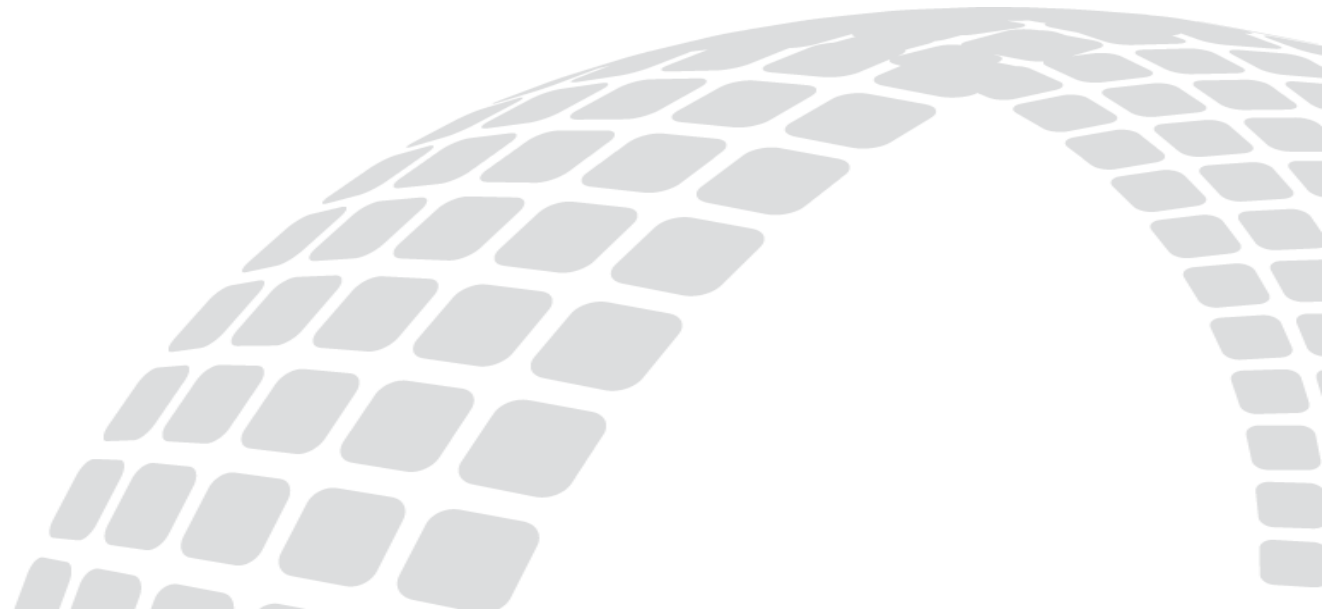
6

be able to **confidently communicate about climate risks**, both to external stakeholders and internal stakeholders.



Transition Plans, Scope 3 GHG reporting and PCAF

November 2023



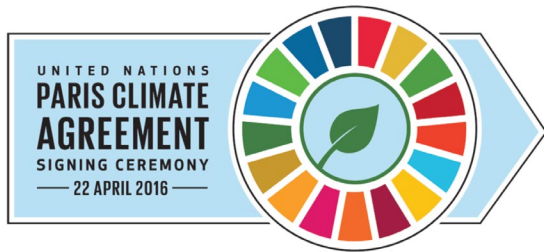
Agenda

1 Preliminary considerations – Background information

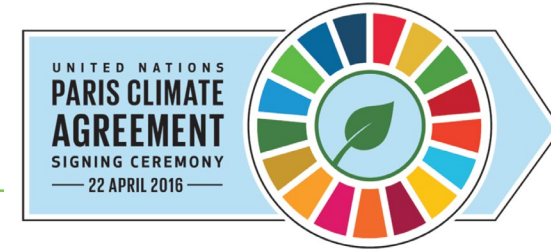
2 EU Legal Requirements

3 Initiatives on Transition Plans

1. Preliminary considerations – background information



Paris Agreement



A Global Commitment for Climate Action.

When?	<ul style="list-style-type: none">Adopted in 2015 at the Paris climate conference, the Paris Agreement is the world's inaugural universal, legally binding global climate pact.
What?	<ul style="list-style-type: none">The Paris Agreement sets out a global framework to address climate change by limiting global warming to "well below" 2°C and striving for 1.5°C. Requiring emissions to be cut by 50% by 2030.
Why?	<ul style="list-style-type: none">The goal is to enhance countries' capacity to manage the consequences of climate change.
Who?	<ul style="list-style-type: none">It was adopted by 196 Parties at the UN Climate Change Conference.

European Climate Law

Path to Climate Neutrality

The European Climate Law in force since July 9, 2021.

Main Goals:

- Achieve **climate neutrality by 2050**.
- Cut net **greenhouse gas emissions (GHG) by at least 55%**, by 2030.
- EU Institutions and Member States committed to achieving targets.

Climate Neutrality (2050):

- Means **net zero greenhouse gas emissions**.
- Achieved through **emission cuts, green tech investment, and environmental protection**.
- Progress reviewed every five years, aligned with Paris Agreement global stock take.

Insurance Sector:

- **No** specific transition pathways proposed (as of today).

European Climate Law

Implications for Member States

- | | | |
|-----------|--|---|
| 1 | Binding Climate Neutrality Target | Legal commitment to achieve climate neutrality by 2050 |
| 2 | Interim Emission Reduction Targets | Five-year targets aligning with EU's 2050 climate goals |
| 3 | National Energy and Climate Plans (NECPs) | Development and submission of sectoral climate plans |
| 4 | Governance Mechanism | Mechanism for monitoring and evaluation |
| 5 | Accountability and Enforcement | Provisions for accountability and potential financial penalties |
| 6 | Complementing Existing Legislation | Alignment with existing EU climate and energy laws |
| 7 | Adaptation and Resilience | Focus on adapting to climate change and building resilience |
| 8 | Public Engagement | Encouragement for public and stakeholder involvement |
| 9 | Research and Innovation | Promotion of research and innovation for a climate-neutral transition |
| 10 | Cross-Sectoral Impact | Implications across sectors, requiring cross-sectoral consideration |

European Climate Law- *Implications for Member States*

Law's Objectives:

1

Set the **long-term** direction of travel for meeting the 2050 climate neutrality objective through all policies, in a socially fair and cost-efficient manner.

2

Set a more ambitious **EU 2030 target**, to set Europe on a responsible path to becoming climate-neutral by 2050.

3

Create a system for **monitoring progress** and take further action, if needed.

4

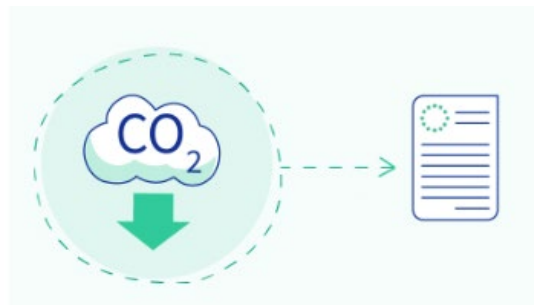
Provide **predictability** for investors.

5

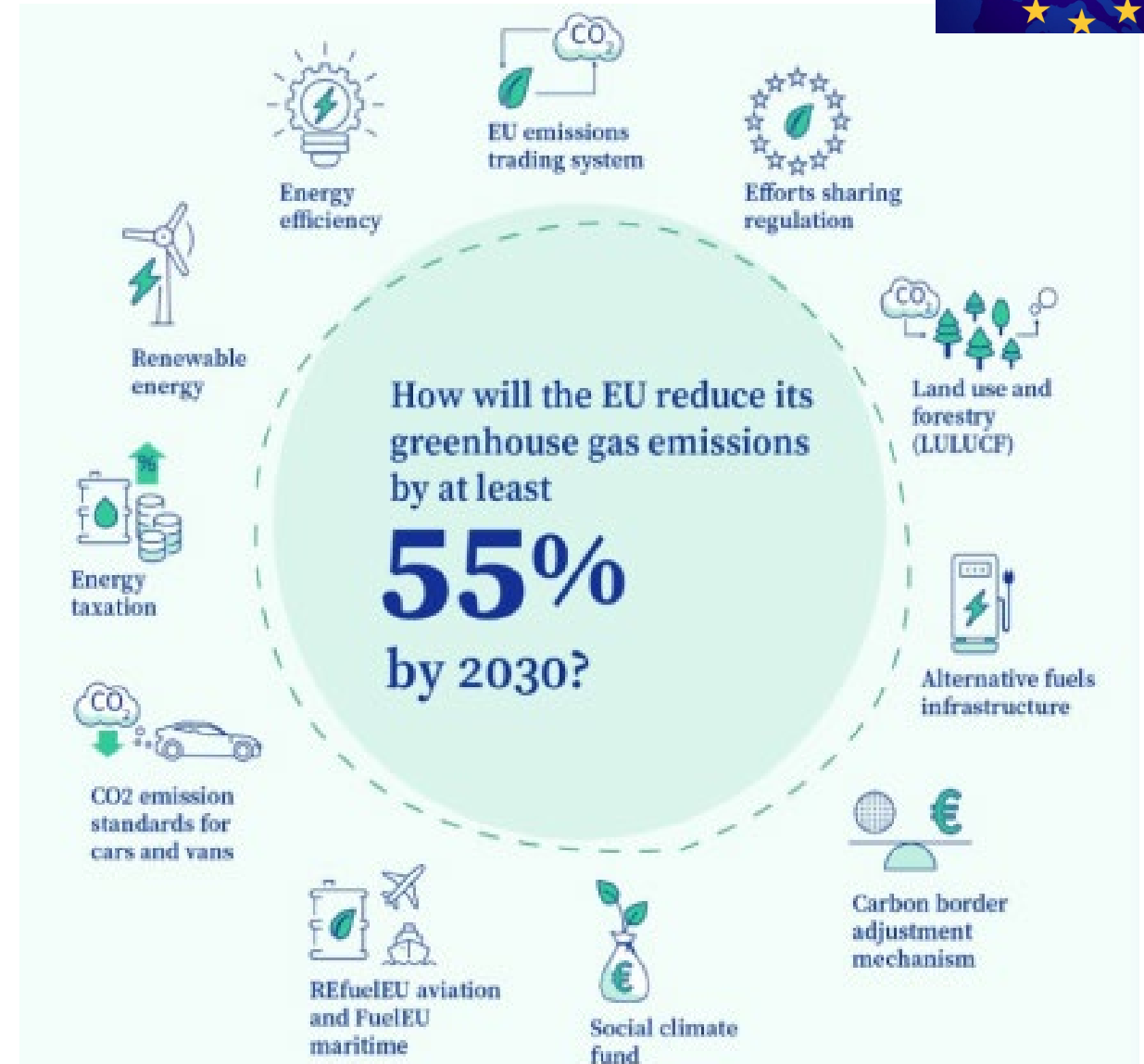
Ensure an **irreversible transition** to climate neutrality.

'Fit for 55' package

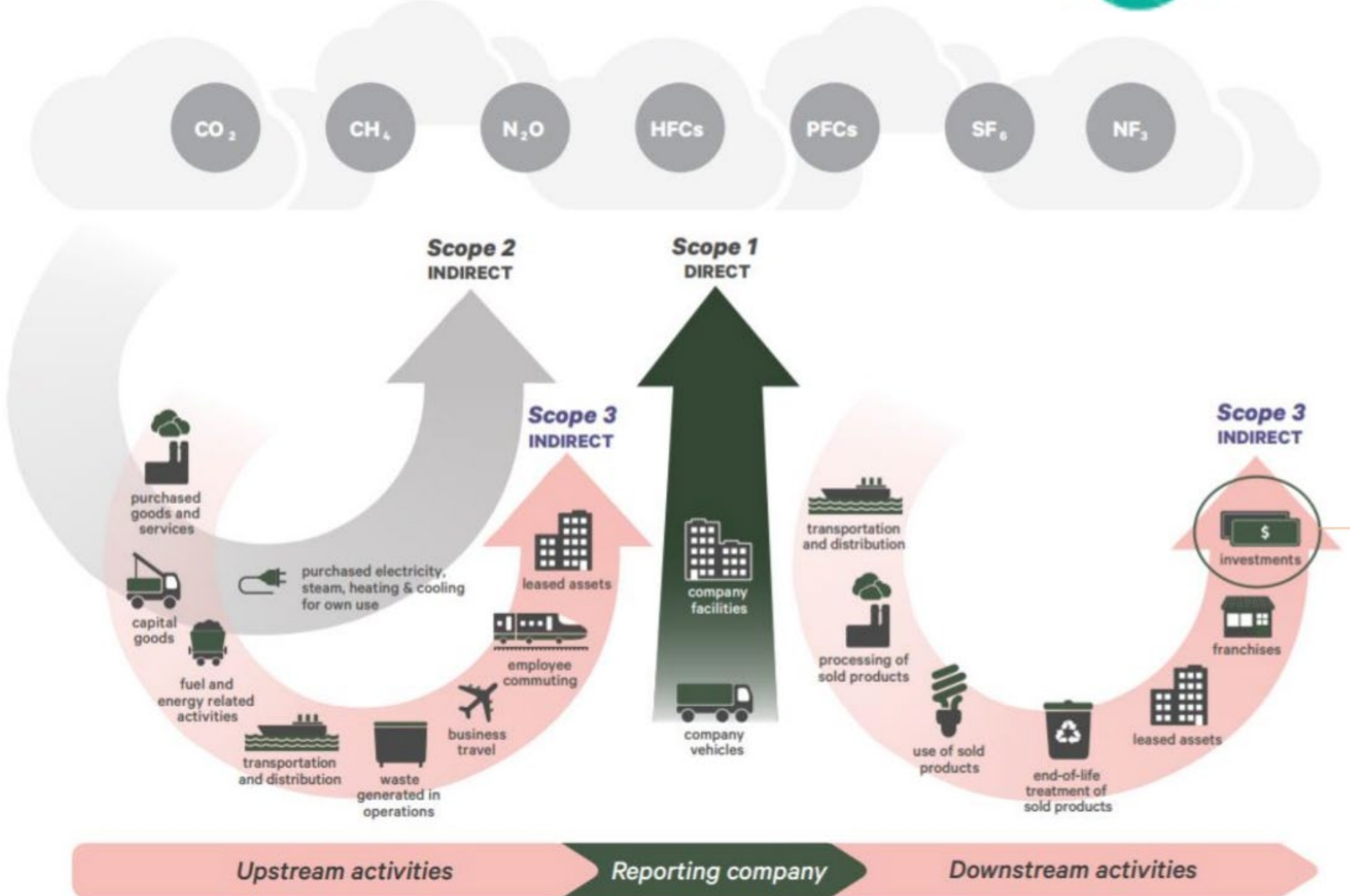
- **Is a set of proposals to update** the European Union's climate legislation.
- Is named after **the climate target** of reducing EU emissions by at least 55% by 2030.
- The EC presented its 'Fit for 55 package' on 14 July **2021**
- **The European climate law** makes reaching the EU's climate goal of reducing EU emissions by at least 55% by 2030 **a legal obligation.**
- **EU countries are working on new legislation to achieve this goal** and make the EU climate-neutral by 2050.



"The EU will turn climate goals into law."



GHG protocol – scope 1,2 and 3





Part A- Financed Emissions

- Provides methodological guidance **to measure and disclose GHG emissions** associated with seven asset classes as well as guidance on emission removals

Part B- Facilitated Emissions

- Provides methodological guidance for measuring and reporting the GHG emissions associated **with capital markets transactions.**
- To be launched **in 2023.**

Part C- Insurance Associated Emissions

- Provides methodological guidance for measuring and reporting the GHG emissions associated with **re/insurance underwriting for two segments.**
- **The two segments** are: 1) commercial lines. And 2) personal motor lines.

Financed Emissions – 7 asset classes



LISTED EQUITY AND CORPORATE BONDS



BUSINESS LOAN AND UNLISTED EQUITY



PROJECT FINANCE



COMMERCIAL REAL ESTATE



MORTGAGES



MOTOR VEHICLE LOANS



SOVEREIGN DEBT

Insurance Associated Emissions



Two LOBs:



COMMERCIAL LINES

$\frac{\text{Re/insurance premium}}{\text{Customer revenue}} \times \text{Emissions}$



PERSONAL MOTOR LINES

$\frac{\text{Insurance industry's total premium from the motor line of business}}{\text{Total costs associated with vehicle ownership of all vehicles}} \times \text{Vehicle Emissions}$

Total costs associated with vehicle ownership of all vehicles

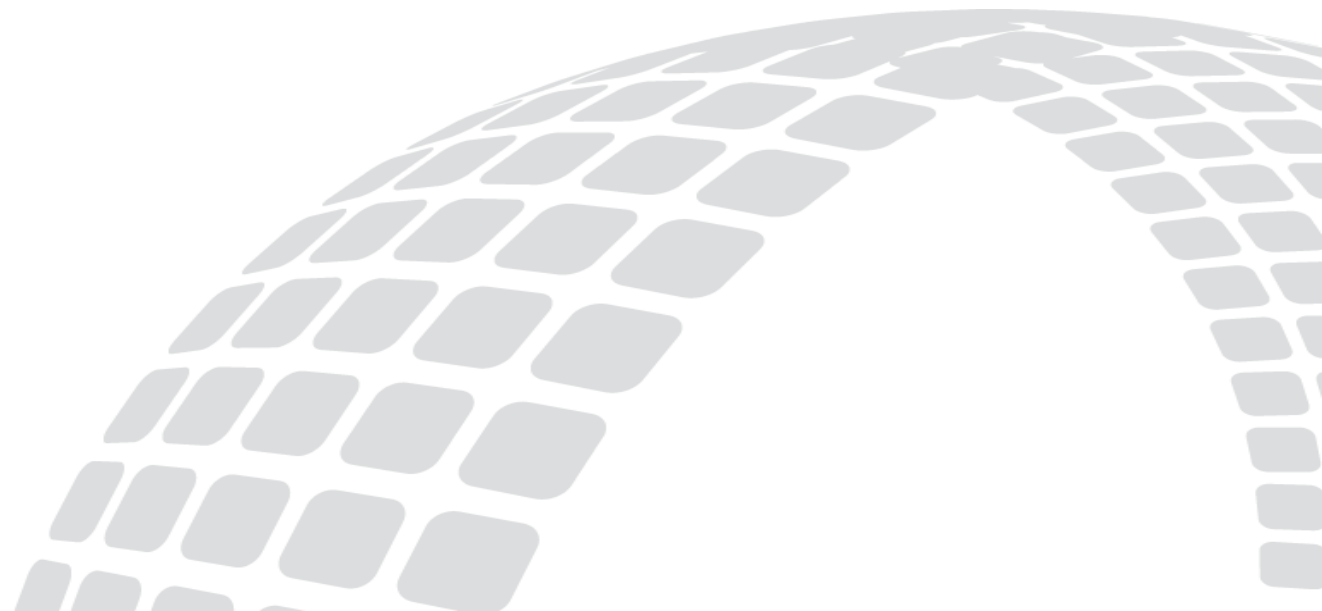
Or (for cases where risk carriers are unable to use the industry attribution factor above)

$\frac{\text{Insurance specific premium from the motor line of business}}{\text{Total costs associated with vehicle ownership of the portfolio P vehicles}} \times \text{Vehicle Emissions}$

Total costs associated with vehicle ownership of the portfolio P vehicles



2. EU Legal Requirements



EU requirements relating to GHG reporting

- **SFDR** Requires those under scope to report on the **sustainability risks** of their financial products and activities and to disclose certain entity level information relating to **Principal Adverse Impact (PAI)** indicators, which includes **financed GHG emissions**.
- **ESRS**: Requires those under scope to report on Scope 1, 2 and 3 emissions and this therefore includes financed emissions and insured emissions, where material.
- Note that **ISSB** also requires reporting of Scope 1, 2 and 3 emissions.

PCAF alignment with EU legislation (1/3)



PCAF

Legislation/ regulation	Where PCAF fits in	Status and timeline
<p>EU Taxonomy regulation (2020/852) Article 8</p>	<ul style="list-style-type: none"> Requires disclosure on the percentage of Taxonomy-aligned activities. For Fis. this implies the percentage of Taxonomy-aligned investments in their portfolio which includes, amongst others, how to meet GHIG emission thresholds. Does not yet capture the climate impact of investments which are not Taxonomy-aligned. Allows for non-disclosure of information if this is made transparent and reasons are given. PCAF enables Fis to comply with this regulation by providing a standardized methodology to measure and report financed emissions for both Taxonomy-aligned and not Taxonomy-aligned activities to understand the full climate impact of their portfolio. No explicit mention of PCAF but see PCAF and the EU Taxonomy Regulation 	<ul style="list-style-type: none"> Entered into force in Jul, 2020, effective as of Jan. 2022. Mandatory for financial and non-financial undertakings in scope of the NFRD (i.e., public interest entities (PIEs* with 500+ employees).
<p>Sustainable Finance Disclosure Regulation (SFDR) (2019/2088) Articles 8 & 9</p>	<ul style="list-style-type: none"> Requires all FMPs and FAs to report on the sustainability risks of their financial products and activities and to disclose certain core Principal Adverse Impact (PAI) indicators, which include GHG emissions and thus financed emissions. Main target group are asset managers and primary focus are funds. PCAF enables FIs to comply with this regulation by providing a standardized methodology to measure and report financed emissions. No explicit mention a PCAF. 	<ul style="list-style-type: none"> Entered into force in Mar, 2021, effective as of Jan. 2022 Mandatory for all FMPs and FAS in EU with 500+ employees

PCAF alignment with EU legislation (2/3)



PCAF

Legislation/ regulation	Where PCAF fits in	Status and timeline
<p>Accounting directive (2013/34) & Non-Financial Reporting Directive (NFRD) (2014/95) Articles 19a & 29a</p>	<ul style="list-style-type: none"> Requires large listed companies, banks, and insurance companies to report relevant material climate impact information and KPIs. Does not impose detailed disclosure requirements; GHG accounting and reporting, for instance, is not required. Allows for non-disclosure of information if this is made transparent and reasons are given. PCAF enables FIs to comply with this directive by providing a standardized methodology to measure financed emissions. No explicit mention of PCAF. 	<ul style="list-style-type: none"> Entered into force in 2018 Mandatory in all EU member states for public interest entities (PIEs)* with 500+ employees. Will be replaced by CSRD
<p>Corporate Sustainability Reporting Directive (CSRD)</p>	<ul style="list-style-type: none"> PCAF Amendment of NFRD with additional reporting requirements, including scope 1, 2, and 3 GHG emissions and thus financed emissions, and mandatory assurance. PCAF enables FIs to comply with this directive by providing a standardized methodology to measure financed emissions. No explicit mention of PCAF 	<ul style="list-style-type: none"> Entered into force in Jan. 2023 Effective as of Jan. 2025 for those already subject to NFRD, as of Jan. 2026 for other large entities, and as of Jan. 2027 for all others in scope. Mandatory for undertakings in scope of NFRD plus entities with 250+ employees and all listed companies.

PCAF alignment with EU legislation (3/3)



PCAF

International Sustainability Standards Board (ISSB) on Climate Disclosure

- Building on TCFD, a global baseline of sustainability disclosure standards with requirements for identifying, measuring, and disclosing climate-related risks and opportunities. Requires companies, banks, and investors to report scope **1, 2, and 3 GHG emissions and thus financed emissions as well as carbon offsets**, if applicable.
 - PCAF enables Fis to comply with this regulation by providing a standardized methodology to measure financed emissions.
 - No explicit mention of PCAF
- Expected to be issued at the end of Q2 2023, currently an Exposure Draft is available from Mar. 2022
 - Voluntary framework.

EU legal requirements relating to transition plans

- **ESRS Mandates the publication of a transition plan by the undertakings, if they have one**
 - Starting from **2024**, ESRS applies to EU companies.
 - Entities without a plan must indicate **if they intend to adopt one**.
 - A transition plan relates to the **undertaking's efforts in climate change mitigation**
- **CSDDD would require companies under scope (estimated at 11,000+) to have a transition plan aligned with the Paris Agreement**
 - Included in an Article separate from due diligence related texts by both EP and Council so unless insurers are completely excluded from CSDDD it will apply to them
- **SII Review: The EP text includes a requirement for insurers to have transition plans**
 - Only included by EP but negotiations may be impacted by CSDDD discussions as the main argument for excluding from SII Review was because insurers would be covered by cross-sectorial legislation (CSDDD and ESRS)
- **Note that ISSB also requires companies to report their transition plan if they one, but with less detail than ESRS**

European Sustainability Reporting Standards (ESRS)

According to the ESRS the E1-1 should include the following information.

- 1 Explanation** of how GHG emission targets align with the 1.5°C Paris Agreement goal.
- Details on **decarbonization** strategies, actions, and technology adoption.
- Insight into investments **supporting** the plan.
- Assessment of potential GHG emissions from **key assets and products**.
- Progress** in implementing the transition plan, if they have one.
- Alignment with **EU Taxonomy Regulation**, if applicable.
- Status regarding EU Paris-aligned **Benchmarks**.
- Integration** of the plan into the overall business strategy.

Corporate Sustainability Due Diligence Directive (CSDDD)

Article 15

Aspect	EC	EP	Council
Objective	Align business model and strategy with sustainability goals.	Align with sustainability goals and specific reporting requirements.	Align with sustainability goals and climate neutrality by 2050.
Climate Change Risks	Identify risks and impacts of climate change on operations.	Emphasize climate change risks and impacts on operations.	Assess the impact of climate change on operations.
Emission Reduction Objectives	Include emission reduction objectives if climate change is a principal risk.	Include greenhouse gas emission reduction objectives.	Include greenhouse gas emission reduction objectives.
Variable Remuneration for Directors	Consider director contributions to sustainability and long-term interests.	Link part of variable remuneration to the transition plan.	Removed provision linking variable remuneration to sustainability
Director Oversight	-	Directors should oversee obligations.	-
Companies with >1000 Employees	-	Those companies should have relevant policies.	-

Transition plans in Solvency II

In the context of the Solvency II 2020 review EP has proposed to include a requirement for insurers to have a transition plan in the directive

What are the key elements of the transition plans:

Dir SII Art 44 Risk Management:

2b. Member States shall ensure that insurance and reinsurance **undertakings develop specific plans, quantifiable targets, and processes to monitor and address the risks arising in the short, medium, and long-term ESG factors**, including those arising from the transition and the process of adjustment to the applicable regulatory objectives towards a sustainable economy in relation to environmental, social, and governance factors, in particular with the objective to achieve climate neutrality by 2050 as set out in Regulation (EU) 2021/1119 (European Climate Law).

The targets and measures to address the ESG risks included in the plans referred to in the first subparagraph shall consider the latest reports and measures prescribed by the European Scientific Advisory Board on Climate Change, in particular in relation to the achievement of the climate targets of the Union. Where the undertaking discloses information on ESG matters in accordance with Directive 2013/34/EU the plans referred to in the first subparagraph shall be consistent with the plans referred to in Article 19a or Article 29a of that Directive. In particular, the plans referred to in the first subparagraph shall include actions with regards to the business model and strategy of the undertaking that are consistent across both plans.'

Introduction to ISSB Standards



ISSB

Overview

The ISSB is a standard-setting body established in 2021–2022 under the IFRS Foundation, whose mandate is the creation of **sustainability-related financial reporting standards** to meet investors' needs for sustainability reporting.

Effective Dates and Application of Sustainability Reporting Standards

IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after **1 January 2024**, with earlier application permitted when both standards are applied concurrently, IFRS S1 for general sustainability-related financial information and IFRS S2 for climate-related disclosures.

IFRS S1 and S2 **require an entity to disclose information** about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

(collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S1 and S2

IFRS S1 and S2 set out the requirements for disclosing information about an entity's sustainability-related risks and opportunities.

An entity is required to provide disclosures about:

1

The governance processes, controls and procedures the entity uses to monitor, manage and oversee **climate-related risks and opportunities**.

3

The entity's **strategy** for managing climate-related risks and opportunities.

4

The processes the entity uses to identify climate-related risks and opportunities, including **whether and how those processes are integrated** into and inform the entity's overall risk management process.

5

The entity's performance in relation to its climate-related risks and opportunities, including **progress towards any climate-related targets** it has set, and any targets it is required to meet by law or regulation.

IFRS S1 General Requirements for Disclosure of Sustainability (*Related Financial Information*)

IFRS S1 prescribes **how an entity prepares and reports its sustainability-related financial disclosures**. IFRS S1 sets out the core content for a complete set of sustainability-related financial disclosures to meet the needs of global capital markets.

What are the key elements of IFRS S1?

IFRS S1:

- **asks for disclosure of material information** about sustainability-related risks and opportunities with the financial statements, to meet investor information needs.
- applies the TCFD architecture (governance, strategy, risk management and metrics and targets) for disclosure of information about **sustainability-related risks and opportunities**.
- requires **industry-specific disclosures**.
- for matters other than climate (IFRS S2), refers **to sources to help companies identify** sustainability-related risks and opportunities and information.
- can be used **in conjunction with any accounting requirements**.

IFRS S2 Climate-related Disclosures (*Related Financial Information*)

IFRS S2 applies to:

- climate-related risks to which the entity is exposed, which are:
 - climate-related physical risks
 - climate-related transition risks
- climate-related opportunities available to the entity.

What are the key elements of IFRS S2?

IFRS S2 sets out the requirements for a company to disclose information about its **climate-related risks and opportunities**. IFRS S2:

- incorporates the **TCFD recommendations**
- is used in accordance with **IFRS S1**
- requires disclosure of material information about climate-related risks and opportunities, including **physical and transition risk**.
- requires industry-specific disclosures, which are supported by accompanying guidance built on the **SASB Standards**.

IFRS S2/ Transition Plan



An entity shall disclose information that enables users of general purpose financial reports to **understand the effects of climate-related risks and opportunities on its strategy and decision-making**. Specifically, the entity shall disclose:

- 1** Details on the entity's response to climate risks and opportunities, its strategic and decision-making processes, compliance with climate-related legal/regulatory targets, and achievement plans for set climate goals.
Specifically, the entity shall disclose information about:
 - Updates to the entity's business model and resource distribution to manage climate risks and opportunities, such as strategies for high-emission operations, resource shifts due to market or supply chain alterations, investment in development, and restructuring through acquisitions or divestitures.
 - current and anticipated direct mitigation and adaptation efforts
 - current and anticipated indirect mitigation and adaptation efforts
 - **any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies**
 - how the entity plans to achieve any climate-related targets, including any greenhouse gas emissions targets
- 2** information about how the entity is resourcing, and plans to resource, the activities disclosed.
- 3** quantitative and qualitative information about the progress of plans disclosed in previous reporting periods



3. Initiatives on Transition Plans



Science-Based Targets Initiative for the Financial Sector

SBTi: Setting the Path to Climate Targets



Overview

- **Collaboration** between CDP, UN Global Compact, World Resources Institute, and WWF.
- **Lead partner of the Business Ambition** for 1.5°C campaign, mobilizing companies to set net-zero science-based targets.
- Since 2015, **over 2590 companies** have made net zero commitments.

Purpose

- **Set clear targets for reducing greenhouse gas (GHG) emissions.**
- **Prevent** worst effects of climate change.

SBTi Functions

- Defines **best practices for emissions reduction** and net-zero targets.
- Provides **technical assistance.**
- Offers **independent assessment and validation of targets.**



SBTi Climate Challenge and Aims

The Challenge

- Race to **limit global warming** to 1.5°C.
- Reduce GHG emissions by half by 2030 and **reach net-zero by 2050.**

Aims

- **Mobilize** the private sector for urgent climate action.
- Guidance **for companies and financial institutions** on target setting.
- **Tailored approaches** for key sectors, for financial institutions.
- Launch of **Corporate Net-Zero Standard.**

Facilitated Emissions VS Financed Emissions

Differentiating Financed and Facilitated Emissions

Facilitated Emissions

Emissions associated with **activities that support the financing of companies**, projects, or other entities that result in emissions.

Examples:

- **Insurance/reinsurance services**
- Capital market access
- Other financial services.

Financed Emissions

Emissions resulting **from an Financial Institution's use of its own funds for lending or equity/ debt investments**.

Loans/ investments are recorded as assets on the FI's balance sheet.

Science-Based Targets Initiative for the Financial Sector



Criteria for SBTs:

- 1** Cover 5 to 15 years, encourage long-term targets.
- 2** Align boundaries with GHG inventory.
- 3** Scope 1 and 2 emissions align with decarbonization pathways.
- 4** Cover at least 95% of company-wide scope 1 and 2 emissions.
- 5** Use a specified scope 2 accounting approach.
- 6** Set scope 3 targets when significant.
- 7** No credit for offsets and avoided emissions.

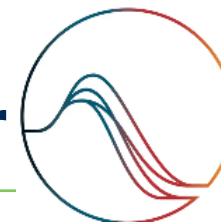


Table: Target Language Template for FI.

Scope 1 and 2 targets

Absolute target: Financial Institution A commits to reduce absolute scope 1 and 2 GHG emissions [XX]% by [target year] from a [base year].

Intensity target: Financial institution A commits to reduce scope 1 and 2 GHG emissions [XX]% per [unit] by [target year] from a [base year].

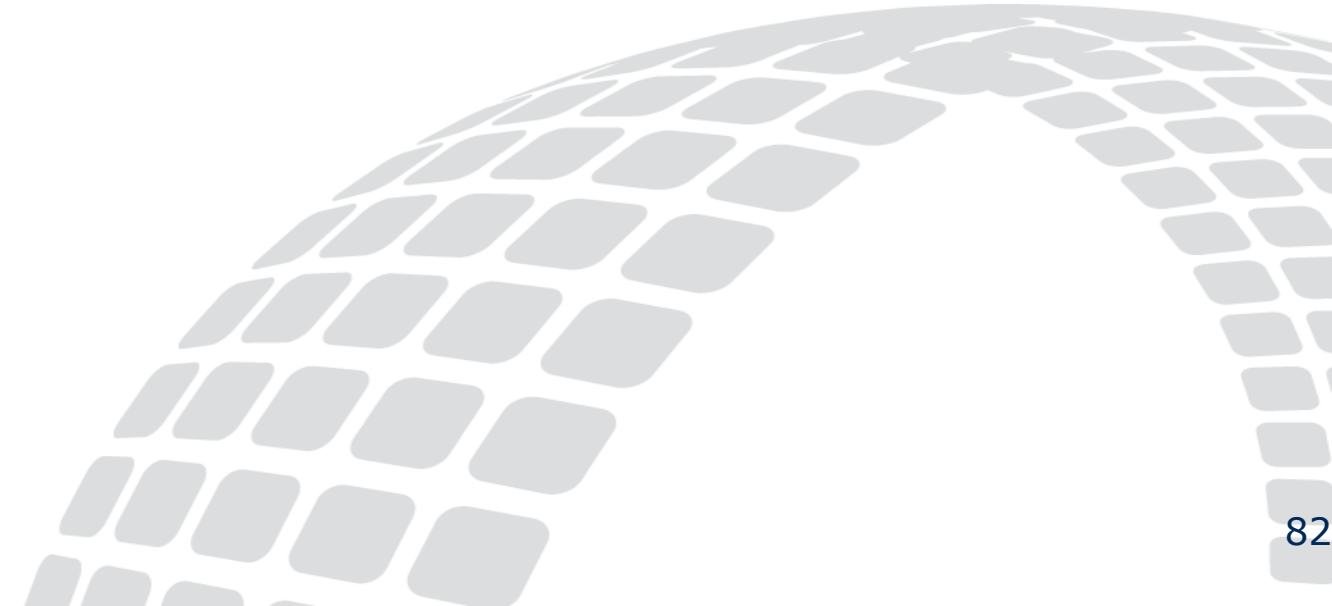
Scope 3 Portfolio Targets- Headline Target

Financial Institution A commits to achieve SBTs in [asset classes] by [target year] from a [base year]. FI A's portfolio targets cover [XX]% of its total investment and lending activities by [unit].

Scope 3 Portfolio Targets- Asset Class Target

Corporate instruments	Sector Decarbonization Approach (SDA)	FI A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio XX% per tonne of cement by 2030 from a 2017 base year.
	SBT Portfolio Coverage	Investment Firm A commits that 30% of its equity portfolio within the [asset class or sector] by [unit] will have set science based targets by 2024

Net-Zero Asset Owner Alliance (NZAOA)



Net-Zero Asset Owner Alliance

Overview

- Launched in 2019.
- The NZAOA is a **coalition of leading institutional investors** dedicated to transitioning investment portfolios to net-zero greenhouse gas emissions by 2050.
- With intermediate targets set, including **CO2 reduction ranges** for 2025 (22 – 32%) and 2030 (40% – 60%).

Key Objectives

- **Align portfolios** with a maximum temperature rise of 1.5°C.
- Set **intermediate targets** every five years.
- Increase investments **in climate solutions**.
- **Advocate for corporate** and public **policy** action on climate change.

Membership & Scale

- Comprises some of the **world's largest pension funds and insurers**.
- Represents over **\$5 trillion in assets**
- Demonstrates **financial sector's commitment** to climate action.

Net-Zero Asset Owner Alliance

Action Points

- Engagement with companies to **promote sustainable practices.**
- **Portfolio decarbonization:** reducing carbon-intensive assets.
- **Investments in renewable energy** and other sustainable technologies.
- **Collaboration** with other investor initiatives and stakeholders.

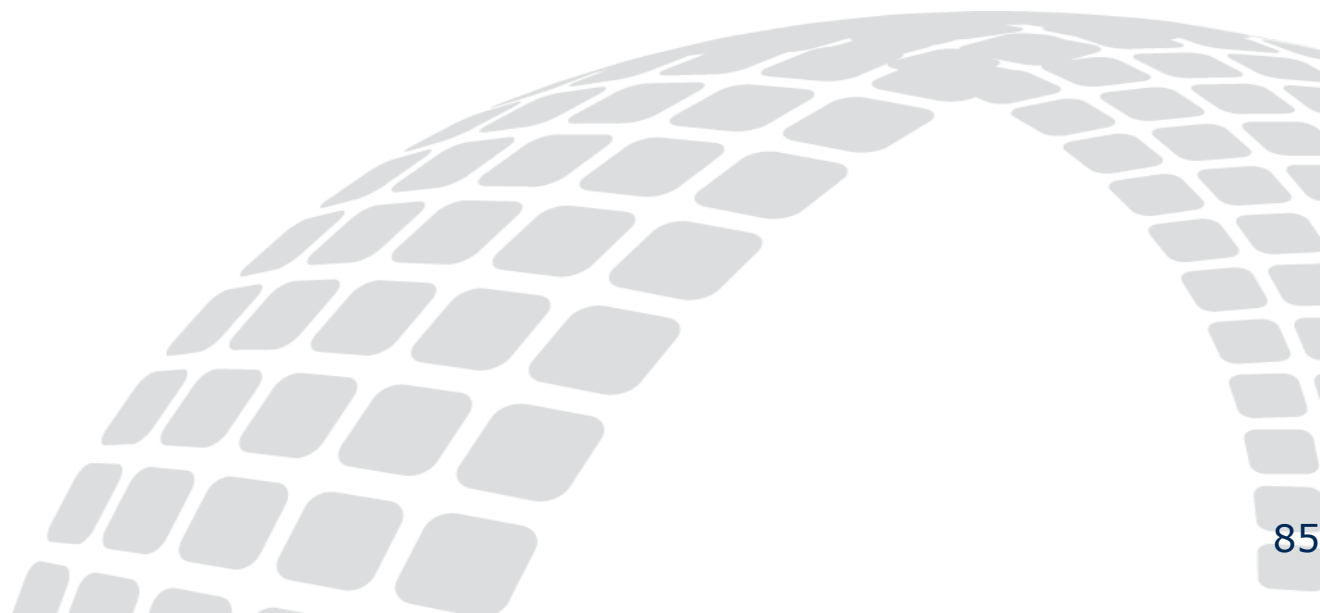
Benefits & Impact:

- Accelerates the **transition to a sustainable economy.**
- **Mitigates financial risks** associated with climate change.
- Sets a benchmark for **responsible investing.**
- Positive societal and **environmental impacts.**

Potential Roadblocks:

- **Complexity** in measuring and reporting emissions.
- Aligning with global policy and **regional differences.**
- Concerns over **greenwashing.**
- **Balancing** profitability and sustainability.

The Net-Zero Insurance Alliance



NZIA: A Sustainable Insurance Future

Introduction to NZIA

- **Launched by the United Nations** in partnership with GFANZ.
- Aims to support the **transition to a net-zero economy**.
- Addresses the **climate crisis**.
- Commitment to **achieving net-zero GHG emissions** in insurance portfolios by 2050.
- **Aligns with the Paris Agreement** on Climate Change.

NZIA's Target-setting Protocol

- Introduced in **July 2023**.
- Assists member insurers in setting **intermediate net-zero targets by 2030**.
- **Five targets** within three categories.
- **Deadlines** for target setting.
- Member **companies' obligations**.

The Net-Zero Insurance Alliance

Emissions and Reporting

- Addresses **all types of GHGs**.
- Focuses on **Insurance-Associated Emissions, Scope 3/Category 15/Underwriting emissions**.
- Builds upon **GHG Protocol standards**.
- **Pending** official GHG Protocol review and approval.
- Reporting requirements, **including Scope 1, Scope 2, and other relevant Scope 3 categories**.

Emissions Reduction Targets

- Two types of target options: **global proxy or sectoral decarbonization approach (SDA)**.
- **Flexibility** in choosing target types.
- Factors to consider: **ambition level, offsets, avoided emissions, and emissions removal**.
- **Ambition based** on latest climate science findings.
- Encouragement to **cover Scope 1, Scope 2, and where possible, Scope 3** emissions in reduction targets.

The Net-Zero Insurance Alliance

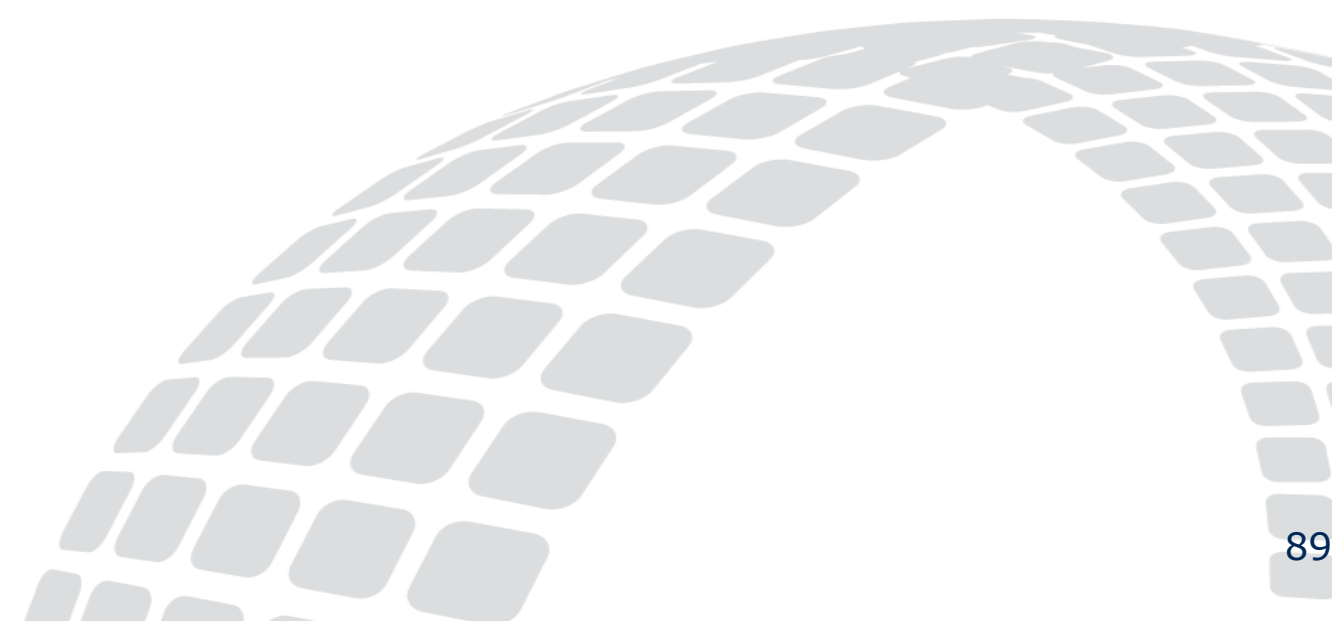
Counting Progress and Accountability

- Carbon offsets, avoided emissions, and emissions removals **cannot be counted** towards IEA (International Energy Agency) reduction targets.
- Ensuring **genuine emissions reductions**.
- Accountability and transparency.



Figure 1: Summary of the Protocol's five target types in three target categories

Financial Conduct Authority Guidance (UK)



TPT: Overview



Voluntary Standards

- The UK's Transition Plan Taskforce (TPT) is working on **voluntary standards** for listed companies and **financial firms** to ensure consistent and effective transition plans, with completion targeted by year-end.

Core Objectives:

1	To achieve net-zero operational GHG emissions by 2045, aligning with the SBTi criteria and the Paris Agreement's goals.
3	This includes reducing Scope 3 GHG emissions by 90% by 2045.
4	sourcing 100% renewable electricity.
5	Provide predictability for investors.

TPT and Transition Plan Objectives



- TPT aims to develop **best practices for transition plans and cutting-edge metrics while coordinating with international initiatives.**
- The **FCA** has outlined guidelines for Transition Plans, which are integral to an entity's strategy to support the global shift towards a **low greenhouse gas (GHG) emissions economy.**

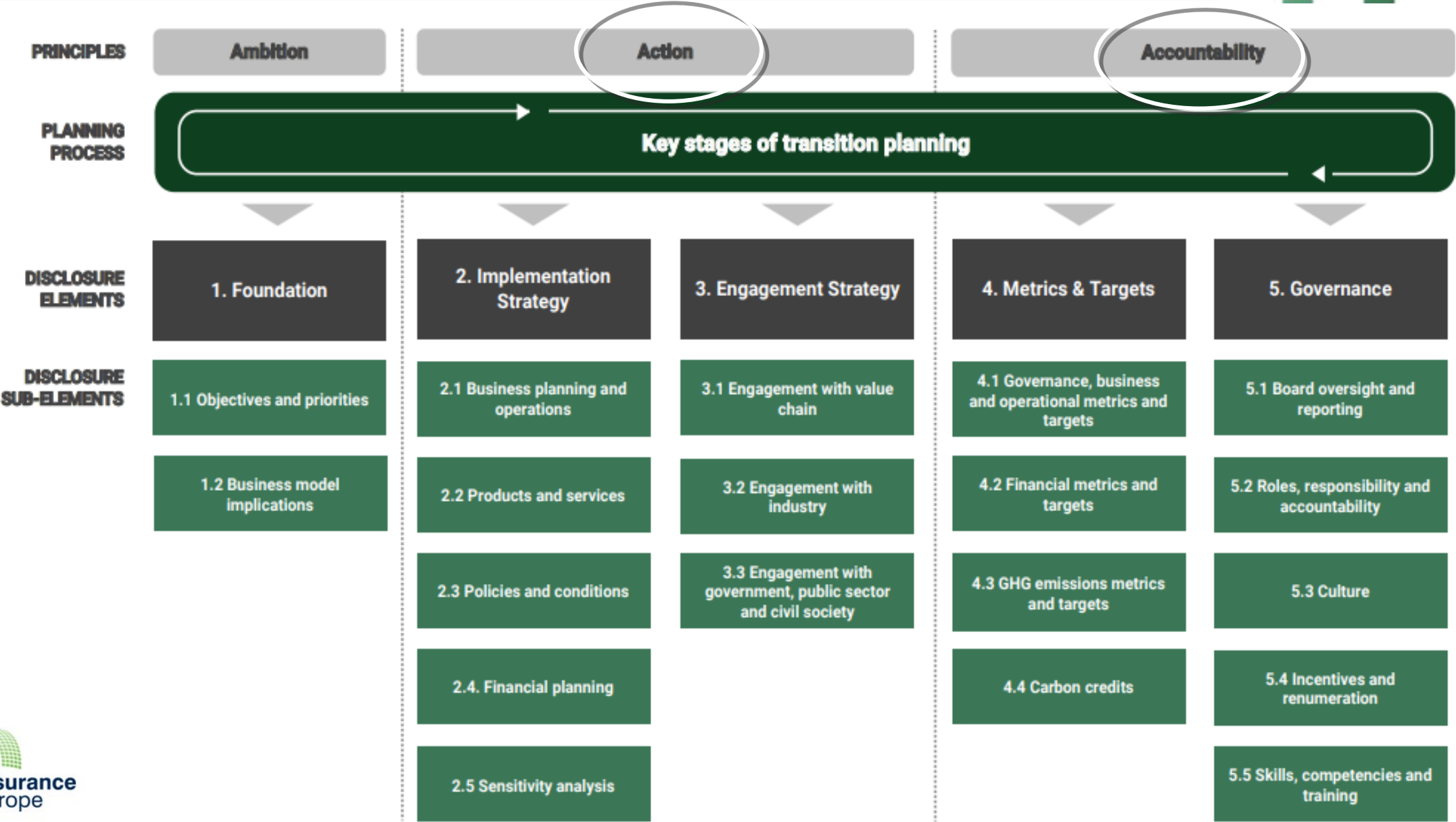
These plans should encompass :

- 1 High-level ambitions for addressing climate change.
- 2 GHG reduction targets (including net-zero commitments).
- 3 Short-, medium-, and long-term actions.
- 4 Financial planning.
- 5 Governance mechanisms.
- 6 Measures to address risks and opportunities for the environment and stakeholders.

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Figure: The TPT Disclosure Framework

TPT



ACTION: Recognized decarbonization levers for insurers

Core Objectives:

1	Policies and conditions for priority sectors and activities	<ul style="list-style-type: none">• Implement policies for insurability of high impact sectors (e.g., gas)• Establish guidelines on insurability for high-risk sectors impacted by climate change (e.g., coastal)• Introduce policies to incentivise climate-positive behaviour, for instance with motor insurance rewarding low-GHG emissions driving patterns (e.g., lower mileage and slower speed)• Set standards for ongoing business engagement, ensuring alignment with climate objectives.
2	Claims management	<ul style="list-style-type: none">• Increase the proportion of claims management suppliers (e.g., suppliers that assess damages) with approved Science Based Targets or credible transition plans;• Enhance efficiency of processes of suppliers (e.g., using 3D scanning and other advances to create image of damage on site)• Encourage the use of repair over replace in non-safety critical repairs.
3	Changing products and services	<ul style="list-style-type: none">• Underwrite and offer insurance/reinsurance for low/near-zero carbon infrastructure, technologies, services, and nature-based solutions;• Develop models that account for climate risk in the pricing and underwriting of policies• Support nature-based flood and weather defences to help prevention as a claims management strategy.
4	Engagement with clients and customers	<ul style="list-style-type: none">• Share climate-risk data with customers to help them understand their climate-risk and opportunities.

ACCOUNTABILITY: Insurers: Financial metrics and targets



Core Objectives

- Share of clients in an insurer's portfolio who have set their own SBTs.
- Share of clients in an insurer's portfolio who have transition plans.
- Measure number of **clients covered by the engagement.**
- Number of client engagements where the clients **net zero relevant information was provided.**
- Members should report clients' carbon reduction goals, including **deadlines** and contingency plans for unmet targets.
- Summarize **property business risk from weather catastrophes** by jurisdiction.
- **Number of clients** included in climate-related engagement activities.
- Number of products and services that are **aligned to the net zero transition plan.**
- Percentage **of climate-related engagements** leading to positive changes.
- Exposure to carbon-related assets by sector
- **Transition risk heatmap** by sector/technology/geography.
- **Physical risk heatmap** by sector/geography.
- Exposure to **climate-related opportunities.**
- **Carbon return metric** (e.g. avoided emissions).
- Number of clients included in **climate-related engagement activities.**
- **Count portfolios subject to key policies** on coal, oil, gas, and deforestation.
- **Collaboration activities** with insurance sector policy setters to address shared challenges.
- **Number of function specific training sessions** including, underwriters, investment/intermediary managers.

ACCOUNTABILITY: Insurers GHG metrics and targets

TPT

Core Objectives:

GHG metrics should include :

- emissions associated **with commercial lines portfolios**, including, but not limited to property, liability/casualty, commercial motor, marine, aviation, agriculture, trade credit, engineering lines.
- emissions associated **with personal motor portfolios** (private-use vehicles).
- emissions from other sources in line **with developing insurance associated emission frameworks**.
- percentage of residual emissions **compensated for using high-quality carbon credits by type**.

Optional Emissions and Scope 3 Considerations

- GHG emissions associated with staff working from home and business-related hotel stays are **optional under SBTi**. The roadmap does not quantify emissions reductions for each action, primarily because they affect indirect emissions not directly measured. The Scope 3 emissions calculations do not account for the indirect impacts of regulation and policy.

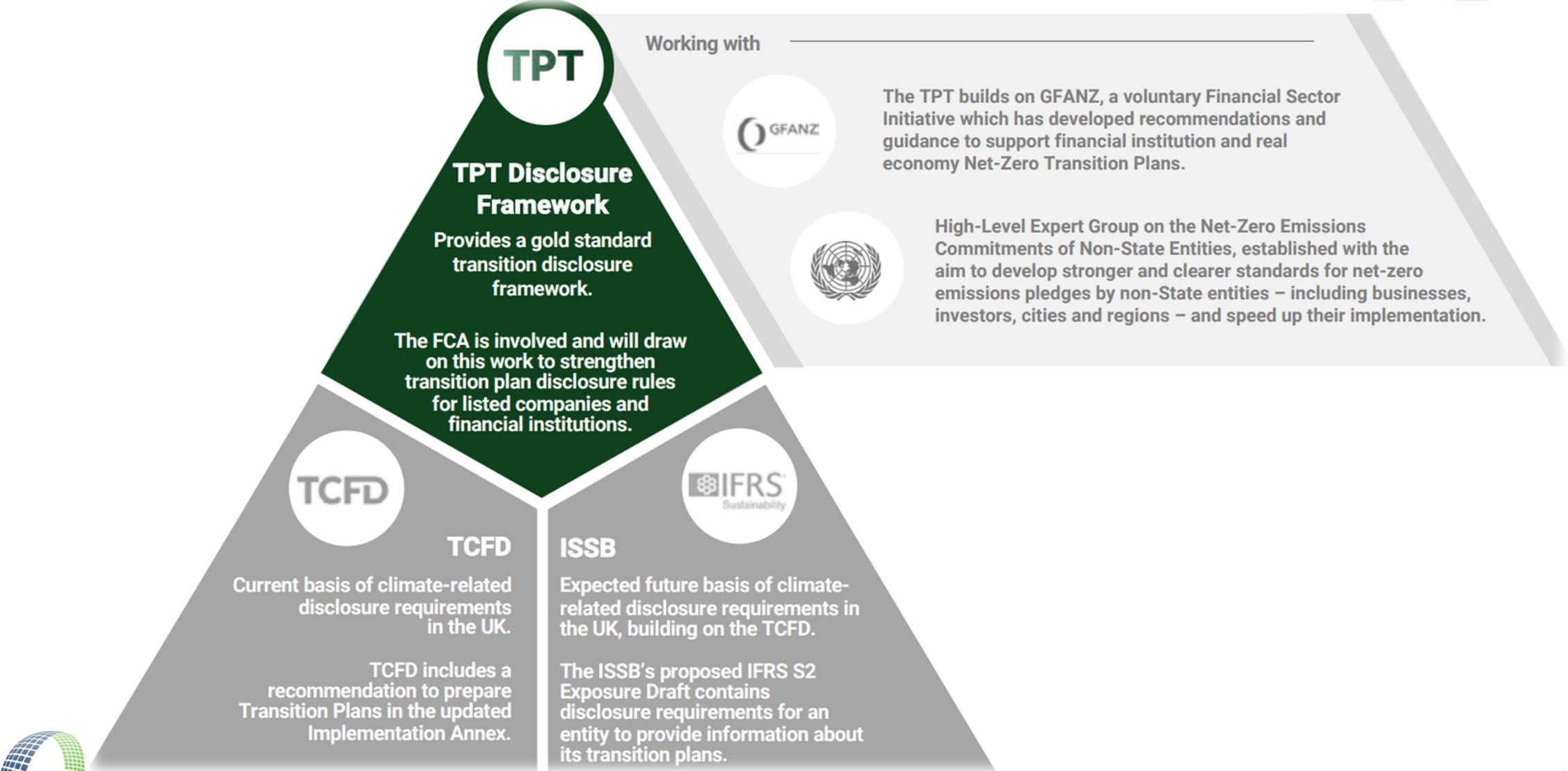
Carbon Offsetting

- To achieve net-zero, a projected 10% of residual emissions **will be offset using carbon credits, following the SBTi Corporate Net-Zero Standard**. While the organization doesn't have immediate plans for offsetting, their suppliers may do so on their behalf, with disclosure in annual progress reports.

Emissions Intensity Metrics

- The plan **doesn't currently include GHG emissions intensity metrics** per unit of production or sales, given the unique nature of regulatory organizations. However, they will consider appropriate emissions intensity metrics in future revisions.

Figure: Relationship to other standards





AXA Climate Transition Plan

Challenges & Progress

Jean-Baptiste de Verthamon
Head of Group Sustainability Reporting
AXA Group

Presentation to OpIARCC – 23 November 2023

Does AXA have transition plan?

In 2022 Annual Report, there are only 3 occurrences of “transition plan”

- ➔ *“As an asset owner, AXA Group has stopped investing in new upstream oil greenfield exploration projects unless they are carried out by companies with the most far-reaching and credible **transition plans**.”*
- ➔ *“Since 2021, AXA Group no longer underwrites new upstream oil exploration projects (greenfield). Exemptions may be granted to companies with the most far-reaching and credible **transition plans**, based on a case-by-case review. Restrictions will take effect with a 12-month grace period ending on January 1st, 2024.”*
- ➔ *“the Glasgow Financial Alliance for Net Zero (GFANZ) is a coalition of non-state actors committed to align with the goal of Net-Zero by 2050. AXA Group is a member of the GFANZ Real Economy **Transition Plan** Working Group.”*

Climate is on the roadmap

“Act for human progress by protecting what matters”



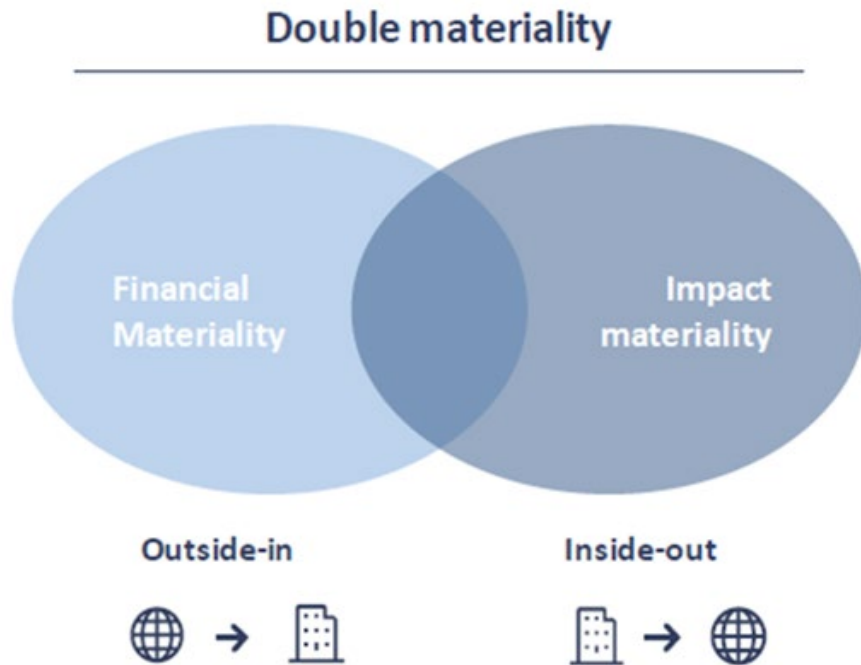
Implementing the sustainability strategy on climate

Following the recommendations of the TCFD

- ➔ Dedicated **governance** framework in place to develop and implement sustainability strategy
- ➔ Initial **risk assessment** to identify main sustainability risks
- ➔ Development of **policies**
- ➔ Definition of the **action plans**
- ➔ Definition of **indicators** to track progress in reducing the adverse impacts
- ➔ Integration ESG criteria in the **compensation** packages

Sustainability risks related to climate change

Supported by a double-materiality assessment



- ➔ AXA's impact on climate change as an investor
- ➔ Impact of climate change on AXA as an investor
- ➔ AXA's impact on climate change as an insurer
- ➔ Impact of climate change on AXA Group as an insurer
- ➔ AXA's own operations' impact on climate change
- ➔ Impact of climate change on AXA's own operations

Net Zero Strategy for investment

Commitment to transitioning its investment portfolio to net-zero GHG emissions by 2050

- ➔ AXA's impact on climate change as an investor approaches, including
 - ➔ Carbon footprint of investments (reduce the carbon footprint of its General Account assets by 50% by 2030 (vs 2019 and using intensity normalized per Enterprise Value))
 - ➔ Implied Temperature Rise (Corporate) and Warming Potential (Sovereign)
 - ➔ Sector guidelines & investment restrictions
 - ➔ Green investments
 - ➔ Active stewardship & shareholder engagement (engagement with 20 listed companies among these largest contributors.)
- ➔ Impact of climate change on AXA as an investor
 - ➔ Scenario analysis and climate stress tests
 - ➔ Climate Value at Risk

Net Zero Strategy for underwriting

Commitment to transitioning insurance portfolios to net zero GHG emissions by 2050

➔ AXA's impact on climate change as an insurer

- ➔ Underwriting restrictions
- ➔ Engagement with clients and partners on the transition (top 200 largest commercial clients globally)
- ➔ Development of new products and solutions enabling insurance innovation for a greener economy products and business (to increase our green and sustainable claims by 10%)
- ➔ Insurance-associated emissions (IAE) (Group intermediate targets for the most material commercial and retail motor portfolios of AXA, by 2030:
 - *a reduction in the carbon intensity (IAE*/vehicle) of the personal motor portfolio in selected geographies by 20%, using the baseline year 2019.*
 - *a reduction in the absolute carbon emissions (IAE) of AXA's largest commercial insurance clients by 30%, using the baseline year 2021, and*
 - *a reduction in the the carbon intensity (IAE/GWP) of all other corporate clients within AXA's largest markets by 20%, using the baseline year 2021*

➔ Impact of climate change on AXA Group as an insurer

- ➔ Scenario analysis & climate stress tests

Net Zero Strategy for own operations

New intermediate targets under development

- ➔ AXA's own operations' impact on climate change
 - ➔ Energy consumption
 - ➔ Carbon footprint of own operations (heating, cooling, IT equipment and data centers, car fleet and business travel)
 - ➔ Carbon offsetting
- ➔ Impact of climate change on AXA's own operations
 - ➔ Operational resilience to physical risks

Complying with ESRS disclosure requirements on Transition Plans

Description of the Transition Plan for climate change mitigation

- 1) Explanation of how the targets are **compatible** with the limiting of global warming to 1.5°C in line with the Paris Agreement
- 2) Explanation of the decarbonization **levers** identified, and **key actions** planned
- 3) Explanation and quantification of the **investments and funding** supporting the implementation of the transition plan, with a reference to taxonomy-aligned CapEx
- 4) Qualitative assessment of the potential **locked-in GHG emissions** from key assets and products, with an explanation of the plans to manage its GHG-intensive and energy intensive assets and products
- 5) Explanation of the objectives and plans for **aligning its activities with criteria of the Taxonomy Regulation**
- 6) Significant **CapEx amount invested** during the period related to **coal, oil and gas**-related economic activities
- 7) Disclose whether or not the undertaking is excluded from the **EU Paris-aligned Benchmarks**
- 8) Explanation of how the transition plan is embedded in and aligned with the **overall business strategy and financial planning**
- 9) Disclose whether the transition plan is **approved** by the administrative, management and supervisory body
- 10) Explanation of the **progress** in implementing the transition plan

Challenges with the implementation of Climate Transition Plan

- Definitions & Methodologies
- Scope coverage
- Data quality & completeness
- Volatility
- Level of control
- Managing expectations
- Go beyond climate-change mitigation

PROTECTING WHAT MATTERS.

**Insurance Europe
Sustainability Technical Workshop**
Brussels, 23 November 2023

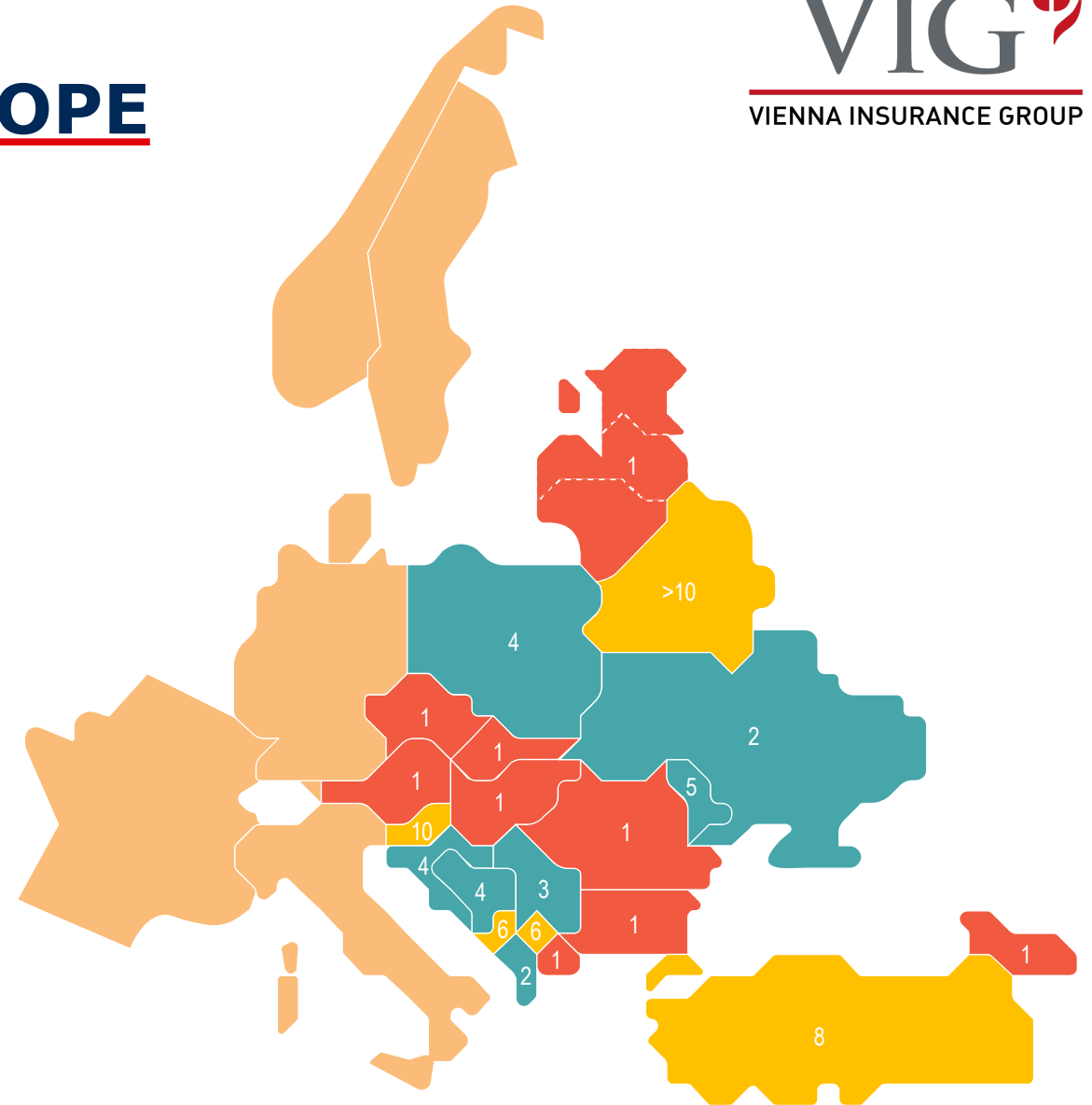


We operate around 50 companies in 30 countries (EU & NON-EU)







OUR GEOGRAPHIC FOCUS IS CENTRAL AND EASTERN EUROPE

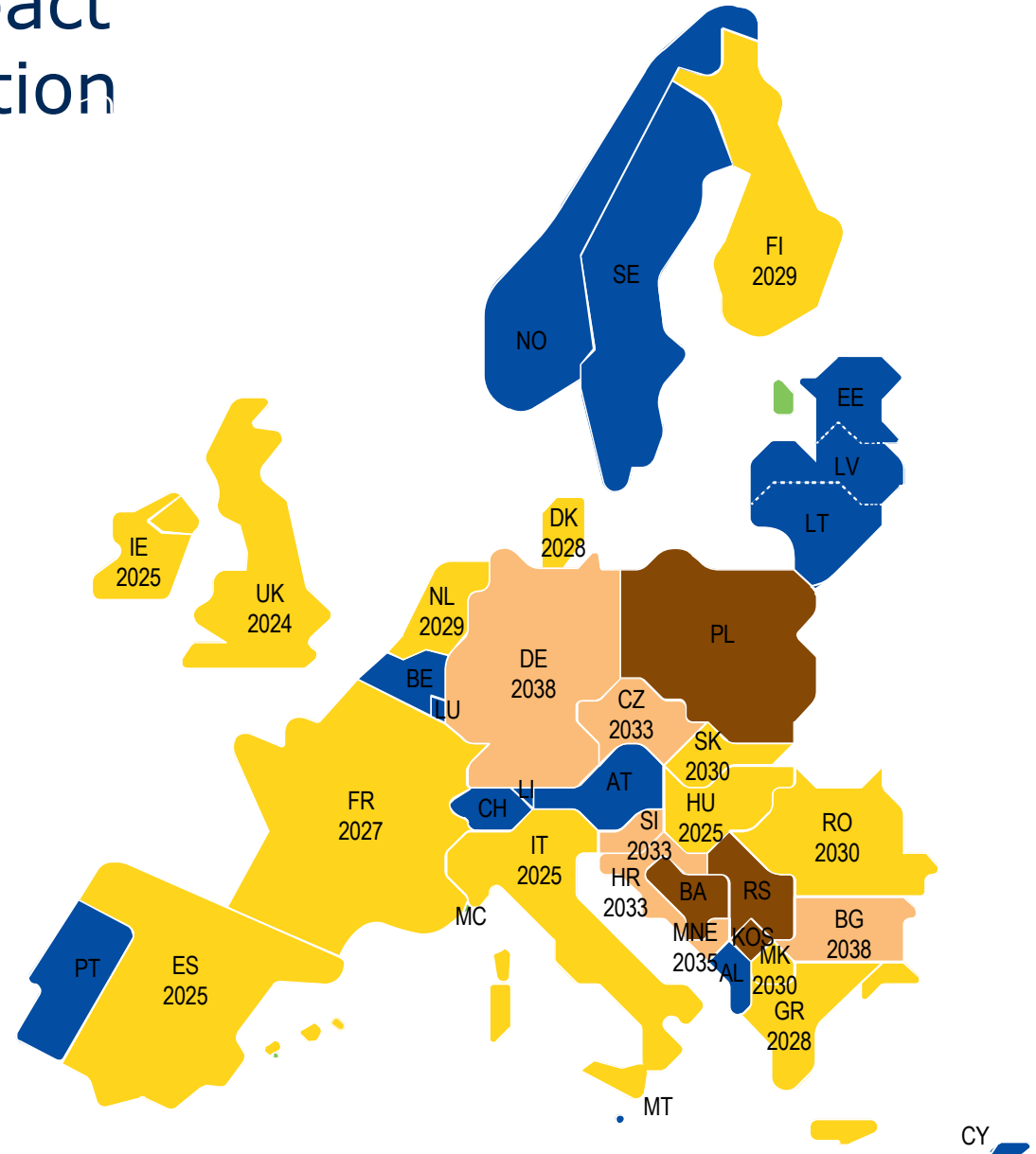
Market positions of VIG



Status: Q4/2022 (exception Ukraine: Status Q3/2022)

Public policy decisions impact the speed of corporate transition

-  No coal in the electricity mix
-  Coal exit before 2030
-  Coal exit after 2030
-  No coal exit planned

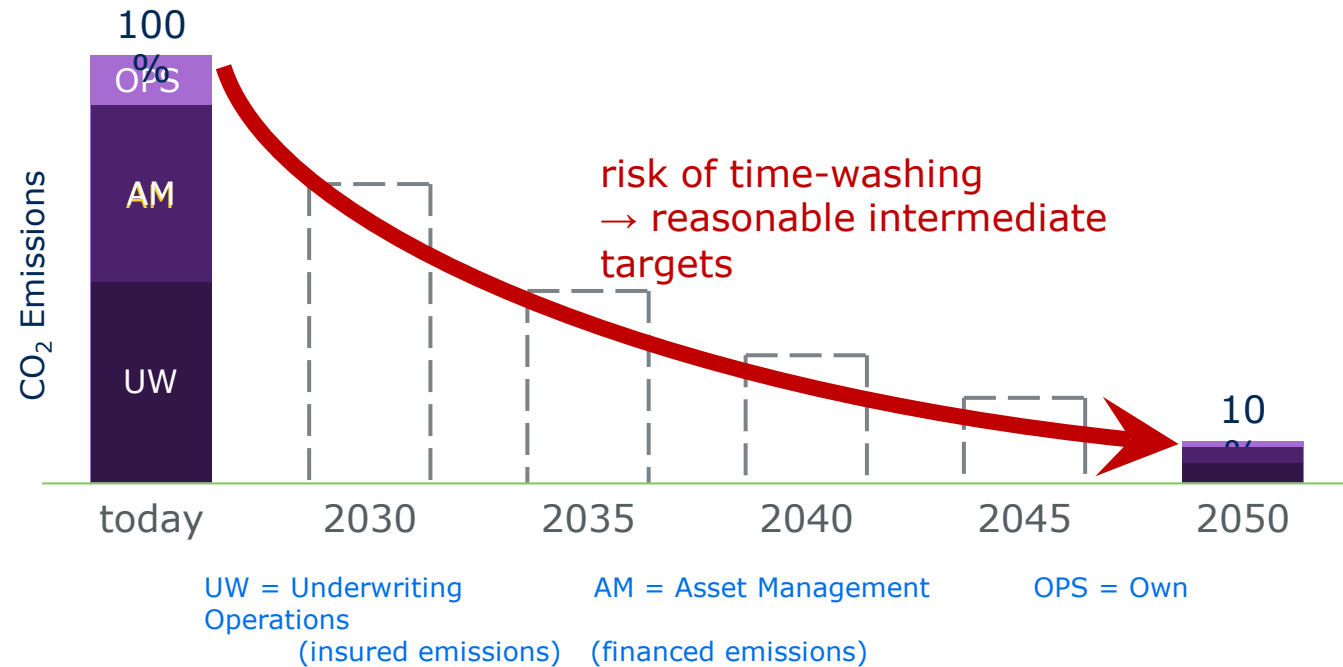
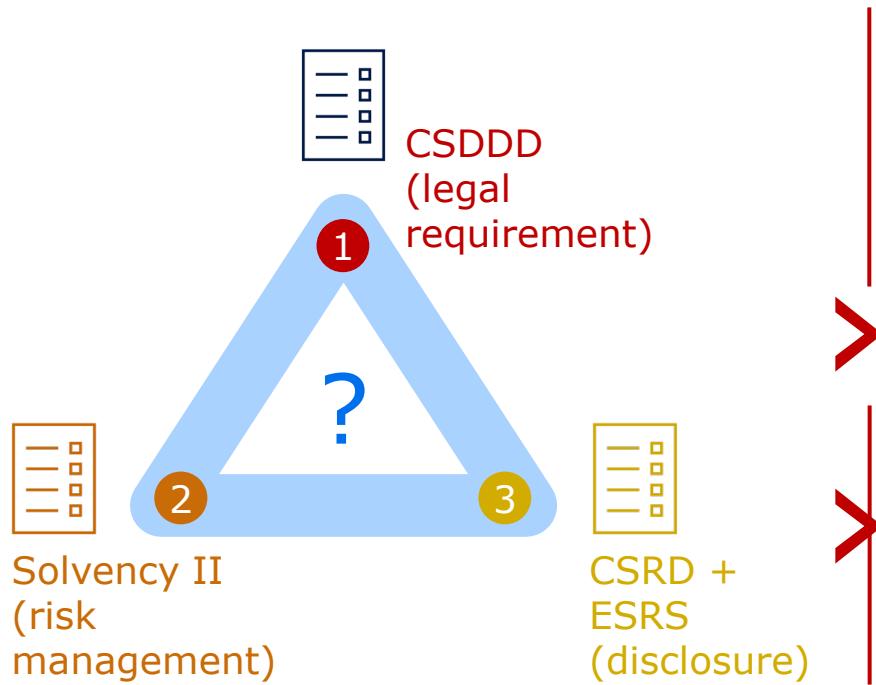


Status as of September 2023

Source: <https://beyondfossilfuels.org/europes-coal-exit/>

The regulatory **triangle of transition plans** creates uncertainty about different versions

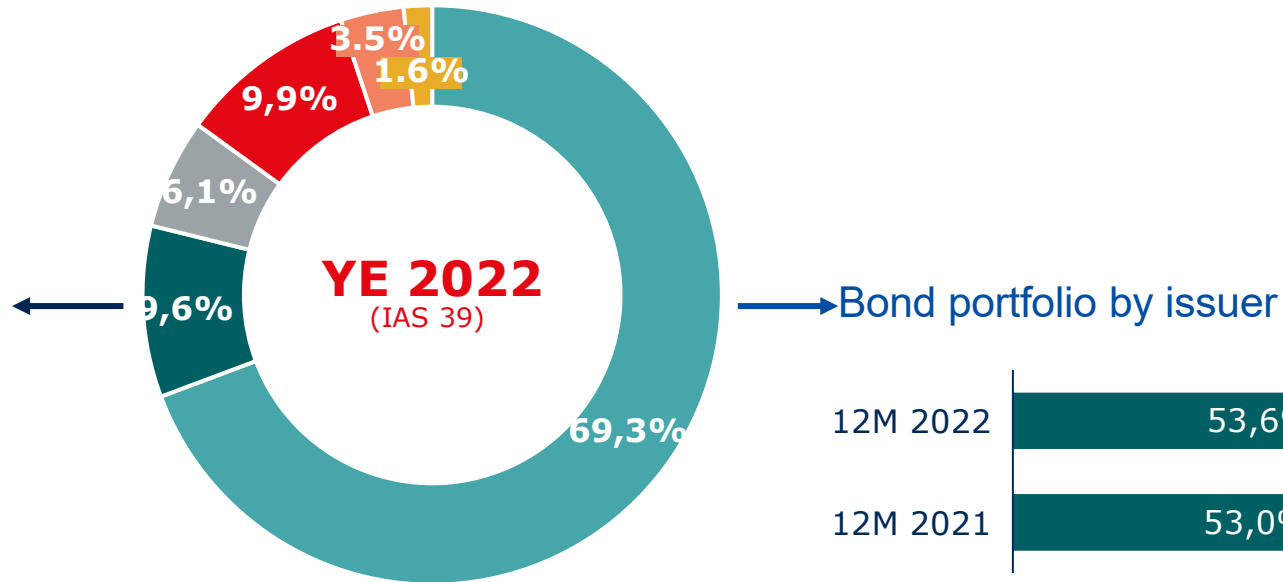
SIMPLIFIED ILLUSTRATION



Financed emissions: Government Bonds dominate our Investment split

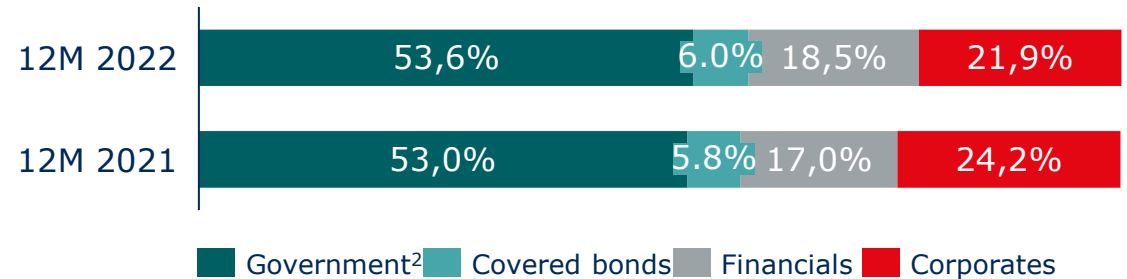


VIG apartment building is **Austria's first EU Taxonomy-compliant historic building**
November 2022



- Bonds
- Loans
- Equities
- Property
- Deposits and Cash
- Affiliated Companies

Bond portfolio by issuer



¹ Based on second-best rating ² Government bonds also include bonds issued by supranational organisations, government agencies, federal or constituent states and municipalities

VIG 

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Protecting what matters.

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Disclaimer

Although this report was prepared with the utmost care, such condensed information may leave an unclear or incomplete impression. The contents do not constitute legal advice, are not intended to be a substitute for legal advice and should not be relied upon as such. This report contains forward-looking statements based on current estimates and information. The Group is not obliged to update such forward-looking statements or adapt them in view of future events or developments.

Sustainable Finance Technical Workshop

Objectives, Agenda and Areas for discussion

Brussels, 23 November 2023

Hybrid meeting



Agenda

1. Presentations from Insurance Europe

- Background: Sustainable Finance overview
- Background: Transition plans

2. Presentations from companies

- Axa – Jean-Baptiste de Verthamon
- VIG - Dieter Pscheidl

3. Discussion

- GHG Scope 1 and 2
- GHG Scope 3 reporting and transition plan targets
- Scope 3 measurement
- Transition plans
- Transition financing

4. Potential next steps

Objectives of the workshop:

1

Develop a common understanding the **sustainable finance landscape, transition plans, scope 1, 2 and 3 reporting and measurement.**

2

Discuss **issues relating** to these topics.

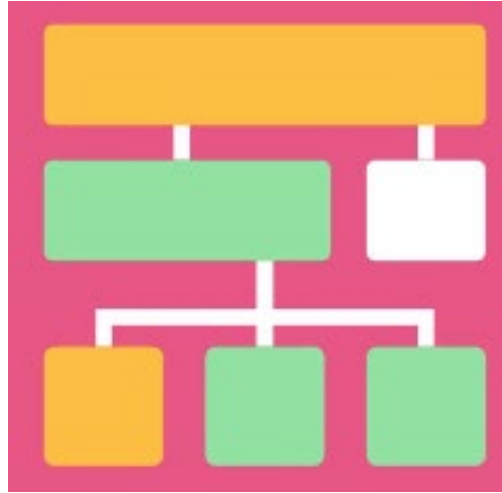
3

Identify how the emerging views may **impact Insurance Europe positions.**

4

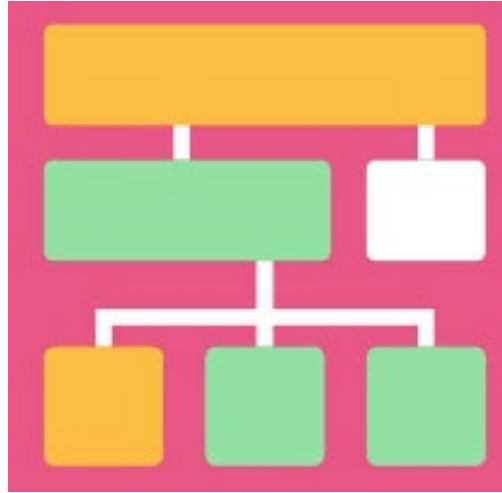
Consider potential **next steps.**

GHG Scope 1 and 2 reporting and targets



- We are not aware of **concerns about scope 1 and scope 2 reporting and reduction targets**. Are there issues to discuss and address?
- Which are the **implications for Insurance Europe positions** on Scope 1 and 2 reporting and transition plan targets?

GHG Scope 3 reporting and targets



- How might we need to **split Scope 3 into different types** because the level of control the insurer can vary greatly?
- How might these splits **impact transition plan target setting**?
- Which are the **implications for Insurance Europe positions** on Scope 3 reporting and transition plan targets?

slido



Can insurers “control” and actively reduce some/all

Ⓜ Start presenting to display the poll results on this slide.

Scope 3 measurement

Measuring Scope 3 financed emissions:

- We are not aware of **concerns about use of PCAF standards**. Are there issues to discuss and address?

Measuring Scope 3 insured emissions:

- What issues are there with how the latest PCAF methodology measures scope 3 **for motor and for commercial lines**?

Implications:

- Which are the **implications for Insurance Europe positions** on measurement of Scope 3 in general and PCAF in particular?

slido



Do we have clear views on product categories for wh

Ⓜ Start presenting to display the poll results on this slide.

Transition plans

What would an insurance transition plan look like ?



According to the ESRS the E1-1 should include the following information.

- 1** **Explanation** of how GHG emission targets align with the 1.5°C Paris Agreement goal.
- 2** Details on **decarbonization** strategies, actions, and technology adoption.
- 3** Insight into investments **supporting** the plan.
- 4** Assessment of potential GHG emissions from **key assets and products.**
- 5** **Progress** in implementing the transition plan, if they have one.
- 6** Alignment with **EU Taxonomy Regulation**, if applicable.
- 7** Status regarding EU Paris-aligned **Benchmarks.**

Transition financing

- How can/should transition financing **work in practice?**
 - What about **other transition financing** e.g equity investments?

- What role could the following play in **helping to define suitable transition investments?**
 - SFDR, Taxonomy and Transition plans?

- Which are the **implications for Insurance Europe positions** on transition financing?

slido



How can financing the transition to

Ⓜ Start presenting to display the poll results on this slide.

Potential next steps

1. Insurance Europe position on GHG targets in Transition plans?
2. Educational materials on GHG scope 3 emissions / transition plans ?
3. Recommendations for next Commission on sustainable finance ?
4. Other ?



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