

Les exigences prudentielles de durabilité sous Solvabilité II

05-02-2025 | Séminaire CFDD - *Financer la transition climatique : les fonds de pension comme leviers*

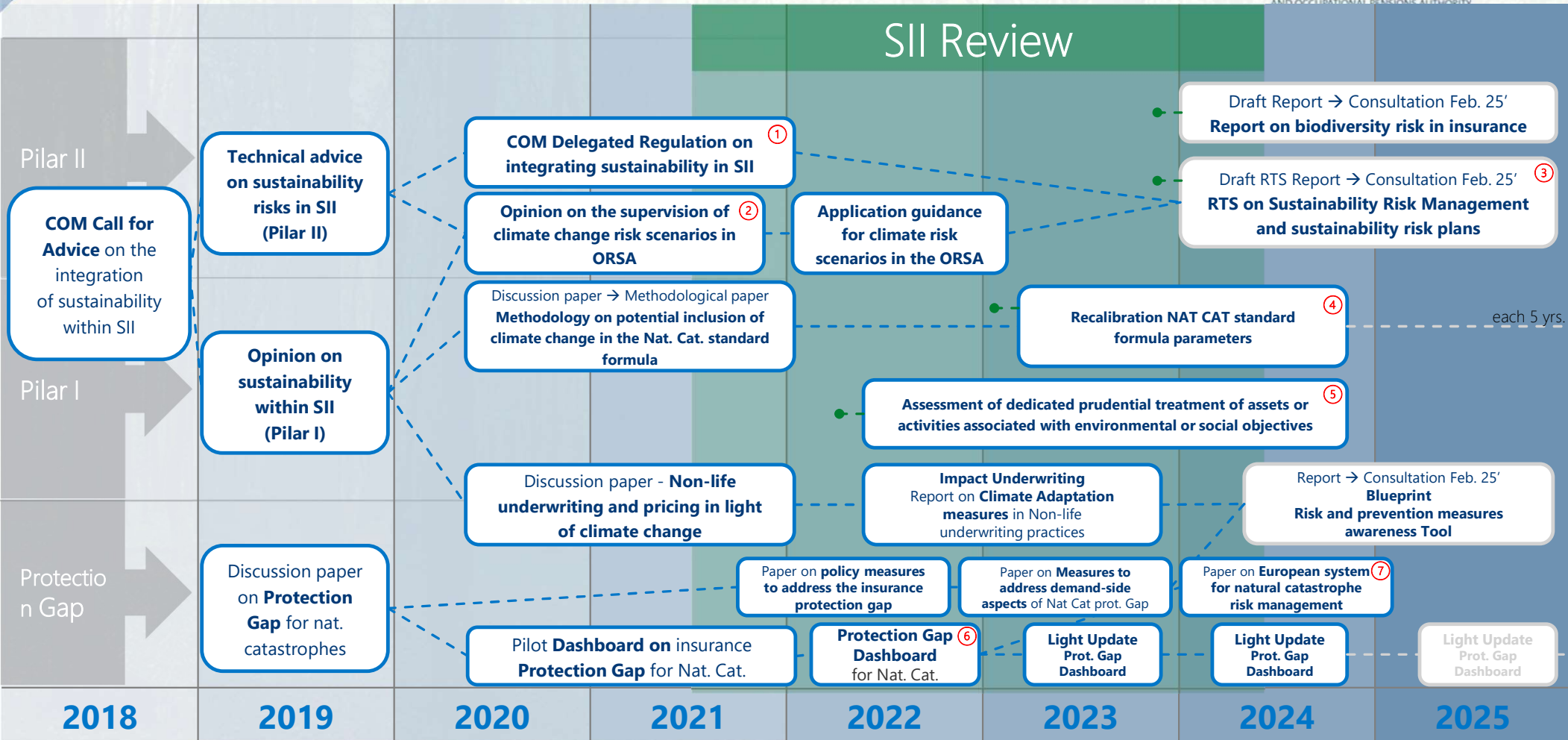
Jérôme Bourtembourg

European initiatives

EIOPA Sustainable Finance policy initiatives



SII Review



 Under development

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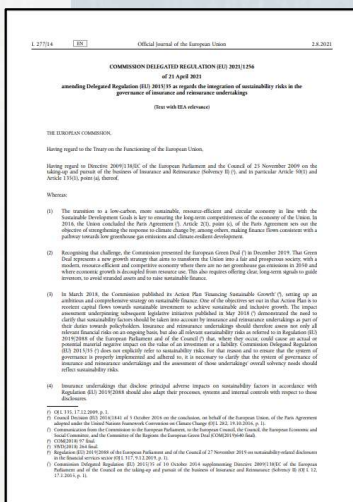
Sustainability risks in Solvency II - **Pilar II**



① Delegated Regulation on integrating sustainability in Solvency II

Main requirements:

- ◆ the integration of **sustainability risk assessment in (re)insurers governance**:
 - ◆ **risk management**,
 - ◆ **actuarial function** and
 - ◆ **remuneration policy** (Art. 260, 272);
- ◆ the inclusion of sustainability in the **prudent person principle** (Art. 275a);
- ◆ the fact that sustainability risks, as identified by the risk management function, shall form part of the **ORSA** (Art. 269(1a)).
- ◆ Applicable as from 2 August 2022



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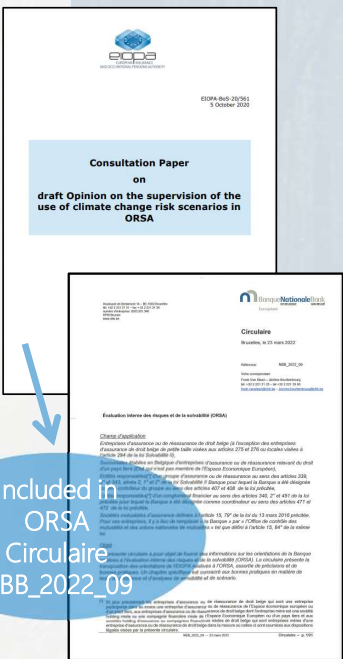
Sustainability risks in Solvency II - **Pilar II**



② Opinion on the supervision of climate change risk scenarios in ORSA

Main Conclusions: Supervisors should expect undertakings in their ORSA to:

- ◆ **assess climate change risks**, both in the short term and in the long term;
 - ◇ covering both **transition** and **physical risks**.
 - ◇ the Opinion contains a breakdown and definitions of transition and physical risks as well as a mapping of these risk drivers to traditional prudential risk categories;
- ◆ **identify material climate change risks** for their business through a combination of qualitative and quantitative analyses;
- ◆ **subject material climate change risks to at least two long-term climate scenarios**, where appropriate:
 - ◇ a climate change risk scenario where the global temperature increase remains below 2°C; and
 - ◇ a climate change risk scenario where the global temperature increase exceeds 2°C;
- ◆ **Allowing for flexibility:**
 - ◇ **long-term scenarios do not have to be updated every year** [→ each 3 years for NBB]



Included in
ORSA
Circulaire
NBB_2022_09

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Sustainability risks in Solvency II - **Pilar II**

③ Consultation Paper on RTS on Sustainability risk management including sustainability risk plans

Work in progress



- ◆ The new SII Directive requires EIOPA to **specify the content of 'specific plans' to monitor and address financial risks from sustainability factors** (i.e. sustainability risk plans).
- ◆ The plans should:
 - ◇ **fit in existing tools** (i.e. ORSA)
 - ◇ provide a view on **undertakings' material sustainability risks**
 - ◇ include **actions to mitigate these risks**, consistent with the undertakings' transition efforts.
- ◆ The draft RTS builds on the SII Review, previous work of EIOPA, the draft EBA GL, transition plans required under CSDDD and the CSRD disclosure requirements.
- ◆ KEY proposals of the RTS:
 - ◇ **Materiality assessment** (Art. 3)
 - ◇ Financial risk assessment (Art. 4)
 - ◇ **Metrics** (Art. 6)
 - ◇ Quantifiable risk-based **targets** (Art. 7)
 - ◇ **Actions** (Art. 8)
 - ◇ Supervision of sustainability risk plan (Art. 9)
 - ◇ Public disclosure (Art. 10)
 - ◇ **Proportionality** measures for small and non-complex undertakings and captives (Art. 11)

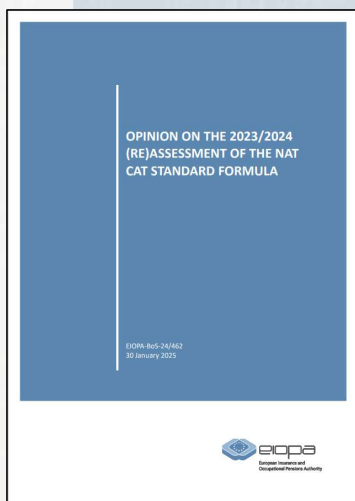
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Sustainability risks in Solvency II - **Pilar I**



④ Recalibration of the NAT CAT standard formula parameters

Work in progress



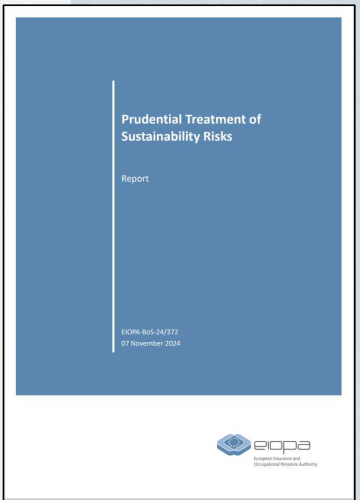
- ◆ EIOPA **recalibrated the Nat Cat risk parameters** of the standard formula to update them **with the latest data** and to **explicitly consider the impact of climate change**.
- ◆ Following the SII review, this **recalibration** exercise will be performed **every 5 years**.
- ◆ The recalibration was performed with the **data and models form the Cat Risk Expert Network**.
- ◆ The new parameters reflects the evolution of the risk in Europe, particularly for **Flood risk**.
- ◆ **For Belgium**: a parameter for **subsidence risk** is propose to be added, the **Flood** and **Hail** parameters were also recalibrated.

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Sustainability risks in Solvency II - **Pillar I**

5 Report on prudential treatment of sustainability risks

Main Elements



Assets and Climate Change

- Focus on Transition risk exposure of stocks, bonds, and property
- Pillar I of Solvency II

Underwriting and Climate Change Adaptation

- Focus on Climate-related risk prevention in non-life insurance
- Pillar I of Solvency II

Social Risks and Objectives from a Prudential Perspective

- Focus on role of social objectives for prudential risks
- Pillar II/III of Solvency II

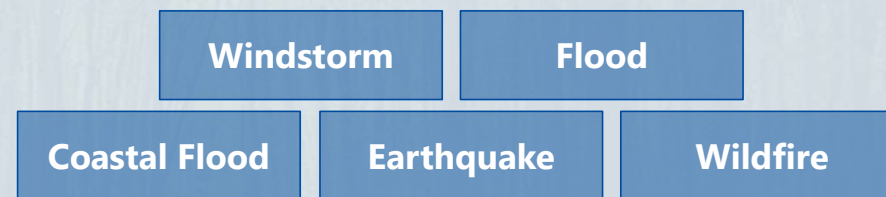
- ◆ **EIOPA advice to introduce a supplementary capital charge for fossil fuel-related stocks and bonds** and to pay attention to wider considerations when assessing next steps, such as:
 - ◇ The need for **reciprocity with the banking sector**;
 - ◇ Introduction of capital requirements may **hinder insurers' ability to support the transition**;
 - ◇ **Complexity might outweigh the benefits** given limited impact;
 - ◇ Insufficient evidence on the incorporation of **sustainability risks into the Credit Rating Agencies** methodologies, but **evolution may create risk of double counting**.

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Sustainability risks in Solvency II - **Protection Gap**

⑥ Insurance protection gap Dashboard for natural catastrophes

- ◆ The dashboard shows the **insurance protection gap** for natural catastrophes for five different perils in the 30 EEA countries



- ◆ It provides a **current view** and an **historical view**
 - ◇ Greece and Italy are the countries with the highest current insurance protection gap score
 - ◇ Italy Earthquake, Germany Flood and Italy Flood show the highest uninsured losses (~45% of the uninsured losses in Europe)
- ◆ It also provides a view on each **country insurance scheme**



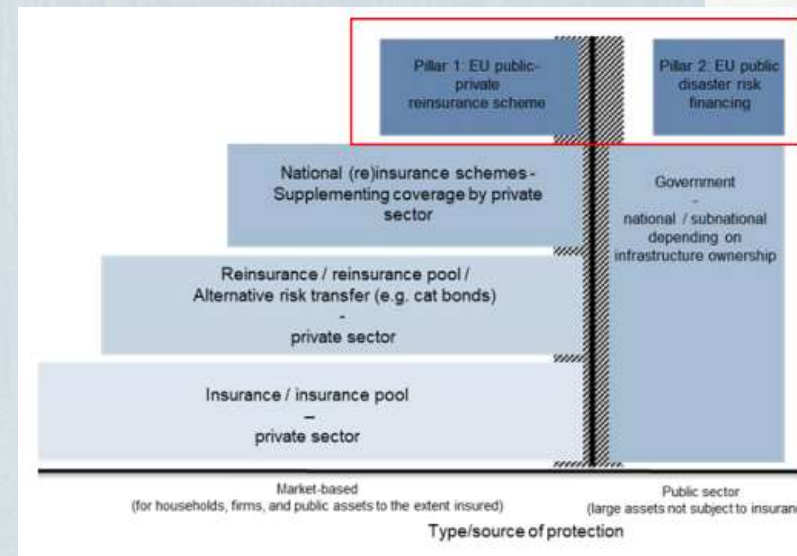
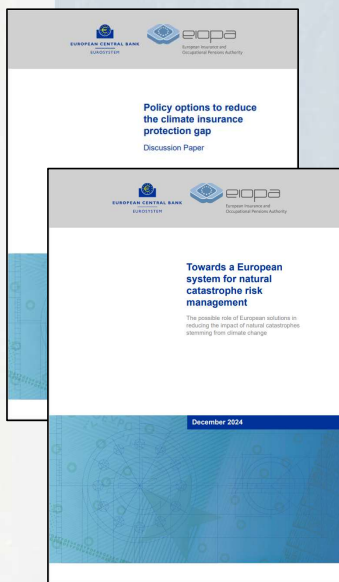
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Sustainability risks in Solvency II - **Protection Gap**

⑦ ECB-EIOPA Paper on “Policy options to reduce the climate insurance protection gap” and “Towards a European system for natural catastrophe risk management”

Key messages

- ◆ As natural disasters become both more frequent and more severe with global warming, **insurance costs are expected to rise**. Some **insurers may reduce risk coverage or stop providing certain types of catastrophe insurance**, which would widen the insurance protection gap further.
- ◆ **The lack of climate catastrophe insurance can affect the economy and financial stability, If losses are not covered by insurance**. The government's position may be weakened if they need to provide relief to cover uninsured losses.
- ◆ The Paper sets out a **ladder of possible policy actions**
- ◆ At EU-level a solution composed of two pillars is proposed:
 1. An **EU public-private reinsurance scheme** and
 2. An **EU fund for public disaster financing**.



Merci !
