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Sustainable Finance

The Actuarial Association of Europe (AAE) is concerned over sustainability risks and the slow response of the international community in this area. The AAE believes that, to be able to make more sustainable decisions in everyday business, the insurance and pension sectors need to adapt their appetites to include more sustainable industries and to be able to monitor their risk profiles. This would require a lot of reporting from both financial markets and companies representing different industries, as both the asset side and the underwriting would be key in deciding what risks to take on.

The High Level Expert group on Sustainable Finance produced its final report in 2018, with the ambition of promoting a more sustainable, stable global financial system. This includes an action plan which has been followed up with a set of detailed proposals. The inclusion of environmental, social and governance (ESG) factors in investment decision-making processes, objectives and advice are a key part of these proposals.

The AAE believes that, to be able to make more sustainable decisions in everyday business, the insurance and pension sectors need to adapt their appetites to include more sustainable industries and to be able to monitor their risk profiles. There are already some examples and progress in the movement to more sustainable ways of business:

- The risk based idea: If an insurer does not believe in a positive development in some particular risk (e.g. coal), the company might want to make sure to minimize its exposure to that risk. This will cause actions in both ways, in underwriting and in investing (the latter also for a pension fund).
- The data and reporting: For any insurer to be able to understand risks and set its risk appetite more data needs to flow to insurers. Additionally it is not only a one way street with insurers wanting more data – in their normal process of claims handling, insurers get good hands on experience of emerging risks and therefore insurers can help societies in understanding where action is needed.
- ”insure coal no more” – this rule seems to be something that some insurers have been starting to follow.
- Inclusion of KPIs which monitor sustainability in the non-financial reporting of some insurers.

The Actuarial Association of Europe (AAE) was established in 1978 under the name Groupe Consultatif to represent actuarial associations in Europe. Its primary purpose is to provide advice and opinions to the various organisations of the European Union - the Commission, the Council of Ministers, the European Parliament, the European Supervisors and their committees – on actuarial issues in European legislation. The AAE currently has 36 member associations in 35 European countries, representing over 23,000 actuaries. Advice and comments provided by the AAE on behalf of the European actuarial profession are totally independent of industry interests. The Actuarial Association of Europe is registered in the EU Transparency Register under number 550855911144-54

- New liability risks. There are already threats, mainly in the US, that entities such as coal plants may be made to pay for the damage caused by climate change. Insurers could end up paying for something that they have not been able to take into account in their underwriting and reserving.
- North American actuaries' climate index. http://actuariesclimateindex.org/home/ is a promising example of how actuaries can make climate change more understandable.
- As the understanding of a particular risk develops, this might affect insurance pricing in two ways, i.e. there will be a higher price because of the better understanding of what might happen in the worst case AND there might be less insurers underwriting that risk (less offering, less competition). This effect might encourage companies to move their business in a more sustainable direction.

AAE offers its support in moving these proposals forward, and notes the upcoming request from the Commission to EIOPA to provide an opinion on the impact of prudential rules for insurance companies on sustainable investments, with a particular focus on climate change mitigation, as an upcoming opportunity to input.

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