

SUSTAINABLE FINANCE

The Actuarial Association of Europe (AAE) sees sustainability risks and their long-term impact on the operational environment as major risks for insurers and pension funds. Actuaries also feel that insurers can offer substantial help for societies in mitigation and adaptation through the pooling of risks and as investors. Actuaries' best contribution to a transition to a more sustainable future comes from their strong commitment to risk-based thinking leading institutions into gradually moving to more sustainable practices. The AAE welcomes current work on a common taxonomy, and increased reporting from both financial markets and companies representing different industries.

The AAE itself is currently working on the concept of the so-called European Actuaries' Climate Index (EurACI). Following similar already existing models of the North American and Australian indices the EurACI will communicate the consequences of climate change to our societies in showing how extremal events are becoming more frequent and severe over time.

The AAE has started its expert work to clarify how climate change alters the non-life insurance business and the models used for pricing, underwriting and best estimates. AAE has also started to build a wider understanding as to how the insurance and pensions sector should prepare for long term societal changes emerging from sustainability. The AAE plans to investigate:

- **What is the basic language for sustainability related topics?** To prevent sustainability from having the potential to only be a 'buzz word', it's important to clarify accurately the terminology used. EIOPA and the other European financial authorities have an important role to play in defining the proper language.
- **Use of taxonomy and data** will be an important enabler for any wider development in sustainability but also to control the risks inherent in the process. Investment and underwriting decision making will reflect new factors and the transition from old to new decision making. Proper data and transparent supervisory reporting will be important elements in ensuring that sustainability related actions become a greater part of strategic and everyday activity for the insurance and pension sectors.
- **What are the basic scenarios** for the development of sustainability in the EU? The AAE considers that, reflecting the importance of sustainability across the spectrum of industries in the EU, some holistic studies should be made covering different development paths corresponding to the pace of implementation of sustainability decisions and actions taken

by the financial industry. This would obviously inform the discussion around the topics but also help actuaries to promote better understanding in the insurance and pension sectors and better decision making.

- **How to renew actuarial models** to take into account the future developments in climate risk and other sustainability related issues? The AAE is focused on providing support to actuaries to access relevant and credible data and models to ensure that future risks and estimates can be appropriately taken into account and communicated. This is an important aspect of the role of the actuary as sustainability becomes a more prominent issue and driver of activity for the insurance and pension sectors.

Actuaries across the world have started producing indices helping the general public and relevant experts industries in understanding how climate change is affecting our environment. There already exist the [North American Actuaries' Climate Index](#) and the [Australian Actuaries' Climate Index](#). The AAE is currently checking the feasibility of producing a similar index for Europe.

The European Actuarial Climate Index (EurACI) would be a method of showing how regionally different natural phenomena (storms, floods, droughts, high/low temperatures, extreme rainfall) exhibit extremal behaviour. It is our belief that this would help societies as people are better in remembering the extremes than in understanding what a 3-4 degrees average temperature increase would mean.

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