

## SUSTAINABLE FINANCE

*The Actuarial Association of Europe (AAE) is concerned over sustainability risks and their long term impact on the operational environment of insurers and pension funds. 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 in their investments and other operations. The AAE believes that, to be able to make more sustainable and forward-looking 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 common taxonomy and increased reporting from both financial markets and companies representing different industries. Asset and liability aspects must be considered in assessing risks.*

The AAE has started its expert work to understand better how climate change might change the non-life insurance business and the models used there 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 understand better:

- **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, allowing for consequences to the environment, brings a lot of risks to consider and monitor. 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. An example of such a study is:

Aon 2018: Climate Change Scenarios and their impact on funding risk and asset allocation  
<http://www.aon.com/getmedia/8ddb2a56-c1a9-4689-81e6-f3b7c178e57c/Climate-Change-Challenges.aspx>

- **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.

Sustainability is a highly important issue which must be considered in the context of other developments affecting relevant industries, including regulatory developments. AAE offers its support in moving these proposals forward and will be happy to provide input to EIOPA on this journey.

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