

Sustainable Finance Proposal for AAE Risk Management Committee Involvement

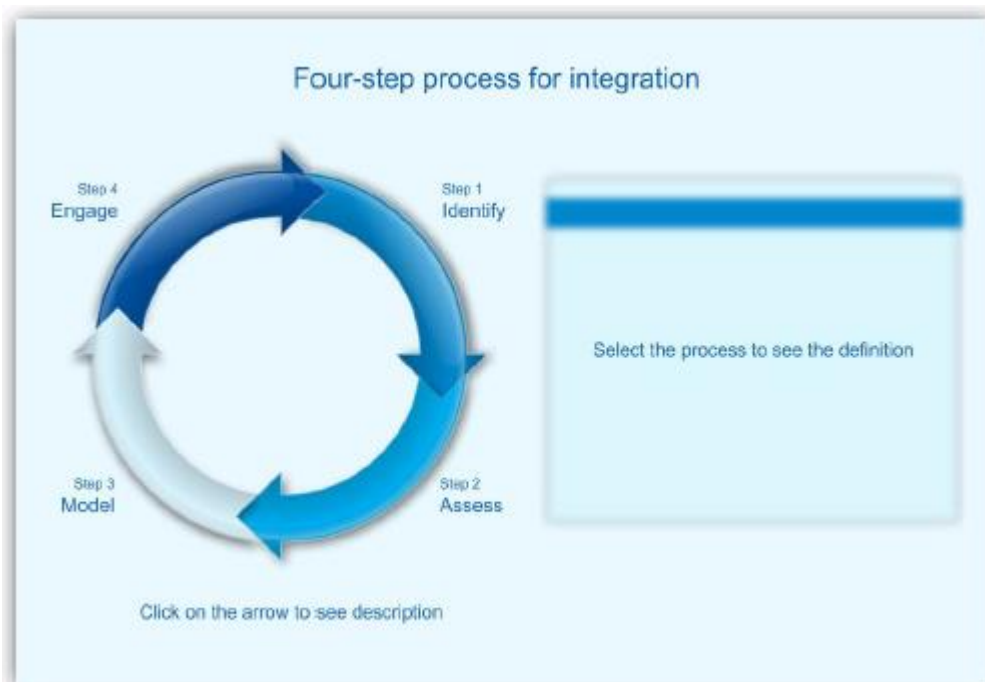
There is a lot of activity around the world in sustainable finance, just to name a few:

- [UN Principles of Sustainable Insurance](#) and [UN Principles of Responsible Investment](#), all connected to [UN Sustainable Development Goals](#),
- [Recommendation of the Taskforce of Climate-related Financial Disclosure](#),
- [IAIS Issues Paper on Climate Change Risks to the Insurance Sector](#)
- [Recommendations of the EU High Level Expert Group on Sustainable Finance](#), and
- [EU Commission action plan on financing sustainable growth](#).

According to the Commission action plan there will be a continuous flow of legislation initiatives in this area. Additionally, EIOPA is active in the area and is keen on having input.

As regards the AAE it seems that the actuarial profession can and should be active in this area. It seems natural that the Risk Management Committee should be the coordinating body of the AAE when reacting to different EU initiatives. The idea here is that actuaries should be active in the area of integration of ESG into insurance and financial decision making. It can however be anticipated that there will be quite a few occasions where the RMC can and should ask advice from other committees and in some cases even delegate the responsibility on certain topics to others.

A possible actuarial approach to sustainability and ESG (Environment, Society and Governance) could be the framework utilized in the education material around UN Principles of Responsible Investment:



The different phases of this integration are described in little more detail in the following. It could be a useful framework for analyzing investment risk in financial institutions. Additionally it seems that the framework could in a fairly straightforward manner be adapted to handle, say, insurance underwriting and pricing:

❖ Step 1 – Identify

What are the relevant ESG issues for the target investment?

❖ Step 2 – Assess

How is the target investment affected by these issues and to what degree?

❖ Step 3 – Model

How are ESG issues accounted for in financial projections and risk assessment models?

❖ Step 4 – Engage

Is there an opportunity to mitigate residual ESG risk through shareholder engagement and voting?

This framework could be used to analyse how financial institutions participate in taking societies to a more sustainable path. The objectives for this would be:

- to establish the actuarial profession and the AAE as a relevant expert organization in taking Europe to a more sustainable path, and, e.g., in making it possible for Europe to fulfil its global commitments,
- be prepared to participate in Commission and EIOPA etc. consultations and legislative proposals in the area,
- be, when actuarial expertise gives ground to that, proactive with own initiatives, and
- spread information about initiatives to the European actuarial community to make it ready to face the challenges in this area (bearing in mind that the AAE's aim is that when we talk about global issues it should be the IAA that is active)

A minimum goal for a workstream of the RMC focusing on this topic would be to take care that the AAE responds to all relevant consultations etc. in this area, or, in the case of Solvency II, contributes to responses coordinated by the AAE's Solvency II Working Group.