

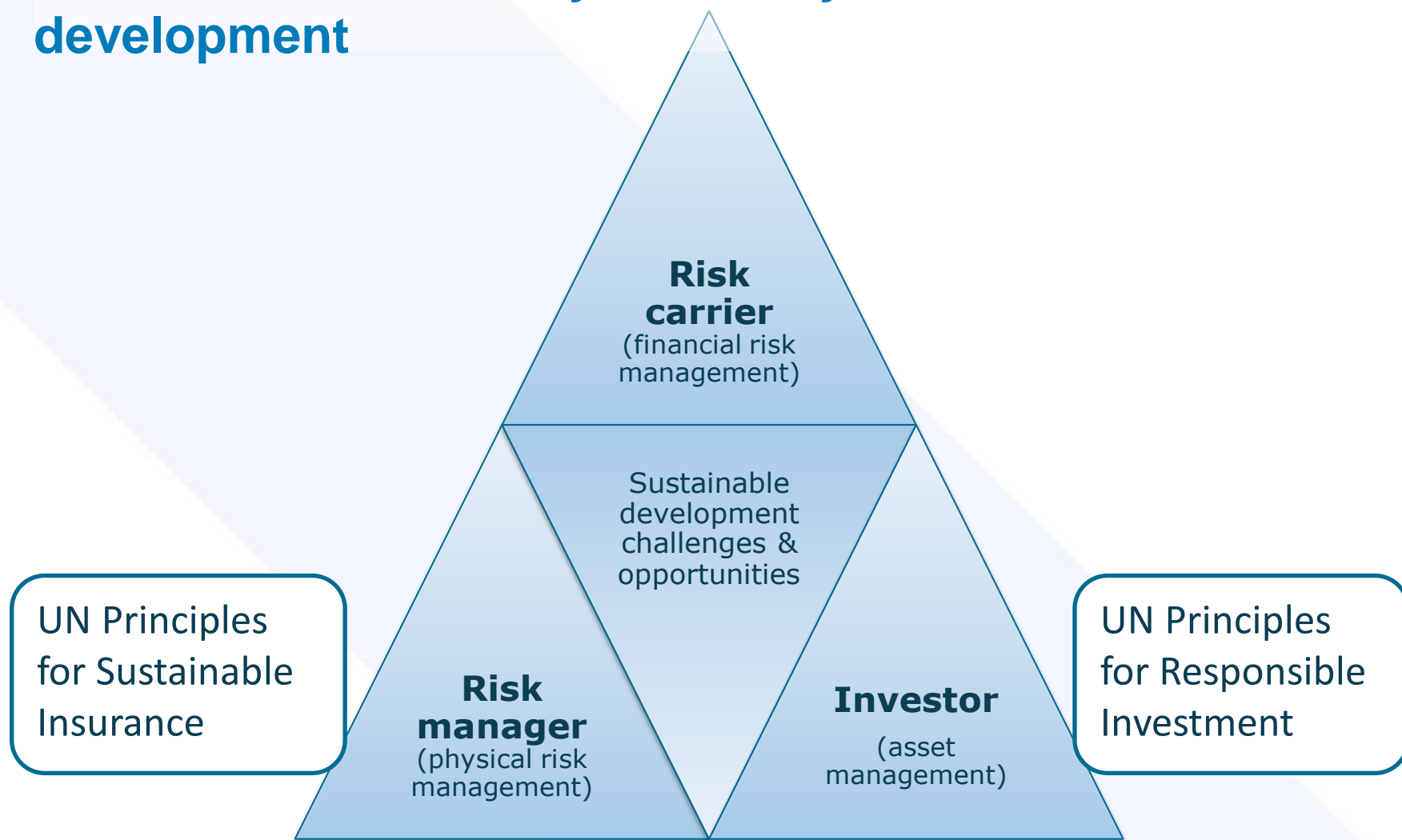


# **SUSTAINABILITY AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES**

**Risk Management Committee October 9th 2020**

Annina Pietinalho

# The insurance industry has many roles in sustainable development



Source: Butch Bacani. Sustainable insurance: Turning environmental, social and governance challenges into sustainable opportunities , UN Environment's Principles for Sustainable Insurance Initiative, 2017

# Sustainable finance – update on the recent developments

Presentation from Lauri Saraste in the joint meeting of Insurance, Pensions and Risk Management Committees on Thursday 8 October 2020

# Many activities within AAE

Sustainable finance – update on the recent developments, AAE webinar 15/9/2020, Lauri Saraste

- AAE has actively commented on different proposals. Work done by the Solvency II working group and Insurance Committee
- Sustainable finance strategy  
([https://actuary.eu/wpcontent/uploads/2020/07/ec-consultation\\_sustainable-financestrategy\\_aae-response-0720-final.pdf](https://actuary.eu/wpcontent/uploads/2020/07/ec-consultation_sustainable-financestrategy_aae-response-0720-final.pdf))
- Reporting  
[https://actuary.eu/wpcontent/uploads/2020/09/ESA\\_ESG\\_AAE\\_RESPONSEFORM.pdf](https://actuary.eu/wpcontent/uploads/2020/09/ESA_ESG_AAE_RESPONSEFORM.pdf)

## Proposal for AAE RMC Involvement (Nov 2018)

- According to the Commission action plan there will be a continuous flow of legislation initiatives in this area. EIOPA is keen on having input.
- Actuaries should be active in the area of integration of ESG into insurance and financial decision making.
- RMC can and should ask advice from other committees and in some cases even delegate the responsibility on certain topics to others.

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.

## Preliminary thoughts for RMC Sustainability task 1(3)

- Organisational:
  - Form a subgroup of the interested committee members
  - Establish co-operation on sustainability related tasks with Insurance Committee, Solvency II Working Group and other relevant parties.
  - Recognise relevant IAA work streams to follow
- Traditional tools used to assess risk and return are based on information that can be easily quantified. ESG data is non-financial and by definition qualitative.
  - RMC maybe to focus on how we might practically manage the risks involved, e.g. by the identification of suitable stress tests, perhaps within the ORSA. (proposal by Malcolm Kemp)
  - Maybe less formal paper(s) on a case basis? Possibly webinar and/or workshop?

## Preliminary thoughts for RMC Sustainability task 2(3)

- New reporting requirements (quantitative and qualitative)
  - Is there a need for guidance for actuaries? At least support material could be provided?
- Academic (proposal by Malcolm Kemp): How regulation should best be structured to achieve such an end, i.e. a more policy orientated approach, but this could be more complicated to develop.



## Preliminary thoughts for RMC Sustainability task 3(3)

- ESG risks can develop into legal risks, reputational risks, supply chain and business disruption risks, quality risks, operational risks, human rights risks, financial risks, and/or investment risks for insurance company, its customers and/or its invested companies.
- Companies need to have a well-defined approach (e.g. Sustainability Risk Framework) which is designed to identify and mitigate such risks and also recognize opportunities across line of business.
- The ways actuaries analyse and bring awareness of risks is of key with sustainability – this understanding will be needed across the insurance business – pricing, reserving, ALM, Risk management etc.
- Purpose to assists actuaries when establishing/participating on the Sustainability Risk Framework (also connections to ORSA process)
  - Maybe less formal and more tailored papers on a case basis?
  - Possibly webinar and/or workshop format also



*Thank you*

