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Consultation paper on draft Opinion on the supervision of the use of climate change risk scenarios in ORSA

Fields marked with * are mandatory.

Responding to the paper

EIOPA welcomes comments on the draft Opinion on the supervision of the use of climate change risk scenarios in ORSA.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA using the EU Survey tool **by Tuesday, 5 January 2021, 23:59 CET** by responding to the questions below.

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[3] Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45 /2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.

- (•) Public
- ( ) Confidential

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Questions to Stakeholders

Q1: Do you agree that it is important to foster a forward-looking management of climate change risk by insurance undertakings?

- (•) Yes
- ( ) No

Please explain.

Climate change is a complex phenomenon that is expected to generate long term trends. Although scientific information on climate change is available since many years, the relevant risks have had limited attention in society until recently. At present, climate change risks are considered as emerging risks in insurance undertakings rather than with specific scenarios. They are allowed for implicitly through scenarios of increases in frequency and severity of future claims.

The framework of Solvency II is supportive in this regard – the ORSA gives companies the opportunity to assess their most relevant risks not otherwise captured without being overly prescriptive, which ensures it remains relevant and decision-useful. Giving supervisory guidance will help insurance undertakings to identify and evaluate climate change risks appropriately. Where material, climate risk could be considered explicitly in the enterprise risk management system in a forward-looking manner, in particular to describe the potential consequences of climate change on risk profile, business strategy and investment strategy.

Using a forward-looking assessment is a practical way to identify the sensitivity of insurance undertakings to climate change. A forward-looking management of climate change risk should look beyond the planning horizon of the firm, which is usually 5 years or less. Entities need to address climate change risk as a strategically relevant factor and therefore, where material, consider and embed it broadly e.g. across the system of governance. Thereby, short and long term considerations could become an integrated part of the ORSA process.

There can be considerable differences on how scenarios / representative concentration pathways (RCP) can affect each undertakings business strategy. The required complexity of the modeling approach should therefore be proportionate to the particular risk exposure. We agree that the approaches to creating and developing climate change scenarios will develop over time as our profession gains experience in this field. This change will foster further change in risk management practices.

In this regard, as we anticipate considerable challenges in modelling long term climate risks we suggest that sophisticated quantitative modelling of long term climate risk scenarios should only be a requirement for undertakings with extensive exposure to climate risk or undertakings who could be required to substantially transform the entities business strategy as a consequence of climate change. However, a broad engagement by entities with climate risk, where material, is important.

In line with the risk-based and proportional approach, we suggest that the use of simplified methods should also be permissible e.g. where undertakings assess transition and physical events that occur in the future relative to current balance sheets. Hence, we support the proposal that CA’s apply a risk-based and proportionate approach to the supervision of the integration of climate change risk scenarios by (re) insurance undertakings in their ORSA.

Therefore it is suggested that the guidance re ORSA scenarios should be appropriately placed in an overall framework encompassing business strategy, disclosures (both public and private regulatory e.g. RSR), internal assessments such as business planning and ORSA scenarios.

Given the interdependencies with other risks and inherent uncertainty over the long term a qualitative approach may provide more useful output in this instance than quantitative. The evaluation of long-term quantitative scenarios may not provide meaningful insights, regardless of what scenarios are chosen. This is due to the expanding funnel of doubt over very long time horizons and the level of uncertainty with respect to both the impact and timing of climate change risks.

(Re)Insurers’ strategic planning should anticipate and respond to long-term trends and reactions from policymakers and society at large. Properly anticipating climate change risks and opportunities requires a long-term perspective, though it may result in short-term responses. In order to understand the possible (short term) impacts of climate change, it is important that entities also consider how society at large is thinking about climate change (across public opinion, governments, politics as well as stakeholders such as investors, regulators, etc.). Society seems to be increasingly interested in considering the longer term impacts of climate change and this means short term actions may be taken based on much longer term considerations.

Q2: Do you agree that Annex 2 provides a balanced view of the costs and benefits of the draft Opinion?

- ○ Yes
- ◉ No

Please explain and provide any suggestions.

No attempt is made, to size the costs. This would actually not be possible as they would depend on the nature, scale and complexity of climate change risks inherent in a (re)insurance undertaking's business. The cost-benefit perspective provided focused on the supervisor's point of view and does not fully consider costs /benefits from a (re)insurance undertaking's point of view. Costs therefore appear to be underestimated and are limited to the risk department. Any ORSA requires the intensive contributions from other departments (e. g. business, finance) and Actuarial Function. It is important to have a realistic and clear picture of the future climate-risk development in order to ensure short- and long-term prosperity of the undertaking.

The heterogeneity of the insurance industry means the costs will impact differently across the industry. Although proportionality is key, it should not be assumed implicitly that there is reduced complexity/risk exposure for smaller players in domestic markets. Scenarios with multiple negative effects of increased emission scenarios for example increased precipitation, sea level due to melting of ice sheets combined with extreme weather events (e.g. frequency/severity of storms) could have significant impacts on undertakings irrespective of size. Therefore the cost for smaller undertakings is unlikely to be proportional to their size given the effort that will be needed in defining a methodology to assess the impact of the various scenarios. In this regard, it may be beneficial for EIOPA to provide one overarching set of scenarios with high level impacts and the individual companies can look at how these scenarios would impact their firm. Centralising some of the work will increase consistency and reduce the burden on small firms.

Currently it is difficult to have relevant data (even for senior climate experts). Resources with relevant expertise and potentially external providers' support are required. The related costs in assessing climate change could be reduced, if NCAs on the European level would support the development of publicly available climate risk models suitable for insurance undertakings. Centralising some of the work could increase consistency and reduce the burden on small firms. This could also help to avoid inconsistencies between entities on what a particular scenario 'label' (e.g. 2 degree increase in global temperatures) actually results in, for example at a macro financial level.

Due to the related complexity both supervisors and undertakings should be very aware of the risk of over-implementation with subsequent risk of reduced focus on other drivers of risk. We note that the conclusion in paragraph 2.4 in annex 2 is highly dependent on which approach supervisors and undertakings take in identifying, assessing and monitoring climate risks. We suggest that there is a greater focus on ensuring lower costs when introducing new requirements in this risk area for undertakings with low correlation to climate risk – especially for long term scenarios where the undertaking does not have long-term exposure. In the short term we do not believe the increase in costs will be outweighed by the benefits.
Concerning benefits:
These analyses can help Insurance undertakings in identifying risk exposures that may exceed its risk appetite, and in identifying opportunities of business that are to be developed to cope with climate change. Where an insurer writes long term business and raises capital with long term maturities, consideration of the long term capital position in the ORSA and the impact of climate change on this position, is appropriate. The proposals should lead to a better reflection of the risk profile of the firm in the ORSA. Further, the act of working through scenarios can lead to the identification of opportunities for the business, either as regards putting in place mitigants or identifying opportunities such as expanding a business offering to cover an emerging customer need.
Finally, as acknowledged in 3.2 transition risk can arise in the short term so add "and in the short term" to

2.5, i.e. “Transition risk and opportunities may arise suddenly and in the short term.”

In case of captives, the parent or shareholder is the policyholder. The strategic direction may be to place the captive into run-off (i.e. close it for new business) if climate risks caused the company’s business model to become unviable.

Overall: We believe that the individual undertaking should decide when and if it is appropriate to include a quantitative analysis in the ORSA, based on the outcome of qualitative analysis and (where relevant) responses to the industry-wide climate related stress tests. Due to the many uncertainties related to forecasting over a longer time horizon it may be more appropriate to include qualitative analyses which include expected mitigating actions per scenario rather than more detailed quantitative projections.

Q3: Do you agree that undertakings should in their ORSA not only assess climate change risks in the short term, but also in the long-term to inform strategic planning and business strategies?

- (●) Yes
- ( ) No

Please explain.

As already commented at Q1 and in line with article 3.3 we agree that long term considerations cannot be dismissed as less relevant. Long-term scenarios are a key complement to short term scenarios to inform management on climate change risk. We agree that there is a need for a common taxonomy when defining climate change risks, and the definitions and drivers in chapter 3.6 seem useful and appropriate.

Climate change is expected to generate long term trends. For physical risk, trends can be increases in frequency and severity of climate events but also incremental deviation of some behaviours and tendencies. Climate change risks may be invisible from a short-term perspective. The impact of transition risk can only be assessed in long term scenarios. Therefore, it is important to analyse climate risks also from a long-term perspective. The outcome can help to assess possible short-term effects. Long-term developments might speed-up unexpectedly. Then long-term effects become relevant even short-term. It is important to prepare for a long-term change in the short-term. After five years, the stakeholders' view on necessary changes might differ significantly from today. Long-term projections allow to check the consistency of the assumptions ("narrative") with the strategic planning of the own undertaking.

Nature, extent of the risks and uncertainty differ and affect the time horizon of insurers. The reliability of long-term projection is questionable in a multi-year multi-state framework. A differentiated approach is needed between short-term and long-term where solvency ratio should not be projected above a mid-term horizon.

Thus it could be beneficial to carry out both qualitative analysis and quantitative analysis to assess whether climate change is a material risk for the undertaking. In the event of climate change not being a material risk for an undertaking then it would be appropriate that a reasoning for this conclusion should be documented.

Although long-term scenario analysis is a fundamental part of the forward-looking approach, a qualitative approach may be more appropriate here, reflecting the inherent uncertainty over this time horizon. Whether firms choose such an approach will depend on their business model and own materiality analysis, as well as the nature of the risks. For example, transition risks may materialise quite quickly and may therefore need to be analysed within a shorter timeframe than would be appropriate for physical risks. It is agreed that the appropriate level of precision may vary depending on whether a short- or long-term view is taken. Furthermore, the usable output (or resultant decisions) from a given long term scenario might often not be expected to change much from one year's ORSA to the next. In this regard we welcome the acknowledgement in paragraph 3.23 that "the long-term scenario analysis will also allow for more simplified approaches and assumptions". The description could also explicitly mention decreasing expectations around complexity and quantification, the longer the time horizon employed, recognising that uncertainty increases the longer the time horizon under consideration, in which case qualitative analysis may be employed. Long-term projections will inevitably have broader funnels of uncertainty. This has to be considered, when using the results in strategic decisions. New methods could be experienced to apply to improve the management of uncertain future risks.

General remark: Care should be exercised when implementing mandatory quantitative / scenario analyses, especially considering the numerous sources of uncertainties related to different climate change scenarios /representative concentration pathways.

Further to consider: Capital markets are expected to anticipate future long-term developments already in the short-term (market price). Although this can be partly seen already in certain industry sectors today regarding the transition to fossil-free economy, it is not evident what specific long-term scenario the capital market is anticipating today and to what extent. Therefore, it is important that undertakings understand the full range of possible long-term scenarios – as these can have a huge leverage on short-term market prices. This will then illustrate possible market price volatilities.

Q4: Paragraph 3.3 specifies that the time horizion of the long-term scenario analysis could be longer than the time horizons currently considered by undertakings in their ORSA, for example a magnitude of decades may be appropriate. Is this explanation in your view adequate or should the explanation be more or less specific?

- ○ Explanation is adequate
- ◉ Explanation should be more specific
- ○ Explanation should be less specific

Please explain.

A long term view appears to be necessary. A longer time horizon than the usual 5-year business/strategic planning period would be appropriate for undertakings with long-term climate-related exposures and/or undertakings who will be required to significantly adapt the business strategy as a consequence of climate change. Longer term horizons could be discussed but for many undertakings a time horizon of decades could be unrealistic and difficult to project with credible outputs. The assessment of the effect that climate change has on an entities business strategy should be business as usual. It should however be continuously evaluated with management intervention and actions incorporated when deemed appropriate. A minimum time horizon could be requested, however, (re)insurance undertakings may be given the possibility to use longer time horizons should this be more relevant for their business.
EIOPA could more explicitly illustrate why from their point of view it is important to consider time horizons of decades and the credibility assigned to these: e.g. climate scenarios typically develop over decades, insurer targets/actions timeframe can spread out over several decades, contrast the effect of a smoother transition vs late abrupt transition, contributing to political projects like the European Green deal.
Guidance is also needed on long-term projection and how to integrate transition from other key players (e.g. energy sector) plus policy evolution to reflect a system in evolution. Assessing even the near-term implications of long-term climate change trends requires a long timeframe – historic records as far back as they exist and future scenarios looking decades into the future. How will (re)insurers anticipate risks and opportunities unless they explore the same timeframes as policymakers and society at large? Precise quantification within the scenarios is less important than considering the possibilities, inter-relationships and implications.
To consider:
• Life companies (or pension schemes) and non-life companies would generally have different views here. A time frame of decades for scenario analysis for a non-life company may make less sense particularly where the purpose of the ORSA is to protect policyholders of the existing portfolio.
• It might be more useful to specify that companies define short term impacts as a result of consideration of long-term scenarios. A possible approach would be to be less specific, leaving this decision to company's management.

It should be clearly stated that undertakings are not expected to project their solvency ratio over several decades. They should take into account the mid-term and long-term effects of climate change on its projected solvency ratio for the usual planning period. This allows insurers to focus on relevant climate risks in their business plan to take appropriate actions.

Q5: Do you think that the examples in Annex 3 and Annex 4 cover the main transition and physical risks to which undertakings may be exposed?

- ○ Yes
- ◉ No

If not, please provide suggestions for additional examples of risks.

Annexes 3 and 4 provide a reasonably broad set of risks in a structured framework which are useful to undertakings in designing ORSA scenarios reflective of their own risk profile. In this regard, undertakings should have flexibility to determine what risks are relevant for them, which may include risks not reflected in these annexes.
Although, the list of examples is already sufficiently large and it is not the objective to give an exhaustive list, we suggest some additional risk types for consideration:

- Operational cost risks e.g. rent increases as landlords potentially pass on costs of building renovation; costs of climate expertise or increased costs of related compliance; energy costs via carbon tax; government levies to fund state action.
- Operational/ compliance risks in relation to increased reporting requirements, IT systems, data quality etc.
- The examples of strategic risks do not sufficiently highlight challenges posed by uncertainty and second-order impacts, e.g. from more extreme outcomes related to tipping points such as forced resettlement /migration, interruption to food and water supplies, pandemics.
- Clarification suggested regarding diseases (pandemics?) and whether this relates to zoonotic diseases or vector-borne diseases, or both.

With regard to the structure of the table:
- Non Life/Transition/Market sentiment/underwriting: add adverse selection, change in business with lack of data (e.g. electric cars)
- Non Life/Transition/Reputation/Reputation: insurability issues following exclusions
- Non Life/Physical/Chronic/Market: low interest rates
- Life & Health/Transition/Policy/Strategic: fiscality on life insurance products
- Life & Health/Transition/Market sentiment/underwriting: lapse, expense (pressure on costs following transparency) Risk of mortality and morbidity pricing not being adequate due to lack of data in a climate-changing environment. For instance increased mortality and illness due to short term weather events, rising sea levels, spread of illnesses typical for warmer climates or similar.
- Life& Health/Transition/Legal risk: Risk of difficulties in changing investment strategies for existing customers to more green strategies due to existing terms & conditions not containing mandate to change towards high level of green investments.
- Life&Health/Transition /Technology/market risk: New pension products are arising with more green investment strategies. These products can contain new and more uncertain investment risks due to the investment in new business areas and also it can be necessary to invest in more illiquid assets where you need new competencies and risk management

- Life & Health/Physical/Acute: Underwriting (lapse due to pandemic), Counterparty (reinsurance)
Note: in addition to carbon intensive sectors, there is a transition risk on carbon intensive sectors dependent companies which are not able to transfer the cost increase in price. These investments are also at risk in a transition scenario but are more difficult to identify.

Q6: Do you agree that the long-term scenario analysis should at least distinguish two scenarios, where appropriate:
- a scenario where the temperature increase remains below 2°C, preferably no more than 1.5°C, and
- a scenario where the global temperature increase exceeds 2°C?

- (●) Yes
- ( ) No

Please explain.

From today's perspective, a scenario where average temperature increases remain no more than 1.5°C above the current average (very strongly declining emissions) may however be questionable. Anyway, it is important to have at least two scenarios in order to be able to measure effects and demonstrate the uncertainty to decisions makers. It enables the assessment of the sensitivity of (re)insurance undertakings to different levels of trends related to climate change. It is important to note the high level of uncertainty of the long term scenarios. The absolute numerical results of individual long term scenarios should be considered with caution and sensitivities to scenarios / "what if" scenarios should be considered. Ideally scenarios should encompass both physical and transition risk.
It is useful to distinguish between scenarios that are dominated by transition risks (e.g. disorderly transition to keep average global temperature increase below 2°C perhaps with lower physical risks) and those dominated by physical risks (e.g. "hot house world" in the NGFS scenario landscape but perhaps where the transition risks are less impactful).
A minimum requirement should be provided, both to enable smaller undertakings to reduce the effort spent on preparing the scenarios, and to ensure a meaningful comparison between undertakings. This requirement could evolve as expertise on climate change risk develops in the market."
In practice many companies will likely draw from the NGFS (Network for Greening the Financial System) and IPCC (UN Intergovernmental Panel on Climate Change) scenarios given their global scope – so these standardised scenarios are a useful starting point.
It is important to clearly distinguish the effect of an abrupt transition scenario versus no action (Business-as-usual). The IPCC 5th assessment report distinguish the two following opposite scenarios:
- the "strong mitigation scenario" where t° increase is likely to not exceed 2°C -> transition risk scenario -> this clearly corresponds to the 1st scenario proposed by EIOPA
- the "business-as-usual scenario", where t° increase as likely as not to exceed 4°C -> physical risk scenario -> this does not clearly correspond to the 1st scenario proposed by EIOPA.

For the purposes of the ORSA, entities should be free to define their own scenarios depending on their risk profile and to explore the risks and opportunities of each. Entities could also consider how the chosen scenarios are derived e.g. reflecting supra-governmental commitments including those of the EU.

The emission trends chosen should be representative concentration pathways defined by appropriate experts and it could be appropriate to describe more granular effects (frequency and severity of weather-related events at geographical level) to ensure consistency. We would welcome that each scenario includes a more specific description on expected impacts at an appropriate granular level on both assets and liabilities. This would allow insurers to gain experience and ensure a level playing field.
Whilst generally a range of scenarios reflecting different severities is useful, careful narrative is required (when presenting pathways and outcomes associated with particular temperature labels e.g. <1.5 degree or >2.0 degree) to ensure that users are aware of the limitations of the projections and appreciate the uncertainties involved.

Given the very long term nature of the scenarios being considered and the related uncertainties, it may be that users of the output find themselves lacking a practical frame of reference. In this light a kind of baseline showing no climate change might help to highlight the impacts of climate change on the firm, for instance in communications to the Board/senior management and other key stakeholders – however care would need to be taken regarding the narrative to ensure this 'no climate change' comparator is understood to be artificial and not akin to a 'base' ORSA projection scenario or a 'do nothing' approach.

Q7: Do you agree that scope, depth and methodologies of undertakings' quantitative (scenario) analyses of climate change risks should be expected to evolve, considering that undertakings need to gain experience and build technical capacity?

- (●) Yes
- ( ) No

Please explain.

It is necessary to allow for an evolvement in climate change risk assessment. The Solvency II experience has shown this is a complex exercise. Objective and hence nature of this assessment is different from the Solvency II prudential projections. (Re)insurance undertakings are likely to develop tools that project risk profile / KRI / balance sheet over long time horizon. These tools will also include management actions over a long term horizon. The sophistication will evolve over time as the level of information and expertise improves. Although all firms will likely consider the impact of climate change-related risks in their risk management processes, the degree of sophistication etc. should depend on the materiality of the risks for individual firms. A first step could be incorporation of more 'what-if' analysis, to inform impact and corresponding management actions.
As an emerging risk, the practices should evolve in line with factors such as the latest climate, legal, technological developments and in line with Group strategy, market best practice etc. A learning loop is expected with an iterative process improving each time as understanding builds. Also there is an education aspect for internal and external stakeholders. In the short term, care is needed to avoid spurious accuracy. Periodic consultation would be welcomed as best practice emerges, modelling techniques evolve, and further climate change impact assessments are published.
Risk assessments will start with rather simple models that give a first impression and understanding. A further refinement will not only come naturally but will be required as best-practice evolves over time. This is evolutive given the learning curve, data collection & risk analysis, policy positions and technological break troughs. Evolution can be expected since for example tools and approaches that combine climate science with macro-economic and financial impacts are only beginning to emerge. A scarcity of data on which to base quantitative analysis was seen as a possible issue. It was expected that, either through public or private databases, the data/experience would increase over time to help address this issue.

To develop technical capacity a close cooperation with relevant outsourcing partners as is the case today with catastrophe modelling (meteorological/geophysical models) could be considered.

Evolution should be expected since for example tools and approaches that combine climate science with macro-economic and financial impacts are only beginning to emerge. However, this should not be used as a reason to do nothing quantitative for material risks or to limit the scope of qualitative analysis.

Iterative process expected:

- Insurers are at the start of their data collection process. It might take several years to collect the required data.
- TCFD reports from companies might be a useful source of information for insurers. Hopefully the availability of these report might increase in the future
- Insurers can start with standard scenario, but might then be willing to make these scenarios more specific to their risk profile
- segmentation into homogeneous group of transition risk exposure and the sensitivity calibration are iterative

We suggest EIOPA to be supportive in ensuring a level playing field by supporting the development of consistent methodologies. Thereby capital requirements and rules being comparable across countries and undertakings.

Q8: Do you have suggestions to improve the guidance provided in Annex 5 to assist competent authorities in supporting undertakings to apply scenario analysis in their ORSA?

- (●) Yes
- ( ) No

If yes, please provide your suggestions.

We suggest that the CAs propose a hierarchy of methods in which undertakings can choose the step they want to start with based on their maturity in climate risk assessment and their exposure to climate risk.

Given the considerable uncertainty around the impact of climate change on physical variables (such as the frequency and severity of storms) and other material risk drivers such as socio-economic trends, including economic growth, population dynamics, climate adaptation, etc., for medium to long-term time horizons, section 5.9 could highlight the importance of qualitative scenarios, per the qualitative materiality assessment proposed in paragraph 3.11.

It would be useful to provide guidance about whether climate change risk scenarios in ORSA should represent plausible outcomes for the mean or for the tail of the possible distribution of outcomes. The physical impacts example seems to be based on the mean whereas a (re)insurer may be more focused on more extreme outcomes, including 1 in 200. It may be worthwhile contextualising that (re)insurers' risk of ruin is capped at 0.5% over one year and needs to be appropriately set for longer projection periods.
The guidance could also be more specific. In particular, the long term assumptions for each scenario should consider: environment assumptions (temperature, meteorological, markets, demographics ...) and portfolio and management assumptions (margin levels, premium volumes, investment behaviours ...). These assumptions should be best estimates in order not to distort specific impacts of climate change.
The consultation paper gives significant reference sources and scientific research to help undertakings starting their climate change risk scenario analysis. In addition, providing assumption sets for use under sample scenarios would assist an entity (in particular smaller undertakings) with initially formulating scenarios (e.g. long term equity return, interest rate, mortality improvement rates etc.).
We would recommend the following:
- EIOPA should allow accessibility to data and expertise (incl. underlying justification of the calibration) to foster the learning of the insurance sector while allowing undertakings to make those "own" given their own risk profile and business strategy
- EIOPA should provide guidance on how to categorise exposures into homogeneous group of exposures towards transition risk (ex: fossil intensive companies with low carbon alternatives, fossil intensive companies without low carbon alternatives, companies with costs highly dependent on fossil intensive companies, etc.)
- Regarding transition pathways, most methods apply shocks on asset valuation at sector level by instrument type (equity vs bond). We know this is not granular enough as sensitivity to transition risk might be highly heterogeneous within a given sector. The UNEPFI project pilot rather recommend to build group of homogeneous exposures. Then, assess transition pathways on P&L items (revenue, (in)direct emission cost, cap Ex) of a sample of counterparties and extrapolate to the homogeneous group of exposure it belongs.

Anyway, during a transitional period supervisory actions should be less stringent and more educational and knowledge sharing in nature. At present there is a preference for qualitative analyses.

Q9: Do you agree that competent authorities should encourage larger undertakings to disclose climate-related information, in line with the Commission's Guidelines on non-financial reporting on climate-related information?

- (●) Yes
- ( ) No

Please explain.

Climate risk is acknowledged as a systemic risk. It is important that stakeholders can verify the consistency of the undertaking's current climate position, the undertaking's strategy and the undertaking's assumptions on the future development. To some extent larger undertakings will already be under greater market pressure to make these types of disclosures. They could be encouraged to develop a measure that could foster the overall development of risk assessment.

Disclosure will also help the society's engagement in solving the climate crisis. As such communication on climate-related information can cause additional cost, proportionality will again be important here. We support the proposal to align reporting on climate risk in the ORSA supervisory report with the undertakings' public disclosure of climate-related information under the NFRD, as a way to minimise over-reporting and reduce costs. It should be considered, how far these NFRD-related requirements are appropriate for smaller undertakings or if a set of less onerous guidelines should be developed.

Anyway, the overhead required for this purpose should be considered. Aligning the level of details with the scale or complexity of a firm can alleviate the introduction. Clarification is required with regard to the way, firstly how and in which public documents should be made available (SFCR) and secondly how to properly communicate publicly on "how climate-related" risks affect overall solvency needs of the undertakings" (see para 3.27). Disclosure requirements need to be balanced with undertakings' interest, not to disclose commercially sensitive details.

Q10: Does the draft Opinion strike the right balance between setting common expectations and allowing undertakings to do their own risk assessment?

- ( ) Yes
- (●) No

If not, please explain in what areas the draft Opinion could benefit from more or less consistent approaches.

This Opinion strikes a balance and is a good reference for the many challenges that actuaries will need to consider in the coming decades including allowance for climate change in pricing, in valuation work, constructing optimal investment portfolios and continuously evaluating the appropriateness of the methodology used to calculate and project the solvency needs.
The ORSA is expected to support the risk management of an insurance undertaking on the business time horizon and includes a solvency measure. In this regard the focus should be on enhancing existing risk management processes and tools, and addressing any gaps that might currently exist, in order to allow for climate change.
We therefore recommend to focus less on quantitative scenarios and more on the continuous evolution of mitigating actions.
Rather than changing the time horizon of the ORSA, the assessment of climate risk impact on the long term could be done through a Long Term Risk Assessment (LTRA) and could feed into the ORSA. This could be performed less frequently than the ORSA (2 to 3 years frequency or less if a material change in conditions occurs) as it assesses a long term phenomenon. This should not result in excluding climate risk from the ORSA.
Anyway, it will be important to standardize methodologies and share knowledge, to avoid the risk of over-implementation and excessive costs for undertakings in this transitional phase. The common expectations in 3.15 and 3.18 are subject to “where appropriate”, which is consistent with Guideline 7 of EIOPA’s Guidelines on ORSA. Given that the identified risks are material, EIOPA could provide some direction or examples to inform a (re)insurance undertaking’s assessment of situations where it is appropriate and where it is not. Otherwise there may be inconsistent interpretations.

Q11: Do the expectations put forward in the draft Opinion achieve a proportionate approach to climate change risk analysis in ORSA, fitting small-, medium- and large-sized undertakings?

- ○ Yes
- ◉ No

If not, please provide your suggestions to improve proportionalty of the draft Opinion.

We highly support the need for focus in this area and welcome the general thoughts provided in this draft opinion. The “at least two scenarios” approach is proportionate.
But the draft opinion seems to be slightly biased towards a complex first implementation and unrealistic requirements for quantitative risk analyses and risk assessments, before experience is built up in the sector. This approach could lead to both the unnecessary use of resources, removal of focus on more important risks and incorrect conclusions from lack of experience of modelling risks.
Such an exercise requires significant work and costs (data, expertise) that can be disproportionate for small entities and even for large ones if the description of the risks/impacts is not sufficiently concrete. The expectations will thus be a large burden especially on firms that lack the relevant expertise. If all firms are required to follow prescriptive requirements without the relevant expertise or resources, the quality of output may be impacted.
In that sense, more guidance on para 3.14 where an initial screening could take place and be discussed with the CAs before effective implementation would reduce the costs.
In addition to the support provided by annex 5, additional guidance on simplifications would be welcome with possible levels of complexities and evolution through time.

Some further views:

Variety of types of firms: As regards non-life firms generally (and particularly captives or subsidiaries) the expectations go beyond what would be expected as regards time horizon and strategic control.

Materiality: The issue is arguably more about materiality than proportionality (i.e. more pertinent that a materiality assessment of climate change risks is performed than a broader assessment based on company size).
That said in order to assess materiality, some level of assessment would initially be needed before a more significant commitment of time, resources, infrastructure etc.

Appropriateness of high focus: Climate change risks are systemic. The nature, scale and complexity of climate change risks inherent in a (re)insurance undertaking’s business may be disproportionate to the nature, scale and complexity of other risks inherent in its business. In that context it seems appropriate that there is little specific guidance on proportionality.

We recommend treading lightly ensuring progress in a joint effort between undertakings and authorities.

* Q12: Do you have any other comments on the draft Opinion?

- (●) Yes
- ( ) No

If yes, please provide these other comments.

The varied nature of the insurance industry should be acknowledged, as regards purpose (e.g. captives), time horizon of existing liabilities (notably non-life versus life), level of influence over long term strategic direction (e.g. subsidiaries, captives).
Given the high level of uncertainty of the long term scenarios, the absolute numerical results of individual long term scenarios should be considered with extreme caution. The focus should rather be on sensitivities to scenarios and key assumptions.
We would like to better understand how the methods provided in the scenario guidance respond to following issues :
- Sensitivity differences to transition risks within sector
- Point in time assessment might not reflect current market pricing of transition risk. Example: sensitivity might be overestimated in case market has already priced in high level of transition risk/losses.
- How to ensure the actual portfolio of an insurer reflects a similar sensitivity to transition risk with the reference portfolio used for the study?

A broad engagement by (re)insurers with climate risk, where material, is important. Therefore it is suggested that the guidance re ORSA scenarios should be appropriately placed in an overall framework encompassing business strategy, disclosures (public and private), internal assessments such as business planning and ORSA scenarios. The question arises of whether ORSA assessments based on the current liability profile (irrespective of inclusion of planning horizon new business) will give an adequately broad picture of the impact of climate change on (re)insurer business models.

Contact

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