ENVIRONMENTAL REGULATIONS

AN OPPORTUNITY NOT TO BE MISSED

BY **CHLOÉ COURSAGET** AND **LÉONORA LE QUANG HUY**

The number of environmental regulations is on the rise in Europe. The European Actuary talked to Chloé Coursaget and Léonora Le Quang Huy about their view that environmental regulations represent a strong lever for change in the insurance sector – rather like GDPR a few years ago.

You're convinced that there is great transformational power in environmental legislation. Which laws are you talking about?
Chloé: The Green Deal illustrates the ambitiousness of the transformation Europe is determined to make, and its aim of meeting environmental challenges and leading the world in this area. Regulatory change is the main tool, and this is of particular relevance to insurance as a strategic sector.

This is for two reasons: growing risk of course (unless insurers adapt, the consequences will be systemic); but also and most importantly, because of the sector's powerful ability to transform, both in an investor role and as the driver of prevention through changing the habits of insured parties. Non-life insurance >

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is identified (in the first European taxonomy section, which came into force on 1 January 2022) as contributing to the mitigation of, or adjustment to, climate change and – in terms of cover, monitoring and prevention – must be aligned with environmental performance and not significantly harm technical criteria.

Another relevant point is the evolution of Solvency II, first through the delegated act published last August and effective August 2022, which covers sustainability risk within governance, and then through the planned revision of Solvency II. The challenges of this are in ensuring that climate and environmental risk management are more effectively built into the prudential framework and facilitating investment in a sustainable economy.

At the heart of the change, EIOPA has two tasks: to assess the specifically prudential treatment of assets linked to environmental objectives, and to regularly reassess the parameters of the standard formula relating to natural disaster risk.

As managers, issuers and distributors, insurers are also directly affected by all financial legislation, especially the standardisation of ESG reporting.

Is this an insurance revolution?

Léonora: Definitely. The accelerated change in sustainability regulations will have an impact across the board and is set to reshuffle some competition cards. How can this not be an opportunity to create value? Everyone's results will eventually be open to comparison – particularly on taxonomy as they will be published in the same register.

Taxonomy, ESG standardisation and the new CSRD are all moving in the same direction, funnelling investment towards pro-transition activities. This rejigs the fundamentals by potentially differentiating insurers in terms of their attractiveness. As legal entities subject to the taxonomy, insurers need to keep their shareholders (who want ESG) and/or financiers (who are encouraged to prefer taxonomy-compatible projects) happy. The new rules on transparent non-financial information and its standardisation will quantify their performance and make it directly comparable.

The impact of this will be felt in core strategy and so logically in all activities: asset management, the issue and distribution of financial products and also product design, pricing, prevention and client portfolio valuation, etc.

An opportunity for the sector?

Chloé: Clearly yes. It's a major image opportunity to present insurers as the leaders of change, meeting the environmental challenge. This is a unique chance to move from being an unloved sector to winning the public over; from passively providing compensation to proactively being involved in a shared concern. It's also an opportunity to accelerate organisational transformation towards greater resilience, as the economy and risk undergo major upheaval.

What disciplines are affected?

Léonora: From August 2022 internal audit, actuary, compliance and risk management responsibilities will include sustainability risk. But really all departments are affected. Everything will have to change: governance, subscription, legal, compliance, asset management, CFO, investor relations, HR, etc. Everyone, without exception, will have a part to play. And in recruitment, given that we have a very tough market where talented candidates demand a lot and compare potential employers, non-financial performance will certainly include employer brand policy and internal communications intended to motivate staff and activate their loyalty.

And actuaries?

Chloé: Although actuaries could of course just apply the new requirements, why not look further ahead? Our coronavirus actuarial monitoring for the *Institut des Actuaires Français* demonstrated that teaching about risk and a culture of scientific approach are really important for improving society's perception of the sector. The actuaries we interviewed emphasised >

that actuaries need to work transversally with other scientific and operating fields. There was also personal questioning about the direction of work: couldn't environmental issues cover these topics too?

We believe actuaries are now being offered a rare opportunity for considering, developing scenarios, working and thinking differently, together with other players, to imagine what is possible in a complex, non-linear way. This is also the time to reconcile the long and short term as the present situation and disciplines require. Work on Solvency II changes has also revealed a wish to bring together annual standard formula management with an integrated multi-year approach (to investments and provisions).

How can actuaries be part of the transformation?

Léonora: Actuaries are well-placed to be closely involved in the change and to be real drivers of it. They know how to present risk from different time viewpoints, and how to assess it in terms of the action it requires from their company as well as the anticipated opportunities it presents for their company. Given the challenges and scale of this project and the actions required, we are offering advice to help those involved engage with teams so that they work and act together. This means creating a will, a conviction and the wish to work transversally, and also showing potential value. Depending on circumstances, motivation may come from the common good, the understanding of transition risk or competitive impulse. But wherever it comes from, the transformation challenge must be shared and must be the objective – for companies as well as for individuals.

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