



# ACTUARIAL ASSOCIATION OF EUROPE

**SUSTAINABILITY AND CLIMATE-RELATED RISKS WG**

**Cologne, 05/10/2023**

Daphné de Leval, Vice-Chair IC & SCrR

# Updates Meeting 23/06/2023 (1/3)

- Consultations and papers
  - AAE Discussion Paper 'Sustainable Products in Insurance' published in early June
  - AAE submitted response to ECB-EIOPA staff paper on policy options to reduce climate insurance protection GAP
  - We could not find enough volunteers to prepare a response to the Joint Consultation on the Review of SFDR Delegated Regulation regarding PAI and financial product disclosures (europa.eu)
  - EIOPA held a workshop on catastrophe models and released an app to facilitate the use of the open-source CLIMADA models from ETH Zurich
  - The three European Supervisory Agencies (EBA, EIOPA, ESMA) published Advice to the European Commission on Greenwashing (EIOPA report)
  - The UK IFoA published an outstanding new report on biodiversity-and-nature-related-risks-for-actuaries-an-introduction.pdf
  - The Net Zero Insurance Alliance saw many key members leaving following legal antitrust threats from the US Republican party. Most leaving re/insurers confirmed (or even tightened) their individual decarbonisation targets
  - The new European Sustainability Reporting Standards (ESRS, released for consultation in June 2023) include insurance-associated emissions

# Updates Meeting 23/06/2023 (2/3)

- Consultations and papers
  - Update of ESAP3 (European Standards of Actuarial Practice, related to ORSA) to include sustainability and climate considerations in line with Solvency II
  - The AAE has sent the exposure draft of ESAP3 to all AAE Member Organisations on 09 May 2023, requesting to provide feedback before 09 August 2023. Each Member Organisation is free to organize its own process to collect feedback
- Updates from AAE board
  - The AAE Board very much appreciates the work of the SCrR WG and supports the current focus and progress.
  - Some further ideas:
    - Prioritize topics where we observe gaps internationally or locally (IAA and EU Mas)
    - Focus on “S” as it closes exactly such a gap
    - Support dialogue with AAE board on consultations incl. one-pager summary
    - Identify needed skills developments and provide webinars/add relevant topics to a sustainability “syllabus”

# Updates Meeting 23/06/2023 (3/3)

- Upcoming paper on social issues
  - Aim to provide a general perspective on all social aspects “S” in ESG
  - Focus on scope 3 (customers), insurance products with a Double Materiality lens
  - 3 parts: who (population)/what (products characteristics)/how (implementation)
  - Expected deadline by 2023Q4
- EU climate resilience dialogue
  - SG1 insurance underwriting (Jérôme Crugnola) and SG2 adaptation investment (Loudina Erasmus)
  - Interim report in June 2023 includes a definition of the climate protection gap and presents preliminary findings on the identified gaps, the approach towards measuring and analysing them
  - Final report by 2024Q2

# Agenda Meeting 06/10/2023

- EU regulatory developments– [Daphné de Leval](#)
- Climate scenarios – [Bernd Hirschfeld](#)
- Effect of climate change on morbidity – [Alexander Krauskof](#)
- Brainstorming and way forward for the AAE's own sustainability – [Gabor Borza](#)
- Updates on relevant publications, consultations and events (focus on **nature** topics following the official release of the TNFD framework) – [Jérôme Crugnola](#)

# 1) EU regulatory developments

## Solvency II evolutions on sustainability



Recommendation to recalibrate the natcat parameters on a frequent basis (3 years) and to introduce climate change scenarios in the ORSA



Significant differences between June and August versions:

- June: Cancelling climate risk and sustainability
- August: Long list of amendments to sustainability risk, climate change risk reflecting the political preferences, some referring directly to CSRD



In line with EIOPA and includes a mandate for EIOPA to report on whether **Green Supporting Factor/Brown Penalizing Factor** can be justified on a risk basis.



- New EIOPA mandate to assess **biodiversity loss** risks (as well as GSF/BPF factors)
- Reduced frequency of recalibration of **natcat parameters to 5 years**
- Clarification that EIOPA mandate on the **GSF/BPF is not only on the assets side but include the liabilities.**
- ESAs to develop guidelines ensuring common standards for assessment methodologies for stress testing of ESG risks



Support review CAT NAT and climate ORSA.  
 CSRD is a different regulation that should coexist with appropriate consistency with the SII framework

# 1) EU regulatory developments

## Sustainable finance – EP July 2023

### Authorities mandates

- ESAs to develop guidelines on ESG stress test and how S&G risks could be included
- EIOPA to review CAT NAT every 3 years
- EIOPA to report on whether GSF/BPF can be justified on a risk basis on assets and liabilities, incl. fossil-fuel related assets
- EIOPA to assess and report extent to which biodiversity risks are considered in ORSA by 30/06/2024

### Risk Management

- Consider previous analysis in climate ORSA (climate change scenarios, tools performance and underlying principles)
- PPP includes explicit reference to LT impact of investment decisions on ESG factors

### Transition plans

- Transition planning requirements introduced (in line with CSRD): climate neutrality by 2050 with targets and measures aligned with the most recent reports
- LRPUs are exempted

### SFCR Disclosures

- SFCR disclosure requirement for climate change analysis
- Description the implementation of the transition plan in the SFCR, incl. targets/milestones

### Governance

- AMSB members should have good reputé
- undertakings shall have an effective RMS taking into account ST/MT/LT ESG risks
- NSAs to ensure that ESG risks are considered over appropriate time horizons



# 1) EU regulatory developments

## CSRD – EFRAG guidance on DMA (23/08/2023) - EFRAG IG DMA

- ESRS do not mandate how to conduct the double materiality assessment (DMA):

*Each undertaking shall design a fit for purpose DMA process based on facts and circumstances considering high level requirements (ESRS 1 CH 3) and related disclosures on process and outcome (ESRS 2 IRO-1, IRO -2 and SM-3)*

The materiality analysis has a **significant influence on the CSRD reporting scope**

- While ESRS 1 define the **output scales and pre-parameters\*** to be used in the DMA, the regulation does not prescribe any methodology for setting up appropriate quantitative and/or qualitative thresholds
- The performance of an **objective materiality assessment** is however essential to include relevant and faithful information on ESG matters that are material from an impact and/or financial perspective
- **A materiality assessment process** can consist of 4 steps:
  1. Identifying the list of potential material sustainability matters and impacts, risk and opportunities (IROs) given context and stakeholder engagement strategy
  2. Applying approach to define output scales based on thresholds
  3. Determining the final list of material IROs based on output scales
  4. Discussing the scores at topic level



# 1) EU regulatory developments

## CSRD – EFRAG guidance on Value Chain (23/08/2023) - EFRAG IG VC

- The Double Materiality Assessment (DMA) shall cover the identification of material Impact, Risk & Opportunities (IROs) that arise or may arise in the in the context of its business relationships in the Value Chain (VC). **Undertakings are required to include VC disclosures only connected to material IROs beyond its own operations due to business relationships** (not limited to Tier 1).
- **Associates and other investees which are not consolidated in the financial statements are treated as the other business relationships.** The inclusion of VC information in the sustainability statement does not affect the undertaking's reporting boundaries
- DMA in the VC shall **focus on where in the VC IROs are likely to materialize** (geographies, activities/sectors, operations, suppliers/customers/other relationships)
- **Key disclosures include on DMA include** (ESRS 2 )
  - Info on Strategy, Business Model and VC (SBM – 1)
  - Material IROs and their interaction with Strategy, Business Model (SBM – 3)
  - Process to identify IROs (IRO -1)
- **Topical standards require**
  1. To include VC information when disclosing policies, targets and actions related to material IROs in the VC
  2. To include VC data only for a few metrics (the undertaking shall include additional entity-specific metrics when appropriate)
- When the undertaking cannot collect VC information after making all reasonable efforts, it shall **estimate the missing information** based on available and supportable information **incl. proxies and sector data** and other information from indirect sources (AR 17/ESRS 1). ESRS 1 contains **specific 3 Year transitional provisions on VC** (see appendix)

# Questions?