

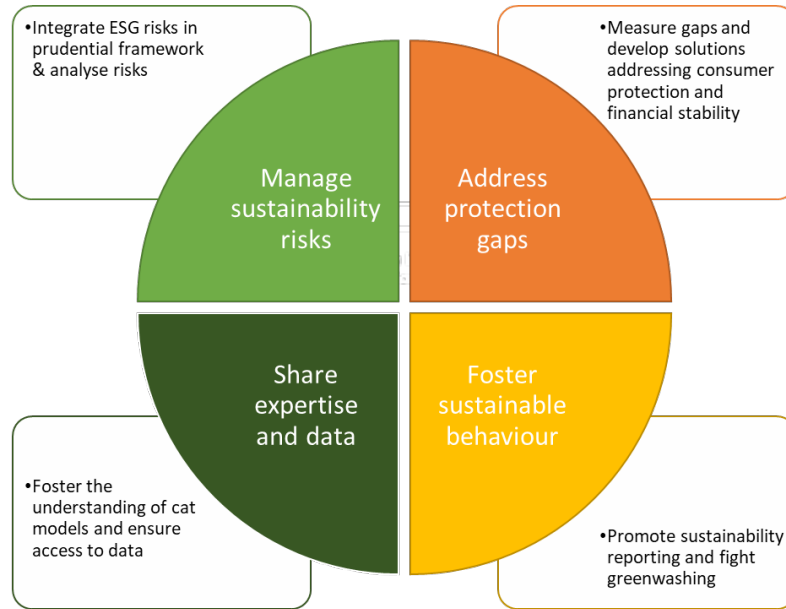
SUSTAINABLE DEVELOPMENT AND THE ROLE OF INSURANCE

Presenter: **Justin Wray**

Date: **03 May 2023**

EIOPA REGULAR USE

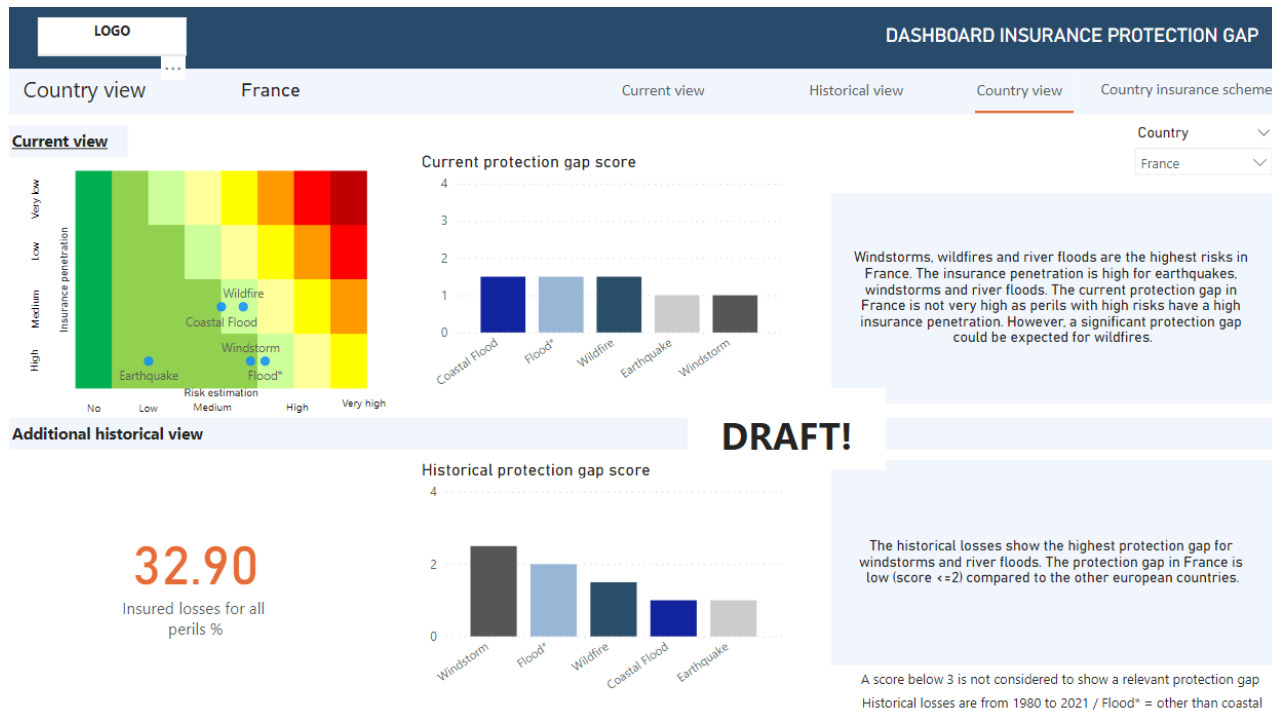
SUSTAINABLE INSURANCE AND PENSIONS: PROTECTING SOCIETY FOR THE LONG TERM



ROLES OF INSURERS – EXAMPLES OF EIOPA ACTIVITIES

- | | |
|---------------------|--|
| Risk managers | <ul style="list-style-type: none">▪ Dashboard on insurance protection gap for natural catastrophes▪ Open source modelling/Climada▪ Climate change risk scenarios in ORSA▪ Impact underwriting |
| Investors | <ul style="list-style-type: none">▪ Double materiality |
| Policyholders | <ul style="list-style-type: none">▪ Greenwashing |
| Financial stability | <ul style="list-style-type: none">▪ One off scenario exercise |

DASHBOARD ON INSURANCE PROTECTION GAP FOR NATURAL CATASTROPHES



NATURAL CATASTROPHE DASHBOARD: MAIN OUTCOMES

- Greece and Italy are the countries which have the highest total current insurance protection gap score for natural catastrophes. This can be explained by the fact that these two countries have high hazards and very low insurance penetrations.



Earthquake shows the highest protection gap scores.



Flood is the peril with the highest protection gaps after earthquakes.



Wildfire shows also countries with relevant protection gaps.



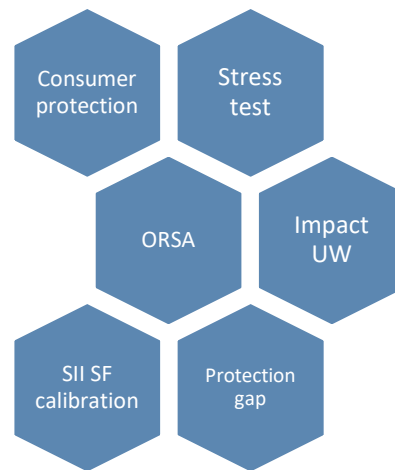
Windstorm is the peril with the smallest protection gap.

OPEN SOURCE MODELLING

Promote the use of open source modelling and data in relation to climate change risks

Data and models on climate-related risks are crucial to:

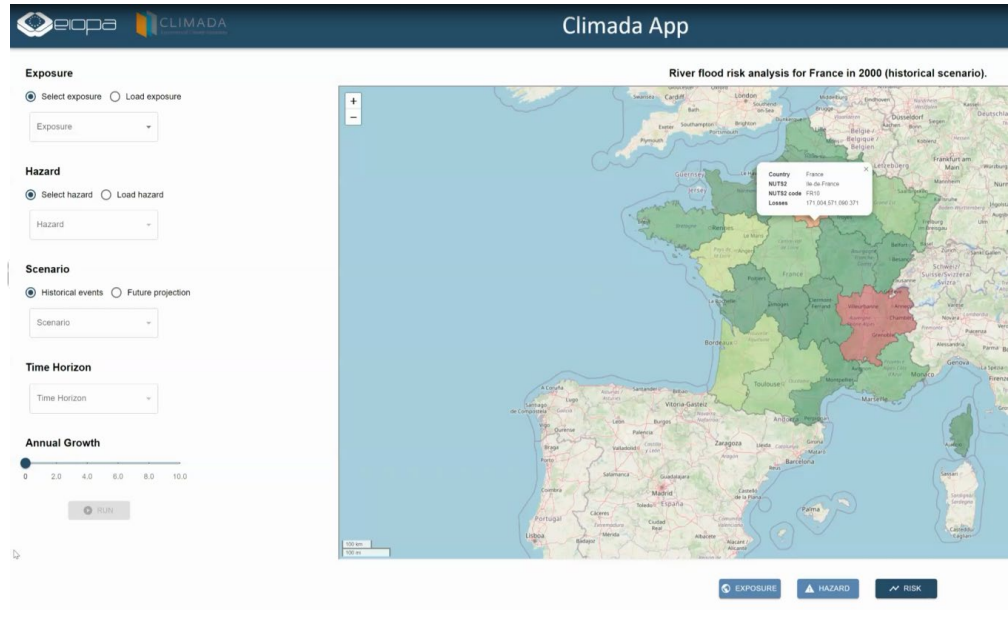
- ✓ Improve the accuracy of climate risk assessment for the industry, supervisory community and public sector.
- ✓ Improve prevention measures
- ✓ Increase risk awareness to policyholders, citizens...



CLIMADA NATURAL CATASTROPHE MODEL

EIOPA developed a user interface for the open-source catastrophe model CLIMADA.

This case study can be used for regulatory and supervisory purposes and aims to encourage further developments, help stakeholders to start doing catastrophe modelling ...



Public event: 16th of May 2023 [Opening the world of catastrophe models \(europa.eu\)](https://europa.eu)
Release of CLIMADA-App and exchange on other open-source initiatives

OPINION ON THE SUPERVISION OF THE USE OF CLIMATE CHANGE RISK SCENARIOS IN ORSA

- NCAs should expect undertakings to
 - assess climate change risks in their ORSA, both in the short- and long term
 - take a holistic view of climate change risk, covering both transition and physical risks
 - identify material climate change risks for their business
 - subject material risks to at least two long-term scenarios to assess the resilience of their business strategy
 - evolve the scope, depth and methodologies of quantitative analyses, as modelling approaches advance and undertakings gain more experience
 - present and explain the analysis of climate change risk in their ORSA supervisory report



OPINION ON THE SUPERVISION OF THE USE OF CLIMATE CHANGE RISK SCENARIOS IN ORSA: APPLICATION GUIDANCE

The application guidance is a document supporting the EIOPA opinion by giving practical and concrete examples to support the inclusion of climate change in the ORSA.

From December 2021 to February 2022 we ran a consultation procedure and today we will present the final version of the document and the proposed resolution of the comments received.

COM's Solvency II proposals require climate change scenarios in ORSA, when climate risks are material for undertaking

High level reader section

- Around 30 pages;
- Sections in the ORSA where undertakings have the possibility to address climate change risks;
- General insights on the materiality assessment and climate change scenarios.



Technical deep dive

- Around 120 pages;
- Concrete examples using life and non-life dummy companies, created using real data;
- Extended sections on materiality assessment and scenario analysis, treated for both assets and liabilities.



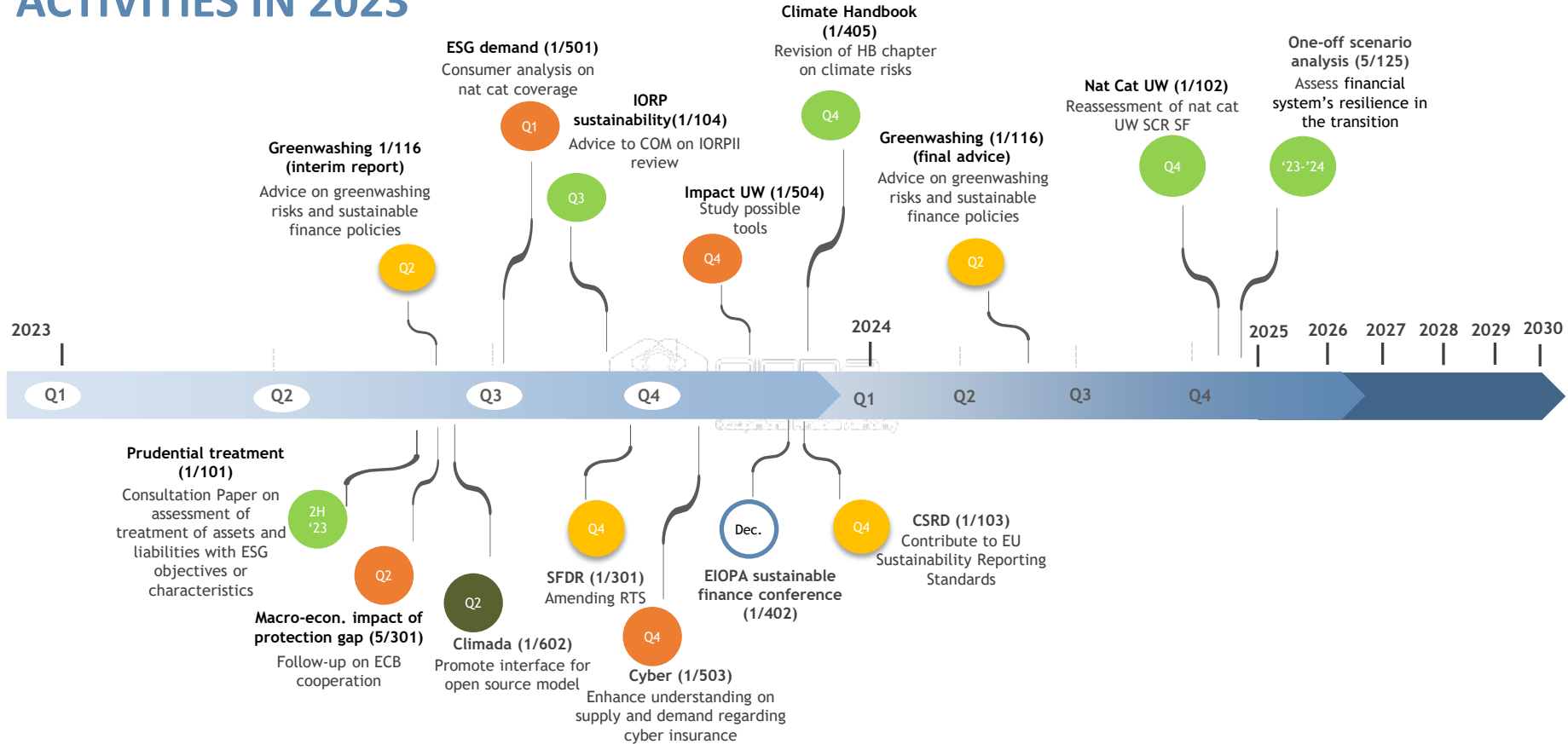
IMPACT UNDERWRITING

1. Pricing of products, including to reflect risk reduction measures which contribute to climate change adaptation
 - Example: certain flood damage policies in NL
2. Product design
 - Example: pay as you drive insurance
3. Underwriting strategy:
 - Net zero underwriting: Exclude non-sustainable activity (negative screening), and/or promoting in particular adaptation behaviour (positive screening)
 - Consider longer term non-life insurance
4. Differentiated risk-based pillar 1 treatment:
 - Is there a material difference in underwriting risks for sustainable products?



Approaches should remain consistent with actuarial risk-based principles

EIOPA'S SUSTAINABLE FINANCE ACTIVITIES IN 2023



= Manage sustainability risks



= Share expertise and data



= Address protection gaps



= Foster sustainable behaviour



THANK YOU!

For more information visit:
<https://www.eiopa.europa.eu>