Insurance Europe views on the integration of sustainability risks in Solvency II

European insurers strongly support the drive towards sustainability and are ready to build on their current actions to contribute further to the transition to a more sustainable society and to play their role in achieving the targets of the EU Green Deal. Sustainability is a key element of the 2020 Solvency II review and its appropriate inclusion in the prudential framework will provide confidence and clarity that climate, environmental and wider sustainability risks are appropriately managed by insurers.

Although sustainability-related risks are already explicitly referred to in Solvency II, the industry recognises the benefit of adding some further details. It therefore supports suitable changes to the Solvency II framework to incorporate specific sustainability-related elements that are risk- and evidence-based.

Against this background, the insurance industry supports the European Commission's proposals for incorporating sustainability into the Solvency II review and highlights the following key positions:

DO

- Regularly review — and update where necessary — the scope and the calibration of standard formula parameters pertaining to climate-related natural catastrophe risk.
- Introduce climate change scenario analysis into the Own Risk Self-Assessment (ORSA).
  - In doing this, care should be taken to ensure the ORSA remains an insurer's own risk and solvability assessment, so too much prescriptiveness should be avoided.
  - Low-risk profile undertakings (LRPUs) should be exempted, in line with the principle of proportionality.
- Give EIOPA a mandate to investigate whether a differential prudential treatment for green/brown assets, as well as assets with a social objective, is justified based on the evidence of risk differentials.
- Avoid creating overlaps and inconsistencies with other cross-sectoral regulation that can create confusion and unnecessary costs and operation burdens.
  - Transition Plans are supported for all sectors, including insurers. They will be well regulated in other cross-sectoral directives (Corporate Sustainability Reporting Directive (CSRD)/Corporate Sustainability Due Diligence Directive (CSDDD)), therefore incorporating them into Solvency II could be considered duplicative, as well as increasing the risk of inconsistencies with the other directives, and could create an unlevel playing field for insurers due to diverging transition-plan requirements for insurers. In addition, in line with the CSRD, (subsidiary) undertakings should be exempted from the transition-plan obligation if the (subsidiary) undertakings are included in the consolidated transition plan of a parent undertaking.
- Use the size criteria developed for defining LRPUs to allow small and medium-sized insurers to apply the simplified SME sustainability reporting standards under the CSRD.

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DON'T

- Do not introduce changes to capital requirements that are not risk- and evidence-based.

- Do not unnecessarily interfere with the prudent person principle (PPP)
  - The need to incorporate sustainability considerations into the PPP has already been added into the Solvency II framework.
  - Undertakings have the duty to manage assets in the best interest of the policyholder and they should be able to continue to do so. Sustainability preferences can and must be implemented within the PPP.

- Do not be prescriptive about remuneration policy
  - Insurers are already required to include in their remuneration policy information on how they take into account the integration of sustainability risks in their risk management system.

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