EIOPA-PSC-24/083

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CONSULTATION PAPER

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on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans

EIOPA-BoS-24-458

European Insurance and Occupational Pensions Authority

Table of Contents

Responding to this paper **6**

1. Background and Rationale **8**

1.1. Introduction 8

1.2. The amended Solvency II Directive 9

1.3. Mandate to EIOPA for drafting regulatory technical standards 11

1.4. Approach to the mandate 11

1.5. Structure of the analysis **Error! Bookmark not defined.**

2. Relationship of the sustainability risk plans with ORSA, transition plans, disclosure and reporting **14**

2.1 Own risk and solvency assessment 14

2.2 Regular supervisory reporting 15

2.3 Transition plans 16

2.4 Sustainability reporting and disclosure 18

3. Minimum standards and reference methodologies for the identification, measurement, management and monitoring of sustainability risks **20**

3.1 Basis for the sustainability risk assessment and plan 20

3.2 Elements of the sustainability risk plans 21

3.3 Governance 23

3.4 Materiality assessment 29

3.5 Financial risk assessment 36

3.6 Documentation and data requirements 42

3.7 Frequency 43

3.8 Metrics 45

3.9 Targets 55

3.10 Actions 57

4. Supervisory approach **58**

5. Disclosure **59**

6. Proportionality **61**

Draft Technical Standards **63**

7. Annex I: Impact Assessment **79**

Objectives 79

POLICY ISSUES 79

POLICY ISSUE A: LEVEL OF STANDARDISATION OF SUSTAINABILITY RISK MANAGEMENT REQUIREMENTS 79

POLICY ISSUE B: LEVEL OF CONSISTENCY WITH THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS UNDER THE CSRD 80

POLICY OPTIONS 81

POLICY ISSUE A: LEVEL OF STANDARDISATION OF SUSTAINABILITY RISK MANAGEMENT REQUIREMENTS 81

POLICY ISSUE B: LEVEL OF CONSISTENCY WITH THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS UNDER THE CSRD 81

IMPACT OF THE POLICY OPTIONS 82

POLICY ISSUE A: LEVEL OF STANDARDISATION OF SUSTAINABILITY RISK MANAGEMENT REQUIREMENTS 82

POLICY ISSUE B: LEVEL OF CONSISTENCY WITH THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS UNDER THE CSRD 84

COMPARISON OF POLICY OPTIONS 86

POLICY ISSUE A - LEVEL OF STANDARDISATION OF SUSTAINABILITY RISK MANAGEMENT REQUIREMENTS 86

POLICY ISSUE B - LEVEL OF CONSISTENCY WITH THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS UNDER THE CSRD 87

PREFERRED OPTIONS 87

8. Annex II: Overview of Questions for Consultation **89**

RESPONDING TO THIS PAPER

EIOPA welcomes comments on the Consultation Paper on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans.

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 provide your comments to EIOPA via EU Survey (link) by 26 February 2025 23:59 CET.

Contributions not provided via EU Survey or after the deadline will not be processed. In case you have any questions please contact SolvencyIIreview@eiopa.europa.eu.

Publication of responses

Your responses will be published on the EIOPA website unless: you request to treat them confidential, or they are unlawful, or they would infringe the rights of any third-party. Please, indicate clearly and prominently in your submission any part you do not wish to be publicly disclosed. EIOPA may also publish a summary of the survey input received on its website.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on public access to documents.[1]

Declaration by the contributor

By sending your contribution to EIOPA you consent to publication of all non-confidential information in your contribution, in whole/in part – as indicated in your responses, including to the publication of the name of your organisation, and you thereby declare that nothing within your response is unlawful or would infringe the rights of any third party in a manner that would prevent the publication.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725. More information on how personal data are treated can be found in the privacy statement at the end of this material.

Next steps

[1] Public Access to Documents.

EIOPA will revise the proposal in view of the stakeholder comments received. EIOPA will publish a report on the consultation including the revised proposal and the resolution of stakeholder comments.

1. BACKGROUND AND RATIONALE

1.1. INTRODUCTION

1. **Environmental, social and governance issues can pose prudential risks to insurers.** These sustainability risks may result from physical damage due to climate change and environmental degradation or from undertakings having to adapt to stricter climate, environmental or social policies, the effects of innovative technology to address these risks or changing market and consumer sentiment. Insurers will need to manage the impact of these sustainability risks on their operations.
2. **The Solvency II Directive requires undertakings to implement specific plans to address the financial risks from sustainability factors and mandates EIOPA to specify the elements of these plans.** Article 44 of the amended Solvency II Directive requires undertakings to develop and monitor the implementation of specific plans, quantifiable targets, and processes to monitor and address the financial risks arising in the short, medium, and long-term from sustainability factors. The Directive mandates EIOPA to specify in regulatory technical standards (RTS) the minimum standards and reference methodologies for the identification, measurement, management, and monitoring of sustainability risks, the elements to be covered in the plans, the supervision and disclosure of relevant elements of the plans.
3. **EIOPA aims to limit the burden on undertakings and establish a coherent and proportionate approach to sustainability risk management in implementing the Solvency II mandate for these plans (hereafter: 'sustainability risk plans').** For this purpose, the RTS apply the following approach:
    - **First, the proposed RTS build on the existing prudential requirements and integrate the sustainability risk plans into undertakings' existing risk management practices.** The Solvency II Delegated Regulation as amended in 2022 as well as amendments to the Solvency II Directive already require the management of sustainability risks. Existing policy statements and guidance issued by EIOPA set out supervisory expectations on aspects of sustainability risks management (see Sections 1.1 to 1.3). The elements of the sustainability risk plans feed off these requirements and into the own risk and solvency assessment (ORSA) of material financial risks (see Section 2.1). The sustainability risk plans will be part of undertakings' regular supervisory reporting (see Section 2.2).
    - **Second, the RTS ensure a read-across between the undertakings' sustainability and transition plans**. While the sustainability risk plans focus on prudential risks for insurers arising from sustainability factors, the undertakings' actions to mitigate these risks will need to consider their transition efforts (see Section 2.3).

- **Third, the RTS enable undertakings, including those that are subject to the Corporate Sustainability Reporting Directive (CSRD)[2], to disclose on sustainability risk in a consistent and efficient manner.** The RTS specify the minimum standards and methodologies, including selected risk metrics, for performing and disclosing on prudential sustainability risks, as required by the Solvency II Directive. Insurers subject to CSRD can feed the elements identified for public disclosure as part of the Solvency II Solvency and Financial Condition Report (SFCR), into the disclosure required under CSRD. (see Section 2.4).

4. Based on the mandate from Article 44 of the Solvency II Directive, the consultation paper is structured as follows:

- Section 1**:** sets EIOPA's approach in executing the Solvency II mandate.
- Section 2: explains how sustainability risk plans fit in with ORSA (section 2.1), are part of the regular supervisory reporting under Solvency II (section 2.2), can be read across with transition plans (section 2.3) and can feed into sustainability reporting under the CSRD (section 2.4).
- Section 3: analyses the scope for the regulatory technical standards to specify minimum standards and reference methodologies for the identification, measurement, management and monitoring of sustainability risks and identifies the elements to be covered in the specific plans, as required by (2c) (a) and (b) of the Solvency II Directive and implemented in Articles 3 to 9 of the RTS.
- Section 4: addresses the supervision of the plans, as required by Article 44 (2c)(c) of the Solvency II Directive and implemented in Article 10 of the RTS.
- Section 5: identifies the elements of the plan for disclosure, as required by Article 44 (2c)(d) and (2d), and implemented in Article 11 of the RTS.
- Section 6**:** addresses the application of proportionality measures, based on Article 44 (2b) and (2e), and implemented in Article 12 of the RTS.

1.2. THE AMENDED SOLVENCY II DIRECTIVE

The European Commission proposed amendments to Directive 2009/138/EC[3] (Solvency II Directive) in September 2021.[4] The provisional agreement of the European co-legislators on the amendments to

[2] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, Directive - 2022/2464 - EN - CSRD Directive - EUR-Lex (europa.eu) (CSRD)

[3] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335, 17.12.2009, p. 1–155

[4] Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks, group and cross-border supervision

the Solvency II Directive[5] introduces in Article 44 new requirements on the management of sustainability risks. Article 44 stipulates that:

- Paragraph 2, new sub-paragraph: *Insurance and reinsurance undertakings shall explicitly take into account the short, medium, and long-term horizon when assessing sustainability risks.*
  […] The supervisory authorities shall ensure that undertakings, as part of their risk management, have strategies, policies, processes, and systems for the identification, measurement, management, and monitoring of sustainability risks over the short, medium, and long term.
- New paragraph 2b: *Member States shall ensure that insurance and reinsurance undertakings develop and monitor the implementation of specific plans, quantifiable targets, and processes to monitor and address the financial risks arising in the short, medium, and long-term from sustainability factors, including those arising from the process of adjustment and transition trends towards the relevant Member States and Union regulatory objectives and legal acts in relation to sustainability factors, in particular those set out in Regulation (EU) 2021/1119 (European Climate Law).*

  The targets and measures to address the sustainability risks included in the plans referred to in the first subparagraph shall consider the latest reports and measures prescribed by the European Scientific Advisory Board on Climate Change, in particular in relation to the achievement of the climate targets of the Union. Where the undertaking discloses information on sustainability matters in accordance with Directive 2013/34/EU the plans referred to in the first subparagraph shall be consistent with the plans referred to in Article 19a or Article 29a of that Directive. In particular, the plans referred to in the first subparagraph shall include actions with regards to the business model and strategy of the undertaking that are consistent across both plans. Where relevant, the methodologies and assumptions sustaining the targets, the commitments and strategic decisions disclosed by undertakings to the public shall be consistent with the methodologies and assumptions included in the plans referred to in the first subparagraph.

  The targets, processes, and actions to address the sustainability risks included in the plans, referred to in this paragraph, shall be proportionate to the nature, scale, and complexity of the sustainability risks of the business model of the insurance and reinsurance activities, in accordance with Article 29(3);

- New paragraph 2d: *The undertaking shall disclose on an annual basis the quantifiable targets included in the plan referred to in paragraph 2b and 2e.*

- New paragraph 2e: *Where a participating insurance or reinsurance undertaking, insurance holding company or mixed financial holding company which has its head office in the Union is required to*

[5] corrigendum of the text of the provisional agreement as adopted by the European Parliament on 23 April 2024.

draw up a plan in accordance with paragraph 2b at the level of the group, Member States shall ensure that insurance and reinsurance subsidiaries which are covered by that plan and in the scope of group supervision in accordance with Article 213 (2), points a) and b), are exempted from drawing up a plan at individual level in accordance with paragraph 2b.'

1.3. MANDATE TO EIOPA FOR DRAFTING REGULATORY TECHNICAL STANDARDS

Article 44 new paragraph 2c*: In order to ensure consistent application of this Article, EIOPA shall develop draft regulatory technical standards to further specify:*

(a) the minimum standards and reference methodologies for the identification, measurement, management, and monitoring of sustainability risks;
(b) the elements to be covered in the plans to be prepared by the undertakings, which shall include specific timelines and intermediate quantifiable targets and milestones, in order to monitor and address the financial risks stemming from sustainability factors, as well as the interlinkages with the ORSA;
(c) supervisory approaches in relation to the plans, quantifiable targets, and processes, referred to in paragraph 2b and 2e;
(d) the elements of the plans to be disclosed, including the relevant quantifiable targets, in accordance with Article 51.

1.4. APPROACH TO THE MANDATE

5. **Regulatory efficiency.** The Regulatory Technical Standards (RTS) aim to build on and be consistent with:

(a) existing regulatory requirements for the integration of sustainability risks in the governance and risk management of (re)insurance undertakings (hereafter: undertakings) in the Solvency II Directive and Delegated Regulation[6].

(b) earlier publications by EIOPA including the Opinion on the supervision of the use of climate change risk scenarios in ORSA[7], the Application guidance on climate change materiality assessments and climate change scenarios in ORSA[8], the Report on prudential treatment of sustainability risks for

[6] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.

[7] EIOPA issues Opinion on the supervision of the use of climate change risk scenarios in ORSA - EIOPA (europa.eu)

[8] Application guidance on climate change materiality assessments and climate change scenarios in ORSA - EIOPA (europa.eu)

insurers[9], and the EIOPA staff paper on nature-related risks and impacts for insurers[10]. It also builds on relevant parts of the EIOPA Supervisory Handbook Chapter on the Supervision of climate change risks in the context of Solvency II Pillar II requirements. [11]

(c) sustainability disclosure requirements under SFDR[12] and CSRD, and elements of CSDDD[13] related to climate mitigation transition plans, where relevant.

6. **Proportionality.** In addition to ensuring regulatory efficiency, to minimise the regulatory and administrative burden on undertakings, the RTS aim to be sufficiently principle-based to allow for evolving insights on risk management of sustainability risks. The RTS also include specific proportionality measures for small and non-complex undertakings, including simplified approaches for financial risk assessment, or limited disclosure requirements.
7. **Interlinkage with the ORSA.** Sustainability risk plans need to have a risk-based focus to be useful for risk management and prudential purposes. The RTS sets out how the elements of the sustainability risk plans knit in with the analysis of material sustainability risks in the undertakings' ORSA.
8. **Cross-sectoral consistency**. The European Banking Authority (EBA) received an almost identical mandate in the revised Capital Requirements Directive[14], for the elaboration of guidelines on the subject matter. The EBA mandate does not require specification of elements for disclosure, nor identification of supervisory approaches. EBA consulted on draft guidelines until April 2024 and aims to finalise the Guidelines by early 2025. The draft EIOPA RTS are aligned to the extent relevant with the content of the EBA guidelines. For the identification of relevant quantifiable targets and metrics for sustainability risk management, as well as for the disclosure of elements of the plans, the RTS also considered the EBA Pillar 3 disclosures on ESG risks.[15]
9. **Consistency with undertakings' transition plans**. Where relevant, the methodologies and assumptions sustaining the transition targets, the commitments and strategic decisions disclosed by the undertaking to the public should be consistent with the methodologies and assumptions included in the prudential sustainability risks plans.

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[9] Final Report on the Prudential Treatment of Sustainability Risks for Insurers - EIOPA

[10] EIOPA Staff paper on nature-related risks and impacts for insurance - EIOPA (europa.eu)

[11] EIOPA Supervisory Handbook Chapter on the Supervision of climate change risks

[12] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector and the Corrigendum: EUR-Lex - 32022R1288R(01) - EN - EUR-Lex (europa.eu) (SFDR)

[13] Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/285, Directive - EU - 2024/1760 - EN - EUR-Lex (europa.eu) (CSDDD)

[14] Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks ('CRD6')

[15] EBA published its final ITS on Pillar 3 disclosures on ESG risks on 24 January 2022. The ITS contain tables, templates and instructions on the disclosure of prudential information on ESG risks, including transition and physical risks, addressed to large, listed undertakings.

10. **Align with relevant sustainability disclosure requirements**. The CSRD, implemented by the European Sustainability Reporting Standards[16], sets out elements for disclosure on risk management policies, processes to identify risks, metrics, targets, and actions. The elements of the sustainability risk plans enable undertakings subject to CSRD to feed into CSRD reporting. To the extent relevant, the disclosure requirements on elements of the Solvency II sustainability risk plan align with the structure of the CSRD disclosures, ensuring limited reporting burden.[17]
11. **Double materiality.** On the financial side, insurers can be materially exposed to sustainability risks, which translate through prudential risk categories (including market, credit, liquidity, underwriting, reserving, operational, legal, or reputational risks). These outside-in risks are sustainability risks incurred by the undertaking. On the sustainability impact side, insurers can have an impact on sustainability factors through their core business activities. These inside-out impacts can in turn generate financial risks for the undertaking (incl. reputational risk. The identification, assessment and management of sustainability risks should take both dimensions into account to the extent that they affect the own financial risks undertakings are exposed to.
12. **Environmental as well as social and governance-related risks.** According to the Solvency II Directive sustainability risks include environmental as well as social and governance risks (Article 13(41c) Solvency II Directive). While undertakings are more advanced on the measurement and assessment of climate change-related risks, it is important that undertakings progressively develop tools and practices that aim at identifying, assessing, and managing the impact of a sufficiently comprehensive scope of sustainability risks, extending beyond climate-related risks. These include other environmental risks stemming from degradation of ecosystems and biodiversity loss, as well as social risks arising from dependencies on human and social resources and impacts on working conditions and living standards, communities, and consumers and end-users[18]. A principle-based approach should allow for practices to evolve within the regulatory framework to cater for the identification and management of other environmental, social and governance risks.

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[16] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards: Delegated regulation - EU - 2023/2772 - EN - EUR-Lex (ESRS).

[17] The SFDR requires insurers offering investment-based insurance products to disclose Principal Adverse Impact indicators (PAIs). The undertaking can consider these indicators (e.g. GHG scope 1,2,3 emissions) to build up metrics for the financial risk assessment. This may require a further level of granularity for prudential risk management purposes, translating impact indicators into financial risk indicators.

[18] Final Report on the Prudential Treatment of Sustainability Risks for Insurers - EIOPA

2. RELATIONSHIP OF THE SUSTAINABILITY RISK PLANS WITH ORSA, TRANSITION PLANS, DISCLOSURE AND REPORTING

2.1 OWN RISK AND SOLVENCY ASSESSMENT

Article 44 (2c) of the Solvency II Directive requires that EIOPA develops draft regulatory technical standards to further specify (underlining added)

(a) the minimum standards and reference methodologies for the identification, measurement, management and monitoring of sustainability risks and

(b) elements to be covered in the plans to be prepared by the undertakings, which shall include specific timelines and intermediate quantifiable targets and milestones, in order to monitor and address the financial risks stemming from sustainability factors, <u>as well as the interlinkages with the ORSA</u>

13. In the ORSA, undertakings assess the impact of material risks on their solvency position and the appropriateness of the assumptions underlying their Solvency Capital Requirement, through stress and scenario analysis over the short-, medium- and long-term horizon.
14. Undertakings are required to have effective risk management systems in place to ensure appropriate identification, measurement, and management of the risks to which they can be exposed (Article 44(a) Solvency II Directive). As part of the ORSA, undertakings shall conduct a materiality assessment of their exposure to climate change risk. The undertaking shall demonstrate the materiality of its exposure in the ORSA and where the risk is material (except for small and non-complex undertakings), the undertaking shall conduct at regular intervals (at least every 3 years) the analysis of the impact of at least two long-term climate change scenarios on its business (Article 45a Solvency II Directive).
15. The sustainability risk plan should incorporate these elements and provide a holistic view on how environmental, social and governance risks are identified, measured, managed, and monitored in the short, medium and long-term in line with the undertaking's long-term strategy, risk appetite and investment and underwriting strategy and decisions.
16. Following a materiality assessment, where a risk is deemed material, the undertaking will assess of the potential financial impact of the risk as part of its the ORSA. According to Article 45(a) of the Solvency II Directive undertakings, where they identify a material exposure to climate change, shall consider at least two long term climate change scenarios. The scenarios used in the ORSA should build on the initial assessment and assumptions made for the identification of the material

sustainability risks in the risk plan. Undertakings will, as part of their ORSA, document their sustainability risk assessment, including methodologies and scenarios and main conclusions reached.

17. Therefore, there is a close relation between the sustainability risk plans (Article 44 Solvency II Directive), and the ORSA (Article 45 and 45a Solvency II Directive). The sustainability risk plan will include the identification, assessment, and monitoring of sustainability risks as to their potential materiality. This assessment should enable undertakings to perform longer term risk assessment for the purpose of setting longer term targets and strategies. The materiality risk assessment contained in the sustainability risk plan should also provide information on why the undertaking considers certain risks not to be material. Where material sustainability risks are identified as part of the materiality risk assessment, these will be subject to financial risk assessment in the ORSA.
18. In this context, the RTS aim to align the approaches, including time horizons and frequency for the sustainability risk assessment, with the approach for financial risk assessment in the ORSA (see sections 3.4, 3.5 and 3.7, in particular).

Question to stakeholders:

Q1: Do you have comments on the proposed relationship between the sustainability materiality and exposure assessments and the ORSA? Would you see the need to further clarify?

2.2 REGULAR SUPERVISORY REPORTING

19. The regular supervisory reporting under Solvency II requires undertakings to report the following to the supervisor, in accordance with Article 304 of the Solvency II Delegated Regulation:

A **regular supervisory report (RSR)** comprising the information referred to in Articles 307 to 311 of the Solvency II Delegated Regulation. The regular supervisory report shall include a summary highlighting any material changes that have occurred in the undertaking's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management over the reporting period and provide a concise explanation of the causes and effects as well as information on the ORSA. The submission of the RSR to the supervisor is at least every three years; and whenever any material changes occur over the given financial year (Article 312(1)(a) and (3) Solvency II Delegated Regulation).

The **own-risk and solvency assessment supervisory report (‘ORSA supervisory report’)** (Article 306 Solvency II Delegated Regulation) comprising the results of each regular own risk and solvency assessment performed by the insurance and reinsurance undertakings in accordance with Article 45(6) of the Solvency II Directive. The ORSA shall be performed regularly and without any delay

following any significant change in their risk profile (Article 45 (5) Solvency II Directive)19. In addition, undertakings are required to perform at regular intervals (minimum every 3 years) the analysis of the impact of material exposure to climate change risks on their business, specifying at least two long-term climate change scenarios (Article 45a Solvency II Directive). The ORSA supervisory report shall be submitted to the supervisor within 2 weeks after concluding the assessment' (Article 312 (1)(b) Solvency II Delegated Regulation).

Annual and quarterly quantitative reporting templates according to Article 304 of the Solvency II Directive, and the applicable implementing technical standards.

20. The RTS aim to align the frequency of submission of the sustainability risk plan with the regular supervisory reporting timeframes and ensure the timeliness of the performance of the risk assessment in view of the performance of the ORSA. Information on business and performance, governance and risk profile from the sustainability risk plan can be reported in summary form as part of the supervisory reporting (based on Art. 309 (2) DR, 309 (7), 308 (7), 308 (3)). Hence, consideration is given as to how much the elements of the sustainability risk plan can integrated in the regular supervisory reporting (see section 3.7)

Question to stakeholders:

Q2: Do you have comments on the proposed description of the relationship between the reporting on the sustainability risk plan and the regular supervisory reporting under Solvency II? Would you see the need to further clarify?

2.3 TRANSITION PLANS

Article 44 (2b) of the Solvency II Directive stipulates that:

Member States shall ensure that insurance and reinsurance undertakings develop and monitor the implementation of specific plans, quantifiable targets, and processes to monitor and address the financial risks arising in the short, medium, and long-term from sustainability factors, including those arising from the process of adjustment and transition trends towards the relevant Member States and Union regulatory objectives and legal acts in relation to sustainability factors, in particular those set out in Regulation (EU) 2021/1119 (European Climate Law).

[19] Guideline 14 of the EIOPA Guidelines on Own Risk and Solvency Assessment stipulates that the ORSA shall be performed on an annual basis.

[…] In particular, the plans referred to in the first subparagraph shall include actions with regards to the business model and strategy of the undertaking that are consistent across both plans. Where relevant, the methodologies and assumptions sustaining the targets, the commitments and strategic decisions disclosed by undertakings to the public shall be consistent with the methodologies and assumptions included in the plans referred to in the first subparagraph.

21. While (climate mitigation) transition plans required under CSDDD and disclosed under CSRD aim at accompanying the transition to a net zero economy, prudential sustainability risk plans aim at identifying, measuring, managing and monitoring financial risks to the insurer's assets and liabilities arising from sustainability factors, including those arising from the transition of the economy.
22. The CSDDD requires (very) large insurers to adopt climate mitigation transition plans, to ensure that the "*business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 degrees in line with the Paris Agreement and the objective of achieving climate neutrality (as established by EU Climate Law), including its intermediate and 2050 climate neutrality targets*". The plan should contain (i) science-based and time-bound GHG emissions reduction targets from 2030, in five-year steps up to 2050, (ii) key levers and actions to reach targets, (iii) investments and funding supporting the plan and (iv) governance of the plan (Article 22 CSDDD).
23. Undertakings subject to sustainability reporting under CSRD are required to disclose '*plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council, and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities*'. (Article 19a CSRD).
24. The plans referred to in the CSDD and CSRD are transition plans. The RTS do not specify elements for transition plans as defined under CSDDD or CSRD, as their primary focus is on prudential risks, including those caused by the transition.
25. However, to ensure a read-across of the undertakings transition plans, the RTS on the sustainability risk plans consider that targets and actions in the undertaking's transition planning are relevant to consider for risk management purposes, and vice versa (see Sections 3,9 and 10). The undertaking's risk management should consider risks arising from its transition planning and ensure consistency in the following areas:

- Consistency between targets and actions set out in transition plans under CSDDD and reported under CSRD for reducing the impact of the underwriting or investment strategy on sustainability factors, on the one hand, and targets and actions to manage the financial risk arising from these actions, on the other hand. For example, developing transition trajectories under CSDDD allows

insurers to monitor their contribution to the transition, as well as requires them to manage the ensuing changes to their portfolios and the (prudential) risks arising from these changes, in addition to the transition risks from the general economy.

- Where the sustainability risk plan identifies potential financial risks arising from impacts on sustainability factors (such as legal, operational, reputational or market and underwriting risks), the measures taken to reduce these impacts can also contribute to transition targets. For example, reducing investments in a certain economic activity to reduce, for example, reputational risk, eventually can contribute to the transition target set out in the transition plan.
- The undertaking's financial position can weaken if the undertaking makes misleading statements in its sustainability risk plan, expressing a misjudgement on its risk exposure. This can lead to unanticipated losses or reduced returns, and if such statements are disclosed, cause further reputational or legal risk. Similarly, the lack of credibility of a transition plan may also cause risks to an insurer, when disclosed. This can cause reputational or legal risks, which can impact the undertaking from a prudential risk perspective.

Question to stakeholders:

Q3: Do you have comments on the proposed description of the relationship between the sustainability risk plan and transition plans required under CSDDD? Would you see the need to further clarify?

2.4 SUSTAINABILITY REPORTING AND DISCLOSURE

Article 44 (2b) of the Solvency II Directive stipulates that:

Where the undertaking discloses information on sustainability matters in accordance with Directive 2013/34/EU, the plans […] shall be consistent with the plans referred to in Article 19a or Article 29a of that Directive[20] *and shall in particular include actions with regards to the business model and strategy of the undertaking that are consistent across both plans. Where relevant, the methodologies and assumptions sustaining the targets, the commitments and strategic decisions disclosed by undertakings to the public shall be consistent with the methodologies and assumptions included in the [sustainability risk] plans.*

26. Solvency II requires the disclosure of a solvency and financial condition report (SFCR) (Article 304 1 (a) Solvency II Delegated Regulation) on an annual basis (Article 51 Solvency II Directive). With

[20] referring to transition plans.

regard to sustainability matters, the SFCR shall include a brief description of the capital management and the risk profile in relation to sustainability risks; and a statement of whether the undertaking discloses the plans referred to in Article 19a or Article 29a of Directive 2013/34/EU (Article 51 1a (b, c) Solvency II Directive).

27. The CSRD requires large undertakings to disclose information on material impacts, risks, and opportunities in relation to environmental, social and governance sustainability matters. The European Sustainability Reporting Standards (ESRS)[21], implementing the CSRD set out:

- requirements for preparing and presenting the information (ESRS 1).
- general disclosure requirements across all material sustainability matters in the areas of governance, strategy, impact, risk and opportunity management, and metrics and targets (ESRS 2).
- requirements in topical areas on the different sustainability matters (sub-topics of environmental, social and governance matters) (e.g. ESRS E1 on climate change mitigation).

28. The ESRS also provide a structure for undertakings 'sustainability statements' as part of a dedicated section in the undertaking's management report (ESRS 1, Appendix F). The ESRS specify that for the assessment of the financial materiality, risks (contributing to negative deviations in future expected cash flows) and opportunities (contributing to positive deviations in future expected cash flows) shall be identified, and for determining which of them are material for reporting, appropriate thresholds and time horizons should be applied (ESRS 1, A.R 13-16).
29. In addition, Article 44 (2b) of the Solvency II Directive requires that where an undertaking discloses information on sustainability matters in accordance with the CSRD, the methodologies and assumptions sustaining the targets, commitments and strategic decisions disclosed under the CSRD shall be consistent with the methodologies and assumptions included in the sustainability risk plans.
30. To limit the burden on undertakings arising from the requirement to disclose elements of the sustainability risk plans under Article 44(2b) of the Solvency II Directive, the RTS aligns the disclosure requirements with the requirements set out in Articles 19a and 29a of the CSRD. (see Section 5). This should enable risk assessments to be performed and disclosed in a consistent manner under both frameworks. To this purpose, the RTS align with the structure of the disclosure requirements (ESRS 2), and with the ESRS' minimum requirements (e.g. on materiality assessment) (see Article 11 of the RTS). This does not pre-empt the ongoing work at EFRAG in the development of potential sector-specific standards.
31. The RTS also identify see Annex II how the elements from the sustainability risk plan can feed into the sustainability reporting under the CSRD.

Question to stakeholders:

[21] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards: Delegated regulation - EU - 2023/2772 - EN - EUR-Lex (ESRS)

Q4: Do you have comments on the description of the relationship between the disclosure in Solvency II and public reporting requirements under CSRD? Would you see the need to further clarify?

Q5: Do you consider that the requirements set out in the Articles of the RTS will enable undertakings that are subject to CSRD, to feed relevant information on sustainability risks into the disclosures required by ESRS, thereby limiting possible burden? Please elaborate on your response by also considering Annex II of the RTS, which explains how the elements of the sustainability risk plan feed into the disclosures under CSRD.

3. MINIMUM STANDARDS AND REFERENCE METHODOLOGIES FOR THE IDENTIFICATION, MEASUREMENT, MANAGEMENT AND MONITORING OF SUSTAINABILITY RISKS

3.1 BASIS FOR THE SUSTAINABILITY RISK ASSESSMENT AND PLAN

Article 44 2c (a) of the Solvency II Directive requires that EIOPA develops draft regulatory technical standards to further specify

minimum standards and reference methodologies for the identification, measurement, management and monitoring of sustainability risks

32. The Solvency II Directive and Delegated Regulation already set out requirements for the identification, measurement, management, and monitoring of sustainability risks. As a result insurers shall integrate sustainability risk assessment in their system of governance, risk-management system and ORSA, in line with Articles 44(2), 45(2) and 45a of the Solvency II Directive and Article 262(1)(a) of the Solvency II Delegated Regulation, as illustrated below.
    - **Risk management function and areas**: the risk management function shall identify and assess emerging and sustainability risks. The sustainability risks identified by the risk management function shall form part of the own solvency needs assessment in the ORSA (Article 269 Solvency II Delegated Regulation). Undertakings shall integrate sustainability risks in their policies. This includes the underwriting and investment policies, but also, where relevant policies on other areas (e.g. ALM, liquidity, concentration, operational, reinsurance and other risk mitigating techniques, deferred taxes risk management).

The underwriting and reserving policy shall include actions by the undertaking to assess and manage the risk of loss resulting from inadequate pricing and provisioning assumptions due to internal or external factors, including sustainability risks.

The investment risk management policy shall include actions by the insurance or reinsurance undertaking to ensure that sustainability risks relating to the investment portfolio are properly identified, assessed, and managed.

- **Prudent person investment principle**: when identifying, measuring, monitoring, managing, controlling, reporting, and assessing risks arising from investments, undertakings shall take into account the potential long-term impact of their investment strategy and decisions on sustainability factors (Article 275a Solvency II Delegated Regulation).
- **Actuarial function**: regarding the underwriting policy, the opinion to be expressed by the actuarial function shall at least include conclusions on the effect of sustainability risks (Article 272 Solvency II Delegated Regulation).
- **Remuneration policy:** The remuneration policy shall include information on how it takes into account the integration of sustainability risks in the risk management system (Article 275 Solvency II Delegated Regulation).[22]

33. The RTS therefore do not add requirements which an undertaking would not already be expected to implement. Furthermore, the requirement for EIOPA to specify minimum standards and reference methodologies for the identification, measurement, management, and monitoring of sustainability risks takes into account its Application guidance on climate change materiality assessments and climate change scenarios in ORSA sets out supervisory expectations on the integration of the use of climate change scenarios by insurance undertakings in their ORSA, which encourage a forward-looking management of these risks, also in the long term. The RTS will also further consider the results of its monitoring of the Opinion on the supervision of the use of climate change risk scenarios in ORSA.[23]

3.2 ELEMENTS OF THE SUSTAINABILITY RISK PLANS

Article 44 2c (b)of the Solvency II Directive requires that EIOPA develops draft regulatory technical standards to further specify:

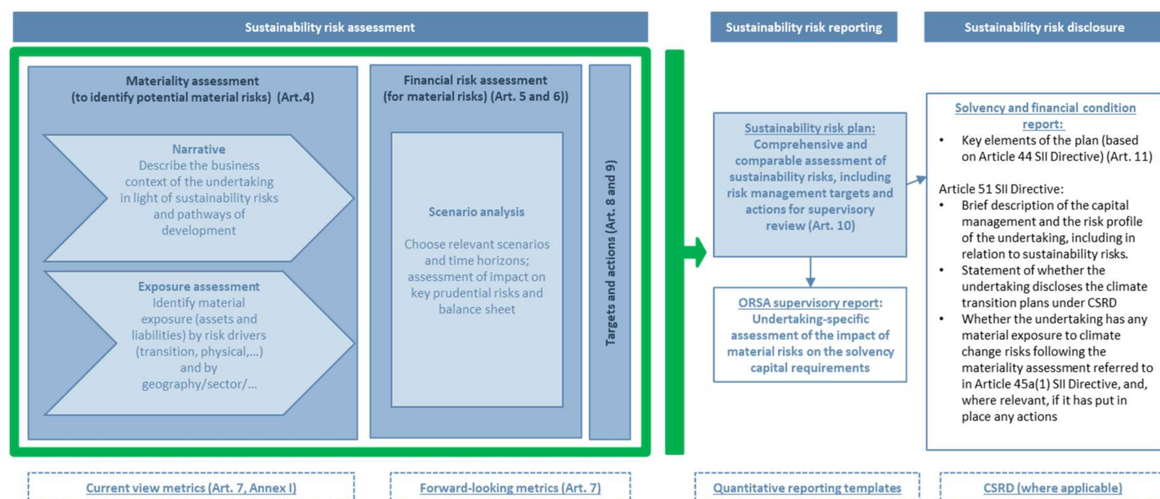
[22] Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings, https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AL%3A2021%3A277%3ATOC&uri=uriserv%3AOJ.L_.2021.277.01.0014.01.ENG

[23] Opinion on the supervision of the use of climate change risk scenarios in ORSA - European Union (europa.eu)

elements to be covered in the plans to be prepared by the undertakings, which shall include specific timelines and intermediate quantifiable targets and milestones, in order to monitor and address the financial risks stemming from sustainability factors, as well as the interlinkages with the ORSA.

34. Considering the relationship with the ORSA, regular supervisory reporting and public disclosure as described above, Figure 1 below sets out the structure of the sustainability risk assessment and key elements of the plan:

Figure 1: Structure of the sustainability risk assessment and key elements of the plan, with reference to the Article of the RTS



35. Article 3 of the RTS sets out the main elements of the plan as structured above, and which are detailed in Articles 4 to 9.
36. The sustainability risk plans should be sufficiently robust to support insurers' risk management process and the supervisory review of the risk management. Considering the information that is required in the ORSA (for material risks), the sustainability risk plans reported to the National Supervisory Authority should include as a minimum:
    a) Governance arrangements and policies to identify, assess, manage, and monitor material sustainability risks.
    b) A sustainability risk assessment consisting of:
        I. A materiality assessment.
        II. A financial risk assessment.
    c) Explanation of the key results obtained from the materiality assessment and from the financial risk assessment, where applicable
    d) The risk metrics, where relevant, based on different scenarios and time horizons.
    e) Quantifiable targets over the short, medium, and long term to address material risks in line with the undertaking's risk appetite and strategy.

f) Actions by which the undertaking manages the sustainability risks according to the targets set.

Question to stakeholders:

Q6: Do you agree with Article 3 of the RTS? If not, please specify why.

3.3 GOVERNANCE

37. The establishment of the sustainability risk plan should enable the undertaking to consider how sustainability risks may impact the undertaking's business strategy, its risk appetite and its investment and underwriting strategy and decisions. This should contribute to a structured engagement with the supervisor on the management of material sustainability risks.
38. As a starting point, the establishment of the sustainability risk plans should be embedded in the governance of the undertaking.

Business model and strategy

39. Sustainability risks and opportunities can affect the business planning over a short-to-medium term and the strategic planning over a longer term.
40. The Administrative, Management, and Supervisory Body (AMSB) should set risk exposure limits, targets, and thresholds for the risks that the undertaking is willing to bear with regards to sustainability risks, taking into account:
    - Short-, medium- and long-term time horizon, considering the impact sustainability risks may have soon, but also over the longer term, to be reflected in the business planning over a short-to-medium term and the strategic planning over a longer term.
    - The impact of sustainability risks on the external business environment that will feed into the (re)insurers' strategic planning.
    - The undertaking's exposure to material sustainability risk, across sectors and geographies, the transmission channels across risk categories and lines of business.
    - Qualitative and quantitative results from scenario, sensitivity, and stress testing.

Table 1: Potentially relevant questions for integrating sustainability risk assessment into governance.

Potentially relevant questions which the undertaking can consider when integrating sustainability risk assessment into its governance are: • How does the AMSB expect that sustainability risks might affect its business? • Does the AMSB consider sustainability factors as a risk and/or opportunity? If yes, in what ways might environmental, social or governance factors pose risks to the undertaking's business in economic or financial terms, or create opportunities? If neither risk nor

opportunities seem to exist, why not? Has the undertaking elaborated different strategic options to manage the risks and how they have been developed?

- Has the AMSB implemented or planned any substantive changes to its business strategy in response to current and potential future sustainability impacts? If yes, what are the key risk drivers that it would consider relevant to its strategy? If not, why not?
- Is the AMSB concerned about secondary effects or indirect impacts of sustainability on the undertaking's overall strategy and business model (e.g. any systemic repercussions on the industry or the economy)?
- What is the undertaking's time horizon for considering environmental, social or governance risks?

Governance

41. Considering that sustainability risks are drivers of prudential risks, in order to ensure the effective management of these risks, the allocation of tasks and responsibilities for the identification, measurement, monitoring, management, mitigation and reporting of climate change-related risks needs to be integrated throughout the governance structure, establishing clear working procedures and responsibilities.

The AMSB

42. **Fitness and propriety.** The AMSB is responsible for setting undertakings' risk appetite and making sure that all risks, and therefore also sustainability risks, if material, are effectively identified, managed, and controlled.
43. For this, the AMSB should collectively possess the appropriate qualification, experience, and knowledge relevant to assess long-term risks and opportunities related to sustainability risks, which may be obtained or improved through appropriate training.
44. **Effectiveness.** To ensure the AMSB effectively executes its responsibilities to identify, manage and control sustainability risks, the AMSB should:

    i. be aware of their obligations in the context of the long-term impacts of sustainability risks.

    ii. be capable of identifying sustainability risks as possible key risks for the undertaking.

    iii. openly discuss within the AMSB sustainability risks and opportunities.

    iv. effectively communicate on sustainability risks as possible key risks to in the short and long term.

    v. interact with the rest of the organisation by putting sustainability risk as a possible key topic in the day-to-day business.

    vi. plan and deliver results by considering the impact of sustainability risks and opportunities.

vii. take sustainability risks into consideration in the decision-making process.

Risk management and other key functions.

45. The **risk management function** has a vital role in:

i. **Risk identification and measurement**: The risk management function will need to ensure that the undertaking effectively identifies how sustainability risks could materialise within each area of the risk management system. It also sets the approach used by undertakings to measure and quantify their exposure to sustainability risks, including understanding the limitations of the methods used, and any gaps the undertaking faces in data and methodologies to assess the risks.

   Undertakings need to apply relevant tools to identify risks in a proportionate way depending on the nature, scale, and complexity of the risks. Given the forward-looking nature of the risks and the inherent uncertainty associated with sustainability risks, undertakings will need to use appropriate methodologies and tools necessary to capture the size and scale of the risks. This would imply going beyond using only historical data for the purposes of the risk assessment and depending on the materiality of risk at stake, implement forward-looking technique (i.e. stress testing and scenario analysis), for example by considering also future trends in catastrophe modelling or environmental risk assessment.

   Science, data, or tools may not yet be sufficiently developed to estimate the risks accurately. As undertakings' expertise and practices develops, the expectation should be that the approach to identifying and measuring the sustainability risks will mature over time.

   Hence, the risk management function will need to establish the following:

   - clear policies and procedures for identifying, measure, monitor, managing and report sustainability risks, and the review and approval by the AMSB.
   - qualitative, quantitative or a mix of both approaches to appropriately identify and measure the risks, and any limitations to data and tools.
   - forward-looking analysis of underwriting liabilities or investment portfolios under different future (transition) scenarios, setting out the key data inputs and assumptions as well as gaps and barriers (information, data, scenarios) which complicate undertaking's efforts to undertake scenario analysis.
   - oversight of any activities performed by the external service providers (e.g. ESG rating providers).

ii. **Risk monitoring**: The risk management function will need to establish the methodologies, tools, metrics and suitable key risk or performance indicators to monitor the sustainability risks and ensure that risks are consistent with internal limit and its risk appetite.

   These quantitative and qualitative tools and metrics would aim, for example, at monitoring exposures to climate change-related risk factors which could result from changes in the

concentration of the investment or underwriting portfolios, or the potential impact of physical risk factors on outsourcing arrangements and supply chains.

The tools and metrics need to be updated regularly to ensure that risks underwritten, or investments made remain in line with undertakings' risk appetite and support decision making by the AMSB. In addition to that, a list of circumstances which would trigger a review of the strategy for addressing the sustainability risks can be considered as a good practice.

iii. **Risk management/mitigation**: Risk management measures should be proportionate to the outcome of the materiality assessment.

Where material potential impacts of the sustainability risks have been identified, undertaking(s) should identify risk management and mitigating measures. The written policies on the investment and underwriting strategy should include such potential measures.

Based on the double materiality principle, the investment and underwriting policy will also consider the financial risks to the balance sheet arising from the impact posed by the underwriting and investment strategy and decisions on sustainability factors. Risk management measures can therefore include measures to help reducing risks caused by climate change, through premium incentives, for example.

46. The **actuarial function** shall also consider sustainability risks in its tasks. This would include:
    - concluding on the effect of sustainability risks in the opinion on the underwriting policy. For example, considering the increasing expected losses from physical damage due to increasingly severe and frequent natural catastrophes, the choice of underwriting certain perils, but also the pricing of the perils will need to be considered in a forward-looking manner, having regard to the sustainability of the business strategy.
    - an opinion on the adequacy of the reinsurance arrangements of the undertaking taking special account of the sustainability risks of the undertaking, the undertaking's reinsurance policy and the interrelationship between reinsurance and technical provisions. The undertaking may consider that in times of increasing losses due to climate change, the reinsurance market may 'harden' and increase the cost for primary reinsurance.
    - contributing to the effective implementation of the risk management system, providing the necessary support to the risk management function. For example, considering increasing losses for natural catastrophes due to climate change, the actuarial function will need to contribute to the assessment of the risk and opportunity of underwriting certain natural perils. The actuarial pricing of climate change risks can inform the overall risk management strategy and contribute to the underwriting policy by informing on the risks of underwriting certain perils and the opportunity to invest in prevention measures to reduce the losses. The consideration of climate change in an actuarial risk-based manner should allow for the consideration of incentives in the pricing and underwriting of certain natural hazards, with the view to potentially reduce losses over a longer-term perspective.

- coordinating the calculation of technical provisions and overseeing the calculation of technical provision, including referring to risks to technical provision driven by sustainability factors.
- assessing the sufficiency and quality of the data used in the calculation of technical provisions including the validation of relevant sustainability risk input data and comparison of best estimates against experience. The assessment may include expressing a view on data limitations as well as considerations on how to implement a forward-looking view on the risks.

47. The role of the **compliance function** regarding sustainability risks would imply, as part of establishing and implementing the compliance policy:
    - assessing legal and legal change risks related to sustainability regulation. Especially as regulatory requirements are building up on sustainability risk management, reporting and disclosure, the compliance with new legal requirements will require attention.
    - providing information on the high-risk areas within the undertaking as regards to the transition policy of the company and legal risk attached to implementing (or not) the transition targets, from a prudential and conduct perspective.
    - identifying potential measures to prevent or address non-compliance. This may require addressing the risk of misrepresentation at entity or product level on the sustainable nature of its risk management or of its product offer.
48. The **internal audit function** should consider, where relevant sustainability risks in the preparation and maintaining of internal audit plan. This may include:
    - highlighting high-risk areas to requiring special attention. The potentially increased reliance on external parties as data providers on sustainability risks, or for verification of the sustainability of investments regarding environmental or social objectives, may need particular attention to ascertain the quality of the outsourced activity.
    - coping with follow-up actions in particular recommendations in areas, processes, and activities subject to review.
49. **Functions or committees with special responsibility for sustainability risks.** The AMSB may decide to delegate the task of addressing sustainability matters to specific committee(s). Such committees discuss and propose matters to the AMSB for it to take appropriate actions and pass resolutions. It is important to highlight that the responsibility about decisions about material sustainability risks remains with the AMSB. If a (re)insurance undertaking has or intends to set up a function with special responsibility for sustainability risks, its integration with existing processes and interface with key and other functions must be clearly defined. A dedicated sustainability unit or function would therefore be involved, in addition to the risk management function, actuarial function and/or compliance function, whenever the insured risk or investment is sensitive to sustainability risk, e.g., by virtue of the economic sector in which the investment was made, or the geographical location of the insured object. Misunderstandings regarding the role or extent of the assessment to be made by the sustainability function must be avoided. In other words, it needs to be ascertained whether the function has a mere corporate/communication role (e.g. in dealing with

corporate responsibility and reputational risks) or is also intended and equipped for sustainability materiality and financial risk analysis.

Remuneration

50. Remuneration can be used as a tool for the integration of sustainability risks and incentives for sustainable investment or underwriting decisions. The Solvency II Delegated Regulation stipulates that the remuneration policy and remuneration practices shall be in line with the undertaking's business and risk management strategy, its risk profile, objectives, risk management practices and the long-term interests and performance of the undertaking. It further stipulates that the remuneration policy shall include information on how it takes into account the integration of sustainability risks in the risk management system (Article 275, paragraph 4 Solvency II Delegated Regulation).
51. Furthermore, undertakings within the scope of the Sustainable Finance Disclosure Regulation[24] shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks, and to publish that information on their websites.
52. Undertakings will need to take into account both financial and non-financial criteria when assessing an individual's performance at certain point of time: the consideration of sustainability factors is an example of non-financial (or increasingly financial) criteria that could be considered when assessing individual performance.[25] For example, increasingly, for investment professionals, the risk framework should include an assessment of sustainability risks.
53. From a sustainability perspective, the alignment of the remuneration policy with the institution's long-term risk management framework and objectives, seems relevant. In addition, a number of studies[26] concluded that, although it is difficult to prove that short-term strategies result in the destruction of long-term values, in some cases the short-term orientations of managers and investors become self-reinforcing. Therefore, incentives to shift the overall business strategy towards more long-term goals (e.g. promoting 'patient capital', increasing the long-term commitments of shareholders or tie managers' remunerations to long-term performances through training and disclosure of long-term oriented metrics) are relevant in view of the long-term horizon of sustainability risks and opportunities.
54. The impact of the remuneration policies on the achievement of sound and effective long-term risk management objectives may be especially relevant when it comes to the variable remuneration of

[24] Article 5 of Regulation EU 2019/2088 of the European Parliament and the Council of 27 November 2019 on sustainability financial related disclosures.

[25] See also EIOPA's Opinion on the supervision of remuneration principles in the insurance and reinsurance sector, EIOPA-BoS-20-040, 31 January 2020 3.11 and 3.12.

[26] For instance, Gregory Jackson, Understanding short-termism: The role of corporate governance, 2010, Freie Universität Berlin

categories of staff whose professional activities have a material impact on the institution's risk profile, taking into account their roles and responsibilities in relation to its sustainability strategy.[27]

55. Among the currently existing practices across the EU, variable remuneration of employees of (re)insurance undertakings is based on performance and mostly on short-term basis - annual bonuses, or bonuses linked to the business strategy over 3-5 years. The performance of employees would therefore need to be aligned with the longer-term horizon of sustainability risks.
56. For example, long-term strategy goals such as reducing financed emissions in the investment portfolio or limiting losses in the underwriting of natural catastrophes can be aligned with the remuneration goals horizon, as for example through:
    - Medium-to-short term remuneration incentives linked to achieving set targets in reducing CO2 emissions of investments or linked to reduction of losses through risk prevention initiatives for climate adaptation purposes.
    - Longer-term incentives linked to payment with shares in the company, nudging the executive to take decisions in the long-term interest of the company.
57. Where the remuneration strategy of the undertaking refers to vague discretionary measures of progress such as 'improving sustainability' or 'driving a robust ESG program', these should be supported by specific goals or commitments and be measurable, meaningful, and auditable.

Question to stakeholders:

Q7: Do you have comments on the governance of the sustainability risk management? In your experience, what governance aspects are most difficult to comply with?

Q8: Do you agree with article 3(1a) of the RTS?

3.4 MATERIALITY ASSESSMENT

58. Materiality assessments of sustainability risks have become a current practice, reflected in sustainability reports of various undertakings, the results of which are often summarised in 'risk matrices.'
59. Materiality is a key concept used to determine the significance of information in financial reporting and risk assessment, as for example in the context of Solvency II and ESRS. The Solvency II Delegated Regulation requires undertakings to assess whether they have any material (financial) exposure to climate change risks.[28] The sustainability risk assessment should include a forward-

[27] Reference to EBA report on management and supervision of ESG risks, 2021, https://www.eba.europa.eu/eba-publishes-its-report-management-and-supervision-esg-risks-credit-institutions-and-investment .

[28] Article 45 of the Solvency II Delegated Regulation requires undertakings to assess whether they have any material exposure to climate change risks and to demonstrate the materiality of the exposure in the ORSA. EIOPA Guidelines on the System of Governance state that the

looking materiality assessment of the undertaking's exposure and a financial risk assessment of material risks, which includes scenario analyses. The disclosure requirements under the ESRS (e.g. ESRS 1 para 26) also identify materiality assessment as a key starting point for risk assessment and sustainability reporting.[29]

60. The definition of materiality under Solvency II and the European Sustainability Reporting Standards (ESRS) are aligned in their focus on the potential impact of information on decision-making.
    - Under Solvency II, for public disclosure purposes, materiality means that if an issue is omitted or misstated, it could influence the decision-making or judgment of users of the information, including supervisory authorities (Article 291 Solvency II Delegated Regulation). As to financial materiality, sustainability risks can translate in a financial impact on the (re)insurer's assets and liabilities through existing risk categories, such as underwriting, market, counterparty default or operational risk as well as reputational risk or strategic risk.[30] In other words, they are 'drivers' to existing risk categories.[31]
    - Similarly, the ESRS defines materiality as the potential for sustainability-related information to influence decisions that users make on the basis of the undertaking's reporting (ESRS 1, para 48)[32]. In the context of financial materiality, which is relevant for Solvency II purposes, the ESRS specifies that a sustainability matter is considered material if it could trigger or reasonably be expected to trigger material financial effects on the undertaking (ESRS 1, para 49). This includes material influence on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term. The materiality of risks is based on a combination of the likelihood of occurrence and the potential magnitude of the financial effects. ESRS 2 describes disclosures on the materiality assessment process.

61. The two frameworks are aligned as material financial effects, as defined by the ESRS, would likely influence the decision-making or judgment of users of the information, including supervisory

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undertaking should require the risk management function to report to the AMSB on risks that have been identified as potentially material. (Guideline 19)

[29] ESRS 1 para 49 describes a sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates risks […] that have a material influence or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term.

[30] See EIOPA advice on sustainability in Solvency II, para 22, https://www.eiopa.europa.eu/document-library/advice/technical-advice-integration-of-sustainability-risks-and-factors-solvency-ii_en.

[31] See ECB - Guide on climate-related and environmental risks: Supervisory expectations relating to risk management and disclosure, November 2020, https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr201127~5642b6e68d.en.html.

[32] ESRS 1 para 48: The financial materiality assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. In particular, information is considered material for primary users of general-purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statement.

authorities. This alignment enables undertakings to apply a consistent materiality assessment approach across both Solvency II and ESRS reporting requirements.

62. With a view to comprehensively identify potential material sustainability risks as part of the risk management requirements in Solvency II, the RTS require materiality assessment for all sustainability risks as defined by the Solvency II Directive. This forward-looking materiality assessment will assist undertakings in identifying material risks that should be subject to scenario analysis in the ORSA.
63. Both Solvency II and ESRS do not set a quantitative threshold for defining materiality. The RTS do not specify a threshold for materiality either, considering this should be entity-specific. The undertakings should however define and document clear and quantifiable materiality thresholds, taking into account the above and provide an explanation on the assumptions made for the categorisation into non-material and on how the conclusion on the materiality has been reached. The classification of an exposure or risk as material has bearing on its prudential treatment, as it is a factor that determines whether the risk should be further subject to scenario analysis in the undertaking's ORSA. The RTS require the undertaking to explain its materiality threshold in the plan: the assumptions for classifying risks as (non-) material in light of the undertaking's risk appetite and strategy. (See Article 4(4) of the RTS).
64. The materiality assessment should consider that:
    - Sustainability risks are potential drivers of prudential risk on both sides of the (re)insurers' balance sheet.
    - Sustainability risks can lead to potential secondary effects or indirect impacts.
    - The exposure of undertakings to sustainability risks can vary across regions, sectors, and lines of business.
    - Sustainability risks can materialise well beyond the one-year time horizon as well as have sudden and immediate impact. Therefore, the materiality assessment necessitates a forward-looking perspective, including short, medium, and long term. For example, certain geographical locations may not be subject to flood risk today but may be so in the future due to sea level rise. The risk assessment should be performed gross and net of reinsurance, to measure the risk of reliance on reinsurance.
65. The materiality assessment would consist of a high-level description of the business context of the undertaking considering sustainability risks ('narrative') and the assessment of the exposure of the business strategy and model to sustainability risk ('exposure assessment'), to decide whether a risk could be potentially material. Following this, based on the identification of a potentially material risk, the undertaking would perform an assessment of the potential financial impact (i.e., financial risk assessment, as part of ORSA).

Narrative

66. The narrative should describe the business context of the undertaking regarding sustainability risks, and the current strategy of the undertaking. It also describes the long-term outcome, the pathway to that outcome, and the related actions to achieve that outcome (e.g., emissions pathways, technology developments, policy changes and socio-economic impacts).

67. It should provide insight on the developments and emerging trends that can, directly and indirectly, impact the undertakings strategy and business, allowing for compounding effects to be considered, over a short, medium, and long term. It should enable the undertaking to consider the broad impact of sustainability risks on their activities and set the context against which the financial risk assessment for material risks should be performed.
68. The narrative would include a view on the broader impact of national or European transition targets on the economy, or the effect of a transition risk throughout the value chain. The narrative should include other relevant sustainability risks than climate, such as risks related to loss of biodiversity, or social and governance risks, as well as interlinkages between sustainability risks (e.g., between climate and biodiversity or climate and social) and spill-over and compounding effects looking beyond specific sustainability risk drivers on particular lines of business.
69. The narrative can include the analysis of the macroeconomic situation and possible macroeconomic and financial markets developments (Article 45 1 (d) Solvency II Directive) which include consideration of climate change, pandemics, other mass-scale events, and other catastrophes which may affect undertakings (Article 45 1a (e) Solvency II Directive).
70. For example, for climate change risks, the narrative would include what climate change pathway the undertaking is considering for its climate risk assessment and consider the sustainability of the undertaking's business model and strategy under such circumstances.
71. The narrative however does not require the assessment of the potential financial impacts; rather it provides a framework for expressing the undertakings expectations on the development of sustainability risks and how this relates to the undertaking's business. It can be supported by relevant indicators of risk at macro, meso or micro level.

Table 2: Sustainability narratives and indicators

Narratives and indicators
Narrative: For example, for climate change undertakings may refer to publicly available climate change pathways (i.e., the Representative Concentration Pathways (RCPs) developed by the Intergovernmental Panel on Climate Change (IPCC); Network for Greening the Financial System (NGFS)) or develop their own climate change pathway. Indicators: Macro-prudential risk indicators or conduct indicators may provide additional insights and help the undertaking form its view on the future development of sustainability risks. Especially over a longer horizon, sustainability risk could have a wider and compounding impact on the economy and interactions between the financial and the real economy would need to be considered. For example, indirect impacts of climate change could lead to increase in food prices, migration, repricing of assets and rising social inequalities. All these indirect drivers will, in turn, impact the real economy as well as the financial sector, even more so as they could also trigger political instability. Macroprudential concerns could include, for example, plausible unfavourable forward-looking scenarios and risks related to the credit cycle and economic downturn, adverse investments behaviours or excessive exposure concentrations at the sectoral and/or country level.

For example, EIOPA financial stability and conduct ESG risk indicators can be used to assess the external environment and business context in which climate change-related risks/opportunities can arise for the undertakings, the risk indicators will give an indication of macro-prudential risk in the insurance sector, and potential ESG related developments at sector level to the detriment of consumer protection.[33]

Interlinkages: For example, increasing temperatures leading to increased mortality risk affecting health business can potentially create underwriting as well as legal transition risk if the conditions for triggering a liability insurance have been met (e.g. a company failing to mitigate/adapt the risk). But also, a sharp increase in physical risks can lead to public policies focusing on a faster economy transition, leading in turn to higher transition risks. Physical and transition risks can impact economic activities, which in turn can impact the financial system.

At the same time, the interconnectedness of the financial sector, and more generally of the economy, can create secondary effects: physical risk reducing the value of property, reducing in turn the value of collateral for lending purposes or increasing the cost of credit insurance, leading to economic slowdown; or physical damage caused by extreme weather events to critical infrastructure increasing the potential for operational/IT risks, amplifying supply chain disruption and disruption to global production of goods.

Questions to stakeholders:

Q9: What are the most challenging aspects for undertakings in setting the narrative? Please provide any relevant examples, data sets, tools or methodologies that can contribute to the setting of the narrative.

Exposure assessment

72. Based on the narrative, through qualitative and quantitative analyses, undertakings should arrive at an assessment of the materiality of their exposure to sustainability risks. A qualitative analysis could provide insight in the relevance of the main drivers in terms of traditional prudential risks. A quantitative analysis could assess the exposure of assets and underwriting portfolios to sustainability risk.
73. In the context of the narrative, the materiality assessment should include a high-level assessment of the undertaking's potential exposure of assets and liabilities to geographies, economic activities,

[33] EIOPA Financial Stability Risk dashboard | Eiopa (europa.eu), Cost and Past Performance Reports and Consumer Trend Reports: Reports and data on consumer protection | Eiopa (europa.eu)

or sectors with high impact (e.g. contributing to GHG emissions) or dependency (e.g. nature-based solutions) on sustainability factors. For example, there are number of areas across the globe which are highly exposed to climate change risks or to nature degradation (land or sea use). The loss ratios reported for certain lines of businesses within those regions can give an indication of the current/historical exposure.[34]

Table 3: Examples for conducting a sustainability risk exposure assessment.

Exposure assessment – example of a proportionate approach

Aim: Identify sustainability risk drivers and their transmission channels to traditional prudential risks (i.e. market risk, counterparty risk, underwriting risk, operational risk, reputational risk and strategic risk). Additionally, provide insight into (direct) legal, reputational or operational risks or potential (indirect) market or underwriting risks, which could arise from investing in or underwriting activities with negative sustainability impacts, or from the undertaking misrepresenting its sustainability profile in public disclosure.

- Example: Qualitative analysis to help identifying the main drivers of climate change risks:
  - Transition risk drivers include changes in policies, technologies, and market preferences as well as the business activities of investees and commercial policyholders and policyholder preferences. At macro level, it may include consideration of failure of national governments to meet transition targets.
  - Physical risk drivers include level of both acute and chronic physical events associated with different transition pathways and climate scenarios. This involves assessing the impact of physical risks to counterparties (investees, policyholders, reinsurers) as well the insurer’s own operations (e.g.to insurer’s business continuity, also for outsourced services). For climate change-related risks, the assessment should consider the evolution of extreme weather-related events for insurers underwriting natural catastrophe risks (incl. in property and health insurance).

- Example: Geographical exposure: Identify potential exposure of assets or insured objects to sustainability risk based on, for example, the location of operations, assets or insured objects or supply chain dependencies of investee companies in geographical areas, regions or jurisdictions prone to (physical) climate, other environmental or social risks.

  - For example, natural catastrophe and environmental risk datahubs such as the Copernicus datasets on land (use) or biodiversity can give an indication of relevant environmental risks across regions.

[34] See further information on climate in Europe under global warming in EIOPA’s Methodological paper on potential inclusion of climate change in the Nat Cat standard formula, Annex C.

- For example, social risk indicators identify countries or regions that are vulnerable to social risk, measure social inequality or development. These can give an indication on potential social risk exposure of assets or liabilities located in those regions.[35]

- Example: Economic activity/sector-based exposure: Identify potential exposure of assets or lines of business or insured risks to potential sustainability risks based on the impact of the investee (or supply chain dependencies of the investee) or the policyholder's economic activity, or their dependency on environmental or social factors. Such assessment should however not only focus on for example, exposures to climate related sectors[36], but also to other sectors which may be indirectly affected by (transition) risks.

    - Where the undertaking considers the specific exposure to economic activities in high impact or dependency sectors as not material, it should be able to justify why. For example, based on the alignment of the economic activity with the climate and environmental objectives and screening criteria set out in the Taxonomy Regulation[37] and Climate[38], Environmental[39] Delegated Regulations, as supported by the taxonomy-related disclosures[40].
    - For other environmental risks, such as biodiversity loss: for example, a high-level exposure assessment of could be carried out using the level of premiums written in

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[35] See for example, the Allianz Social Resilience Index, or the World Bank's World Development Indicators or the UNDP human development indicator.

[36] NACE Sections A to H and Section L which include the oil, gas, mining and transportation sectors, as sectors that highly contribute to climate change as referred to in Commission Delegated Regulation (EU) 2022/1288. Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1).

[37] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Taxonomy Regulation).

[38] Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. Amended by Commission Delegated Regulation (EU) 2023/2485. (Taxonomy Climate Delegated Act)

[39] Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities (Taxonomy Environmental Delegated Act).

[40] Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities and specifying the methodology to comply with that disclosure obligation. (Taxonomy Disclosures Delegated Act)

economic sectors with a high dependence on ecosystem services and/or a high biodiversity footprint (economic exposure) and the probability of occurrence of the associated nature-related risk factors. External sources and studies can be used to determine the probability of occurrence of the nature-related risk factors. The Network for Greening the Financial System (NGFS) and Task Force on Nature-related Disclosure (TFND) in their publications provide guidelines, frameworks and metrics which could be used to identify and assess nature related-risks.[41]

- For social risks, for example, exposure of assets or liabilities to economic activities in 'high risk social sectors', can be identified by referring to the Business and Human Rights Navigator (UN Global Compact), which can help mapping exposure to sectors at high risk of relying on child labour, forced labour, or sectors negatively impacting on equal treatment (incl. restrictions to freedom of association) or on working conditions (inadequate occupational safety and health, living wage, working time, gender equality, heavy reliance on migrant workers) or have negative impacts on indigenous people. [42]

Questions to stakeholders:

Q10: What are the most challenging aspects for undertakings in performing the exposure assessment? Please provide any relevant examples, data sets, tools or methodologies that can contribute to the exposure assessment.

Q11: Do you agree with Article 4 of the RTS? If not, please specify why.

3.5 FINANCIAL RISK ASSESSMENT

74. Where the exposure is deemed material, based on the thresholds set by the undertaking, a more detailed evaluation of the financial risks combining quantitative and/or qualitative approaches should inform the financial impact on the undertaking's balance sheet. Here the assessment should aim to identify the key financial risk metrics and provide a view of the expected impact of such risks under different scenarios and time horizons at various levels of granularity.

Scenarios

75. Where risks are material, (re)insurers should ensure that the scenario analysis is sufficiently comprehensive and includes stress tests or scenario analyses to enable the setting of strategy,

[41] Sources: ngfs_nature_scenarios_recommendations.pdf; TNFD-Additional-guidance-for-financial-Institutions_v2.0.pdf; Guidance_on_the_identification_and_assessment_of_nature-related_Issues_The_TNFD_LEAP_approach_V1.1_October2023.pdf

[42] Final Report on the Prudential Treatment of Sustainability Risks for Insurers - EIOPA

understanding the future business model and understanding the impact on investments, pricing, underwriting, reserving and capital, as part of the undertaking's ORSA.

76. The use of standardised scenarios may increase comparability of risk analysis and disclosure. At the same time, science is evolving, and no standard scenarios are readily appliable for other environmental than climate (e.g., biodiversity, pollution…) or social risks. The scope, depth, and methodologies of the quantitative (scenario) analyses will evolve as modelling approaches advance and undertakings gain more experience.
77. When assessing the potential financial impact of material sustainability risks, the RTS sets out that undertakings should specify at a minimum two scenarios that reflect the materiality of the exposure and the size and complexity of the business. One of the scenarios should be based on the narrative underpinning the materiality assessment. Where relevant, the scenarios should consider prolonged, clustered, or repeated events, and reflect these in the overall strategy and business model including potential stresses linked to the availability and pricing of reinsurance, dividend restrictions, premium increases/exclusions, new business restrictions, or redundancies.
78. For climate change risks, the Solvency II Directive requires undertakings with a material exposure to climate change risks to specify at least two long term climate change scenarios: (a) a long-term climate change scenario where the global temperature increase remains below two degrees Celsius; (b) a long-term climate change scenario where the global temperature increase is significantly higher than two degrees Celsius. (Article 45a Solvency II Directive). Experience to date shows that the most used scenarios are those designed by NGFS[43], IPCC Shared Socioeconomic Pathways (SSPs) or tailor-made scenarios (set by regulators, e.g. for nature-related scenarios[44] or for stress testing purposes[45]).

Table 4: Example for a financial risk assessment approach using the NGFS climate scenarios.

Based on the NGFS climate scenarios, an undertaking's assumption (narrative) could be an orderly transition. This implies limiting global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council. Under this starting point, the structural transformation of the economy is announced, anticipated, and manifests without any major macroeconomic perturbations. The scenarios underlying this include the 'net zero 2050', 'low demand' or 'below 2 degrees' scenario, as set out in Figure 2 below. To fulfil the requirements of the Solvency II Directive (Article 45a) for climate change scenario analysis of material climate change risks, this starting point could provide the long-term climate

[43] see NGFS Scenarios Portal.

[44] See DNB, The economic and financial stability repercussions of nature degradation for the Netherlands: Exploring scenarios with transition shocks, Brochure Nature Scenarios (dnb.nl)

[45] See Banque de France, Les principaux résultats de l'exercice climatique sur le secteur de l'assurance 20240523_rapport_final_st_climat_vf.pdf (banque-france.fr

change scenario where the global temperature increase remains below two degrees Celsius. More severe longer-term scenarios, including 'disorderly', 'too little, too late' or 'hot house world' scenarios, could cover the long-term climate change scenario where the global temperature increase is significantly higher than two degrees Celsius, leading to varying degrees of transition and physical risk.

Figure 2: NGFS climate scenarios

Orderly scenarios assume climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued.

Disorderly scenarios explore higher transition risk due to policies being delayed or divergent across countries and sectors. Carbon prices are typically higher for a given temperature outcome.

Hot house world scenarios assume that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded, leading to severe physical risks and irreversible impacts like sea-level rise.

Too little, too late scenarios reflect delays and international divergences in climate policy ambition that imply elevated transition risks in some countries and high physical risks in all countries due to the overall ineffectiveness of the transition.

79. For other environmental risks, such as biodiversity loss risk, the difficulty is that these risks can vary across regions, sectors and biomes, and are more complex in their interlinkages with other environmental risks (not in the least with climate change, but also pollution, use of sea and land, or exploitation of organisms). Therefore, undertakings may need to develop nature scenario narratives and scenarios describing how the world could evolve in the future because of nature degradation. A possible starting point for a first risk assessment could be to include biodiversity as an additional risk driver in existing scenarios in those business areas that are demonstrably particularly affected by the loss of biodiversity (e.g., on insurance risk in the health or agricultural sector or market risk for corporate and real estate bonds). NGFS is working on nature risk scenarios and formulated recommendations for developing physical and transition scenario narratives.[46] For further environmental risks and for social risks additional analysis would still be needed.

[46] See NGFS, Recommendations toward the development of scenarios for assessing nature-related economic and financial risks, Dec. 2023, ngfs_nature_scenarios_recommendations.pdf

Time horizons

Article 44 (2), new sub-paragraph of the Solvency II Directive requires undertakings to explicitly take into account the short, medium and long-term horizon when assessing sustainability risks.

80. The sustainability risk assessment should therefore use a risk-based approach that considers the impact of sustainability risks and corresponding probability for these different time horizons. The time horizon should ensure that the time horizon for analysing sustainability risks is consistent with the undertaking's long-term commitments. The time horizon should allow to capture risks which may affect the business planning over a short-to-medium term and the strategic planning over a longer term.
81. The time horizon chosen for the materiality assessment in sustainability risk plan should also enable the integration of the risk assessment process with time horizons applied for the purposes of the ORSA for risk assessment purposes.
82. Taking the example of the impact of climate change: its impact can materialise over a longer time horizon than the typical 3-5 years (re)insurers' strategic and business planning time horizons considered in the ORSA. It is argued that ORSA time horizons are too short to integrate the results of such longer-term climate change scenarios. Nevertheless, the ORSA should allow for the monitoring of the materialisation of risks over a longer term. At the same time, climate change-related risks and opportunities can affect the business planning over a short term and the strategic planning over a longer term:

- Short-term impact on the solvency capital requirements: requirements are calibrated to ensure the undertaking is solvent over a 1-year time horizon. This should not mean that longer term sustainability risks would not need to be reflected in the solvency capital requirements (e.g. see EIOPA's NAT CAT analysis on climate change in the underwriting risk module; or premium risk assumptions in the health module[47]). For example, the potential for important transition efforts to a low carbon economy until 2030, can lead to short term shocks on the undertaking's balance sheet. To ensure solvency over a 1-year time horizon, undertakings will need to consider longer-term developments, too.
- Medium-to-long term impact on the sustainability of the business model: as extreme weather events are becoming more severe and more frequent due to climate change, resulting higher losses leading to higher prices for insurance can over time put affordability of insurance products at risk. The rise in physical risks may stimulate demand for insurance cover, but higher (re)insurance costs and premiums are also likely to constrain demand and offer. Higher physical risk may render more risks in more geographical locations uninsurable, paired with a tightening of reinsurance offer, jeopardizing (insurance) business opportunity.[48] The transition to a low-carbon economy has the potential of disrupting economic sectors, eroding insurance

[47] Methodological paper on potential inclusion of climate change in the Nat Cat standard formula, https://www.eiopa.europa.eu/document-library/methodology/methodological-paper-potential-inclusion-of-climate-change-nat-cat_en /.

[48] See EIOPA application guidance, https://www.eiopa.europa.eu/media/news/eiopa-consults-application-guidance-climate-change-risk-scenarios-orsa_en .

undertakings' customer base in 'conventional' industries, but also offering opportunities for selling new types of insurance products and services. Assuming on the longer-term materialisation of risks, undertakings may be tempted to postpone adapting their investment or underwriting strategy, increasing the risk of having stranded assets on their balance sheet or inadequate business models over the longer term.

Table 4: Comparison of time horizons across different methodologies

Source	Focus	Scope	Include EU targets (2030, 2050)	Short-term	Medium-term	Long-term
EIOPA paper on Methodological Principles of Insurance Stress Testing – Climate Change Component[49]	Insurance	Climate	Not explicitly			15 to 30 years
EIOPA's Discussion paper on Methodology on potential inclusion of climate change in the Nat Cat standard formula[50] and EIOPA's Opinion on the supervision of the use of climate change risk scenarios in ORSA[51]	Insurance	Climate	Not explicitly	5 to 10 years	Next 30 years (by mid-century)	Next 80 years (by end of the century)
Example from EIOPA's Application Guidance on climate change materiality assessments and climate change scenarios in ORSA	Insurance	Climate	Not explicitly	Consistent with the undertaking's long-term commitments. Example: - Short: 1 to 5 years	Example: Medium: 5 to 10 years	Example: 10 years or more/10 to 30 years

[49] Methodological principles of insurance stress testing - climate change component - EIOPA

[50] Methodological paper on potential inclusion of climate change in the Nat Cat standard formula - EIOPA

[51] Opinion on the supervision of the use of climate change risk scenarios in ORSA - EIOPA

European Sustainability Reporting Standards (ESRS 1 para 77 -81)[52]	Large companies	ESG Reporting	Intermediate target at 2030 reviewed every 5 years until 2050.	Financial statement frequency. Up to 1 year	Up to 5 years	More than 5 years
CSDDD	Large companies	Climate mitigation transition plans	Yes	Time-bound targets related to climate change for 2030 and in five-year steps up to 2050 (for reducing GHG emissions)		
EBA GL on the management of ESG risk	Banking	ESG	Yes	1 to 3 years	3 to 5 years	At least 10 years

83. Experience shows that the integration of long-term perspectives in the risk assessment and decision-making on sustainability risks in the ORSA is challenging for undertakings. Assumptions over a longer time horizon may need to be of more qualitative nature, and predictions may be less precise, due to the lack of necessary data and information. Also, there is no collective understanding of the time horizon that would be relevant to apply.
84. Based on the Application Guidance on climate change materiality assessments and climate change scenarios in ORSA, for managing material climate-change related financial impacts, it is expected that the ORSA business planning time horizons should cover the short (typically 1-5 years and 5 for most undertakings), medium (typically 5-10/15 years), and long-term (typically 15-30 years or more). The implementation of the time horizons varies across jurisdictions.
85. While a principle-based approach should enable undertakings to conduct their risk assessments having regard to their specific risks, the application of a defined time horizon would improve the consistency between the time horizon for risk assessment and for decision-making, and comparison across the market. The time horizon
    - Should be consistent with the undertaking’s long-term commitments.
    - Should take into consideration the long-term nature of insurance liabilities.
    - Should enable read across with time horizons for climate change or other sustainability targets.
86. The RTS specify the time horizons for sustainability risk assessment, to promote supervisory convergence and increase the consistency of risk assessment across undertakings and with decision-making. For this purpose, Article 5 of the RTS stipulates that the following time horizons for the sustainability risk assessment apply:
    - Short term projection: 1-5 years
    - Medium term projection: 5-15 years
    - Long term projection: min. 15 years

[52] The ESRS provide an option to select entity-specific horizons for the medium and long term, where the use of the standardized time horizons would result in non-relevant information. This may be the case where the undertaking uses another horizon for risk management purposes or management actions and targets.

87. These time horizons should include at a minimum the EU transition time horizons of 2030 and 2050, as fixed points in time to assess the risk exposure of the undertaking.
88. It is crucial for undertakings to have access to the relevant corporate information for performing their risk assessment according to the various time horizons. A key source of input will be the information reported by corporates under the ESRS. Mapping the applicable time horizons for financial reporting and risk assessment under ESRS and Solvency II shows that the time horizons for reporting and prudential risk assessment correspond. The short- and medium-term risk reporting of corporates under ESRS will feed into the short-term risk assessment for insurers, while the longer-term risk reporting of corporates should enable medium- and longer-term risk assessment by insurers. As ESRS 1 para 78 states that corporates shall use an additional breakdown for the long-term time horizon when impacts or actions are expected in a period longer than 5 years if necessary to provide relevant information to users of sustainability statements, this should also allow insurance undertakings to apply such a breakdown, to comply with Solvency II and ESRS. In addition, ESRS 1 para 80 states that corporates may adopt a different definition of medium- and/or long- term time horizons.

<table>
<tr><td>ESRS</td><td>Up to 1 year</td><td>Up to 5 years</td><td colspan="2">More than 5 years</td></tr>
<tr><td>Solvency II</td><td colspan="2">Short term</td><td>Medium term (5-15 years)</td><td>Longer term (min. 15 years)</td></tr>
</table>

89. Article 5 of the RTS further sets out the main elements for the financial risk assessment, and the main characteristics which the scenarios should adhere to. Article 6 of the RTS further requires that undertakings should identify at least two long-term scenarios for conducting the financial risk assessment of material sustainability risks.

Questions to stakeholders:

Q12: Do you agree with the approach to require two scenarios for the financial risk assessment of material sustainability risks? Please share information on relevant approaches for scenarios beyond climate risk.

Q13: Do you agree on the proposed time horizons (short term projection: 1-5 years; medium term projection: 5-15 years; long term projection: min. 15 years)? If not, please justify other time horizons.

3.6 DOCUMENTATION AND DATA REQUIREMENTS

90. The sustainability risk assessment should be properly documented. This would include documenting the methodologies, tools, uncertainties, assumptions, and thresholds used, inputs and factors considered, and main results and conclusions reached.

91. Undertakings' internal procedures should provide for the implementation of sound systems to collect and aggregate sustainability risks-related data across the institution as part of the overall data governance and IT infrastructure, including to assess and improve sustainability data quality. Undertakings would need to build on available sustainability data, including by regularly reviewing and making use of sustainability information disclosed by their counterparties, in particular in accordance with the CSRD or made available by public bodies.
92. Additional data can be sourced from interaction with investees and policyholders at the time of the investment or underwriting of the risk, or estimates obtained from own analysis and external sources. Undertakings should, where data from counterparties and public sources is not available or has shortcomings for risk management needs, assess these gaps and their potential impacts. Undertakings should document remediating actions, including at least the following: using estimates or (sectoral) proxies as an intermediate step – the use of such estimates should be clearly indicated - , and seeking to reduce their use over time as sustainability data availability and quality improve; or assessing the need to use services of third-party providers to gain access to sustainability data, while ensuring sufficient understanding of the sources, data and methodologies used by data providers and performing regular quality assurance.
93. The RTS set out the documentation requirements in Articles 5(4) and 6(6), for the materiality and financial risk assessments, respectively.

3.7 FREQUENCY

94. The key consideration in setting the frequency of the materiality and financial risk assessments and of the reporting to supervisors of the sustainability risk plan is to enable an appropriate and proportionate risk assessment, which the undertaking shares with the supervisor when relevant for supervisory review purposes. A further consideration includes the alignment with the requirements on ORSA, to simplify and integrate the risk assessment of material risks in the ORSAs.
95. Furthermore, consideration should be given to the fact that sustainability risks may materialise both in the short term - which may require annual assessments - and in the longer term – the risks may not materially change on an annual basis.

Frequency of the materiality and financial risk assessment

96. The RTS aim to align the frequency of performance of the materiality and financial risk assessments with, on the one hand, the cycle of the submission of the regular supervisory report to the supervisor (Article 312 Solvency II Delegated Regulation para 1(a) 'at least every three years', if not stipulated differently by the supervisor according to para 2 and according to Article 35 (5a) Solvency II Directive), and the requirement for undertakings to assess material risks as part of their ORSA 'regularly and without any delay following any significant change in their risk profile' (Article 45 Solvency II Directive).
97. Significant changes to the undertaking's risk profile can include material change to its business environment including in relation to sustainability factors, such as significant new public policies or shifts in the institution's business model, portfolios, and operations.
98. In addition, for the frequency of the financial risk assessment, the RTS need to consider that undertakings (except for SNCUs) are required to conduct at regular intervals, at a minimum every three

years, the analysis of the impact of at least two long-term climate change scenarios for material climate change risks on the undertaking's business (Article 45a Solvency II Directive).

99. Based on these considerations, Article 3 (3) of the RTS set out that the materiality and financial risk assessment should be conducted at least every three years, and regularly and without any delay following any significant change in their risk profile.

Frequency of submission of the sustainability risk plan to the supervisor

100. The submission of the sustainability risk plan to the supervisor should be part of the regular supervisory reporting under Solvency II, as set out in Article 35 of the Solvency II Directive and Article 312 of the Solvency II Delegated Regulation.

Frequency of the public disclosure of elements of the sustainability risk plan

Article 44 (2d) of the Solvency II Directive requires undertakings to disclose on an annual basis the quantifiable targets included in the plans.

101. Building on the requirements posed by Article 51 Solvency II Directive (see section 5 of the consultation paper below), Article 11 of the RTS specifies that key metrics and the results of the sustainability risk plan should be disclosed at least every year or, for smaller and non-complex undertakings, at least every two years or more frequently in case of a material change to their business environment in relation to sustainability factors.

Table 5: Mapping of regulatory requirements in the Solvency II Directive and Delegated Regulation and EIOPA Guidelines, for the purpose of identifying the frequency of the risk assessments and reporting and disclosure.

	Performance of the risk assessment	**Submission to supervisor and/or public disclose**
Regular supervisory reporting	n/a	At least every three years (Article 312 SII Delegated Regulation). • For non-SNCUs': if deemed necessary, a supervisory authority may require supervised undertakings to report more frequently (Article 35(5a) Solvency II Directive). • For SNCUs: every three years, or up to every five years, where permitted by the supervisory authority (Article 35(5a) Solvency II Directive).
Solvency and financial condition report	n/a	Annual (Article 300 SII Delegated Regulation)
Corporate sustainability disclosure	n/a	Annual (Article 29(a)(1) CSRD)

Own risk and solvency assessment	Regularly and without any delay following any significant change in the risk profile (art.45 SII Directive). Annual (EIOPA GL on ORSA, GL 19). Specific on climate: Conduct at regular intervals, min. every 3 years, the analysis of the impact of at least two long-term climate change scenarios on the undertaking's business. (art 45a SII Directive)	Submit to supervisor within 2 weeks after concluding the assessment. Annual public disclosure of whether the undertaking has any material exposure to climate change risks following the materiality assessment referred to in Article 45a (1) SII Directive and, where relevant, if it has put in place any actions. To be disclosed as part of the SFCR, which is published annually.

Questions to stakeholders:

Q14: Do you agree with the proposed frequency of the materiality and financial risk assessment and submission of the sustainability risk plan to the supervisor? If not, please justify an alternative proposal.

Q15: Do you agree with Articles 5 and 6 of the RTS? If not, please specify why.

3.8 METRICS

Article 44 new paragraph 2c (e) mandates EIOPA to further specify:

the minimum standards and reference methodologies for the identification, measurement, management, and monitoring of sustainability risks.

102. Prescribing a list of metrics in sustainability risk plans can help (i) in promoting risk assessment, (ii) improve comparability of risks across undertakings, (iii) promote supervisory convergence in the monitoring of the risks and (iv) enable relevant disclosures. At the same time, it is important to allow undertakings flexibility in defining their metrics to avoid missing useful undertaking-specific information. Therefore, the RTS describes the key characteristics of the metrics and provides a minimum list of relevant metrics to compute.
103. Metrics should be principle-based, and at the same time allow for meaningful and comparable supervision and disclosure. Metrics should be used by the undertakings to set measurable risk targets and track and communicate their progress and should to the extent possible be applicable to all sustainability risks. The metrics for the appropriate management of sustainability risks should be consistent with the metrics included in transition plans, to the extent appropriate given the different purposes of each activity.
104. Metrics can be used to assess current and forward-looking climate, other environmental (e.g. biodiversity), social and governance risks arising both on the asset and liability side. The metrics

described in the current view section can be used to report on the results of the materiality assessment, while the forward-looking metrics would be used for risk identified as material.

105. Finally, business-specific metrics (non-life, life and health) can capture the different risks undertakings active in the life, health and non-life business would be exposed to.

106. As a result, backward-looking (current view) and forward-looking, can be tailored to the undertaking's business model and complexity, while following key characteristics apply. Metrics should
   - provide a fair representation of the undertakings' risks and financial position using the most up-to-date information.
   - be appropriate for the identification, measurement, and monitoring of the actions to achieve the risk management targets.
   - be calculated with sufficient granularity (absolute and relative) to evaluate eventual concentration issues per relevant business lines, geographies, economic sectors, activities, and products to quantify and reflect the nature, scale, and complexity of specific risks.
   - allow supervisors to compare and benchmark exposure and risks of different undertakings over different time horizons.
   - be documented to a sufficient level to provide relevant and reliable information to the undertaking's management and at the same time be used as part of supervisory reporting and, where relevant for public disclosure, ensuring sufficient transparency on the data (e.g. source, limitations, proxies, assumptions) and methodology (e.g. scope, formula) used.

107. Article 7 of the RTS sets outs the key characteristics for metrics. A minimum set of binding metrics for the current view are set out in Annex of the RTS.

Minimum list of metrics

108. The list of metrics below aims at capturing the main financial risks that result from sustainability risks in a 'current view' perspective. The proposed metrics can be sourced from existing data requirements or voluntary standards that are currently applicable in the sector, to the extent relevant and available.

Current view proposed metric	Purpose of the metric	Standard, methodology, and potential data sources
a. Physical risks/Non-life except Health		
i. **Climate – Liability side**: Gross, ceded and net incurred losses and current exposure/sum insured by perils[53] and regions (CRESTA/NUTS2 level) at the end of the	To assess the non-life underwriting risk exposures to natural catastrophe risk.	CRESTA/NUTS2 regions. Solvency II perils: Earthquake,

[53] At minimum for standard formula perils: Earthquake, Windstorm, Flood, Hail and Subsidence. Also, where relevant for 'new perils' such as wildfire, droughts, and coastal floods.

financial year monitoring the evolution over time (number of events and amount).		Windstorm, Flood, Hail and Subsidence.
ii. **Biodiversity – Liability side:** Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year monitoring the evolution over time in economic sectors with a high dependency on ecosystem services. If possible, upstream dependency and country specific output should be considered.	To assess underwriting risk exposure to biodiversity risk based on exposures to economic sectors dependent on nature.	ENCORE[54] database on dependencies.[55] Input from CSRD reporting by companies with significant dependency on nature.
b. Physical risks/Life and Health		
i. **Climate – Liability side:** Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year and the evolution over time by regions and age group (amount of total claims paid). If possible, undertakings should consider monitoring the metric by the type of life/health impacts (increased mortality, morbidity, or hospitalisation cost), and by underlying drivers (e.g. due to natural catastrophe peril, heat waves, air pollution, infectious diseases, malnutrition, displacement…).[56]	To assess the health underwriting risk exposure to segments of the market impacted by health-related climate or nature-related impacts.	
c. Transition risks		

[54] ENCORE (encorenature.org)

[55] Sectors with high dependence on ecosystem services can include agriculture, forestry, fisheries, tourism, water supply and pharmaceutical sectors.

[56] IPCC 2022, IPCC_AR6_SYR_LongerReport.pdf

i. **Climate – Asset side:** Investments at the end of the financial year in climate relevant sectors (NACE sectors A to H and L[57]), which include the oil, gas, mining and transportation sectors, at minimum by NACE for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio).	To assess the market risk exposure of investments to sectors impacting climate change.	NACE sectors, Battiston et. al. (2017) Ongoing work on insurance-ESRS standards define high-impact climate sectors according to NACE sectors A to H. SII QRT S.06.04.
ii. **Biodiversity – Asset side:** Investments at the end of the financial year in in economic sectors with a high biodiversity footprint, at a minimum by NACE sectors for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio).	To assess the market risk exposure of investments to sectors impacting biodiversity.	Sectors with high biodiversity footprint[58] Draft Corporate Biodiversity Footprint (CBF). NACE codes.
iii. **Climate – Asset and liability side:** At minimum gross and total amount of Scope 1, 2 and 3 greenhouse gases (absolute amount of $mtCO_2e$), including carbon dioxide, methane, and nitrous oxide for financed emissions through the undertaking's investments and underwriting and gross GHG emissions intensity ($mtCO_2e$ per million euro invested) at the end of the financial year.[59]	To assess the market risk exposure of investments in economic activities with significant impact on climate change.	For investments, reporting from companies on their GHG emission under CSRD. Reporting by insurers of PAI 1, 2 or 3 under SFDR.
d. Social risks		

[57] As referred to in Commission Delegated Regulation (EU) 2022/1288. Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1).

[58] Sectors with high biodiversity footprint, such as Agriculture, Forestry, Fishery and Aquaculture, Mining, Tourism, Textiles and Construction, focus on the negative impacts a sector has on ecosystems and biodiversity. Efforts are needed to reduce negative impacts through sustainable practices and restoration.

[59] See for example, PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition.

i. **Liability side:** Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year and the evolution over time, arising under workers' compensation or other employee indemnification benefits coverage at workplaces (e.g., work-related injury or fatalities), by region.	To assess the underwriting risk exposure in lines of business potentially exposed to social risks.	See PSI ESG underwriting guide for life and health insurance and the Geneva's Association Geneva Association's heat map of potential ESG risks in property and casualty underwriting[60] CSRD reporting by companies on their social risks e.g., (ESRS S1)
ii. **Asset side:** Investments at the end of the financial year in economic activities, for equity and corporate bonds (amount and share of equity/corporate bond portfolio): a. in high-risk sectors, related to working conditions, affected communities (economic, social, cultural as well as civil and political rights or rights of indigenous people), or the well-being for consumers or end-users (related to treatment of information, personal safety, or social inclusion)	To assess the market risk exposure of investments to economic sectors with high social risks.	Economic activities with high social risks related to working conditions include Mining and Quarrying, Construction, Transportation and Storage. [61]

[60] Some insurance lines of business may be particularly exposed to social risks. For example, the PSI ESG Underwriting Guide for Life and Health Insurance (UNDP 2023) and the Geneva Association's heat map of potential ESG risks in property and casualty underwriting (The Role of Insurance in Promoting Social Sustainability, 2023) identify social factors that may affect health or life and non-life insurance risks. Social adversity and lifestyle behaviour are known to affect health and with it, potential health insurance claims. Workers' compensation claims are likely to be at risk of an employer's poor work force policies. Other social/societal factors, such as housing insecurity or lack of education can influence (in)directly the outcome of workers' compensation claims.

[61] Incl. e.g. sectors with prevalence of contingent workers (seasonal), sectors with skill shortages or with high incidence of occupational health and safety accidents according to e.g., ILO standards. Such sectors can include **Mining and Quarrying** (NACE sector B) due to dangerous working environments, **Construction** (NACE sector F) due high incidence of accidents and injuries, or **Transportation and Storage** (NACE sector H) due to high stress levels, risk of accidents, long working hours, exposure to noise and pollutants and ergonomic risks. For example, the Business and Human Rights Navigator (UN Global Compact) can help mapping exposure to sectors at high risk of relying on child labour, forced labour, or sectors negatively impacting on equal treatment (incl. restrictions to freedom of association) or on working conditions (inadequate occupational safety and health, living wage, working time, gender equality, heavy reliance on migrant workers) or have negative impacts on indigenous people. For these issues, the Navigator identifies industry-specific risk factors, aiming to illustrate the issue for certain sectors such as agriculture, fashion & apparel, mining, travel & tourism.

b. in sectors related to the cultivation and production of tobacco and/or involved in the manufacture or selling of controversial weapons (NACE C10-12).		EBRD mapping of NACE sector at medium and high social risk[62]. Business and Human Rights Navigator (UN Global Compact) NACE codes CSRD reporting by economic companies on their social impacts e.g., (ESRS S1). SFDR reporting by insurers on their PAI (PAI 12-14)
e. Governance		
i. Asset side: Investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour), without policies to protect whistle-blowers, and prevent and manage corruption (consistent with the United Nations Convention against Corruption) or with identified insufficiencies in actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.	To assess the market risk exposure of investments to economic sectors with governance risks.	CSRD reporting by economic activities on their business conduct risks (ESRS G1). SFDR reporting by insurers on their PAI (PAI 10-13)
ii. Asset side: Average ratio of female to male board members and average unadjusted gender pay gap in investee companies, expressed as a percentage of all board members.	To assess the market risk exposure of investments to economic sectors with governance risks.	CSRD reporting by economic activities on their business conduct risks (ESRS G1).

[62] EBRD Environmental and Social Risk Categorisation List – Revised 2014 https://www.ebrd.com/sites/Satellite?c=Content&cid=1395247846417&pagename=EBRD%2FContent%2FDownloadDocument

		SFDR reporting by insurers on their PAI (PAI 12-13)

Questions to stakeholders

Q16: Do you consider the current view metrics listed in the minimum binding list (Annex I of the RTS) relevant? If not, what changes to the specific metrics, additional metrics or deletions would you suggest?

Q17: Do you agree with Article 7? If not, please specify why.

Optional forward-looking metrics

109. The following list includes optional metrics which could be considered by the undertaking on a voluntary basis to report on the results of scenarios analysis (financial risk assessment) for material sustainability risks.

Forward-looking view proposed metric	Purpose of the metric	Standard, methodology, and potential data sources
a. Physical risks		
i. Environmental risks (including climate, biodiversity loss…): Expected value and evolution (relative change) of the main balance sheet, profitability and technical components (e.g. premiums, claims, technical provisions, reinsurance balance…) using a sectoral and geographical differentiation as granular as possible under the different scenarios and time horizons.	To assess the longer-term exposure of the insurers' business model and activity to environmental risks and expected changes to the balance sheet.	Scenario analysis[63].
b. Physical risks/non-life		

[63] For climate, in line with article 45a of the Solvency II Directive two scenarios should be considered below 2˚C and above 2˚C.

i. **Climate – Liability side:** Expected average annual losses under the two scenarios and different time horizons using a sectoral, hazard and geographical differentiation as granular as possible (amount and expected change).	To assess the longer-term non-life underwriting risk exposure to natural catastrophe risk.	Undertakings using the standard formula for their non-life business can limit their assessment to an analysis more qualitative in nature.
c. Physical risks/Life and health		
i. **Climate – Liability side:** Expected average annual losses under the chosen scenarios and time horizons using age, geographical and risk drivers (e.g. due to natural catastrophe peril, heat waves, air pollution, infectious diseases, malnutrition, displacement…) differentiation as granular as possible (amount and expected change).	To assess the longer-term health/life underwriting risk exposure to climate change.	Undertakings using standard formula for their health business can limit their assessment to an analysis more qualitative in nature.
d. Transition risks		
i. **Climate – Asset side:** Stressed value and price change of climate relevant assets in climate relevant sectors (NACE sectors A to H and L[64]), which include the oil, gas, mining and transportation sectors), and at minimum for equity and corporate bonds, under different scenarios and time horizons.[65]	To assess the longer-term market risk exposure of investments to economic activities with significant impact on climate change.	Scenario analysis. NACE sectors, Battiston et. al. (2017)
ii. **Climate - Asset and liability side:** Expected gross and total amount of, at a minimum, Scope 1, 2 and 3 greenhouse gases, including carbon dioxide, methane, and nitrous oxide	To assess the market risk exposure of investments in	Scenario analysis.

[64] As referred to in Commission Delegated Regulation (EU) 2022/1288. Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1).

[65] For example, the economic activities mentioned as Climate Policy Relevant Sectors (CPRS) by Battiston, Mandel, Monasterolo, Schütze, and Visentin (2017): A Climate stress-test of the financial system, Nature Climate Change, 7(4), 283–288

for financed emissions (absolute amount of $mtCO_2e$) and gross GHG emissions intensity ($mtCO_2e$ per million euro invested) under different scenarios – at sectoral level - and time horizons.	economic activities with significant impact on climate change.	
d. Social risks		
i. **Liability side:** Expected losses linked to increased mortality, morbidity or hospitalization cost caused by socio-economic developments, lifestyle behaviour under different scenarios and time horizons.	To assess the life / health underwriting risk exposure to developments affecting mortality and morbidity.	Scenario analysis.
ii. **Asset side:** Maximum expected losses linked to adverse social behaviour of investee companies (worsening working conditions, negative impact on communities, consumers, or end-users) under different scenarios and time horizons.	To assess the market risk exposure of investments to social risks.	Scenario analysis.
e. Governance risks		
i. **Asset side:** Maximum expected losses due to investments in investee companies under different scenarios and time horizons due to breaches in procedures and standards of anti-corruption and anti-bribery.	To assess the market risk exposure of investments to governance risks.	Scenario analysis.

Question to stakeholders:

Q18: Do you agree with the relevance of the optional forward-looking metrics? If not, what changes to the specific metrics, additional metrics or deletions would you suggest?

Other optional metrics

110. The following list includes further optional metrics which could be considered by the undertaking on a voluntary basis for the sustainability risk assessment on the following aspects:

Table 6: Optional metrics

- Physical risk - Nature – Asset side: Investments in economic sectors with a high dependence on ecosystem services (e.g. using ENCORE database on dependencies).[66]
- Transition risks - Asset side: investment in debt or bonds with commitments of the issuers to reduce future emissions through the implementation of transition plans as defined under CSRD.
- Transition risks – Environmental: Investments at the end of the financial year for equity and corporate bonds (amount and share of equity/corporate bond portfolio) in economic activities with sites/operations located in or near to biodiversity-sensitive areas (at a minimum Natura 2000 sites)[67] where activities of those investee companies potentially negatively impact those areas (amount and share of equity/corporate bond portfolio).
- Transition risks – Investments: Investments at the end of the financial year for equity and corporate bonds (amount and share of equity/corporate bond portfolio) in economic activities with sites/operations located in areas of high water stress, which means in regions where the percentage of total water withdrawn is high (40-80 %) or extremely high (greater than 80 %) in the World Resources Institute's (WRI) Water Risk Atlas tool 'Aqueduct'.
- Physical risk/Non-life – Climate: Share of market expected to become uninsurable by peril and region.
- Transition risks – Climate – Asset side: Value (and share) of real estate investments with energy category G and F.[68]
- Transition risks - investments: Investments linked to the amount, absolute or proportion, of investee companies that have allocation of capital expenditure or operational expenditure or budgets to transition activities and/or the quantities of such allocation.
- Transition risks – liabilities: Value (and share) of gross written premiums from oil and gas producers and from oil and gas producers committed to align to net zero by 2050.
- Transition risks – liabilities: Expected legal liability claims by region.
- Transition risks – investments: Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector.

[66] Companies investing in sectors like agriculture, forestry, or fisheries are highly dependent on ecosystem services. Environmental changes can disrupt these ecosystems, leading to supply chain disruptions. For example, droughts can affect crop yields, impacting food production companies and those investing in them.

[67] As designated in the EU Birds and Habitats Directives. See: Natura 2000 Viewer (europa.eu)

[68] Based on the COM revised Energy Performance of Buildings Directive (EU/2024/1275) aiming to achieve a fully decarbonised building stock by 2050.

- Transition risks – investments: Share of investments at the end of the financial year in economic activities with high amount of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average under different scenarios and time horizons.
- Transition risks – investments: Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources.
- Transition risks – assets: Value (and share) of taxonomy aligned and taxonomy eligible assets and assets at risk of transition (subset of eligible) for equity and corporate bonds.
- Transition risks – assets: Value (and share) of investments in renewable energy sector.
- Transition risks – assets: Value (and share) of investments in sustainable assets (e.g., green bonds, social bonds, sustainability assets, transition, and climate-related funds).

Question to stakeholders:

Q19: Do you agree with the relevance of the other optional metrics? If not, what changes to the specific metrics, additional metrics or deletions would you suggest?

3.9 TARGETS

111. Based on the results of the sustainability risk assessment, the undertaking's risk appetite and long-term strategy, the undertaking should set quantifiable targets to reduce or manage material sustainability-related exposure/risks or limits sustainability-related exposure/risks to monitoring prudential risks over the short, medium, and long term.
112. The undertaking should, based on its risk appetite, specify the type and extent of the material sustainability risks the undertaking is willing to assume in relation to all relevant lines of business, geographies, economic sectors, activities and products (considering its concentration and diversification objectives) and set its risk management targets accordingly.
113. Undertakings shall explain the way the target will be achieved or what is their approach to achieve the target. Intermediate targets or milestones should allow for the monitoring of progress of the undertaking in addressing the risks. The undertakings should specify the percentage of portfolio covered by targets.
114. The targets should be consistent with any (transition) targets used in the undertaking's transition plans and disclosed where applicable. The targets and measures to address the sustainability risks will consider the latest reports and measures prescribed by the European Scientific Advisory Board on climate change, in particular in relation to the achievement of the climate targets of the Union.

115. Undertakings would therefore need to consider how their transition plan targets and targets to manage financial impacts of sustainability risks and impacts interrelate, as for example shown in the table below.

Table 7: Relation between targets, metrics, and actions across transition plans, sustainability risk plans and ORSA, applied to an example for transition risk assessment for climate risk-related investments

	Sustainability risk plan	**Transition plan**	**ORSA**
Metric	Materiality assessment: Investments at the end of the financial year in climate relevant sectors (NACE sectors A to H and L[69]), which include the oil, gas, mining and transportation sectors, at minimum by NACE for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio). (current view metric) Financial risk assessment: Stressed value and price change of climate relevant assets in climate relevant sectors (NACE sectors A to H and L[70]), which include the oil, gas, mining and transportation sectors), and at minimum for equity and corporate bonds, under different scenarios and time horizons (forward-looking metric)	Financed emissions in investment portfolio	Scenario analysis (i.e., financial risk assessment): Assess impact on solvency capital of the stressed value and price change of climate relevant assets in climate relevant sectors (NACE sectors A to H and L[71]), which include the oil, gas, mining and transportation sectors), and at minimum for equity and corporate bonds, under different scenarios and time horizons
Target	Reduce/limit exposure to the risk of stranded assets by reducing/limiting holding of climate relevant assets in line with the undertaking's risk appetite and strategy over the long-term.	Reduce financed GHG emissions intensity by 50% by 2030.	Assess and manage transition risks which may be at the detriment the undertaking's solvency.

[69] As referred to in Commission Delegated Regulation (EU) 2022/1288. Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1).

[70] As referred to in Commission Delegated Regulation (EU) 2022/1288. Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1).

[71] As referred to in Commission Delegated Regulation (EU) 2022/1288. Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1).

Action	Change composition of the asset portfolio – reduce by X% over the next Y years.	Stop financing fossil fuel activities in the next X years.	Management actions to mitigate the material risk impact on the solvency (incl. potential change composition of the asset portfolio).

116. Article 8 of the RTS sets out the requirement for undertakings to establish quantifiable targets for managing material sustainability risks. The article specifies that these targets shall refer to targets set out in relevant European or national legislation. The RTS also stipulates that in setting the targets, undertakings shall demonstrate the reliability of management actions to mitigate material financial risks.

Question to stakeholders:

Q20: Do you agree with Article 8 of the RTS? If not, please specify why.

3.10 ACTIONS

117. Actions to manage risks should be risk-based and entity-specific.
118. Actions set out in undertakings' transition plans, for example under CSDDD can inform the sustainability (transition) risk to the undertaking's business, investment, and underwriting. Such transition plan actions typically involve:
    - Limiting investment in non-sustainable activities/companies Introduction of sustainability criteria in the investment decision Re-pricing of risks.
    - Integrating sustainability into the investment guidelines.
    - Stewardship, impact investing, impact underwriting.
    - Integrating ESG into the underwriting standards and guidelines of the undertaking.
    - Product development considering the impact on climate change.
119. The measures in the transition plan and actions to address financial risks arising from the transition need to be integrated into the investment, underwriting and business strategy of the undertaking. They need to be measurable and where actions fail to meet their expressed target, these should be monitored and, where necessary, adjusted.
120. Article 9 of the RTS sets out the requirement for the actions to be in line with the targets set out by the undertaking, and how these actions should be monitored.

Question to stakeholders:

Q20: Do you agree with Article 9 of the RTS? If not, please specify why.

4. SUPERVISORY APPROACH

Article 44 (5) and (6) of the Solvency II Directive requires

5) Insurance and reinsurance undertakings [to] take into account the short-, medium- and long-term horizon when assessing sustainability risks.

(6) For the purposes of the assessment referred to in the fifth subparagraph, the supervisory authorities shall ensure that undertakings, as part of their risk management, have strategies, policies, processes, and systems for the identification, measurement, management, and monitoring of sustainability risks over the short, medium and long term.

Article 44 (2c)(c) requires that EIOPA develops draft regulatory technical standards to further specify:

supervisory approaches in relation to the plans, quantifiable targets, and processes […]

121. The supervisor's focus regarding the sustainability risk plans should be on the undertaking's appropriate identification, measurement, management, and monitoring of the corresponding sustainability risk. The supervision of the sustainability risk plan should support the analysis the potential financial impact of material risks in the ORSA. Supervising financial risks arising from sustainability factors should not imply assessing the effectiveness of insurers' transition targets.
122. The supervisor may need to assess the content of undertakings' transition plans or other statements of intent, to be able to judge if potential financial risks can arise from the (non-)implementation of these plans. The non-alignment of the undertaking's management actions with its transition plan targets, where applicable, can lead to reputational, legal or financial risks.
123. As misalignment with EU transition targets may have consequences in terms of exposure to transition risks, the supervisor will need to assess whether the undertaking's risk management strategy is aligned with EU transition targets and milestones.
124. In addition, the supervisor will need to assess if and how the potential impact of insurers' activity on sustainability factors (e.g., financed GHG emissions) may translate into financial risks via market or underwriting risks, as well as reputational, legal, or operational risks.
125. Conduct aspects may need to be addressed in the supervision of sustainability-related risks. An undertaking's claim to be sustainable can be 'any claim related to the sustainability profile of an entity or a product'.[72] The undertaking's representation can pertain to the entity's or product's benefits for the environment or people or can pertain to measures taken to manage sustainability risks to which the undertaking is exposed. For example, an undertaking that does not implement the targeted risk management actions set out and disclosed as part of the sustainability risk plans, is misrepresenting its actual risk profile. Where undertakings do not take actions to deliver on public commitments in

[72] EIOPA-BoS-24-160- Opinion on sustainability claims and greenwashing

transition plans (and misrepresent their risk management in their public disclosure) they can be exposed to legal, operational, or reputational risks.

126. Supervision of the sustainability risk plan would therefore involve assessing:
    - the appropriateness and sustainability of the business model and strategy of the undertaking in the context of the sustainability risk assessment beyond a usual 3-year business planning or ORSA time horizon:
    - the governance for identifying and monitoring the sustainability risks, including the targets and metrics to monitor the evolution of the risks over the short, medium, and longer term.
    - whether sustainability risks to the undertaking and risks arising from impacts of activity on sustainability factors are appropriately identified and measured through the materiality assessment within the plan.
    - the assumptions, time horizon, targets and data used to perform the materiality and financial risk assessment.
    - the (effectiveness) of risk management measures taken to appropriately manage the prudential risks resulting from the sustainability risks.
    - the progress made to address risks and impacts in line with the undertaking’s risk appetite through intermediate milestones.
    - where relevant, the risks arising from the (non-) alignment with transition targets set out in the undertaking’s transition plans, and the implementation of the actions to remedy these risks.
    - whether material risks are integrated in the undertaking’s ORSA.
127. In doing so, supervisors would need to consider:
    - whether the assumptions for managing transition risk are in line with the EU's objectives and targets, including for example the EU Climate Law.
    - the appropriateness of the underlying assumptions and methodologies, in particular the time frame and data used and the consistency of targets between the sustainability risk plans, and the undertaking’s transition plans, where relevant.
128. Article 10 of the RTS specifies the elements for supervisory review, based on the considerations above.

Question to stakeholders:

Q22: Do you agree with the approach to the supervision of sustainability risk management and the sustainability risk plan as set out in Article 10 of the RTS? If not, please specify why.

5. DISCLOSURE

Article 44 (2c) (d) requires that EIOPA develops draft regulatory technical standards to further specify:

the elements of the plans to be disclosed, including the relevant quantifiable targets, in accordance with Article 51.

129. The requirement to disclose on elements of the sustainability risk management in the SFCR, should be proportionate and consistent with the disclosure of other prudential risks, as set out in Articles 290 ff of the Solvency II Delegated Regulation on the structure and contents of the SFCR.
130. The purpose of the disclosure is to inform policyholders and beneficiaries, as well as market professionals on key relevant information related to the sustainability risk profile of the undertaking. A selection of elements from the plans needs to be made to differentiate between publicly relevant information and information that should support the supervisory review in a confidential manner. The Solvency II Directive requires the disclosure, as part of the SFCR, of sustainability-related matters:
    - Amended article 51 (1a) of the Solvency II Directive: As part of the information targeted to policyholders and beneficiaries, the SFCR shall contain a "*brief description of the capital management and the risk profile of* the *undertaking, including in relation to sustainability risks*" as well as a "*a statement of whether the undertaking discloses the plans referred to in Article 19a or Article 29a of Directive 2013/34/EU*".
    - Amended article 51 1b (ca), (cb) and (cc) of the Solvency II Directive: As part of the information targeted to market professionals, the SFCR shall include "*an indication of whether the undertaking has any material exposure to climate change risks following the materiality assessment referred to in Article 45a(1) [ORSA requirement on the climate change scenario analysis], and, where relevant, if it has put in place any actions"*, as well as "*a statement of whether the undertaking discloses the plans referred to in Article 19a or Article 29a of Directive 2013/34/EU" and "the elements referred to in Article 44(2c), point (d)".*
    - Article 51 (c) Solvency II Directive already requires disclosing "*a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity*".
    - Regarding the sustainability risk plan, Article 44(2d) of the Solvency II Directive requires the disclosure "*on an annual basis [of] the quantifiable targets included in the plan"*.
131. For undertakings reporting under the CSRD, ESRS require the disclosure of information on risk management policies, processes, metrics, and targets in environmental, social and governance risks.[73]
132. As a matter of context: the EBA ITS on disclosure of ESG risks[74] include tables for qualitative disclosures on ESG risks, templates for quantitative disclosures in climate change transitional risk, a template for quantitative disclosure on climate change physical risks, templates for quantitative information and key performance indicators on climate change mitigation measures (incl. the green asset ratio and the banking book taxonomy alignment ratio and other assets that are sustainable but not taxonomy aligned). As part of the qualitative information requested on sustainability risks, risk management disclosures include the implementation of tools for identification, measurement, and management of sustainability risks.

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[73] ESRS E1, ESRS 2.

[74] Official Journal L 324/2022 (europa.eu)

133. Based on the above, the RTS specify the public disclosure requirements in Article 11, consistent with existing requirements, with the aim to be consistent, and enable undertakings to use information disclosed under other regulatory frameworks or for other purposes. The RTS clarifies that the elements of the sustainability risk plan are to be publicly disclosed jointly with the existing disclosure requirements under article 51 of the Solvency II Directive, as part of the Solvency and Financial Condition Report (SFCR).

Question to stakeholders:

Q23: Do you agree with the list of elements of the sustainability risk plan to be disclosed as set out in Article 11 of the RTS? If not, please specify why.

6. PROPORTIONALITY

Article 44 Solvency II Directive states that

[…] the targets, processes and actions to address the sustainability risks included in the plans, [shall be] proportionate to the nature, scale, and complexity of the sustainability risks of the business model of the insurance and reinsurance activities, in accordance with Article 29(3).

134. The RTS aim to secure built-in proportionality for all undertakings by clarifying synergies and building on existing relevant legislation and practices to limit the regulatory and administrative burden involved with identifying, measuring, managing, and monitoring sustainability risks. For example, by aligning with the existing requirements on regular supervisory reporting, ORSA and the structure, and where relevant, requirements under the CSRD.
135. The RTS also aim to be sufficiently principle-based to allow for adapting to evolving insights on risk identification, assessment, and management practices for climate as well as other environmental (e.g. nature) or social and governance risks, as well as to the risk profile of the undertakings. At the same, it aims at supporting the risk assessment and enabling practices to be consistent across the market. Hence, the RTS provide on the one hand a minimum list of metrics that reflect the most current practices, and the consultation paper sets out other potential voluntary metrics enabling practices to evolve and enabling undertaking-specific assessments.
136. The Solvency II Directive already includes several relevant proportionality measures, which apply also for sustainability risk management:
    - In accordance with Article 246 Directive 2009/138/EC, the requirement to perform the sustainability risk plan also applies at group level. Where subsidiaries are exempted from drawing up a plan at individual level, in accordance with Article 44 2(e) Directive 2009/138/EC, the group sustainability risk plan should ensure the risks of the subsidiaries are well reflected, identifying which individual assessments are covered in the group

sustainability risk plan and how the individual assessments are organised to allow supervisors in the college to review the individual risk assessment.

- With regard to climate change risks, the Solvency II Directive already stipulates that while all undertakings shall perform assessments of the materiality of exposure to climate change risks on the business of the undertaking, small and non-complex undertakings are not required to specify long-term climate change scenarios nor to assess their impact on the business of the undertaking (Article 45a Solvency II Directive). However, this does not exempt these undertakings from the appropriate management of risk. Therefore, they are still required to consider the materiality of their exposure in the sustainability risk plan, based on their narrative, but they are not required to undertake the assessment of the financial impact as required in Article 45a by specifying two long-term climate change scenarios and assessing their impact on the business of the undertaking.
- Furthermore, the Solvency II Directive already foresees less regular supervisory reporting (subject to supervisor approval, up to five years, Article 35) and less frequent review of the policies (at least every 5 years) by small and non-complex undertakings.
- Finally, for the inclusion in the ORSA of the analysis of macroeconomic and financial markets' developments relating to climate change, pandemics, other mass-scale events and other catastrophes, which may affect insurance and reinsurance undertakings, the Solvency II Directive explicitly states the need for analysis that is commensurate with the nature of the risks and the scale and complexity of the undertaking (Article 45 of the Solvency II Directive).

137. Article 12 of the RTS puts forward proportionality measures for captives and small and non-complex undertakings in accordance with Article 29c of the Solvency II Directive. The RTS specify that SNCU's and captive (re)insurers may use qualitative approaches for their financial risk assessment. The RTS also apply the same limitations to public disclosure on elements of the sustainability risks plan as those which apply to the public disclosure requirements under CSRD.[75]

Question to stakeholders:

Q24: Do you agree with the proportionality measures included in Article 12 of the RTS?

Question to stakeholders:

Q25: Do you have comments on the Recitals of the draft RTS?

[75] See amendment to Directive 2013/34/EU, Article 19a para 6, as per the amended SII Directive corrigendum of the text of the provisional agreement as adopted by the European Parliament on 23 April 2024.

DRAFT TECHNICAL STANDARDS

COMMISSION DELEGATED REGULATION (EU) …/… of xxx supplementing Directive 2009/138/EC of the European Parliament and of the Councilwith regard to the regulatory technical standards for management of sustainability risks

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)[76]and in particular Article 44(2c), third subparagraph thereof,

Whereas:

(1) Climate change, environmental degradation as well as social and governance issues can pose risks to insurance and reinsurance undertakings. These risks may result from physical damage due to climate change or environmental degradation as well as from the economy having to adapt to stricter climate, environmental or social or governance policies, impacts on the broader economy, new technology or changing market and consumer sentiment. Directive 2009/138/EC empowers EIOPA to specify the content of 'specific plans' to monitor and address financial risks arising from sustainability factors (hereafter: 'sustainability risk plans'). With a view to comprehensively capturing potential impacts from sustainability risks, and further integrating the sustainability risk analysis in the existing risk mangement framework, this Regulation consolidates minimum requirements to ensure consistency and enable convergent supervision of sustainability risk management practices in an evolving context.

(2) Regulatory requirements on sustainability risk management, due diligence and disclosures are still under development. While undertakings and supervisory authorities are more advanced on the measurement and assessment of climate change risks, it is important they progressively develop tools and practices that aim at assessing and managing the impact, in a comprehensive manner, of environmental risks, extending beyond climate changes, such as risks stemming from degradation of ecosystems and biodiversity loss, as well as of social factors that are affecting working condition and living standards, communities and end-users. The scope of the plans includes all sustainability risks.

[76] OJ L 335, 17.12.2009, p. 1–155.

(3) The overarching aim of the sustainability risk plan is to provide a coherent and proportionate approach to sustainability risk management that fits in with existing requirements, and has a sufficiently risk-based approach to allow for development of science and practices. The elements and tools of these plans build on Directive 2009/138/EC (Solvency II Directive) and Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (Solvency II Delegated Regulation), as well as policy statements and guidance issued by EIOPA, in order to further strengthen supervisory convergence and ensure proportionality of the regulatory and implementation effort. Consistent approaches should prevent duplication of disclosure efforts under Union laws and ensure aligment of data and methodological requirements as well as enable the integration of the sustainability risk assessments into the undertakings' own risk solvency assesssment (ORSA).

(4) Regulatory requirements on the performance of sustainability risk assessment need to be proportionate to enable undertakings to capture undertaking-specific risks as well as to develop their methodologies according to evolving science and data availability. The requirements should build on and be consistent with sustainability disclosure requirements, which allow for simplifications for small and non-complex (re)insurance undertakings and (re)insurance captives. The requirements allow for qualitative approaches for the financial risk assessment by those undertakings, consistent with the exemption from having to assess the financial impact of climate change risk, as required in Article 45a Directive 2009/138/EC, by specifying two long-term climate change scenarios and assessing their impact on the business of the undertaking.

(5) In accordance with Article 246 Directive 2009/138/EC, the requirement to perform the sustainability risk plan also applies at group level. Where subsidiaries are exempted from drawing up a plan at individual level, in accordance with Article 44 2(e) Directive 2009/138/EC, the group sustainability risk plan should ensure the risks of the subsidiaries are well reflected, identifying which individual assessments are covered in the group sustainability risk plan and how they are are organised to allow supervisors in the college to review the individual risk assessment.

(6) Commission Delegated Regulation (EU) 2015/35 already requires undertakings to integrate sustainability risk assessment into their governance and risk management system. The regulatory requirements related to the risk management system include consideration of sustainability risks, and this assessment feeds into the ORSA. Undertakings' investment and underwriting policies need to refer to actions taken to assess and manage at least the material risks. When identifying and managing investment risks, undertakings are required to take into account the impact of their invesmtents on sustainability factors. The actuarial function is to consider sustainability risks in its opinion, and the remuneration policy has to include information on how sustainabiluty risks are taken into account. For climate change-related risks, undertakings are already required to specify two long term climate scenarios and analyse the impact on the business of these scenarios and review the scenarios at a minimum every three years in the ORSA.

(7) Double materiality is an inherent part of the European Green Deal, which requires the systematic integration of both financially material sustainability risks and sustainability impacts in financial

decision-making processes.[77] Commission Delegated Regulation (EU) 2015/35 also requires insurance and reinsurance undertakings to take account of the impact of sustainability risks on their investments as well as the potential long-term impact of their investment decisions on sustainability factors when they decide on their investment strategy. Hence, this Regulation integrates the assessment and management of sustainability risks incurred by the undertaking, as well as own financial prudential risks for the undertaking generated by the impacts the undertaking can have on sustainability factors through its investment and underwriting decisions.

(8) To limit the burden on undertakings, the elements of the sustainability risk plans under Article 44(2b) of the Solvency II Directive and those being reported by undertakings with the scope of Articles 19a and 29a of Directive 2022/2464/EC (Corporate Sustainability Reporting Directive, CSRD) are closely aligned. This should enable prudential risk assessments to be performed under Solvency II and disclosed in a consistent manner under both frameworks. The RTS set out in Annex II how the information related to the prudential sustainability risk assessment will enable undertakings to feed into the sustainability reporting under the CSRD.

(9) This Regulation does not specify a materiality threshold for the classification of risks. It requires undertakings to explain the classification of risks as being material or not material and to consider changes to materiality over the short, medium and long term. Undertakings are expected to assess their exposures to sustainability risks on their potential materiality and not only on their short-term materiality, adopting a long-term and exploratory approach.

(10) For the purpose of monitoring and addressing financial risks arising from sustainability factors, materiality assessments of sustainability risks have become a current practice and are reflected in many sustainability reports of various undertakings. This Regulation integrates the requirement for sustainability risk assessments, composed of a forward-looking materiality assessment of the undertaking's exposure, as well as a financial risk assessment of material risks using scenario analysis. The results of the sustainabilty risk assessment would lay the basis for setting the targets to monitor and manage the identified risks.

(11) Undertakings are required to assess whether they have any material exposure to sustainability risks, and demonstrate the materiality of the exposure to these risks. Such risks, where material, will be subject to the undertaking's own risk and solvency assessment.

(12) Where the exposure appears to be material, a more detailed evaluation of the financial risks combining quantitative and qualitative approaches should inform the financial impact of the sustainability risk on the undertaking's balance sheet, as part of the ORSA. This assessment should aim to identify the key metrics and provide a view of the expected impact of such risks under different scenarios and time horizons at different levels of granularity. Small and non-

[77] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Strategy for Financing the Transition to a Sustainable Economy, COM/2021/390 final.

complex (re)insurance undertakings and captives would be allowed to perform a qualitative financial risk assessment.

(13) Undertakings should ensure that the financial risk assessment is sufficiently comprehensive, is consistent with the narrative and includes scenario analyses to enable the setting of strategy, understanding the future business model and understanding the impact on investments, pricing, underwriting, reserving and capital. The use of standardised scenarios may increase comparability and support comparable disclosure of risk assessments. At the same time, science is evolving and no standardised scenarios are readily appliable for environmental risks other than climate change, social risks or governance risks. In addition, undertakings need flexibility to be able to appropriately assess their own risks.

(14) The time horizon over which climate change emerges is longer than typical 3-5 year business planning time horizons. Climate change scenarios can span up to 10 (short term), 30 (medium term) and until the end of the century (long term). The time horizon for sustainability risk assessments should include short, medium and long term horizons that enable relevant risk management actions. The time horizons should also be consitent with time horizons, set by Regulation (EU) 2021/1119 (European Climate Law) for transition efforts.

(15) Targets in undertakings' transition plans under Directive 2024/1760 (Corporate Due Diligence Directive, CSDDD) and disclosed under Directive 2022/2464/EC can set out how an undertaking aims to reduce the impact of its underwriting or investment strategy and decisions on climate change. Such targets can inform the risk management for transition risks. As such, both transition and sustainability risk plans consider measures to manage risks resulting from impacts, and these can be expressed through quantifiable measures. The purpose of the quantifiable targets in the sustainability risk plan is to set out the undertaking's measures to reduce or maintain exposures to sustainability risks or limit the risks. The targets should contribute to monitoring the financial risks over the short, medium and long term. The targets would need to be set in in line with the risk appetite and long-term strategy and be consistent with measures set out in the undertaking's transition plan, disclosed in accordance with Directive 2022/2464/EC.

(16) Supervisory authorities expect undertakings to understand and manage at least all material risks, including sustainability risks. Undertakings must have sound management processes to this purpose. Supervising financial risks arising from sustainability factors does not imply assessing the effectiveness of the undertakings's sustainability targets for achieving the transition. However, the non-alignment with European Climate Law and Green Deal objectives and targets can result in transition risks for the undertaking's activities, and misleading disclosure on the consistency of risk management targets with transition targets can cause financial, reputational or legal risks. These risks can include conduct risks.

(17) Disclosure requirements on sustainability risk plans should align to the extent possible with existing disclosure requirements, including requirements related to the disclosure on sustainability risks in the Solvency and Financial Condition Report, as set out in Article 51 of Directive 2009/138/EC. Disclosures shoud also be consistent and compatible with disclosures under Directive 2022/2464/EC and Commission Delegated Regulation (EU) 2019/2088 (Sustainability-related disclosures in the financial sector, SFDR), where relevant. Requirements

on disclosure of elements of the sustainability risk plan should where possible align with other disclosure requirements in order to limit the additional administrative burden on undertakings.

(18) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Insurance and Occupational Pensions Authority.

(19) The European Insurance and Occupational Pensions Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Insurance and Reinsurance Stakeholder Group established by Article 37 of Regulation (EU) No 1094/2010.

HAS ADOPTED THIS REGULATION:

Article 1 – Subject matter

This Regulation lays down harmonised rules for (re)insurance undertakings on the requirements for sustainability risk management, including the establishment of sustainability risk plans in accordance with Article 44 of Directive 2009/138/EC.

Article 2 –Definitions

(1) ‘Narrative’ means a description of the business context of the undertaking regarding sustainability risks;
(2) ‘Sustainability risk plan’ means a plan by which undertakings specify to the supervisory authorities how they identify, measure, manage and monitor their financial risks arising from sustainability factors;
(3) ‘Sustainability risk’ means an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential negative impact on the value of the investment or on the value of the liability as defined by Article 13 (41c) of Directive 2009/138/EC;
(4) ‘Sustainability factors’ means factors as defined in Article 2, point (24), of Regulation (EU) 2019/2088 of the European Parliament and of the Council[78];
(5) ‘Physical risks’ mean risks materialising due to physical effects of sustainability risk, including those that arise from the physical effects of climate change, changes to natural stock and flows or of inadequate working, safety and living conditions;
(6) ‘Transition risks’ mean risks materialising due to the misalignment between an undertaking’s strategy and management and the changing regulatory, policy, technology, or societal landscape in which it operates;
(7) ‘Transition plan’ means a specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses: a public policy objective and/or an entity-

[78] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

specific action plan organised as a structured set of targets and actions, associated with a key strategic decision, a major change in business model, and/or particularly important actions and allocated resources.[79]

(8) 'Transition plan for climate change mitigation' means a plan which aims to ensure, through best efforts, that the business model and strategy of a company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 ºC in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119 (EU Climate Law), including its intermediate and 2050 climate neutrality targets.[80]

Article 3 – Elements of the sustainability risk plan

1. Undertakings shall establish a sustainability risk plan, which covers the following elements:
    a) governance arrangements, including arrangements to ensure compliance with fit and proper requirements concerning the persons performing relevant functions and monitor their tasks and responsibilities, and policies to identify, assess, manage and monitor material sustainability risks including potential aggregation of risks; as well explanations on how the remuneration policy takes into account the integration of sustainability risks in the risk management system;
    b) a sustainability risk assessment with at least:
        (i) a materiality assessment including detailed information on the process and elements in accordance with Article 4.
        (ii) a financial risk assessment for material risks including detailed information on the process and elements in accordance with Article 5.
    c) explanation of the key results obtained from the materiality assessment and from the financial risk assessment, where applicable;
    d) the metrics calculated, where relevant, based on different scenarios and time horizons;
    e) quantifiable targets over the short, medium, and long term to address material risks in line with the undertaking's risk appetite and strategy;
    f) actions by which the undertaking manages the sustainability risks according to the targets set.

[79] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards: Delegated regulation - EU - 2023/2772 - EN - EUR-Lex (ESRS)

[80] Recital 77, Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/285, Directive - EU - 2024/1760 - EN - EUR-Lex (europa.eu) (CSDDD)

2. Undertakings' internal procedures shall provide for the implementation of sound systems to collect and aggregate sustainability risk-related data. The sustainability risk plan shall inform about data gaps and their potential impacts and set out remediating action.
3. Undertakings shall perform the materiality risk and the financial risk assessment at least every three years, and regularly and without any delay following any significant change in their risk profile.
4. Undertakings shall document the elements of the sustainability risk plan and submit the plan to their supervisory authority as part of their regular supervisory reporting in accordance with Article 35 of Directive 2009/138/EC and Article 312 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.

Article 4 – Materiality risk assessment

1. Undertakings shall adopt processes to identify and assess potential material financial sustainability risks in a forward-looking perspective.
2. The undertakings shall assess potential material exposures over the short, medium, and long term to sustainability risks by describing the business context of the undertaking considering sustainability risks that can impact the undertaking's strategy and business.
3. The undertaking shall conduct a forward-looking materiality assessment of the exposure of its assets and liabilities to sustainability risks. As part of the materiality assessment, the undertaking shall:
   a) define the narrative describing the business context of the undertaking regarding sustainability risks, including insights on the longer-term developments and emerging trends that can, directly and indirectly, impact the undertaking's strategy and business;
   b) identify sustainability risk drivers and their transmission into prudential risks in accordance with the risk modules of the standard formula to calculate solvency capital requirement (SCR);
   c) identify the potential current and forward-looking exposure to financial risks arising from sustainability factors related to:
      (i) assets and activities in lines of business, sectors, geographical areas, jurisdictions, or activities subject to sustainability risks;
      (ii) the impact of the undertaking's investment and underwriting strategy or decisions on sustainability factors.
      (iii) macroeconomic and financial markets developments as referred to in Article 45 1 (d) of Directive 2009/138/EC
4. The sustainability risk plan shall document the narrative, methodologies, sources, risk drivers, data and its eventual assumptions and limitations, metrics, and conclusions from the materiality assessment as well as the assumptions for classifying risks as (non-)material.

Article 5 - Financial risk assessment

1. Where the exposure to sustainability risk is deemed to be material in accordance with the analysis performed under Article 4, the undertaking shall conduct a detailed evaluation of the financial impact of the risks using at a minimum two relevant scenarios.
2. The undertaking shall combine qualitative and quantitative approaches and apply scenario analyses, consistent with their narrative as set out in Article 4(3)(a). By way of derogation of Article 3, where material risks are identified and based on the availability of data and methodologies, small and non-complex (re)insurance undertakings and (re)insurance captive insurance undertakings, may use qualitative approaches to assess their financial risk.
3. The financial risk assessment shall enable the setting of the strategy and risk appetite with regard to sustainability risks and enable the quantification of the impact of the risks on investments, pricing, underwriting, reserving and capital management.
4. The time horizon for the financial risk assessment shall cover the short term from 1 to 5 years, the medium term from 5 to 15 years and the long-term minimum 15 years.
5. These time horizons shall include the EU Green Deal target horizons of 2030 and 2050, and other relevant targets set out in national or European legislation.
6. The sustainability risk plan shall document the narratives, scenarios, time horizons, methodologies, sources, data and eventual assumptions and limitations, metrics, and conclusions reached.

Article 6 - Scenarios for the financial risk assessment

1. Undertakings shall apply the time horizons in accordance with Article 5.
2. Undertaking shall select at least two long-term scenarios to assess the potential financial impact of sustainability risks consistent with the narrative used to determine the materiality of the exposure. Regarding climate change risk, the scenarios shall be in line with scenarios used for the purpose of Article 45a of Directive 2009/138/EC.

Article 7 - Metrics for risk assessment

1. The metrics shall provide a representation of the undertakings' risks and financial position.
2. Undertakings shall use up-to-date, robust, appropriate, and science-based metrics to identify and monitor material sustainability risks over the short, medium and long term.
3. Backward-looking and forward-looking metrics shall be tailored to the undertaking's business model and complexity.
4. Where relevant, the metrics shall be derived for relevant business lines, geographies, economic sectors, activities, and products in absolute and relative terms allowing to evaluate eventual concentration risks.
5. Undertakings shall document the metrics used in the sustainability risk plan.
6. Undertakings shall include at least the metrics, where relevant, as set out in Annex.

Article 8 - Targets to address material sustainability risks

1. Undertakings shall establish quantifiable targets over the short, medium, and long term for managing material sustainability risks.
2. The targets should be set in accordance with the risk appetite and strategy of the undertaking.
3. Targets for climate change, should at a minimum refer to the targets set out in the [EU Climate Law and other relevant targets set out in national or European legislation.
4. Undertakings shall demonstrate how the targets are consistent with their forward-looking risk assessment, consider the latest reports and measures prescribed by the European Scientific Advisory Board on Climate Change and, where relevant, their consistency with the undertaking's transition plans established under Directive (EU) 2024/1760 (CSDDD) or disclosed under Directive (EU) 2022/2464 (CSRD).
5. In setting the targets, undertakings shall demonstrate the reliability of management actions to mitigate the risk in the scenario set out in Article 5.

Article 9 – Actions to address the material sustainability risks

1. Undertakings shall include in the sustainability risk plan the actions taken and planned to address material sustainability risks in line with the targets set out in Article 8.
2. The undertaking shall demonstrate how the actions:
   (a) are integrated in their policies in accordance with Article 260 of Commission Delegated Regulation (EU) 2015/35 and as referred to in Article 3, paragraph 1(a) above;
   (b) contribute to meeting the target.
3. The undertaking shall set out actions to be taken in case of non-achievement of the targets set out in accordance with Article 8.

Article 10 - Supervision of sustainability risk plans

1. In supervising the sustainability risk assessment and elements of the sustainability plan, supervisory authorities shall assess:
   (a) the undertaking's governance for identifying, measuring, managing, and monitoring material sustainability risks;
   (b) scenarios, time horizons, materiality thresholds, metrics, and key results of the sustainability risk assessment;
   (c) undertaking's policies and targets over the short, medium, and long term, for managing material sustainability risks;
   (d) where relevant, consistency of risk management measures and targets with targets and measures documented in transition plans under Directive (EU) 2024/1760 (CSDDD) or Directive (EU) 2022/2464 (CSRD).
2. For material risks, the supervisory authorities shall ensure that the undertaking considers the risk in the assessment referred to in Article 45 of Directive 2009/138/EC.
3. Supervisory authorities shall analyse the sustainability risk plan within their supervisory review process, including as part of off-site activities or on-site inspections.

Article 11 – Public disclosure on elements of the sustainability risk plan in the Solvency and Financial Condition Report (SFCR)

1. In order to fulfill the disclosure requirements under Article 51 (1b) of Directive 2009/138/EC, undertakings shall disclose, based on their sustainability risk materiality assessment and elements of their sustainability plan, a description of the:
   (a) key elements of governance, risk profile, policies, and processes for identifying, measuring, managing, and monitoring material sustainability risks;
   (b) whether the undertaking has any material exposures to sustainability risks;
   (c) scenarios used for the financial risk assessment;
   (d) quantifiable targets set in accordance with Article 8;
   (e) the metrics set in accordance with Article 6 for financial risk management purposes;
   (f) actions taken and planned for managing sustainability risk set out in accordance with Article 9.
2. Where relevant, undertakings shall disclose how the sustainability risk plan is reflected in the undertaking's business strategy.

Article 12 - Proportionality measures for small and non-complex undertakings

1. By way of derogation of Article 5 and Article 7, where material risks are identified, and based on the availability of data and methodologies, small and non-complex undertakings, and captive (re)insurance undertakings may use qualitative approaches to assess their financial risk.
2. In this case, the undertaking shall include in the sustainability risk plan measures to improve on methodologies and data for financial risk assessment.
3. By way of derogation from Article 11, small and non-complex undertakings, and captive (re)insurance undertakings may limit their disclosure on the elements of the sustainability risk plan to:
   (a) to a brief description of the undertaking's business model and strategy to identify material risks;
   (b) a description of the undertaking's policies to address material financial risks;
   (c) the principal sustainability risks to the undertaking and how the undertaking addresses these risks;
   (d) key metrics necessary for the disclosures referred to in point (a) to (c).
4. Small and non-complex undertakings and captive (re)insurance undertakings shall disclose the quantifiable targets included in the sustainability risk plan in accordance with Article 44(2d) of Directive 2009/138/EC

Article 13 - Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, [ ]

[For the Commission

The President]

[On behalf of the President]

[Position]

ANNEX I – List of minimum current view metrics

a. **Physical risks/non-life insurance and reinsurance except health insurance and reinsurance**
i. **Climate – Liability side**: Gross, ceded and net incurred losses and current exposure/sum insured by perils and regions (CRESTA/NUTS2 level) at the end of the financial year monitoring the evolution over time (number of events and amount).
ii. **Nature – Liability side:** Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year monitoring the evolution over time in economic sectors with a high dependence on ecosystem services. If possible, upstream dependency and country specific output should be considered.
b. **Physical risks/Life insurance and reinsurance and health insurance and reinsurance**
i. **Climate – Liability side:** Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year and the evolution over time by regions and age group (amount of total claims paid). If possible, undertakings should consider monitoring the metric by the type of life/health impacts (increased mortality, morbidity, or hospitalisation cost), and by underlying drivers (e.g. due to natural catastrophe perils, heat waves, air pollution, infectious diseases, malnutrition, displacement…).
c. **Transition risks**

i. **Climate – Asset side:** Investments at the end of the financial year in climate relevant sectors (NACE sectors A to H and L[81]), which include the oil, gas, mining and transportation sectors, at minimum by NACE for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio).
ii. **Biodiversity – Asset side:** Investments at the end of the financial year in economic sectors with a high biodiversity footprint at a minimum by NACE sectors for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio).
iii. **Climate – Asset and liability side**: At minimum gross and total amount of Scope 1, 2 and 3 greenhouse gases (absolute amount of mtCO_2e), including carbon dioxide, methane, and nitrous oxide for financed emissions through the undertaking's investments and underwriting and gross greenhouse gas emissions intensity (mtCO_2e per million euro invested) at the end of the financial year.
d. Social risks
i. **Liability side:** Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year and the evolution over time, arising under workers' compensation or other employee indemnification benefits coverage at workplaces (e.g., work-related injury or fatalities) by region.
ii. **Asset side:** Investments at the end of the financial year in economic activities, for equity and corporate bonds (amount and share of equity/corporate bond portfolio): • in high-risk sectors, related to working conditions, affected communities (economic, social, cultural as well as civil and political rights or rights of indigenous people), or the well-being for consumers or end-users (related to treatment of information, personal safety or social inclusion) using the EBRD mapping of NACE sector at medium and high social risk. • in sectors related to the cultivation and production of tobacco and/or involved in the manufacture or selling of controversial weapons (NACE C10-12).
e. Governance
i. **Asset side:** Investments in companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour), without policies to protect whistle-blowers, and prevent and manage corruption (consistent with the United Nations

[81] As referred to in Commission Delegated Regulation (EU) 2022/1288. Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1).

	Convention against Corruption) or with identified insufficiencies in actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.
ii.	**Asset side:** Average ratio of female to male board members and average unadjusted gender pay gap in investee companies, expressed as a percentage of all board members.

Annex II: Mapping of Sustainability Risk Plan inputs for ESRS disclosures for undertakings reporting sustainability risks under CSRD.

Solvency II Sustainability Risk Plan	Reference to COM Delegated Regulation 2023/2772 (ESRS)	Use of elements of the Solvency II Sustainability Risk Plan for disclosure under ESRS
Article 2 - Definitions (5) Physical risk, (6) Transition risk	Table 1 Definitions	The definitions of physical and transition risk in Article 2 of the RTS apply to all sustainability risks. These definitions enable undertakings to report under ESRS on physical and transition risks.[82]
Article 3 - Elements of the sustainability risk plan	ESRS 2 para 65 ESRS 2 GOV-3 para 27-29	Subject to confidential supervisory information, undertakings can use the information describing their policies for risk management purposes under Solvency II, in ESRS disclosures. See RTS Article 11 1(a) and 2.
Article 4 - Materiality assessment	ESRS 1, para 26	The concepts of materiality are aligned as material financial effects, as defined by the ESRS, would likely influence the decision-making or judgment of users of the information, including supervisory authorities. Subject to confidential supervisory information, undertakings can disclose the relevant items from their materiality assessment, performed for risk management purposes under Solvency II, in ESRS disclosures. See RTS Article 11 (1)(b).

[82] The definition of physical risk in the ESRS addresses nature related risk in particular. The definition of transition risk in Solvency II and ESRS are identical.

Article 5 - Financial risk assessment	ESRS 1, section 3.5	The concepts of financial materiality are aligned as material financial effects, as defined by the ESRS, would likely influence the decision-making or judgment of users of the information, including supervisory authorities. Subject to confidential supervisory information, undertakings can disclose information on the (results) of the assessment of material financial risks, performed for risk management purposes under Solvency II. The short- and medium-term risk reporting of corporates under ESRS will feed into the short-term risk assessment for insurers, while the longer-term risk reporting of corporates should enable medium- and longer-term risk assessment by insurers. See RTS Article 11 (1) (c) and (e).
Article 6 - Scenarios for the financial risk assessment	ESRS 2 SBM-3, para 18 ESRS 2 IRO-1, para 20 -21 ESRS 2 IRO-1, AR 11-15 ESRS E1 – 9, AR 69, 72-73 ESRS E4, ESRS S1, ESR G1	Subject to confidential supervisory information, undertakings can disclose the relevant elements from their scenario analysis, performed for risk management purposes under Solvency II, in ESRS disclosures. See RTS Article 11 (1)(c).
Article 7 Metrics for risk assessment	ESRS section 1.2, para 12(d) ESRS 1, AR 2 ff ESRS 2 MDR-M	Subject to confidential supervisory information, undertakings can disclose the metrics used for risk management purposes under Solvency II, in ESRS disclosures. See RTS Article 11 (1)(e).

Article 8 - Targets to address material sustainability risks	ESRS 2 MDR-T	Subject to confidential supervisory information, undertakings can disclose the targets set for risk management purposes under Solvency II, in ESRS disclosures. See RTS Article 11 (1)(d).
Article 9 - Actions to address material sustainability risks	ESRS 2 para 66-69	Subject to confidential supervisory information, undertakings can disclose the actions to address material sustainability risks for risk management purposes under Solvency II, in ESRS disclosures. See RTS Article 11 (1)(f).
Article 10 - Supervision of sustainability risk plans	n/a	/
Article 11 - Public disclosure on elements of the sustainability risk plan in the Solvency and Financial Condition Report (SFCR)	ESRS E1 ESRS 2	The elements for public disclosure requirements identified in Article 11 of the RTS can be disclosed in the ESRS disclosures.
Article 12 - Proportionality measures for small and non-complex undertakings	CSRD Article 19a (6)	Small and non-complex undertakings, and captive (re)insurance undertakings may limit their disclosure on the elements of the sustainability risk plan and ESRS to the same elements.
Annex 1	ESRS 2 MDR-M	Work at EFRAG is ongoing on industry-specific metrics and disclosures. Consistency efforts are underway.

7. ANNEX I: IMPACT ASSESSMENT

OBJECTIVES

In accordance with Article 29 of the EIOPA Regulation[83], EIOPA carries out, where relevant, analyses of costs and benefits during the policy development process. The analysis of costs and benefits is undertaken according to an impact assessment methodology.

In drafting these technical standards, EIOPA sticks to the general objectives of the Solvency II Directive, as agreed by the legislators in 2009. These general objectives are:

- adequate protection of policyholders and beneficiaries, being the main objective of supervision;
- financial stability;
- proper functioning of the internal market.

In view of the specific purpose of these [technical standards/guideline], the following more specific objectives were identified:

- Promoting good risk management
- Ensuring a level playing field through sufficiently harmonised rules
- Effective and efficient supervision of (re)insurance undertakings and groups
- Improving transparency and better comparability

POLICY ISSUES

POLICY ISSUE A: LEVEL OF STANDARDISATION OF SUSTAINABILITY RISK MANAGEMENT REQUIREMENTS

The Solvency II Directive and Delegated Regulation set out requirements for the identification, measurement, management, and monitoring of sustainability risks. As such, insurers are required to integrate sustainability risk assessment in their system of governance, risk-

[83] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC; OJ L 331, 15.12.2010, p. 48–83.

management system and ORSA, in line with Articles 44(2), 45(2) and 45a of the Solvency II Directive and Article 262(1)(a) of the Delegated Regulation.

Evidence of current industry practices shows different approaches in identifying and assessing material sustainability risks. Different practices can be observed in setting the (long-term) time horizons for the assessment and thresholds for classifying risks as material. Undertakings use a variety of metrics and scenarios to identify the potential financial impacts, which can reflect entity-specific risks, but also impacts on the quality and comparability of the risks across Europe.

The issue to address is whether further standardisation would enhance practicability of the risk assessment and comparability of the outcomes. The development of regulatory standards requires acknowledging the evolving practices and science regarding sustainability risk identification and management (especially beyond the area of climate change mitigation). It also requires having regard to undertaking-specific exposures to potential sustainability risks.

POLICY ISSUE B: LEVEL OF CONSISTENCY WITH THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS UNDER THE CSRD

The Solvency II Directive states that '*where the undertaking discloses information on sustainability matters in accordance with Directive 2013/34/EU the plans referred to in the first subparagraph shall be consistent with the plans referred to in Article 19a or Article 29a of that Directive. In particular, the plans referred to in the first subparagraph shall include actions with regards to the business model and strategy of the undertaking that are consistent across both plans. Where relevant, the methodologies and assumptions sustaining the targets, the commitments and strategic decisions disclosed by undertakings to the public shall be consistent with the methodologies and assumptions included in the plans referred to in the first subparagraph*.'

Consistency between disclosures on transition plans and the sustainability risk requirements is relevant from a prudential and conduct perspective. Where transition targets are set in the undertakings' transition plan, the ensuing actions of the undertaking can impact on its risk profile, and the actions should be embedded into the strategy and policies. If not, the undertaking's disclosed transition plan is not giving a truthful picture on risks and impacts.

Furthermore, undertakings subject to disclosure under CSRD are required to disclose on all material sustainability matters in the areas of governance, strategy, impact, risk, and opportunity management, including metrics and targets. The issue to be considered in this context is the need to prevent duplication of efforts for undertakings in risk assessment and disclosures. The structure and content of disclosures that are relevant for risk management

should therefore be similar across CSRD and the elements of the Solvency II sustainability risk plan.

POLICY OPTIONS

As a benchmark against which the policy options are assessed a “no change” option is introduced.

POLICY ISSUE A: LEVEL OF STANDARDISATION OF SUSTAINABILITY RISK MANAGEMENT REQUIREMENTS

Policy option A.1: No change

The option would involve merely referring to the current high-level principles that require the integration of sustainability risks into the Solvency II governance and risk management requirements. It would acknowledge the different practices, without providing measures for further alignment, where relevant.

Policy option A.2: Specify minimum binding requirements

The option would involve setting out minimum standards and reference methodologies for the identification, measurement, management, and monitoring of sustainability risks, as required by Article 44 Solvency II Directive. This includes, for example requiring materiality assessment of sustainability by risks by all undertakings, setting out a list of binding metrics that enables a comparison of material financial impacts across the insurance sector and support risk assessment.

Policy option A.3: Provide non-binding guidance

The option would involve providing a non-binding list of metrics that can serve as guidance for undertakings to inform their risk assessment. The metrics can be the object of to future guidelines or guidance.

POLICY ISSUE B: LEVEL OF CONSISTENCY WITH THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS UNDER THE CSRD

Policy option B.1: No change

The option would involve not specifying whether alignment should be achieved or not.

Policy option B.2: No alignment with CSRD disclosure requirements

The option would involve setting out prudential requirements to manage risks, without having regard to the undertakings' CSRD disclosures on transition plans or on governance and risk management requirements, metrics and targets set out to manage the transition or its financial effects.

Policy option B.3: Alignment with CSRD disclosure requirements

The option would involve aligning to the extent relevant the format and structure of the sustainability risk plan with the structure of the CSRD disclosure requirements, and expressly stating that the CSRD and risk management targets and actions should be coherent.

IMPACT OF THE POLICY OPTIONS

POLICY ISSUE A: LEVEL OF STANDARDISATION OF SUSTAINABILITY RISK MANAGEMENT REQUIREMENTS

Policy option A.1: No change

Policy option A.1		
Costs	Policyholders	Material risks to the company may not be properly identified, with ensuing risks to consumers.
	Industry	Undertakings would lack guidance on minimum supervisory expectations, and on the structure of the sustainability risk plans.
	Supervisors	Supervisors would lack the opportunity to form a view on material risks across (comparable) activities of the insurance sector. Supervisory effort to review the materiality risk assessment without key indicators would increase.
	Other	Missed opportunity to align risk identification and measurement practices also across sectors (e.g. banks, investment funds) and activities, to minimise burden on EU economy.
Benefits	Policyholders	Less regulatory burden for undertakings, where the metrics would be on top of entity-specific metrics, resulting in lower operating costs (if the benefit is transmitted to policyholders).
	Industry	Less regulatory burden for undertakings, where the metrics would be on top of entity-specific metrics. Limits operational burden.

	Supervisors	Allows supervisors to gain experience of analysis and insight in financial effects of sustainability risks through undertakings' own metrics, to inform future supervisory guidance.
	Other	Limit the operational burden of seeking alignment on metrics across EU entities and institutions.

Policy option A.2: Specify minimum binding requirements

Policy option A.2		
Costs	Policyholders	Potential administrative burden for undertakings, which could lead to higher insurance costs.
	Industry	Risk of inadequate risk assessment if the metrics cannot reflect undertaking-specific risks.
	Supervisors	Risk of minimum requirements to lowest common denominator, which would limit the relevance of the metrics.
	Other	/
Benefits	Policyholders	Convergent practices can increase trust in undertakings' risk assessment practices.
	Industry	Guidance and clarity on supervisory expectations. Level playing field within the sector.
	Supervisors	Enable supervisors to compare and exchange on financial impacts across the sector and the Member States. Facilitate the supervisory effort to review the materiality risk assessment through standard approaches.
	Other	Standardised measures across sectors (banking, investment funds…) can contribute to improved understanding of financial activity and trust. Possibility to engage across financial sectors and with relevant stakeholders to align on key risk identification and measurement practices also across sectors (e.g. banks, investment funds) and activities to improve data collection and minimise reporting burden on EU economy.

Policy option A.3: Provide non-binding guidance

Policy option A.3		
Costs	Policyholders	Potential administrative burden for undertakings (e.g. due to comply-or explain provisions), that could lead to higher insurance costs.

	Industry	Potential administrative burden for undertakings (e.g. due to comply-or explain provisions.
	Supervisors	Risk of non-comparable practices across undertakings, and inconsistent supervision of sustainability risks.
	Other	Less convergent practices across sectors and increasing burden on undertakings that operate across.
Benefits	Policyholders	Less operational burden for companies, which may translate in less operational costs transmitted to policyholders.
	Industry	Lower cost as guidelines/guidance is not binding – more scope for undertaking-specific metrics. Opportunity for undertakings to adapt to their own entity specific risks and processes.
	Supervisors	Benefits of non-binding guidance over no guidance at all.
	Other	Guidance can already enable discussion on common metrics across sectors.

POLICY ISSUE B: LEVEL OF CONSISTENCY WITH THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS UNDER THE CSRD

Policy option B.1: No change (i.e. not specify whether alignment should be achieved or not)

Policy option B.1		
Costs	Policyholders	Unclarity on comparative value of disclosures under CSRD and disclosures under the sustainability risk plans.
	Industry	Unclarity for industry on (supervisor, regulatory) expectations.
	Supervisors	Inconsistent approaches from undertakings leading to inconsistent supervisory approaches.
	Other	-
Benefits	Policyholders	-
	Industry	Undertakings are free to choose their methods and approaches.
	Supervisors	-
	Other	-

Policy option B.2: No alignment with CSRD disclosure requirements

Policy option B.2		
Costs	Policyholders	As for all external parties, policyholders will not be able to compare or be able to judge on which risk disclosures they should base their assessment.
	Industry	Undertakings would be reporting varying inconsistent metrics or actions, according to the applicable regulation, and give different pictures of their risks.
	Supervisors	Supervisors face inconsistent risk disclosures and will be challenged on their supervisory review on that basis.
	Other	-
Benefits	Policyholders	-
	Industry	Undertakings could better tailor sustainability metrics, targets, and action for risk management purposes, irrespective of sustainability disclosures under CSRD.
	Supervisors	-
	Other	

Policy option B.3: Explicit alignment with CSRD disclosure requirements

Policy option B.3		
Costs	Policyholders	-
	Industry	For undertakings that are not subject to CSRD disclosures, the perception may rise that requirements would disproportionately be introduced via Solvency II.
	Supervisors	Costs for supervisors that would be required to review the accuracy/reliability of the CSRD disclosures.
	Other	-
Benefits	Policyholders	As for all external parties, policyholders could assess the consistency of the disclosures made by the undertaking (e.g. in their sustainability statements, or in their transition plans) with actions taken by the undertaking to manage risks arising from the transition targets chosen (where these are disclosed as part of the transition plan).
	Industry	More streamlined effort possible for undertakings to identify, assess, manage, and monitor risks under Solvency II, disclose under Solvency II and disclose consistently, with minimum effort under CSRD based on their

		Solvency II risk assessment. For companies disclosing under CSRD, possibility to re-use risk-related aspects of their sustainability disclosures.
	Supervisors	Consistency with CRSD related disclosures, which are subject to (limited) assurance, can improve the comparability of the risk assessment under Solvency II.
	Other	-

COMPARISON OF POLICY OPTIONS

POLICY ISSUE A - LEVEL OF STANDARDISATION OF SUSTAINABILITY RISK MANAGEMENT REQUIREMENTS

EFFECTIVENESS (0, +, ++)			
	Promoting good risk management	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Policy option A.1	0	0	0
Policy option A.2	++	++	+
Policy option A.3	+	+	+

EFFICIENCY (0, +, ++)			
	Promoting good risk management	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Policy option A.1	0	0	0
Policy option A.2	++	++	+
Policy option A.3	++	++	+

POLICY ISSUE B - LEVEL OF CONSISTENCY WITH THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS UNDER THE CSRD

EFFECTIVENESS (0, +, ++)		
	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups
Policy option B.1	0	0
Policy option B.2	0	0
Policy option B.3	++	++

EFFICIENCY (0, +, ++)		
	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups
Policy option B.1	0	0
Policy option B.2	0	0
Policy option B.3	++	++

PREFERRED OPTIONS

With regard to policy issue A, weighing the costs of standardised requirements (lack of flexibility, additional costs of complying with standard requirements where the undertaking-specific characteristics may not be captured by the requirements) with benefits related to the comparability, common understanding and convergence of supervision, it is considered that option A.2 (minimum binding requirements) are more effective, and to some extent, more efficient. The areas where the RTS aims to standardise approaches (requirement for materiality assessment, alignment on time horizons, identification of relevant scenarios or the list of minimum metrics) are risk-based. Small and non-complex undertakings (SNCUs) and (re)insurance captives can benefit from simplifications, as set out in article 12 of the RTS: they would be allowed to use qualitative approaches for their financial risk assessment, based on the availability of data, methodologies, and scenarios.

With regard to policy issue B, weighing the costs of alignment with CSRD (risk of unproportionate requirements for companies not within scope of CSRD) and the benefits

(reduced burden for companies under scope of CSRD, and improve consistency across regulatory frameworks), considering the broad scope of application of CSRD to undertakings within the scope of Solvency, and the opportunity to introduce specific proportionality requirements for small and non-complex undertakings, the explicit requirement for alignment with CSRD (option B.3) seems to be most effective and efficient. The requirement for alignment would allow for proportionate regulation, minimise the reporting burden and enable undertakings to feed elements from their risk plan into the CSRD disclosures. It also allows for proportionate approaches for SNCU's and (re)insurance captives as they would be allowed to limit their disclosures (see article 12 of the draft RTS), consistent with the exemptions made for SNCUs under CSRD.

8. ANNEX II: OVERVIEW OF QUESTIONS FOR CONSULTATION

Q1: Do you have comments on the proposed relationship between the sustainability materiality and exposure assessments and the ORSA? Would you see the need to further clarify?

Q2: Do you have comments on the description of the relationship between the reporting on the sustainability risk plan and the regular supervisory reporting under Solvency II? Would you see the need to further clarify?

Q3: Do you have comments on the description of the relationship between the sustainability risk plan and transition plans required under CSDDD? Would you see the need to further clarify?

Q4: Do you have comments on the description of the relationship between the disclosure in Solvency II and public reporting requirements under CSRD? Would you see the need to further clarify?

Q5: Do you consider that the requirements set out in the Articles of the RTS will enable undertakings that are subject to CSRD, to feed relevant information on sustainability risks into the disclosures required by ESRS, thereby limiting possible burden? Please elaborate on your response by also considering Annex II of the RTS, which explains how the elements of the sustainability risk plan feed into the disclosures under CSRD.

Q6: Do you agree with Article 3 of the RTS? If not, please specify why.

Q7: Do you have comments on the governance of the sustainability risk management? In your experience, what governance aspects are most difficult to comply with?

Q8: Do you agree with article 3(1a) of the RTS? If not, please specify why.

Q9: What are the most challenging aspects for undertakings in setting the narrative? Please provide any relevant examples, data sets, tools or methodologies that can contribute to the setting of the narrative.

Q10: What are the most challenging aspects for undertakings in performing the exposure assessment? Please provide any relevant examples, data sets, tools or methodologies that can contribute to the exposure assessment.

Q11: Do you agree with Article 4? If not, please specify why.

Q12: Do you agree with the approach to require two scenarios for the financial risk assessment of material sustainability risks? Please share information on relevant approaches for scenarios beyond climate risk.

Q13: Do you agree on the proposed time horizons (1-5 years; 5-15 years; min. 15 years)? If not, please justify other time horizons.

Q14: Do you agree with the proposed frequency of the materiality and financial risk assessment and submission of the sustainability risk plan to the supervisor? If not, please justify an alternative proposal.

Q15: Do you agree with Articles 5 and 6 of the RTS? If not, please specify why.

Q16: Do you consider the current view metrics listed in the minimum binding list (Annex I) relevant? If not, what changes to the metrics, additional metrics or deletions would you suggest?

Q17: Do you agree with Article 7? If not, please specify why.

Q18: Do you agree with the relevance of the optional forward-looking metrics? If not, what changes to the specific metrics, additional metrics or deletions would you suggest?

Q19: Do you agree with the relevance of the other optional metrics? If not, what changes to the specific metrics, additional metrics or deletions would you suggest?

Q20: Do you agree with Article 8? If not, please specify why.

Q21: Do you agree with Article 9? If not, please specify why.

Q22: Do you agree with the approach to the supervision of sustainability risk management and the sustainability risk plan as set out in Article 10? If not, please specify why.

Q23: Do you agree with the list of elements of the sustainability risk plan to be disclosed as set out in Article 11 of the RTS?

Q24: Do you agree with the proportionality measures included in Article 12 of the RTS?

Q25: Do you have comments on the Recitals of the draft RTS?

Q26: Do you have comments on the impact assessment (analysis of policy options, other)

Q27: Do you have any other comments on the consultation paper?

Privacy statement related to Public (online) Consultations

Introduction

1. EIOPA, as a European Authority, is committed to protect individuals with regard to the processing of their personal data in accordance with Regulation (EU) No 2018/1725 (further referred as the Regulation).[84]

Controller of the data processing

2. The controller responsible for processing your data is EIOPA's Executive Director. Address and email address of the controller:
3. **Westhafenplatz 1, 60327 Frankfurt am Main, Germany**
   fausto.parente@eiopa.europa.eu

Contact details of EIOPA's Data Protection Officer

4. **Westhafenplatz 1, 60327 Frankfurt am Main, Germany**
   dpo@eiopa.europa.eu

Purpose of processing your personal data

5. The purpose of processing personal data is to manage public consultations EIOPA launches and facilitate further communication with participating stakeholders (in particular when clarifications are needed on the information supplied).
6. Your data will not be used for any purposes other than the performance of the activities specified above. Otherwise you will be informed accordingly.

Legal basis of the processing and/or contractual or other obligation imposing it

7. EIOPA Regulation, and more precisely Article 10, 15 and 16 thereof.
8. EIOPA's Public Statement on Public Consultations.

Personal data collected

[84] 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.

9. The personal data processed might include:

    - Personal details (e.g. name, email address, phone number);
    - Employment details.

Recipients of your personal data

10. The personal data collected are disclosed to designated EIOPA staff members.

Transfer of personal data to a third country or international organisation

11. No personal data will be transferred to a third country or international organization.

Retention period

12. Personal data collected are kept until the finalisation of the project the public consultation relates to.

Profiling

13. No decision is taken in the context of this processing operation solely on the basis of automated means.

Your rights

14. You have the right to access your personal data, receive a copy of them in a structured and machine-readable format or have them directly transmitted to another controller, as well as request their rectification or update in case they are not accurate.
15. You have the right to request the erasure of your personal data, as well as object to or obtain the restriction of their processing.
16. For the protection of your privacy and security, every reasonable step shall be taken to ensure that your identity is verified before granting access, or rectification, or deletion.
17. Should you wish to access/rectify/delete your personal data, or receive a copy of them/have it transmitted to another controller, or object to/restrict their processing, please contact [legal@eiopa.europa.eu]
18. Any complaint concerning the processing of your personal data can be addressed to EIOPA's Data Protection Officer (DPO@eiopa.europa.eu). Alternatively you can also have at any time recourse to the **European Data Protection Supervisor (www.edps.europa.eu).**