

Prudential Treatment of Sustainability Risks

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Responding to the paper

EIOPA is going to assess the extent to which a dedicated prudential treatment of assets and activities associated with environmental or social objectives would be justified under Solvency II, motivated by the proposed Article 304a of the Solvency II Directive.

The assessment follows a step-by-step approach, starting by a discussion paper focusing on methodologies and data sources for the intended analysis. At a later stage, a consultation paper focusing on empirical findings and potential policy implications will follow.

EIOPA welcomes comments on the discussion paper on the prudential treatment of sustainability risks. 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 send your comments to EIOPA using the EU Survey tool **by Sunday, 5 March 2023, 23:59 CET** by responding to the questions below. Contributions not provided using the EU Survey tool or submitted after the deadline will not be processed.

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 [1] and EIOPA's rules on public access to documents [2].

Data protection

Please note that personal contact details (such as names of individuals, email addresses and phone numbers) will not be published.

They will only be used to request clarifications if necessary on the information supplied. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725 [3]. More information on how personal data are treated can be found in the privacy statement at the end of this survey.

[1] Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

[2] [Public access to documents.](#)

[3] 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 (OJ L 295, 21.11.2018, p. 39).

Remarks on completing the survey

After you start filling in responses to the survey there is the option to save your answers. However, please note that the use of the online saving functionality is at the user's own risk. As a result, it is strongly recommended to complete the online survey in one go (i.e. all at once).

Should you still proceed with saving your answers, the online tool will immediately generate and provide you with a new link from which you will be able to access your saved answers.

It is also recommended that you select the "Send this Link as Email" icon to send a copy of the weblink to your email - please take care of typing in your email address correctly. This procedure does not, however, guarantee that your answers will be successfully saved.

You will have the possibility to print a pdf version of the final responses to the survey after submitting it by clicking on "Download PDF". You will automatically receive an email with the pdf file. Do not forget to check your junk / spam mailbox.

* Declaration by the contributor

- I consent to the publication of all information in my contribution in whole.
- I consent to the publication of parts of information in my contribution as clearly indicated in my responses.
- All my responses remain confidential.

About the respondent

* Stakeholder name

ShareAction

* Type of Stakeholder

- Association
- Industry
- Ministry
- Supervisor
- EU Organisation
- Other

* Contact person (name and surname)

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* Contact person email address

caroline.metz@shareaction.org

* Contact person phone number

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Questions to Stakeholders

I. Assets and Transition Risk Exposures

Q1: Are there any specific data sources that might be useful for a historical analysis of transition risk for private and public equity and debt? How can EIOPA access them? Why are they relevant?

Relying on historical data to analyse current (and future) exposure to transition risk is problematic, because of the very nature of the transition to a low-carbon economy. Indeed, the climate transition is an ongoing, unprecedented and radically uncertain event, and as such, it has not been 'captured' in historical events and by past indicators and data.

In other words, the ongoing and future effects of the transition will be very different from any past effects that the (very) beginning of the transition has had on the economy and corporations thus far. As such, it is not possible to rely on historical data to assess the likely impact of the transition and the scale of exposure to transition risk. This is recognised by EIOPA in its Discussion paper (DP) which states that "historic time series data might insufficiently capture the materialization of transition risk in asset prices".

In fact, using historical data is likely to lead to a significant underestimation of transition risks, as these risks are increasing over time when climate action is delayed. In addition, the very high level of uncertainty around the transition and its impacts mean that it is, by nature, extremely difficult to accurately assess future impacts and precise levels of transition risk.

Given these limitations, EIOPA should favour adopting an evidence-based precautionary approach when looking into the prudential treatment of assets exposed to transition risk. Scientific evidence has established the need for a speedy decarbonisation and the complete end to new fossil fuel exploration (for instance, the International Energy Agency concluded that there is no room for new fossil fuel exploration if emissions are to reach net zero by 2050), which is a key basis on which EIOPA should rely.

EIOPA should therefore consider that all investments in companies involved in the new exploration, expansion or development of fossil fuel projects and related infrastructure (hereafter 'new fossil fuel projects') are assets particularly exposed to transition risk, and thus EIOPA should propose a specific prudential treatment that accounts for this. Namely, we support the "One-for-one" rule whereby investments in companies involved in new fossil fuel projects would be subject to a 100% capital charge, and would be excluded from the matching adjustment. See our recommendations here: <https://shareaction.org/policies/insuring-disaster-how-the-eu-can-improve-the-insurance-framework-solvency-ii>

Such a precautionary approach, and a rapid enforcement of a revised prudential treatment of assets associated with new fossil fuel projects will also positively contribute to a smooth transition.

Q2: In case you are suggesting the use of historical "non-valuation data" like cash flows: How would the measurement of risk be commensurate with the definition under Solvency II (i.e. fluctuation of values in accordance with Article 75)?



Q3: Do you have comments on the outlined criteria for the selection of market indices?

We agree with EIOPA that it needs to be very careful with the use of sustainability market indices as an indicator of low transition risk exposure. As EIOPA mentions in its DP, there are limitations related to the methodologies and admissibility criteria of the indices (in addition to the limitations related to the reliance on historical data, cf. our response to question 1). We therefore do not believe that such indices can be used straightforwardly as a proxy for low transition risk exposure.

Q4: Are there any equity indices not mentioned above that would be relevant to analyze? Why?

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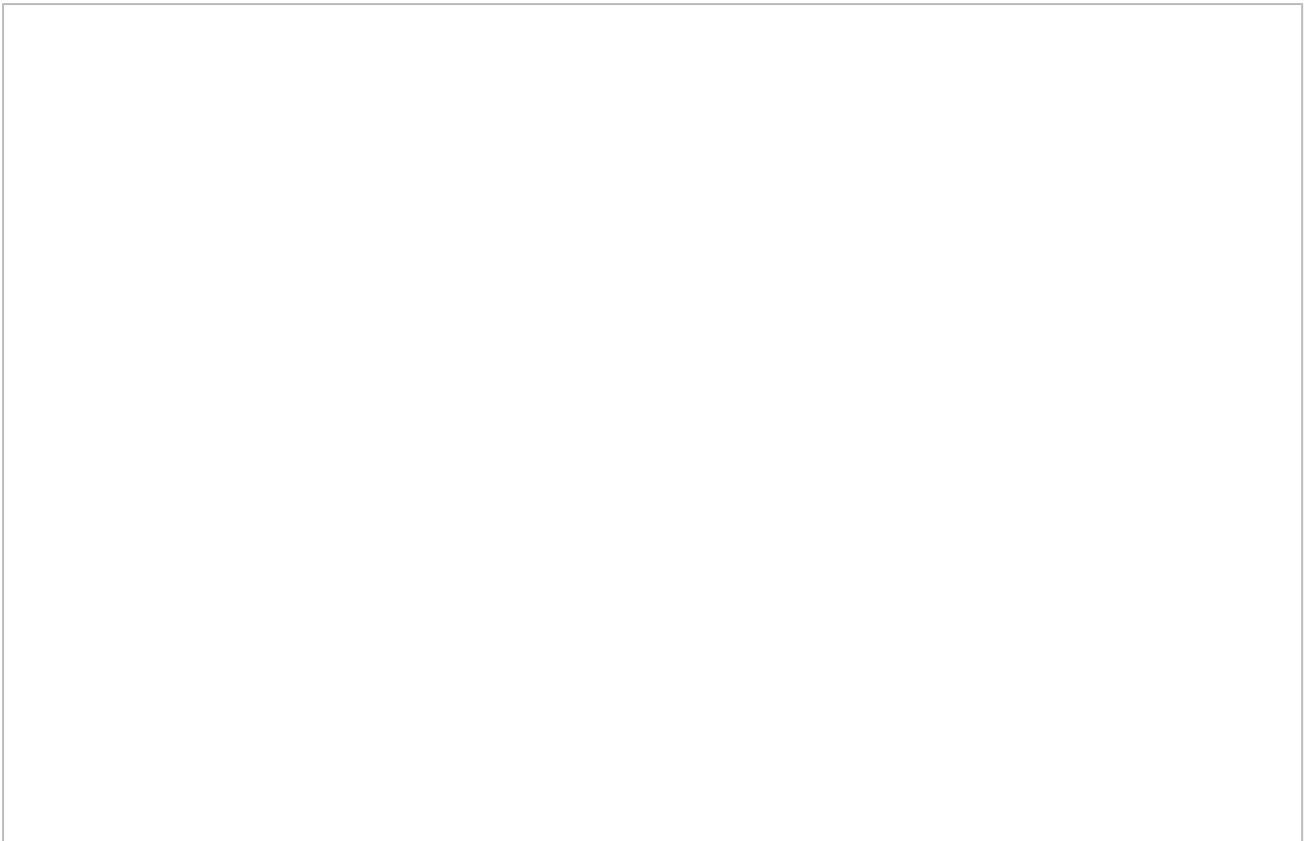
Q5: Are there any equity indices which focus on companies with higher transition risk?

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Q6: Would you have any suggestions how the effect of different levels of transition risk could be “isolated” when comparing the historical risk for a given index with the broad market?



Q7: Are there any other bond indices suitable for the analysis? Why?



Q8: Are you aware of any indices which focus on companies with higher transition risk?

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Q9: Would you have any suggestions how the effect of different levels of transition risk could be “isolated” when comparing the historical risk for a given index with the broad market?

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Q10: Would you have any suggestions how to compare the risk of a given bond price index (i.e. no separate spread data for each rating class and maturity buckets available) with a “conventional” bond index taking into account possible differences in ratings and durations?



Q11: Do you see any other possible approach to classify stocks and bonds according to their transition risk exposure? What would be their advantages?

Regarding the classification of stocks and bonds according to their transition risk exposure, we suggest that the sectoral approach is the most practical and readily applicable given existing classifications and data sources, and most likely to capture a significant transition risk differential that would justify a differentiated prudential treatment.

However, we also believe that the sectoral approach and individual company approach may not be mutually exclusive. In the longer-term, EIOPA could work on a two-pronged approach:

First, determination of a transition risk 'bucket' depending on sector classification, associated with a minimum prudential treatment for all companies operating in this sector. This would come with some limitations if applied in isolation especially for diversified companies, but would make sense as a starting point given the climate emergency and systemic risks related to it.

Second, refinement of the transition risk assessment (and sub-categories of prudential treatment) at company level with additional metrics based on sector classification. While some metrics would apply to all sectors, additional sector-level metrics would need to be defined to properly assess transition risk at company level.

As part of this refinement at company level, EIOPA should consider whether a company is involved in new fossil fuel projects – making it particularly exposed to transition risk. A possible data source for this is the Global Oil & Gas Exit List from Urgewald, which provides detailed data on the activity of fossil fuel companies and estimates the "NZE Overshoot" of O&G companies (i.e, the volume of production that was approved after end 2021). This can be accessed for free through Urgewald's website: <https://www.coalexit.org/> and <https://gogel.org/>

Q12: Would you have other ideas how to quantify transition risk per NACE code?

EIOPA's quantification of transition risk per NACE code makes sense as a starting point, since NACE codes include classes for specific fossil fuel sectors, which are clearly sectors with high transition risks. For example, the double shock scenario (DNB, 2018 study) suggested by EIOPA highlights the risks facing the upstream energy sector (NACE codes B5-B9 - coal mining, oil & gas extraction, other mining and support services) and the utilities sector (NACE code D35), which both become almost entirely unprofitable in that scenario.

There are however some limitations with quantifying transition risk per NACE code. First, care should be taken with the utilities sector if broadly defined as D35 – since electricity generation is expected to expand under transition scenarios to meet climate mitigation objectives, increasing utility exposure without any adjustment for energy mix is not necessarily an indicator of heightened transition risk.

Second, the DNB stress test paper referenced by EIOPA specifies NACE codes down to the division level (e.g., B5-B9) i.e., double-digit NACE codes. However, the next tier of the NACE classification (group) may be a more precise indicator of high transition risk (e.g., B6.1 extraction of natural gas; D35.2 - Manufacture of gas; distribution of gaseous fuels through mains).

Finally, NACE codes do not distinguish between companies that are involved in new fossil fuel projects, and those fossil fuel companies that are not involved in such projects. As outlined in our answer to question 11, there are alternative public datasets where this information can be found such as the Global Oil & Gas Exit List compiled by the NGO Urgewald amongst others.

In spite of these limitations (which a two-pronged approach would help to alleviate, see our response to question 11), we believe that a sectoral approach and use of NACE code would make sense, in order to allow for the higher transition risk exposure (overall) of some sectors to be readily taken into account in the prudential treatment of investments in those sectors.

Q13: Would you have suggestions for sector definitions other than by NACE code? What are their advantages? How does one quantify their transition risk?

Q14: Do you agree that either the debt or equity shocks from recent stress test exercises should be used for measuring transition risk (resulting in one measure for both asset classes)? What advantages do you see in using equity or debt shocks respectively?

Q15: Do you have any comments on the company-specific transition risk measures set out in this chapter? Are there other ones? If so, what are their advantages?

We wonder whether company-specific transition risk measures are appropriate for an initial capital requirements exercise – is there empirical evidence that different companies in the same sector face materially different risk exposure as a result of the mentioned factors to merit a differentiated approach?

For practical reasons, and given the climate emergency and associated risks we are facing, a sectoral approach should be adopted in the first instance, while a potential two-pronged approach could be developed in the future (cf. Q11 & 28).

With these caveats in mind, we address possible measures of company-specific transition risk in turn below.

We agree with EIOPA's approach on the EU taxonomy – it is neither realistic nor desirable (e.g. inclusion of gas) to rely on the EU taxonomy at this stage. Moreover, given that the taxonomy relates to activities that significantly contribute to one of the environmental criteria, a threshold would need to be defined by EIOPA that would determine what level of “taxonomy-aligned” business would sufficiently reduce transition risk. This is necessarily subjective and would not meet EIOPA's objective to strike the right balance between accuracy and complexity.

We think ESG ratings are a poor identifier of ESG performance and therefore transition risk - these ratings diverge and are heavily influenced by the chosen weighting. Moreover, these methodologies are often proprietary, presenting governance and transparency challenges for a public institution like EIOPA.

We believe that focusing solely on GHG emissions intensity, which is a relative and partial measure of transition risk, is problematic. EIOPA's DP notes that ‘emission intensities avoid the bias resulting from large firms having higher emissions due to the scale of their operations’. However, this bias is also important in quantifying other transition risks such as reputational and legal risks, to which large emitters are more exposed to (e.g. lawsuits against Shell, BNP Paribas, etc.). While the paper rightly notes that if we ‘aggregate the variables to a single measure, there is the question how they should be weighted’, a set of variables would be optimal for transition risk assessment at company level.

This could be a combination of historical emissions, emissions reduction targets, and other specific metrics defined at sector level, e.g. investment in new oil & gas capacity for the O&G sector.

Additional Variables: We think EIOPA should be cautious in its reliance on additional variables, especially forward-looking commitments such as ‘the existence of a credible plan to reduce emissions in the future’.

First, assessing forward-looking commitments to reduce emissions is not straightforward – it requires an assessment of the scenarios used; emissions scopes covered; GHGs covered; assets covered; and other factors that can materially affect the perceived ambition of the target.

More importantly, absent any accountability, scrutiny and penalty mechanisms, forward-looking commitments such as transition plans are a bad predictor of what changes will be implemented and what impact they will have on the company's emissions. If transition plans are not binding, and no authority is monitoring their implementation, there is no guarantee they will be implemented at all.

In fact, few climate transition plans produced by companies are credible, research by environmental disclosure nonprofit CDP show (see their February 2023 report “Are companies developing credible climate transition plans?”). An example is BP (a company widely credited with having a strong transition plan for the oil and gas sector) recently drastically reducing its emissions reduction targets, despite these having been voted through by investors at its Annual General Meeting.

These important limitations concerning transition plans could potentially be overcome in the future if: (a)

more guidance on what good transition plans look like become available through e.g. CSRD and CSDDD (see also the Transition Plan Taskforce in the UK); (b) transition plans become mandatory for a significant range of economic actors; and (c) transition plans become supervised by competent authorities, allowing for more accountability and standardization.

In the meantime, however, the risks of transition plans being little more than empty promises as part of a greenwashing exercise are too high for them to be used as a reliable measure by EIOPA.

Other company-specific measure: As mentioned, should an individual company approach be chosen by EIOPA, the measures for assessing transition risk should include a consideration of whether companies are involved in new fossil fuel projects (clearest predictor of transition risk) or not.

Q16: Do you agree with focusing on greenhouse gas (GHG) emission intensities rather than on absolute GHG emissions? What is your view regarding the scope of emissions to be used (1, 2 or 3)?

Focusing on GHG emission intensities is only a partial measure of company risk (see also response to question 15).

Moreover, we disagree with EIOPA's proposed use of economic emissions intensity only. Whether normalised to profits or revenues, this would be subject to market fluctuations, not necessarily related to varying transition risk – which EIOPA acknowledges in the case of profits by proposing a five-year moving average.

Instead, we believe EIOPA should use information on absolute emissions, as companies need to manage their absolute emissions in order to mitigate their transition risk. Companies' emissions intensity may not always be an accurate proxy for their climate risk management, as emissions intensity could reduce while the company's exposure to transition risks increases.

Therefore, we would argue for either: (a) a purely financial measure of breakeven oil/gas price for the company (companies facing higher production costs will face the most transition risk from declining oil and gas demand/prices); or (b) a measure of physical emissions intensity i.e., CO₂e/TJ, as these assets will be the likely target of policy measures to reduce overall emissions.

Regarding the scope of emissions to be used (1, 2 or 3): Whilst scope 1 emissions are certainly important for determining transition risk, for many sectors (including those highlighted by DNB (2018) with the highest double shock) they paint a highly incomplete picture of transition risk. For example, many of the risks facing oil and gas producers (NACE code B6) derive strongly from their scope 3 emissions, i.e., emissions resulting from the combustion during use of fossil fuels. In addition, including scope 3 is essential to calculating a financial company's total emissions, as they represent a large portion, and often the majority, of these emissions.

Therefore scope 3 emissions should be considered for sectors where they are material (and must be for upstream fossil fuel activities).

Q17: Do you see other approaches to define portfolios with companies subject to higher, medium and lower transition risk exposure based on their NACE codes? What are the advantages?

Q18: Do you consider it preferable to combine the CPRS classification (Battiston et al. (2017)) with the use of asset shocks (e.g. DNB stress test) to differentiate assets according to their transition risk exposure or should only the latter be used? Why?

Q19: If debt or equity stress test factors are used (e.g. DNB stress test), how should the thresholds to separate lower, medium and higher transition risk exposures be set?

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Q20: Do you have any comments how to test the robustness of the sectoral classifications into higher, medium and lower transition risk exposure?

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Q21: Would you have any suggestions how to derive a less granular definition of the higher transition risk sectors (e.g. based on 2nd digit NACE codes) based on the CPRS classification (Battiston et al. (2017)) in line with the granularity of the stress test exercises while preserving the risk sensitivity?



Q22: What is your view on the treatment of financial institutions regarding transition risk?

We disagree with the idea that financial institutions should be exempt from transition risk analysis. Financial institutions, which are key to the economy as a whole and systemic stability, should not be categorised as low transition risk, as they too are exposed to varying levels of transition risk. Their exposure to transition risk will vary according to their investments and risk management systems.

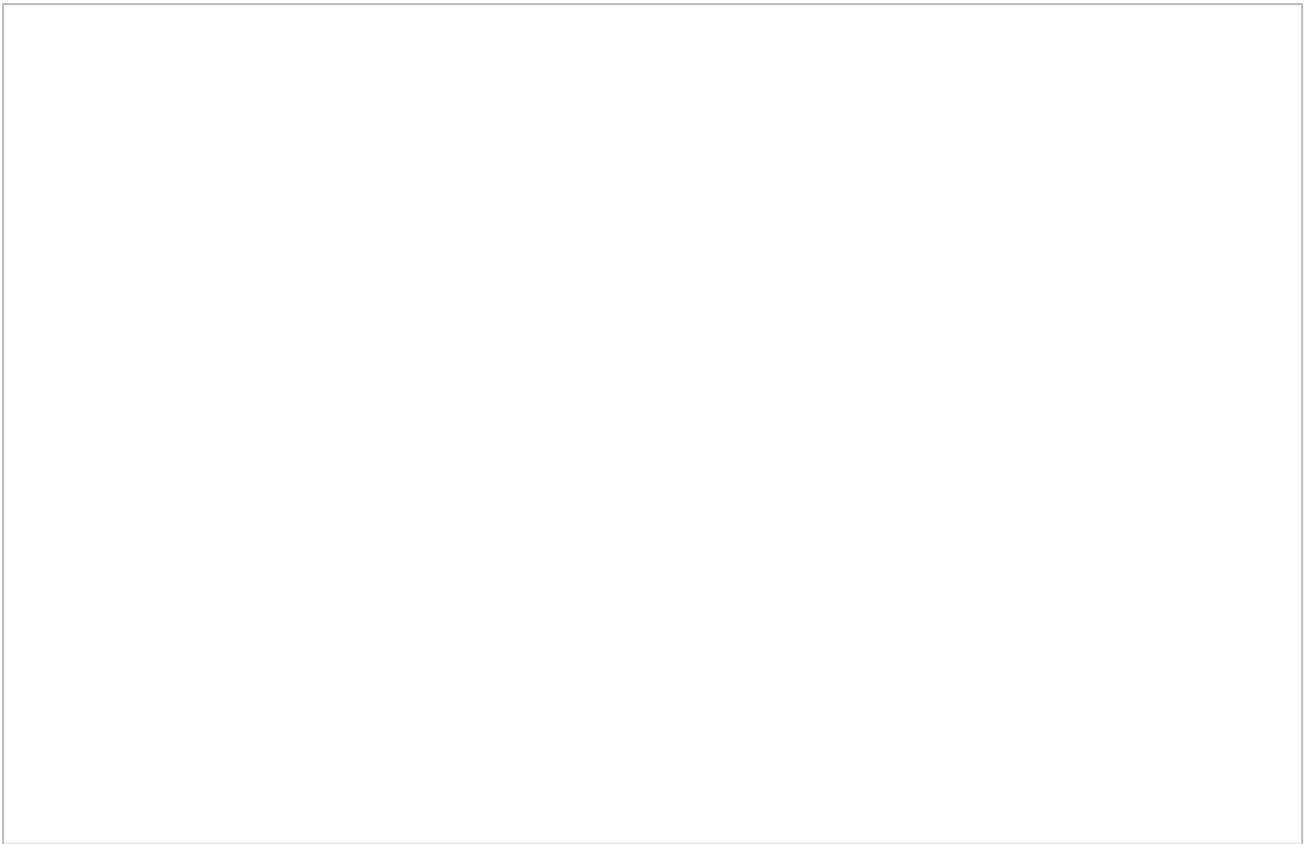
We suggest that the transition risk assessment of financial institutions should be based chiefly on an assessment of the composition of their investment portfolio, namely considering the share of investments in sectors associated with high transition risk (e.g. the fossil fuel sector, as mentioned).

Should financial institutions' transition plans become mandatory, standardised and subject to supervisory oversight, as advocated by ShareAction and others, (see also our response to question 15), they could also become part of the analysis made to assess financial institutions' exposure to transition risk.

Q23: Would you have any suggestions for other portfolios that should be analysed (perhaps also portfolios with lower transition risk)? Why are these portfolios relevant?



Q24: What is the minimum number of bonds/equities in a portfolio that ensures results are reliable?



Q25: Do you see other approaches to define portfolios with companies subject to higher, medium and lower transition risk based on the company-specific approach? What are their advantages?

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Q26: How should the thresholds to separate lower, medium and higher transition risk sectors be chosen?

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Q27: Do you have any comments on how to test the robustness of the transition risk classifications?



Q28: Do you have any comments on the advantages and disadvantages regarding both the sectoral and the firm-level classification approach?

Overall, we believe the company-specific approach seems the wrong approach for an initial capital requirements exercise looking to address transition risk now. Indeed, the (transition) risk differentials between companies in the same sector (e.g. based on credible vs not credible transition plans) is likely to be too subtle, compared to risk differentials between sectors, to meet EIOPA's stated need to "strike a balance between accuracy and complexity" in this framework.

A two-pronged approach combining elements at sector- and company-level could make sense in the long-term (see our response to question 11) but focusing now on establishing company-specific indicators will delay the overall framework, which could be more easily implemented if the initial focus was only on a sectoral basis.

Given the climate emergency and related risks we are facing, we would urge EIOPA to adopt an evidence-based precautionary approach, and to favour what is practical and doable now.

Q29: What approach should be preferred? Why?

Please refer to our responses to questions 11 and 28.

Q30: Which equity index should be selected in terms of geography and size of the constituents to assess transition risk exposures? Why?

Q31: What are your views on applying a constant or changing composition of constituents regarding the equity portfolios? How material would the deviation between the two approaches be?

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Q32: Do you agree that a static measurement of transition risk is sufficient? If not, can you suggest relevant data sources to implement a dynamic measurement?

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Q33: Do you consider it necessary to isolate the effect of transition risk materializing in the observed historical equity risk of firms from other risk drivers from a prudential perspective?

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Q34: Do you have any suggestions how to isolate the pure transition risk effect on equity risk?

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Q35: Do you have comments on the approach for treating missing data?

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Q36: Are there specific issues with missing data for non-listed equities? How should they be solved?

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Q37: Do you have comments on the proposals regarding calculating the equity portfolio's value?

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Q38: Are there specific considerations that apply for non-listed equities?

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Q39: Do you have comments on the selection of periods for assessing equity risk?

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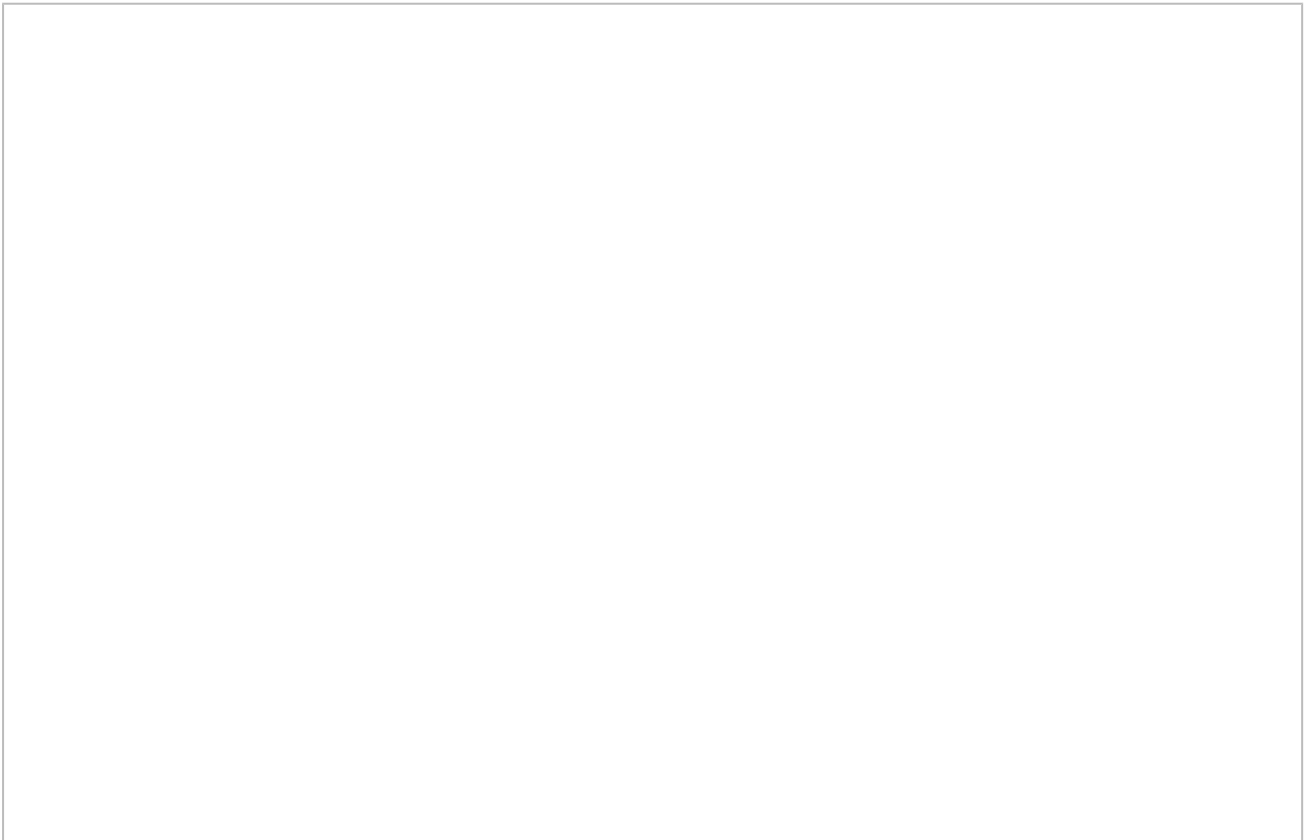
Q40: Do you have comments on the measurement of equity risk if no adjustment for transition risk is performed?

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Q41: What is your view on the merits of the absolute vs. relative approach? Why?



Q42: Which bond indices could be a suitable source for traded bonds? Why? Are there other relevant sources for traded debt?



Q43: Do you have any comments on the considerations regarding maturities and credit ratings for the analysis of transition risk?

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Q44: What could be suitable sources for data on non-traded debt?

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Q45: Do you have comments on the use of spread data provided by index providers for the analysis?

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Q46: Do you think that a simple or a market value weighted spread should be used? Why?

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Q47: Do you have comments on the selection of relevant time periods for the analysis?

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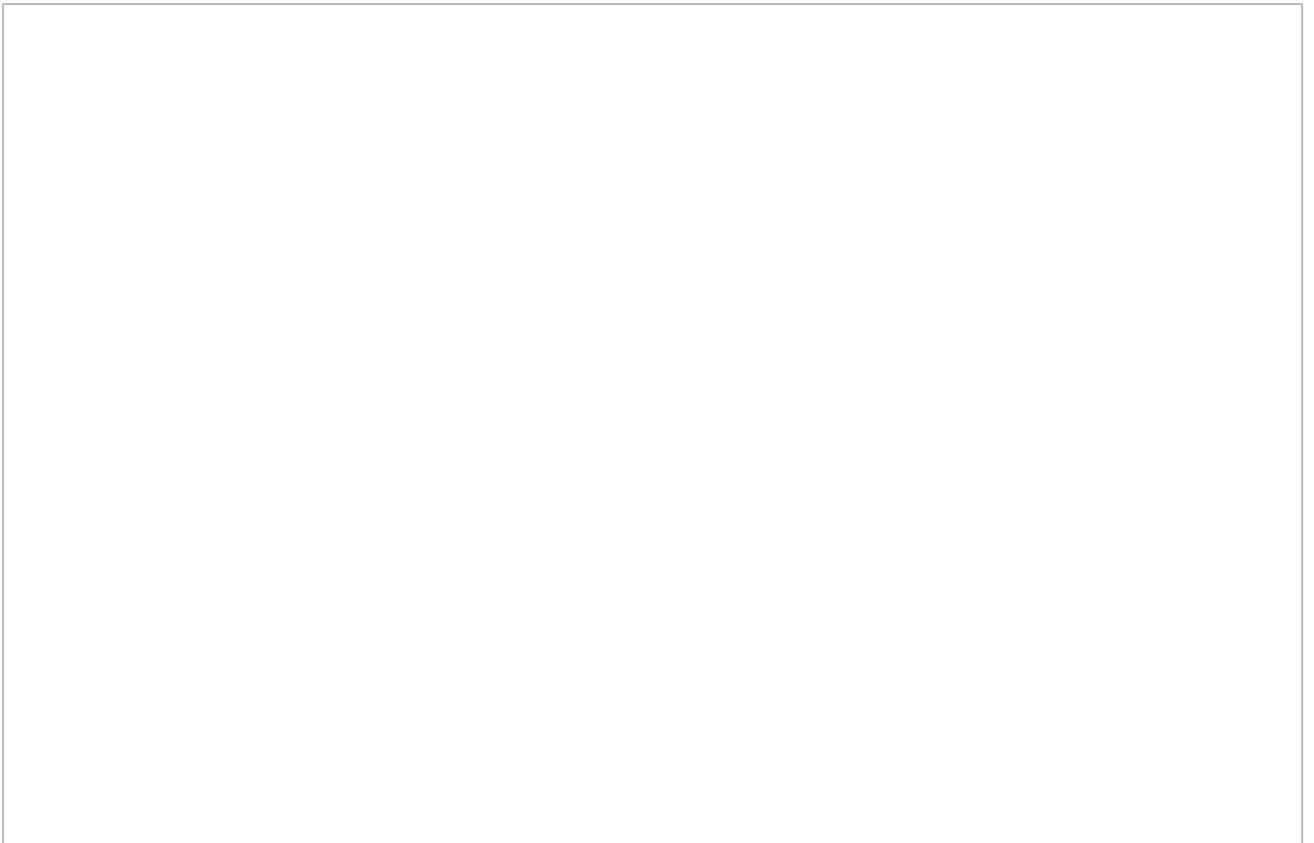
Q48: Do you have any suggestions how the similarity of different portfolios in terms of modified duration could be measured?

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Q49: What are the possibilities to account for the effect of duration/remaining maturity other than defining maturity/duration buckets? How would this work?



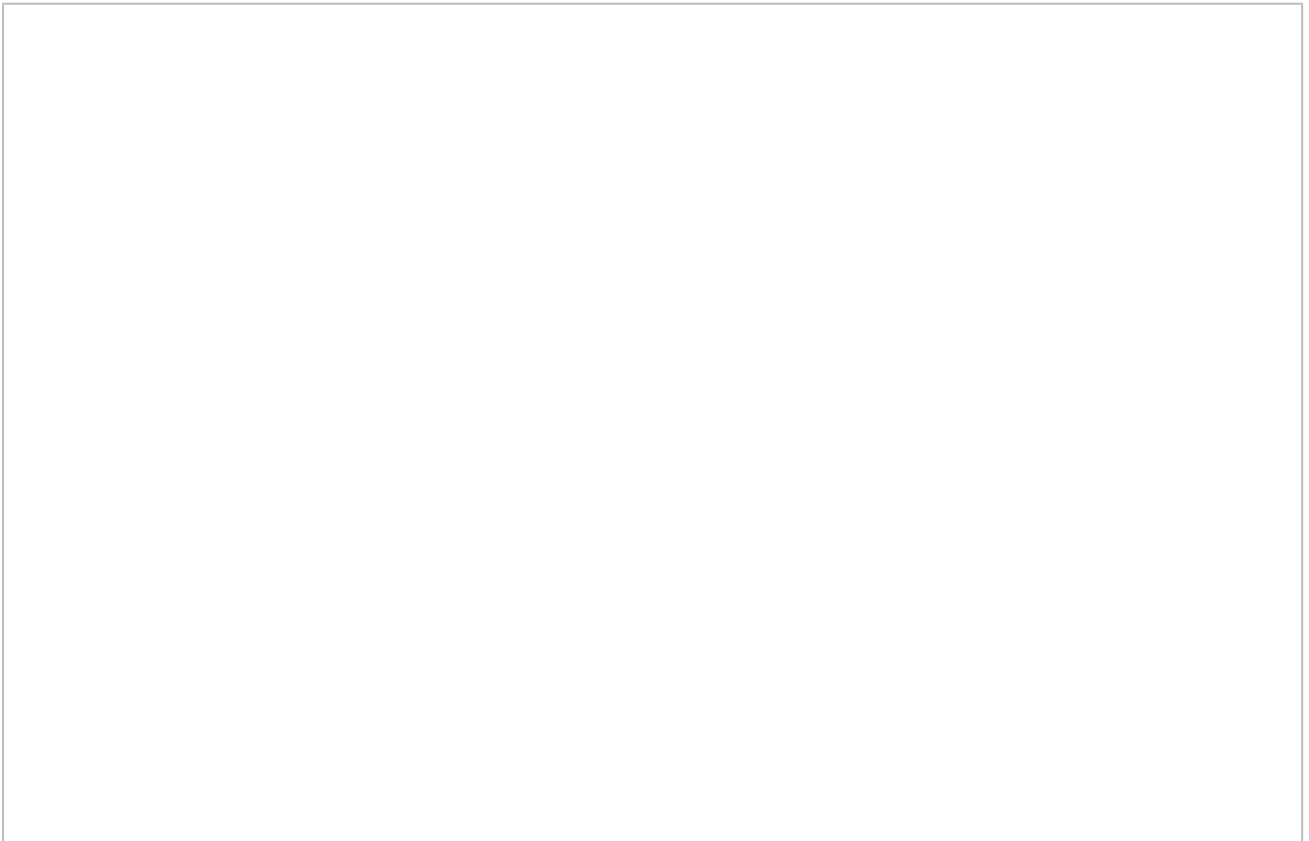
Q50: How could risk be measured for non-traded debt?



Q51: If there is a link between a building's energy efficiency and its market value, what are the economic drivers for this link?



Q52: Do you have quantitative evidence on the potential link between a building's energy efficiency and its market value on EU housing markets?



Q53: Are Energy Performance Certificates an appropriate measure for transition risk on residential and commercial real estate markets?

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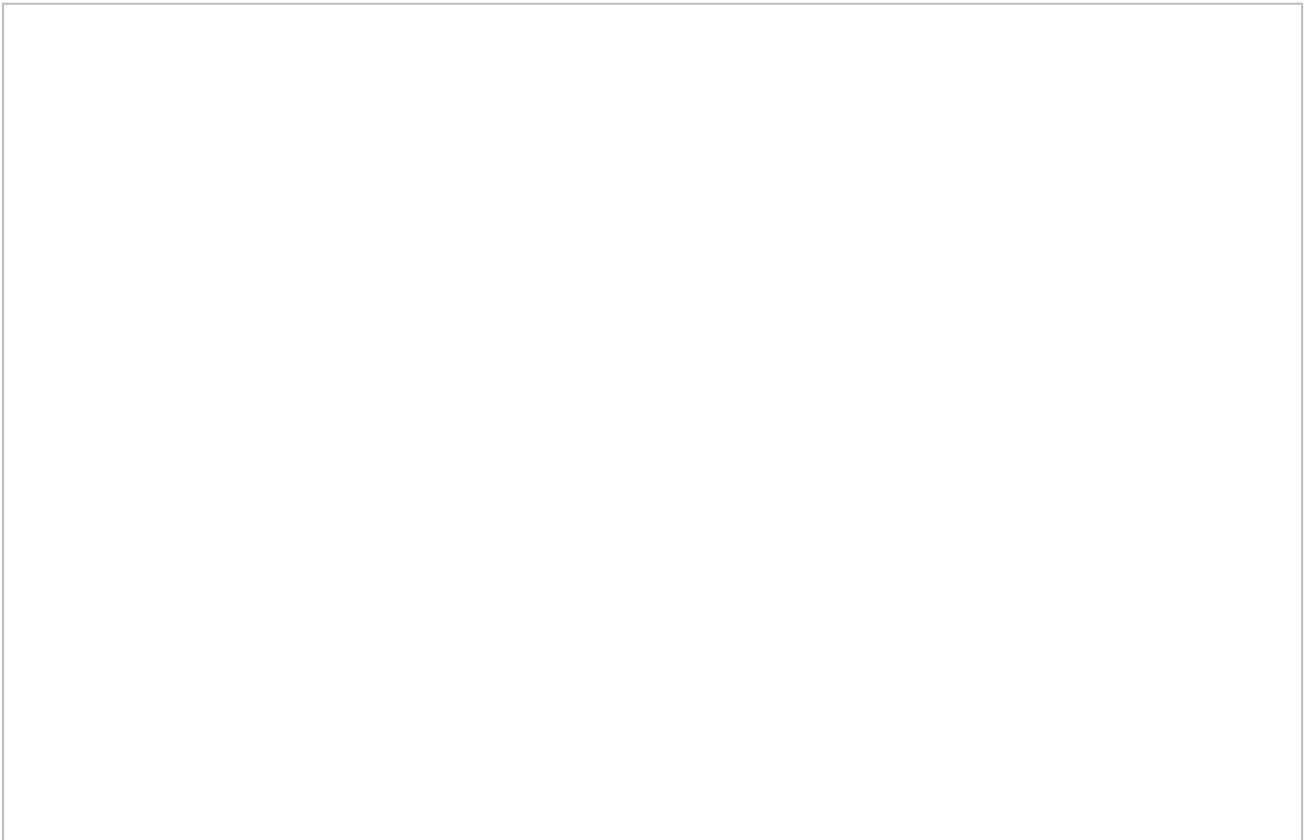
Q54: Do you expect different findings regarding potential risk differentials for commercial and residential buildings? Why?

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Q55: What are typical characteristics of commercial and residential buildings influencing their market values and therefore should be controlled for when constructing price indices?



Q56: What are the benefits or disadvantages constructing a price index on hedonic regression analysis or simple price averages for the purpose of studying potential risk differentials?



Q57: What are potential data sources for the purpose of the study, i.e. data containing the market value of a building, a measure of its level of energy performance and further value driving characteristics?

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Q58: What are the benefits or disadvantages using advertisement data for the purpose of this study?

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Q59: Besides transition risk, climate-related physical risk exposures might also influence property risk. Do you have evidence in this regard and what data sources are available to study this potential link?

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Q60: Do you have suggestions for other forward-looking assessments of transition risk that will help EIOPA in studying transition risk differentials? If yes, please provide these suggestions.

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Q61: Do you have comments on using the sectoral transition vulnerability factors (TVFs) introduced by DNB (2018) as a forward-looking measure regarding transition risk?

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Q62: Do you have comments on the parsimonious and pragmatic way to map the transition vulnerability factors (TVFs) onto the NGFS climate scenarios?

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Q63: Do you agree that whether an activity is aligned or not with the (climate mitigation) taxonomy does not allow per se to draw conclusion on the vulnerability to transition risk? If not, please justify your view.

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Q64: Do you agree with the proposed approach to express transition risk differentials for different economic activities in terms of 0.5% value at risk (VaR)? If not, please provide your suggestions to improve the proposed approach.

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Q65: Do you agree that the forward-looking assessment should also consider commercial and residential property based on energy efficiency labels? Please explain your answer.

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Q66: Do you have any suggestions that will help EIOPA in projecting forward-looking prices of commercial and residential property based on energy efficiency labels in different transition scenarios?

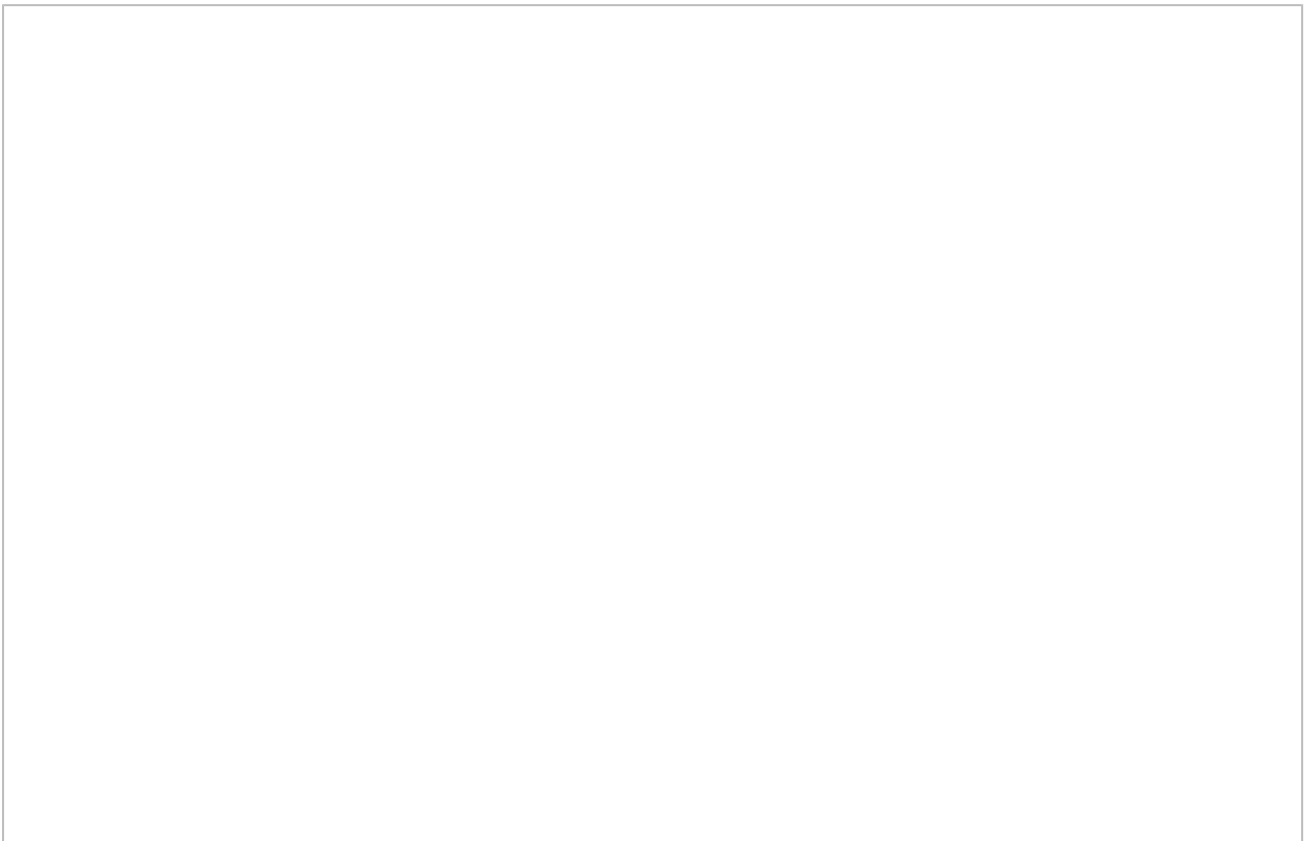
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II. Underwriting and Climate Change Adaptation

Q67: Do you have comments on the expected conceptual impact of adaptation measures on premium, reserve and natural catastrophe risk in Solvency II?



Q68: For internal model users, is it correct that climate related adaptation measures are not explicitly taken into account in your Solvency II internal model calculations for non-life risks?
If no, please provide details on your internal models results with and without taking into consideration climate-related adaptation measures.



Q69: Do you have evidence on the impact of climate-related adaptation measures on premium risk?

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Q70: Do you have comments on the proposed methodology to study the potential impact of climate-related adaptation measures on premium risk under Solvency II's Standard Formula?

A large, empty rectangular box with a thin black border, intended for the respondent to provide comments on the proposed methodology to study the potential impact of climate-related adaptation measures on premium risk under Solvency II's Standard Formula.

III. Social Objectives and Social Risks from a Prudential Perspective

Q71: What do you consider to be areas where the prudential treatment of social risk and objectives should differ most from the treatment of climate risk and objectives?

Q72: Do you have comments on the working definition of social objectives, which are generally referred to as ‘social and employee matters, respect for human rights, and anti-corruption and bribery matters’ and can be articulated further by referring to decent work, adequate living standards and inclusive communities? Do you consider that social objectives should include anti-corruption and bribery matters, or are these governance aspects?

We welcome the alignment with the definitions put forward under the Sustainable Finance Regulation (SFDR), as long as these are supported by the categories and definitions stipulated in the Social Taxonomy report by the EU Sustainable Finance Platform. It would make sense to treat governance aspects separately, following the example of the European Sustainability Reporting Standards.

Although mentioned in the resources under 281-287, we would suggest making explicit reference to health and well-being due to their relevance for the insurance sector. For example, levels of underlying ill-health were directly related to the severity of Covid and the depth and duration of negative economic consequences. Health and life insurers in particular should be paying close attention to their role in creating better health outcomes and mitigating harm. See more here: <https://shareaction.org/reports/health-an-untapped-asset-how-investors-can-strengthen-returns-by-improving-health-outcomes>

Q73: Do you have comments on the mapping of social risks into prudential risks?

Rising levels of long-term conditions such as obesity, diabetes and cardiovascular disease create a drag on the economy, reduce the available workforce, leave countries more susceptible to economic shocks and make punitive corporate regulation more likely – all things that could have financial implications on insurers. Ultimately, companies have an outsized impact in contributing to the health of societies through the quality of work they provide, the products and services they produce and through their impacts on the physical environment.

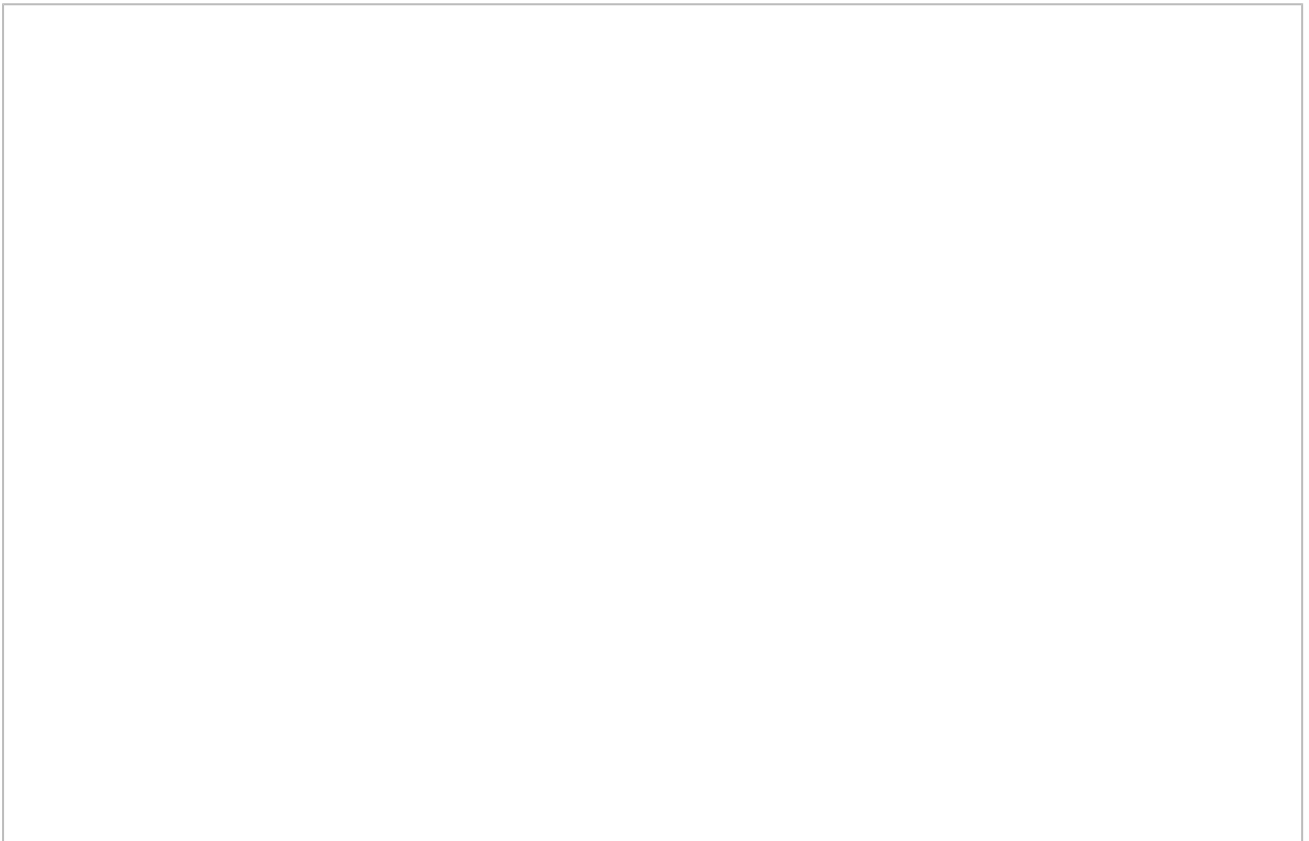
Q74: Do you have additional examples of how social risks can translate into the Solvency II risk categories?

Q75: Do you have comments on the proposal to start by integrating the treatment of social risks as part of Pillar II and III of Solvency II, covering governance, risk management and reporting/disclosure requirements?

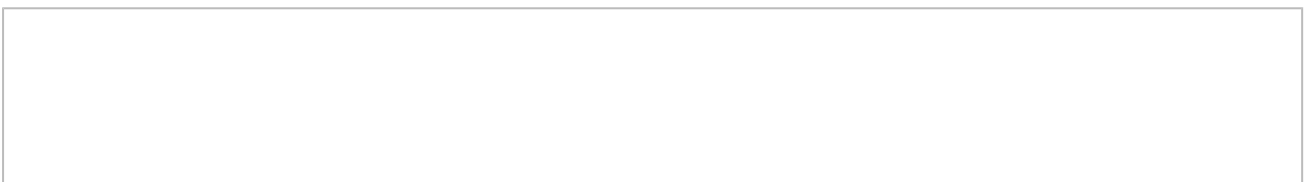
Although we regret EIOPA's decision not to analyse a prudential Pillar 1- related capital treatment for social risks, we understand the prioritisation of climate risks. We would recommend that EIOPA starts looking into the capital treatment of assets exposed to social risks, as soon as steps have been taken by the European Commission to define social aspects further, for instance on the development of Minimum Safeguards or the Social Taxonomy.

We are however supportive of the proposal to start integrating the treatment of social risks as part of Pillar II and III, and suggests further guidance is developed for insurers how to do this appropriately.

Q76: What do you consider good practices for addressing social risks as part of the ORSA?



Q77: Do you think that particular guidance would be helpful for addressing social risks as part of the ORSA?



Q78: What type of risk management actions are most relevant to address social risks?

Q79: How do social risks typically impact on business planning (3-5 years) or long-term strategy?

Businesses should be thinking about their biggest asset when they do business planning - their staff! They should be thinking about how to retain, upskill and attract talent and core to that is ensuring good work and a reputation for having a positive impact. This includes paying all staff (including third party) the Living Wage, providing secure contracts and opportunities to develop, ensure fair and equal pay across staffing groups (including disclosing their gender and diversity pay gap).

Separately, business planning should consider risks, for example those rising regulator risks which seek to penalise companies producing negative health externalities. These include those producing unhealthy food

and other products, as well as those contributing to air pollution. These risks should be considered with a view to mitigating and reducing reliance on the production of externalities. For food manufacturers this could include shifting sales toward healthier alternatives

Q80: The taxonomy regulation includes key international standards on social issues as minimum safeguards (Article 18) in order to prevent environmentally sustainable activities from harming fundamental human rights, workers' rights or principles of good governance (such as anti-bribery measures, for example). Would you agree that such minimum social safeguards could be used as guiding principles for implementing the prudent person principle requirement for investments with regards to social factors?

The Minimum (social) Safeguards (MS) could be useful as guiding principles for implementing the prudent person principle for investments with regards to social factors as long as the MS are based on the two-pronged approach that considers two criteria for compliance, namely 1) the existence of adequate due diligence processes and 2) the absence of final convictions in court or absence of the refusal to engage in stakeholder mechanisms. It must be noted that the MS have a focus on Do No Harm, whereas investments decisions considering social factors as part of their implementation of the prudent person principle may also cover positive impact decisions.

Q81: Similarly to EIOPA's ongoing analysis on the integration of climate change adaptation into underwriting practices, do you see value in conducting further analysis on how insurers, through their underwriting activity, can include mitigation and adaptation measures for social risks in their underwriting strategy in an actuarial risk-based manner?

Yes, we would welcome such analysis.

Q82: What are your views on the potential role of - and potential prudential relevance of - corporate governance aspects, such as remuneration, board composition or anti-corruption & anti-bribery tools to reduce potential social risks?

We strongly support the consideration of corporate governance aspects. Recent reports (see for instance here: https://shareaction.org/news/shareaction-targets-financial-sector-to-fully-disclose-ethnicity-pay-gap-data#_ftn2) show a vast discrepancy in pay between ethnic minorities and White British workers. For instance, in the UK, BME (Black Minority and Ethnic) young adults are 47 per cent more likely to be employed on a zero-hour contract than White young adults. Covid-19 has worsened existing inequalities; the unemployment rate for BME workers is over twice as high than that of white workers, with the gap widening (see link above).

For more information on our recommendations regarding remuneration and board composition in relation to sustainability risks in general, see our report here: <https://api.shareaction.org/resources/reports/Insuring-Disaster-A-briefing-for-policymakers.pdf> and see also our more recent recommendations on the review of Solvency II: <https://shareaction.org/policies/solvency-ii-review-improving-rules-for-insurers-to-build-a-sustainable-future>

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2. The controller responsible for processing your data is EIOPA's Executive Director.

3. Address and email address of the controller:

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Contact details of EIOPA's Data Protection Officer

4. Westhafenplatz 1, 60327 Frankfurt am Main, Germany

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Contact

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