Sustainability in Solvency II trilogues

The trilogue negotiations on Solvency II, the legislative framework for EU insurers, are a key opportunity to protect insurers and citizens from climate risks. **Introducing a transition plan obligation in Solvency II would push insurers to take sustainability and transition risks seriously** while ensuring regulatory coherence across EU law. In addition, **EIOPA should be given a clear mandate to assess whether prudential rules might need updating** to reflect insurers' exposure to sustainability risks.

Transition plans

Although some insurers have started to develop transition plans (often with serious loopholes), many are lagging behind. Transition planning is however crucial to guarantee resilience in the face of the climate crisis and the transition to a low carbon economy.

> 👉 **ShareAction supports the inclusion of mandatory transition plans in Solvency II. Transition plans should be at the heart of insurers' risk management, and should be monitored by national supervisory authorities, to align with EU banking legislation and ensure regulatory coherence across EU laws.**

The Commission and Council didn't propose to make transition plans mandatory, but the European Parliament (EP) did:

> ***'Specific plans, quantifiable targets, and processes to monitor and address the risks arising in the short, medium, and long-term ESG factors, including those arising from the transition and the process of adjustment to the applicable regulatory objectives towards a sustainable economy in relation ESG factors, in particular with the objective to achieve climate neutrality by 2050'* – EP position, July 2023**

This provision complements the EU disclosure legislation (Corporate Sustainability Reporting Directive, CSRD) and aligns Solvency II with the EU banking legislation (Capital Requirements Directive, CRD), therefore ensuring regulatory coherence across EU law. Yet CRD also requires transition plans to be supervised. We believe this should apply to insurers' transition plans:

> ***'Competent authorities shall verify the robustness of those plans as part of the supervisory review and evaluation process.'* – CRD trilogue position, September 2023**

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EIOPA mandates as regards sustainability risks

The Commission proposed to give two sustainability mandates to EIOPA, first on the prudential treatment of assets associated with substantial ESG risks, and on the calibration of the natural catastrophe risk standard formula. The Council added two mandates, on insurers' exposure to biodiversity loss and ESG stress testing. The Parliament agreed with all four mandates.

> 👉 **ShareAction supports all four sustainability mandates given to EIOPA. The first mandate is particularly important. EIOPA, which started researching and consulting on the topic (see our response), should be given a clear mandate to continue its work and finalise its advice to the Commission by June 2024. Given scientific evidence that the burning of fossil fuels is the main driver of climate change, EIOPA should explicitly focus on the prudential treatment of fossil fuel related investments, as suggested by the EP.**

The Commission's first mandate (as amended by the EP) is key, as it notably requires EIOPA to advise on whether prudential rules should be modified to better account for the risks related to investments associated substantially with harm to environmental and/or social objectives:

> ***'EIOPA (…) shall assess (…) whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental or social objectives would be justified. In particular, EIOPA shall assess the potential effects of a dedicated prudential treatment of exposures related to assets and activities which are associated substantially with environmental and/or social objectives or which are associated substantially with harm to such objectives on the protection of policy holders and financial stability in the Union, including fossil fuel related assets.' –*** **Commission's first sustainability mandate to EIOPA, as amended by the EP in July 2023.**

Conclusion

As extreme heatwaves spread across the globe and insurers feel the hit of claims arising from climate catastrophes, the need for insurance regulation that meaningfully steers the industry away from risky and harmful fossil fuel activities could not be stronger. Insurers should develop transition plans, which should be subject to national supervision. EIOPA should continue its work on assessing capital requirements in light of sustainability risks, in particular those associated with fossil fuel related investments.

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