EIOPA launches discussion paper on a methodology for integrating climate change in the standard formula

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Today, the European Insurance and Occupational Pensions Authority (EIOPA) published a discussion paper on a methodology for the potential inclusion of climate change in the Solvency II standard formula when calculating natural catastrophe underwriting risk.

This discussion paper is a follow-up to EIOPA's Opinion on Sustainability within Solvency II issued in September last year, which concluded that there is a need to consider if and how climate change-related perils could be better captured in the Solvency II framework under the natural catastrophe risk submodule.

The frequency and severity of natural catastrophes is expected to increase due to climate change. Improved climate projections provide evidence that weather extremes such as heat waves, heavy precipitation, droughts, top wind speeds and storm surges will rise in many European regions. To ensure the financial resilience of (re)insurers covering natural catastrophes, the solvency capital requirements for natural catastrophe underwriting risk need to remain appropriate in light of climate change.

In line with that, EIOPA proposes different methodological steps and process changes to integrate climate change in the calculation of natural catastrophe risk and invites all interested stakeholders to provide comments by 26 February 2021.

FILL IN THE SURVEY

EIOPA will consider the feedback received and expects to publish the final report in the summer of 2021 together with a feedback statement on the consultation responses of stakeholders.

EIOPA's sustainable finance agenda

This discussion paper is part of EIOPA's broader sustainability agenda to integrate environmental, social and governance (ESG) risk assessment in the regulatory and supervisory framework. EIOPA is committed to supporting the European insurance and occupational pension sectors in their transition to climate neutrality and to deliver on the 'Green Deal' initiated by the European Commission.

EIOPA's work on sustainable finance is driven by three objectives: (i) insurers should manage and mitigate ESG risks, (ii) insurers and pension funds should reflect policyholders and pension scheme members' preferences for sustainable investments and (iii) insurers and pension funds should adopt a sustainable approach to their investments based on principles of stewardship. This reflects the important role insurers and pension funds can play in enabling climate change mitigation and adaption. A key element to foster sustainable growth and to channel funding in economic activities enabling and contributing to environmental, social and governance-related objectives, is to improve data availability and therewith the public disclosure of relevant metrics by reporting entities as well as improving transparency on risks arising from climate change.

Join our Sustainable Finance Roundtable on 16 December 2020 and be part of discussion about EIOPA's ongoing consultation on the scenario analysis in ORSA, activities on disclosure and non-financial reporting, impact underwriting, protection gap for natural catastrophes and sensitivity analysis for transition risk.

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