

FEEM Workshop

The evolution in the undertakings' climate disclosure: the point of view of stakeholders

Speech by Stefano De Polis
IVASS Secretary General

Rome, 25 September 2020

I thank the Fondazione Eni Enrico Mattei and prof. Pareglio for inviting me to join this workshop on undertakings' climate disclosure.

In this delicate transition towards a *green economy*, it is of paramount importance for IVASS to have a pulse on the insurance market as regards the management of climate-related financial risks. Over recent years IVASS has devoted special attention to the development of adequate supervisory tools (i.e. *Key Risk Indicators, sensitivity analysis, stress test*) for acquiring data on the trends in the insurance sector, including environmental, social and governance developments.

In 2020, despite a difficult context marked by the effects of the pandemic, investigations continued on the potential impact of environmental factors and, in general, on the risks related to ESG financial sustainability, focusing attention on issues of strategic management of investments: last July 2020 IVASS submitted a sample of companies representing more than 80% of the market a quantitative and qualitative questionnaire¹ (replies are due by end September 2020).

The disclosure of correct and exhaustive information is key for the promotion of the same disclosure in market prices. For this purpose it is then crucial to ensure actual comparability of information also by means of standardized reference models.

However, I would like to point out that the Non-Financial Statement (NFS) has been designed to play a much wider role for market participants and Institutions; it contributes to encouraging a cultural transformation which, starting from the consideration of non financial factors, first and foremost the ESG (*Environmental, Social and Governance*) factors, should

¹ The questionnaire is made up of 2 sections:

- a qualitative section, which includes a series of questions regarding investment strategies and practises also in the wake of international questionnaires;
- a quantitative section, aimed at identifying the share of each macro category of assets (government bonds, corporate bonds, shares, buildings, collective funds, other assets) that can be "classified" as high/low carbon, according to information and criteria related to green finance.

be a reference for the identification and the definition of business models, corporate strategies and models of corporate governance according to a forward looking approach.

Insurance undertakings are exposed not only to the climate change risk in their capacity as institutional investors, but also to the physical risk resulting from natural disasters affecting the contracts underwritten, but they can also play a key role in the mitigation and management of climate risk. Moreover, the insurance sector offers a set of unique competencies (modelling and determination of the risk price, underwriting, research on natural disasters) which may help the public sector and the economy in general strengthen the financial resilience to the physical risks related to climate change.

At national level 8 insurance undertakings (with over 500 employees and a total **balance sheet** of more than 20 million euros) publish the NFS - as reported in the list by Consob. These 8 undertakings account for 50% of the insurance production mostly affected by climate-related risks².

IVASS has examined the NFS published by undertakings in the last two years: although public disclosure has improved compared to the first year (the NFS was first published in 2018), there are still shortcomings in terms of quantity, quality and comparability of the information provided, and with regard to the policies being implemented, the reference time horizon, the results planned and achieved, the main risks and the environmental performance indicators which the undertaking is required to manage.

Similar issues have been identified at European level; the surveys conducted by EIOPA have shown that the reporting documents do not provide adequate information on the impact and policies for the management of risks related to climate change: on a significant sample of undertakings, public disclosure documents (i.e. Solvency and Financial

| Denominazione | Classificazio | Collocazione della DNFI |
|--|--------------------------------------|--|
| ASSICURAZIONI GENERALI SPA | Società con azioni quotate in Italia | Contenuta nella Relazione sulla Gestione |
| HELVETIA ITALIA ASSICURAZIONI SPA | Assicurazione | Distinta |
| ITAS MUTUA | Assicurazione | Distinta |
| REALE MUTUA DI ASSICURAZIONI | Assicurazione | Distinta |
| SARA ASSICURAZIONI SPA | Assicurazione | Contenuta nella Relazione sulla Gestione |
| SOCIETÀ CATTOLICA DI ASSICURAZIONE SOCIETÀ COOPERATIVA | Società con azioni quotate in Italia | Distinta |
| UNIPOL GRUPPO SPA | Società con azioni quotate in Italia | Contenuta nella Relazione sulla Gestione |
| ² VITTORIA ASSICURAZIONI SPA | Assicurazione | Distinta |

Condition Reports and the Non-Financial Statement) did not provide useful information on climate risk mitigation tools and only a minority of the ORSA reports – which are by the way submitted only to supervisors - provided information on the impact analysis of climate-related risks.

The NFS examined essentially describe – with different levels of detail – the information elements required by the regulations and the state of implementation of the policies targeted at mitigating environmental and social risks; they illustrate the results and the impact of the choices and of the management of these issues according to a soft approach which in some cases lacks substantial elements. Issues are dealt with in a qualitative approach and in some cases would require greater adherence to the specific features of the relevant business.

EIOPA expressed the position of the insurance supervisors within the public consultation launched by the European Commission on the reform of the Non-Financial Reporting Directive.

In particular, it was underlined that non-financial information suffers from a lack of comparability also because at present the regulatory requirements on ESG issues are not fully aligned and consistent. Moreover, under the current regulations, insurance undertakings have only a limited access to the information regarding the undertakings in which they invest or intend to invest, which would be relevant for their disclosure.

In view of a future comprehensive reform it would, in our opinion, be desirable to:

- have a single regulation for all the sectors with differentiated elements for each specific sector.
- be guided mainly by the principles of the Task Force on Climate-related Financial Disclosures (TCFD) established by the FSB, by the Commission non-binding guidelines on climate change reporting (COM NBS) - and by the standards that the ESAs are drafting: in this regard on 23 April 2020 ESMA, EIOPA and EBA submitted the Joint Consultation Paper ESG disclosures for public consultation (deadline 1 September 2020).

- envisage a mandatory certification (assurance) of the NFS over a long-term horizon and in the form of reasonable assurance and not of limited assurance.

In substance, our desire and focus for our commitment is to:

- work to give more substance to non-financial statements, integrating them with practical references and an overview of the choices made by undertakings, through the use of data and greater disclosure of the essential elements;
- contribute to the definition of commonly accepted and scientifically based international standards ensuring transparency and comparability of climate-related risk indicators. Within the community of international supervisors the principles of the FSB TCFD are already seen as a reference point to “articulate and calibrate” disclosure;
- envisage realistic and workable forms of certification of information, to strengthen its reliability and potential.