

# Public Consultation on "Application guidance on running climate change materiality assessment and using climate change scenarios in the ORSA"

Fields marked with \* are mandatory.



## Responding to the paper

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EIOPA welcomes comments on the Consultation paper on "Application guidance on running climate change materiality assessment and using climate change scenarios in the ORSA".

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 Thursday, 10 February 2022 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.

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\* Declaration by the contributor

*between 1 and 2 choices*

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

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[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] Decision (EIOPA-MB-11/051) of the Management Board concerning public access to documents - [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)

## About the respondent

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\* Please indicate the desired disclosure level of the responses you are submitting.

- Public
- Confidential

\* Stakeholder name

Institut des actuaires (France)

\* Type of Stakeholder

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

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## Questions to Stakeholders

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\* 1. Do you agree that the first two chapters provide a clear picture on the inclusion of climate risk scenarios in the ORSA to a high-level reader?

- Yes  
 No

Please add an explanation

We believe it would be interesting to specify the objectives of taking into account climate change scenarios in the ORSA:

- Preparation for the integration of climate risk into Pillar 1 in a context where few players are yet assessing this risk in the ORSA (Cf. Opinion of 21/04/2021)
- Better awareness by the market of short-term risks linked to climate change.
- Market awareness of longer-term climate change risks?
- A first step to take into account sustainability risks (climate, biodiversity, water, pollution, sustainable economy...) considering here the risk of climate change only?
- Do you want to consolidate the results or not? If so, this would require the measurement of the impacts of climate action management and a minimum of homogeneity in the construction of climate change scenarios (see point on scenarios).

The question of the time horizons to be taken into consideration and their articulation seems to us to be essential and would require clarification: how to organize the coordination with the risk mapping, the risk management system, the risk profile, the impacts on the capital, the impacts on the strategy..., between the business plan horizon and the climate horizon?

We understand that there is a double horizon to manage.

The classic horizon of the strategic plan (3 to 10 years depending on the type of activity and the entities) and the long-term climate horizon.

In our opinion, the ORSA must retain its current framework, fed by a long-term framework (10-30 years) on climate change that informs the decisions to be taken over the strategic plan horizon (3 to 10 years).

The long-term framework and the link with climate scenarios should be provided by EIOPA guidelines.

The possibility of multi-year assessments (see paragraph 3.24 of the April 2021 document: "not necessarily every year") could be more clearly explained.

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2. Do the examples in “Chapter 3 – Materiality assessment” address the main transition and physical risks to which undertakings may be exposed?

- Yes  
 No

Please add an explanation

The EIOPA consultation provides initial elements for defining a methodology for assessing materiality and building scenarios. This document also provides enlightening examples of implementation. However, it seems to us that a certain number of clarifications should be made on the methodological level.

Links between scenarios and materiality :

The issues of materiality and scenarios are linked: a risk may be material in some scenarios at a certain horizon and not in another scenario. This is an important point and implies that the methodological approach presented in Figure 1 on page 10 should be reworked as follows:

1. Define climate change scenario (type of transition / physical risks)
2. Define the business context,
3. Research impacts of climate change on the business
4. Define metrics on which the effects of climate change is assessed,
5. Assess relevance to the business

In this respect, the matrices in Figure 5 should be re-examined by climate scenario and the work in Chapter 3 should include an additional dimension per scenario.

Definition of materiality indicators :

In order to assess materiality, we believe it is important to define precise metrics for analysis. Implicitly and through the examples in chapter 3, EIOPA refers to either :

- qualitative criteria for which the definition and choice of criteria appear unclear
- quantitative criteria, such as risk exposure, for which it is not clear whether they are quantities approaching the SCR and the economic capital, or whether they are retained on another basis.

It seems to us that EIOPA should provide more guidance on how to define metrics to assess the impact of climate change. The various stakeholders could ask themselves:

- Whether to limit themselves only to impacts on the economic balance sheet, SCR and coverage ratio?
- whether other traditional KPIs (P&L, ROE, etc.) or climate indicators (e.g., carbon footprint) or sustainability indicators (biodiversity, deforestation, etc.) should be integrated into the principle of double materiality (in link with SFDR European principles)
- How to articulate the role of quantitative and qualitative metrics?
- Should a link be made with risk mapping and non-financial accounting?

A framework for this point is essential and aims to avoid excessive divergence in practices.

Materiality - need for benchmarks :

EIOPA knows the exposure and activities of European insurers. Can benchmarks (LoB, country) not be made to guide operators in the choice of classifying a risk or an activity as materially affected at a given horizon?

Furthermore, could the cost of implementing a climate ORSA approach be evaluated and shared? (Material, human, data, financial)

Materiality and uncertainty :

The examples given through the fictitious companies do not allow us to explain how a company should assess the materiality of risks with uncertain consequences. The reasons for these uncertainties can be, for

example, a lack or absence of data or reference studies, modelling difficulties, the uncertainty specific to climate trajectories or transition scenarios, ....

These types of difficulties could be relatively frequent and EIOPA should provide elements to explain how operators should behave in the face of these uncertainties.

Other difficulties in assessing materiality :

The elements provided in Chapter 3 concerning materiality in assets are not sufficiently clear. Could EIOPA provide in these illustrations through fictitious companies how to take into account:

- specific constraints related to asset-liability matching, diversification or profitability constraints,
- the normative constraints that will apply (SFDR, taxonomy, ...),

Finally, on the asset side, reinsurance coverage, which is also a significant source of vulnerability (cost, exclusions, etc.) is not mentioned. Could EIOPA provide examples on this point?

\* 3. Do you consider the scenario analyses proposed in “Chapter 3 – Climate change scenarios” easy to apply for small and mid-sized insurers?

- Yes  
 No

Please add an explanation

Framing the scenarios to be considered

Different alternatives exist for the choice of scenarios:

- A totally free choice

o Positive aspects: allows the insurance world to be diversified in the way it prepares for similar risks, and adapted to the risk structure of the entity

o Negative aspects: multiplicity of possible combinations and comparability issues

- A totally free choice with a proposal of scenarios ("USP type" approach)

o At least for the reference scenario; at least to initiate the process of integration into the ORSA which also needs an increase in team skills

o Would offer the possibility for any entity wishing to do so to rely on the scenarios envisaged by a pilot ORSA exercise

- A totally imposed list

Eiopa wants to use a framework with at least 2 long-term climate change scenarios (one <1.5°C and another >2°C). These long-term scenarios are not specified in terms of trajectory (speed/shape/regional distribution/target...). The implications for physical and transition risks in the shorter term are also not framed. It seems to us that these elements do not belong to a specific risk assessment, but are part of a more general framework that could

- facilitate the task of both small and large organizations,

- a certain form of consolidation of results.

For the <1.5°C scenario, we would like supervisory authorities to draw up a minimum list of short- and medium-term risks to be considered in the ORSA, for example based on the examples in chapter 3.

On the >2°C scenario, the range of possibilities is very large. Establishing a long-term reference framework would allow organizations to include the climate change constraint more easily and at a lower cost over the duration of their strategic plan and to integrate climate risk management actions into the ORSA as soon as possible.

Without this, do organizations not risk investing too much in the establishment of these long-term climate scenarios, for which their skills will always be insufficient, and consequently working insufficiently on their own risks, due to a lack of time and resources that cannot be extended indefinitely?

Conclusion: we expect to see specified in at least two long term climate change scenarios (one <1.5 and one

>2), the types of possible transition settings and associated physical risks, allowing to evaluate for the entity the impacts at 10 years (CT), 30 years (MT) and 80 years (LT)

#### Consideration of management actions

As with any ORSA assessment, the definition of management actions is usually the result of an iterative process: the company must refine its actions according to the results it observes on the actions it has implemented or that it has studied in a counterfactual exercise. However, Figure 1 may lead one to believe that the approach to be adopted is linear.

Can EIOPA clarify its assessment on this subject because it seems to us that the approach to be adopted, including for the assessment of materiality, should instead be iterative.

We believe there are 2 main issues regarding the means for implementation :

- the question of proportionality
- the issue of usable data/models/tools is prevalent

Given the draft revision of the directive, we understand that all organizations will have to assess whether they are significantly exposed to risks related to climate change as part of their ORSA assessment (Article 45a), with organizations meeting the "low risk profile" criteria benefiting from an exemption under the scenario analyses. As a result, all organizations, regardless of their size and risk profile, will be required to perform a materiality assessment as a minimum.

We understand that organizations will have to develop their own models/tools and/or use external suppliers. In addition to the direct cost of developing or purchasing tools, these analyses will require the mobilization of the expertise and resources necessary to understand, analyze, appropriate, and implement them, with a necessary increase in the skills of the teams. This issue is even more important for small/medium-sized organizations.

With regard to the tools used in Chapter 3, we note in particular that :

- The public data mentioned to assess physical risks (NGFS Climate impact explorer, Peseta IV...) do not necessarily give information at local scales or at the right dates,
- The implementation of scenarios on catastrophic risks will be a problem for companies without RMS license (or other dedicated service for catnat modeling). The use of non-public information sources limits the appropriation of scenario implementation by small/medium enterprises.
- If the tools mentioned allow capturing the effect of variations in financial risks, they do not seem to be relevant for capturing variations in economic risks (rate curve, inflation...).

Is there any relevant aspect not covered by the previous questions, with a particular focus on alternative methodologies / approaches?

As explained in question 2, the issues of materiality and scenarios are linked: a risk may be material in some scenarios at a certain horizon and not in another scenario. This is an important point and implies that the methodological approach presented in Figure 1 on page 10 should be reworked as follows:

1. Define climate change scenario (type of transition / physical risks)
2. Define the business context,
3. Research impacts of climate change on the business
4. Define metrics on which the effects of climate change is assessed,
5. Assess relevance to the business

In this respect, the matrices in Figure 5 should be re-examined by climate scenario and the work in Chapter 3 should include an additional dimension per scenario.

The topic of means does not seem to be sufficiently addressed in chapters 1 and 2 of the Consultation Paper. On this point, it might be relevant :

- To provide an updated list of the identified public tools/models/data with their possible uses (materiality

study and/or scenario, type of assets and/or liabilities, type of physical/transitional/litigation risk, granularity, time horizon...) and their main advantages/disadvantages (similar to what is initiated in chapter 3). This list could be accompanied by elements on their real ease of use and on the level of expertise required to use them, and the real coverage of the asset portfolio, for example.

- For open-source tools that require potentially confidential data to be loaded into them (e.g. PACTA), specify how confidentiality of information is handled.

- Make proposals on the possibility of using proportionate approaches for small/medium sized organizations and provide guidance where appropriate.

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3. Address and email address of the controller:

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

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