EUROPEAN
FINANCIAL
CONGRESS

Fundacja
Centrum Myśli Strategicznych
ul. Brzozowa 8
80-243 Gdańsk
Poland

tel. +48 58 355 53 70
poczta@efcongress.com

www.efcongress.com

Answers of the European Financial Congress[1] in relation to the European Insurance and Occupational Pensions Authority's consultation on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans - Solvency II Review[2]

Methodology for preparing the answers

The answers were prepared in the following stages:

Stage 1

A group of experts from the Polish financial sector were invited to participate in the survey. They received selected extracts of the EIOPA's consultation document and the consultation questions translated into Polish. The experts were guaranteed anonymity.

Stage 2

Responses were obtained from experts representing:
- insurance firms
- consulting firms,
- the academia.

Stage 3

All the responses were collected, anonymised and the survey project coordinators prepared a draft synthesis of opinions submitted by the experts. The draft synthesis was sent to the experts participating in the survey with the request to propose modifications and additions as well as marking the passages they did not agree with.

Step 4

On the basis of the responses received, the final version of the European Financial Congress' answers was prepared. The final version of the answers was translated into English and submitted to the EIOPA.

[1] The European Financial Congress www.efcongress.com is an independent think tank focusing on economic and financial issues. Its goal is to engage in debate on the security and stability of the financial systems as well as sustainable economic growth of the European Union and Poland. The EFC is run by the Centrum Myśli Strategicznych. The EFC Project dedicated to insurance is EFC Insurance: Sales, Innovations, Risks https://www.efcongress.com/usir/

[2] https://www.eiopa.europa.eu/document/download/fc18cd82-762f-4fa3-818b-01bc8453bcb8_en?filename=EIOPA-BoS-24-458%20Consultation%20Paper%20on%20Regulatory%20Technical%20Standards%20on%20management%20of%20sustainability%20risks.pdf&prefLang=pl

Answers of the European Financial Congress to consultation questions

Relationship of the sustainability risk plans with ORSA, transition plans, disclosure and reporting

Own risk and solvency assessment

Q1: Do you have comments on the proposed relationship between the sustainability materiality and exposure assessments and the ORSA? Would you see the need to further clarify?

The relationship between the materiality assessment for sustainability and the ORSA process is crucial but requires further clarification to avoid duplication of efforts and ensure regulatory effectiveness. The integration of ESG with ORSA may lead to increased reporting burdens and additional capital requirements for insurers, impacting their investment strategies and underwriting policies.

It is emphasized that current ORSA models may not be fully equipped to analyze ESG risks, creating a risk of subjectivity in the assessment of materiality. Therefore, it is essential that the assessment of climate-related risks and other ESG aspects be integrated in a way that does not introduce excessive reporting requirements. Insurers should only be required to prepare detailed reports in cases of significant exposure to sustainability risks.

In the context of integration with the CSRD directive, it is important that the processes related to SRP (sustainability risk plans) and ORSA be interconnected but not duplicative. The double materiality analysis under the CSRD should be incorporated into the ORSA process, allowing for a better understanding of the impact of ESG risks on the risk profile and solvency of insurers. Collaboration with local regulators and EIOPA regarding ESG risk assessment standards is crucial for consistency and effectiveness in reporting.

Regular supervisory reporting

Q2: Do you have comments on the description of the relationship between the reporting on the sustainability risk plan and the regular supervisory reporting under Solvency II? Would you see the need to further clarify?

The relationship between the reporting of the sustainability risk plan and regular supervisory reporting under Solvency II requires further clarification to ensure consistency and effectiveness in reporting. There is a need to utilize data and information already reported within existing processes, which would help avoid additional administrative burdens.

It is recommended that scenarios and their parameters, such as changes in the frequency of natural disasters, be prepared by market supervisors. This would allow individual companies to assess the impact of these parameters on their assets and performance forecasts, as well as to select the most significant scenarios.

Reporting on sustainability-related risks should be viewed as a complement to existing obligations under Solvency II, which focus on financial and operational risks and 1-year horizon. It is important to clarify how the integration of sustainability risk in the risk plan aligns with Solvency II requirements, including those related to risk management and reporting.

A unified, integrated approach to reporting sustainability risks within the ORSA framework should minimize duplication of efforts and reduce unnecessary administrative burdens. It is advisable for sustainability risk reporting to be integrated with existing risk management systems, allowing for better incorporation of these risks into the overall risk management and supervisory reporting processes.

Transition plans

Q3: Do you have comments on the description of the relationship between the sustainability risk plan and transition plans required under CSDDD? Would you see the need to further clarify?

The relationship between the sustainability risk plan and the transition plans required under the CSDDD requires further clarification to better understand how these two elements can mutually support each other. The risk plan should account for risks associated with the untimely or improper implementation of transitional actions necessary to meet CSDDD requirements. It is also important to highlight the reputational risk associated with non-compliance with ESG regulations and a lack of alignment with social and environmental standards.

It is recommended that the sustainability risk plan be flexible and not solely focused on reducing exposure. Insurers should have the option to increase certain risks in line with their strategy and risk appetite, which is essential for the transformation of assets towards net-zero emissions.

Coordination between the risk plans and CSDDD requirements is crucial to avoid conflicting obligations and ensure compliance with sectoral regulations. In the context of pending guidelines, the integration of the risk plan with transformation plans remains a challenge, especially in light of the lack of finalized sectoral guidelines.

It is also important for EIOPA to clarify the benefits of the requirement for additional information disclosure and to specify how ORSA scenarios should be constructed to incorporate strategic aspects that are currently being implemented.

Sustainability reporting and disclosure

Q4: Do you have comments on the description of the relationship between the disclosure in Solvency II and public reporting requirements under CSRD? Would you see the need to further clarify?

The relationship between disclosures in Solvency II and public reporting requirements under the CSRD requires further clarification to ensure consistency and effectiveness

in reporting. It is essential that reporting on the costs associated with implementing sustainability actions allows for the assessment of the cost implications of changes and their impact on financial results.

The scope of public disclosures under the CSRD may be too broad, necessitating the alignment of standards and calibration. In the initial reporting periods, it is advisable to focus on providing information for supervisory authorities, which may help minimize reporting burdens.

Further clarification is needed on how ESG risks disclosed under the CSRD may impact capital calculations and capital requirements (SCR) under Solvency II. Increased risks associated with ESG aspects, such as climate risk, may require insurers to hold greater reserve capital, affecting their risk management policies and financial stability.

A holistic approach to overlapping reporting requirements is recommended to ensure compliance between Solvency II and CSRD/ESRS requirements. The disclosure requirements and methodologies outlined in the Solvency II directive should align with those specified in the CSRD directive. It is important that the methodologies, indicators, and materiality assessments developed under the CSRD have direct applicability to the Solvency II directive.

Additionally, it is crucial to differentiate the objectives of the reports under the CSRD and Solvency II and clarify the connections between them to reduce reporting burdens, particularly for entities that are part of a non-insurance group.

Q5: Do you consider that the requirements set out in the Articles of the RTS will enable undertakings that are subject to CSRD, to feed relevant information on sustainability risks into the disclosures required by ESRS, thereby limiting possible burden? Please elaborate on your response by also considering Annex II of the RTS, which explains how the elements of the sustainability risk plan feed into the disclosures under CSRD.

At this stage, it is difficult to assess whether the requirements of the proposed Regulatory Technical Standards will reduce the reporting burden, as CSRD reports are not yet published.

Minimum standards and reference methodologies for the identification, measurement, management and monitoring of sustainability risks

Elements of the sustainability risk plans

Q6: Do you agree with Article 3 of the RTS? If not, please specify why.

Article 3 of the RTS, which states that the RTS does not introduce new requirements or burdens, raises concerns as there are apprehensions that these provisions may lead to additional burdens related to testing, assessment, monitoring, and planning associated with sustainability.

The issues presented in the article are generalized, which may lead to ambiguities in interpreting the requirements. The adjustment of scenario analysis should allow for the maximum reuse of scenarios already developed for ORSA, ensuring efficiency and minimizing duplication of effort.

It is emphasized that sustainability-related risks should not be treated as a separate category within the Solvency II directive, as they are often already integrated with existing risk categories. The analysis of sustainability risks should be incorporated into the ORSA in a proportional manner, recognizing that these risks are merely part of a broader spectrum of the insurer's risks. There is a risk that the proposed approach may lead to disproportionate and excessively burdensome requirements.

Governance

Q7: Do you have comments on the governance of the sustainability risk management? In your experience, what governance aspects are most difficult to comply with?

Sustainability risk management should be based on a comprehensive approach to identifying ESG risks that encompass all areas of an insurance company's operations. A key challenge is identifying sustainability-related risks and the need to predict changes, including climate change considerations.

Difficulties in precisely determining significant risks, such as those related to climate change or human rights violations in the supply chain, are common, especially in the context of global operations. This requires a shift in management approach to ensure that these risks are an integral part of the insurance company's management strategy.

Sustainability risk management should be treated as a key aspect of operations rather than merely an additional element. It is essential that the risk management approach is proportional and risk-based, allowing for the effective integration of these requirements into insurers' operations.

Challenges related to risk management also include difficulties in measuring and quantifying risks, which are caused by data gaps and methodological limitations. Additionally, setting short-, medium-, and long-term goals is complicated due to uncertainties regarding sustainability threats and limited historical data.

It is important for sustainability risk management to be integrated with existing management structures, enabling an effective approach to risk identification and assessment. It is also crucial to avoid duplicating efforts already undertaken under other regulations, such as CSRD/ESRS, to minimize administrative burdens.

Q8 : Do you agree with article 3(1a) of the RTS? If not, please specify why.

Article 3(1a) of the RTS raises concerns, as it is essential to emphasize that the approach to the sustainability risk management plan should be risk-oriented and proportional. The required proportionality should relate to the nature, scale, and complexity of sustainability-related risks.

In the context of potential aggregation of sustainability risks, there should not be a separate risk category for "sustainability risks." These risks can significantly impact other types of risks and contribute to their materiality. Therefore, implementing an approach to aggregated sustainability risk may be challenging.

Additionally, there is a need to clarify why the sustainability risk management plan must include information on how the remuneration policy accounts for sustainability risks. This requirement goes beyond what is specified in the new Article 44(2b) – (2e) of the Solvency II directive and is already mandated under Article 5 of the SFDR regulation.

Materiality assessment

Q9: What are the most challenging aspects for undertakings in setting the narrative? Please provide any relevant examples, data sets, tools or methodologies that can contribute to the setting of the narrative.

Identified challenges for enterprises in establishing narratives include several key aspects. Firstly, enterprises must accurately assess the needs and expectations of all stakeholders, which can be complex and time-consuming. In a global context, the diversity of thoughts, experiences, and cultural backgrounds within teams can lead to challenges in creating a cohesive narrative that is acceptable to all.

Maintaining an appropriate level of transparency in communication is crucial, as it allows stakeholders to understand and evaluate the narrative. A lack of transparency can lead to distrust and doubts. Additionally, enterprises must ensure that the narrative aligns with their ethical values and legal regulations, which can be challenging in a rapidly changing market environment.

In the context of integration with the CSRD directive, enterprises should incorporate relevant information disclosed under this directive, which serves as a solid foundation for the narrative. It is essential for the narrative to be tailored to the specific business model, strategy, and risk profile of the enterprise, emphasizing the direct and significant impact of sustainability risks.

The integration of transformation plans with the enterprise narrative is also crucial. Enterprises should clearly communicate how their transformation plans address sustainability challenges and what specific actions they are taking in this regard. This requires not only an understanding of the risks associated with transformation but also the ability to communicate them in a way that is understandable to stakeholders.

One of the most challenging aspects is the integration of sustainability risks, their driving factors, and their relationship with financial risk. The "Outside-In" perspective plays a significant role in this context, as it requires a substantial understanding of past, present, and future trends that are often not well researched. For example, potential migration trends resulting from climate change or the interconnections between climate and biodiversity can be difficult to capture.

Furthermore, enterprises must be flexible and ready to adjust their narratives in the face of rapid changes in technology and the market, requiring continuous monitoring

and analysis of trends. Defining consistent materiality thresholds in the short, medium, and long term is challenging, especially since existing risk identification and assessment processes already consider likely future trends and threats.

These aspects highlight the complexity of the narrative establishment process, which requires diligence and a well-thought-out strategy to effectively integrate sustainability risks, transformation plans, and meet regulatory requirements.

Q10: What are the most challenging aspects for undertakings in performing the exposure assessment? Please provide any relevant examples, data sets, tools or methodologies that can contribute to the exposure assessment.

Firstly, identifying all potential risks that may impact the enterprise's operations is a complex process. These risks can arise from various sources, such as market, technological, political, ecological, legal, or social changes. In particular, intangible risks, such as reputational, operational, or organizational culture risks, can be difficult to quantify, posing a significant challenge in exposure assessment.

Data availability and the development of appropriate methodologies are also critical challenges. Exposure assessments often rely on static assumptions that simplify the complexity of the situation, which can lead to unreliable results, especially beyond the financial planning horizon. Data quality remains a significant issue, as consistent and reliable data are often unavailable. Utilizing the EU taxonomy for sustainability (EUT) as a basis for materiality can be problematic due to stringent requirements and data gaps, leading to frequent non-compliance.

In the context of transition-related risks, it is important for assessments to consider the maturity periods of financial instruments. Short-term instruments typically carry less risk compared to long-term instruments, which may extend beyond "climate" timelines. This distinction should be incorporated into exposure assessments.

Additionally, a key challenge is addressing the physical risks of climate change and social risks. Utilizing resilience indicators, such as those developed by the EU, can be helpful, but it also requires engagement in seeking external data that is not always clear and readily available.

These aspects highlight the complexity of the exposure assessment process, which requires diligence, a well-thought-out strategy, and appropriate tools and methodologies to effectively identify and evaluate risks.

Q11: Do you agree with Article 4 of the RTS? If not, please specify why.

Article 4 of the RTS raises certain concerns, particularly regarding its content and interpretation. In relation to paragraph 3(c)(ii), it is essential to clarify that the impact of the entity's investment and insurance strategy on sustainability factors is significant only to the extent that this impact translates into the entity's financial risk, such as the risk associated with the transition of certain assets.

The assessment of materiality should be clearly aligned with other risk management processes, such as ORSA, to avoid duplication of efforts and ensure consistency in

risk assessment. It is also worth noting that Article 4 refers to the "assessment of risk materiality," while point 3.4 refers to the "assessment of exposure." "Exposure" and "risk" are not the same concepts, which necessitates a definition of exposure by EIOPA.

Risk modeling presents additional challenges. Climate change scenarios available from NGFS and IPCC, used to measure exposure according to CSRD guidelines, are not calibrated based on a probability of 1 in 200 and do not cover the nearest one-year horizon. Therefore, further clarifications from EIOPA regarding expectations under Article 4 are needed.

Additionally, Article 4(3) lacks the term "material," which is crucial in the context of this article. The current wording suggests that all risks, both material and immaterial, should be considered, which may lead to inefficiencies in the sustainability risk assessment process.

Financial risk assessment

Q12: Do you agree with the approach to require two scenarios for the financial risk assessment of material sustainability risks? Please share information on relevant approaches for scenarios beyond climate risk.

The adoption of a two-scenario approach for assessing the financial risks of significant sustainability concerns warrants careful consideration. Firstly, it is imperative that these scenarios are standardized across the market to ensure comparability. Exclusive reliance on proprietary narratives may compromise the ability to compare across different entities, potentially skewing risk assessments.

Secondly, accurately estimating the financial impact of these risks requires access to advanced models that can effectively incorporate climatic changes. However, not all insurance companies possess the capabilities to develop or access such sophisticated models, which poses a significant challenge.

Furthermore, insurance companies often lack expertise in assessing risks beyond climate change, such as biodiversity risks, which further complicates the development of comprehensive risk scenarios.

Therefore, developing proprietary scenarios independently can lead to increased costs for insurance firms due to the need for specialized skills and technologies. This approach may also escalate operational costs and resource allocation, posing additional challenges in complying with relevant regulatory requirements.

Q13: Do you agree on the proposed time horizons (short term projection: 1-5 years; medium term projection: 5-15 years; long term projection: min. 15 years)? If not, please justify other time horizons.

The proposed time horizons for assessing the financial risks of significant sustainability risks raises certain concerns that warrant detailed discussion. The proposed time horizons include a short-term projection (1-5 years), a medium-term

projection (5-15 years), and a long-term projection (minimum of 15 years).

The short-term projection focuses on immediate growth opportunities and adaptation to the changing market environment. During this period, enterprises can concentrate on adjusting their strategies to risks that are already well-defined and measurable. However, it should be noted that the perspective of insurance companies, especially non-life insurers, is currently short-term due to the nature of their business. The prevailing financial planning perspective of 3-5 years aligns only with the short-term plan horizon.

The medium-term projection, covering a period of 5-15 years, can be crucial for developing long-term strategies that consider changes in the environment and adaptation to sustainability-related risks. In this context, it is important for the time horizons to align with the requirements of the CSRD directive, which allows for flexibility in defining time horizons based on the specifics of the industry and the enterprise's activities. To perform medium to long-term forecasts, simplifications such as assuming a static starting point without considering the development of business and business plans are often necessary.

The long-term projection, extending to at least 15 years, relates to investments in innovation and technologies that are critical for long-term growth and sustainability. However, it is worth noting that some analyses suggest that a horizon extending to 2050 may be overly ambitious, especially for risks that lack sufficient analysis over such an extended period. The performed analysis should be directional and aim to raise awareness of the impact of climate risks, but due to its uncertain nature, it should not directly serve for making strategic business decisions.

In the context of ORSA, it is important for enterprises to adapt their approach to risk assessment based on the specifics of their portfolio and the nature of the risks that are significant to them. The requirement to use two scenarios within ORSA should be flexible, allowing enterprises to choose scenarios that best fit their unique conditions and risk profile. Additionally, ensuring consistency in time horizons across different regulations, such as CSRD and RTS, is crucial to avoid situations where different regulations require varying definitions of time horizons. Therefore, the proposed time horizons should be flexible and tailored to the specifics of the industry and the nature of the risks to effectively support decision-making processes and risk management.

Frequency

Q14: Do you agree with the proposed frequency of the materiality and financial risk assessment and submission of the sustainability risk plan to the supervisor? If not, please justify an alternative proposal.

The proposed frequency of assessing materiality and financial risk, as well as submitting the sustainability risk plan to the supervisor, raises certain concerns that warrant detailed discussion. The proposed frequency of conducting assessments every three years seems justified; however, it is essential to consider the interconnections between the Sustainability Risk Plan, ORSA, SFCR, and RSR.

The frequency of financial risk assessments should be aligned with the principle of double materiality. More frequent analyses of long-term trends may not provide added value, and objectives should be established based on the frequency of business planning, which cannot be annual for long-term goals. In the case of long-term trends, such as decarbonization, annual analyses only marginally reflect the effects of actions taken.

It is also worth noting that Article 3 requires conducting assessments of materiality and financial risk every three years, while regulatory technical standards suggest annual public disclosures of elements of the sustainability risk plan (SRP). It is necessary to clarify what annual disclosures should encompass if assessments are conducted only every three years.

Potential discrepancies in publications, such as external and regulatory reports (CSRD, transformation plans, ORSA, and SFCR), require continuous updates and adjustments at both the group and business unit levels, increasing administrative burdens. In the context of integration with RSR, elements of the SRP could be incorporated into the regulations regarding the regulatory review of restructuring and orderly liquidation; however, regional spatial plans should align with climate plans submitted under CSDDD or CSRD.

It is crucial to ensure temporal flexibility in reporting regarding the SRP, similar to ORSA. Insurers should have the ability to adopt a flexible reporting schedule for the SRP to align with internal management processes.

In summary, while the proposed frequency of assessments may be justified in some cases, it is essential to ensure flexibility and consistency with the scale and nature of risks and also other regulations to effectively manage risks and meet supervisory requirements and not to overcomplicate the reporting landscape with additional burdens for insurance companies.

Q15: Do you agree with Articles 5 and 6 of the RTS? If not, please specify why.

Articles 5 and 6 of the RTS raises certain concerns that warrant detailed discussion. Article 5 emphasizes that there should not be a general requirement for scenario analyses beyond climate risks. For other potentially significant risks, standard scenarios may be unavailable, which should leave it to the undertakings to decide which analyses make the most sense in relation to their own risks.

Definitions of short, medium, and long-term horizons can vary significantly depending on the insurer and the type of business. Hence, it is impractical to mandate an extension of these horizons to 2050, particularly as this duration is considerably lengthy. Moreover, for other risk factors, such as social risks or those related to corporate governance, there is a notable absence of reliable analyses over such an extended period. This context necessitates a reevaluation of the proposed time horizons for assessing financial risks related to sustainability, which are currently categorized as short-term (1-5 years), medium-term (5-15 years), and long-term projections (minimum of 15 years):

- Insurance Company Perspective: Many insurance companies, especially property insurers, predominantly operate with a short-term outlook, influenced by the immediate nature of their business. This orientation aligns with the short-term projection but fails to address the needs of longer-term strategic planning.

- Financial Planning Horizons: Typically, the financial planning within these companies is limited to a 3-5 year perspective, coinciding only with the short-term horizon. This constraint limits their capability to extend projections further without substantial assumptions.

- Simplifications for Longer Projections: Conducting medium- and long-term forecasts often requires simplifications, such as adopting a static starting point. These assumptions overlook the dynamic nature of business evolution and strategic planning, potentially distorting the accuracy of long-term risk assessments.

- Nature of Analyses: Analyses should be primarily directional, designed to illuminate the potential impacts of climate risks. Given their inherent uncertainties, these analyses should not directly drive strategic business decisions but should instead be used for raising awareness and providing preliminary guidance.

Collectively, these points underscore the need for flexibility and adaptation in defining time horizons to accommodate the specific operational and strategic realities of the insurance industry, rather than adhering to a rigid, extended timeline.

The assessment of sustainability risks is a complex task that requires solid assumptions to differentiate between short, medium, and long-term evaluations. It is also important to note that documentation and data requirements should be harmonized with the CSRD directive to avoid duplication of efforts.

Metrics

Minimum list of metrics

Q16: Do you consider the current view metrics listed in the minimum binding list (Annex I of the RTS) relevant?

The indicators listed in the document (Annex I to RTS) are relevant; however, their scope and format require reconsideration. Many of them, such as those related to climate and investment portfolios, are indeed valuable. However, some indicators, like those concerning biodiversity, may be difficult to obtain due to the complexity of business activities and the lack of available data.

It is essential to tailor the indicators to the specific risk profiles of insurers to better reflect their individual situations and objectives. Many of the proposed indicators, such as exposure to transition-related risks, do not consider significant factors like the type of business, location, or jurisdiction, which could lead to misleading conclusions.

Additionally, some indicators may not have a direct link to sustainability risks, raising concerns about their usefulness. The requirement to report numerous indicators that are already part of ESRS requirements increases the administrative burden. Therefore,

it is crucial that the indicators are defined based on the actual needs and context of insurers' operations, taking into account their individual exposures and strategies.

Q16'. What changes to the current view metrics, additional metrics or deletions would you suggest?

In the context of the current indicators, several significant changes and additions are suggested. Firstly, the number of indicators related to investment assets is very extensive; however, from the perspective of insurance companies, indicators related to non-investment activities may be crucial and should be described more precisely, ideally with examples to better illustrate their importance. Additionally, certain definitions require modifications and harmonization. This may require changes in claims settlements process and claims handling systems, to ensure data comparability across different companies. This will likely involve additional costs and could be time-consuming. Furthermore, a significant issue is the availability and quality of data (i.e. geographic split), which can impede the implementation of these changes and the overall effectiveness of the indicators in providing meaningful insights.

Additionally, the current list of indicators may send misleading messages to stakeholders. Many of the described indicators do not have a clear causal link to actual sustainability risks. Exposure to a given risk does not necessarily mean that there is a real risk to sustainability, which could lead to erroneous conclusions.

It is also worth noting that the current list duplicates much information that is already disclosed under ESRS, and EIOPA neglects this issue, which may lead to unnecessary administrative burdens. Therefore, it is crucial that the indicators are tailored to the actual needs and context of insurers' operations, eliminating those that are redundant or irrelevant.

Q17: Do you agree with Article 7? If not, please specify why.

It is suggested that the list in the Annex should be removed or shortened, and the indicators should reliably reflect the significant sustainability risks identified by the insurer or group. Indicators based on scientific foundations should only be used when there are indisputable, reliable, and specific data is available.

Minimum indicators should only apply to those entities that assess significant exposure to sustainability risks. The current indicators do not allow for definitive conclusions, rendering them unreliable. If minimum indicators are required, a standardized data foundation should be established to ensure comparability and consistency among insurers, which would also facilitate the work process, considering these are systemic risks.

Regarding Article 7, paragraph 6, it is important to emphasize the limitation "where appropriate" and to remove the requirement "at least." Plans for sustainability-related risks should focus solely on indicators relevant to the insurer, and the insurer's own

ORSA assessment should be maintained. In many cases, risks related to biodiversity, social policy, and corporate governance are considered irrelevant in the ORSA.

Optional forward-looking metrics

Q18: Do you agree with the relevance of the optional forward-looking metrics?

Optional predictive indicators are relevant. It is noted that if optional predictive indicators include changes in sustainability regulations, it is important that they also account for predictions regarding the introduction of new ESG standards or tightening emission regulations.

Additionally, it is essential to consider the indicators used in the context of ESRS reporting, which should be specific to the entity based on their assessment.

Q18'. What changes to the optional forward-looking metrics, additional metrics or deletions would you suggest?

The comments are similar to those presented in questions 16 and 17.

Additionally, it is suggested that the entire list be removed from the document.

Other optional metrics

Q19: Do you agree with the relevance of the other optional metrics?

We agree that the remaining optional indicators are relevant.

However, it is suggested that the entire list be removed from the document.

Q19': What changes to the other optional metrics, additional metrics or deletions would you suggest?

Changes are necessary for the remaining optional indicators and additional indicators. The comments are similar to those presented in questions 16 and 17. It is recommended that the draft regulatory technical standards do not include a list of other optional indicators that will not be relevant for the self-assessment of most insurers. The reasons for including such a list in section 3.8 of the article are unclear, thus it is suggested that the entire list be removed from the document.

Optional indicators may not provide benefits at this stage, as data on water consumption, renewable sources, and social threats are neither reliable nor available. Even emission data is currently available only for a limited number of enterprises. Furthermore, most optional indicators are poorly defined and difficult to implement, which limits their usefulness. Optional indicators are highly subjective and do not provide significant benefits at this stage.

Targets

Q20 : Do you agree with Article 8 of the RTS? If not, please specify why.

We disagree with Article 8 of the RTS, as it is necessary to clarify the requirements for demonstrating the credibility of management actions. It is unclear whether this should be done statistically or if qualitative justification is sufficient. When setting goals related to their own sustainability risks, entities should consider the latest reports and measures recommended by the European Scientific Advisory Board on Climate Change, which has been addressed in paragraph 4.

However, the meaning of paragraph 3 is unclear, particularly regarding how goals related to business risk should be linked to overarching statutory climate goals. The directive does not impose an obligation on companies to limit specific exposures or financed emissions, but only requires monitoring and mitigating risks arising from these threats.

Risk management does not necessarily mean risk reduction; the business model of insurance companies involves taking on risk. It is proposed to replace the phrase "reduce risk" in paragraph 5 with "manage risk." Sustainability-related goals should be integrated with business objectives through regular strategy updates, and the frequency of these updates should not be mandated. Strengthening this proposal, it is important to note that the currently suggested wording may inadvertently lead to insurers withdrawing from regions with high ESG risks. This could exacerbate the insurance gap, particularly in areas where coverage is most needed yet perceived as too risky. This underscores the necessity of framing risk in terms of management rather than reduction, to encourage a more balanced approach and ensure broader coverage continuity.

Long-term goals are typically set to achieve effects rather than to manage financial risk, which is why regulatory technical standards should not define long-term goals in the same way as short-term goals. Insurers must also assess the extent to which their goals align with national and European legislation, taking regional differences into account. A strict reference to EU law may weaken international competitiveness.

Setting goals by insurers should consider their dependence on the transformation pathways chosen by national and European governments, so that general requirements to align with EU-level goals do not overlook regional differences and the broader context of insurers' operations.

Actions

Q21: Do you agree with Article 9 of the RTS? If not, please specify why.

The approach should be clarified, as actions are the result of policies, not the other way around.

Supervisory approach

Q22: Do you agree with the approach to the supervision of sustainability risk management and the sustainability risk plan as set out in Article 10 of the RTS? If not, please specify why.

We disagree with the approach to supervision of sustainability risk management and the sustainability risk plan as outlined in Article 10 of the RTS. There is a need to clarify how actions and plans regarding ESG will be enforced by supervisors and what consequences are anticipated.

Additionally, there is a contradiction between points 121 and 123/127. Point 121 states that supervision of financial risks arising from sustainability factors should not imply an assessment of insurers' effectiveness in achieving transformation goals, suggesting that supervisory authorities are not required to evaluate the extent to which these goals are met. Conversely, paragraph 123 emphasizes that non-compliance with EU transformation goals may lead to reputational, legal, or financial risks, requiring supervisory authorities to assess whether the enterprise's risk management strategy aligns with EU goals.

These statements appear inconsistent, as assessing compliance with EU goals inherently involves evaluating the effectiveness of insurers' strategies. Clearer guidelines are needed to reconcile these issues and clarify supervisory expectations.

The final EU climate goals are clear, but the pathways to achieving them remain uncertain. It is crucial that insurers' goals reflect sustainability issues relevant to their operations, as this forms the basis for effective supervision.

Disclosure

Q23: Do you agree with the list of elements of the sustainability risk plan to be disclosed as set out in Article 11 of the RTS? If not, please specify why.

We disagree with the list of elements of the sustainability risk plan to be disclosed under Article 11 of the RTS. It is necessary to adjust disclosure requirements to the specifics of the organization, especially for smaller companies, to avoid excessive burden.

The list of elements should align with Directive 2009/138/EC and ensure consistency with other regulatory frameworks. There are ambiguities regarding the level of detail required in the SFCR and potential additional disclosures. Article 11 should allow referencing information disclosed under the CSRD, as well as clarify whether EIOPA will adjust existing QRT codes.

Greater flexibility in information disclosure and clear guidelines on requirements are recommended to support transparency and accountability in sustainability risk management.

Proportionality

Q24: Do you agree with the proportionality measures included in Article 12 of the RTS? If not, please specify why.

We disagree with the proportionality measures contained in Article 12 of the RTS. Proportionality should be defined not only in the context of requirements arising from Solvency II but should also clearly define the scope of ESG plans and disclosures.

Small and non-complex undertakings (SNCU) are exempt from the new regulations regarding climate change scenario analysis in the ORSA process, which may be justified, but it would also be consistent to exempt them from the requirement to develop sustainability risk plans. Proportionality should apply to all entities, especially in cases where there is a lack of scientific research or reliable data.

If financial risk has already been identified, additional quantitative tools may be unecessary, as sustainability risk is already on the management agenda. EIOPA should avoid imposing excessive requirements and recommend a practical approach to risk management.

Recitals

Q25: Do you have comments on the Recitals of the draft RTS?

The preamble should clearly define the purpose of the regulation and the expected outcomes that enterprises are to achieve in terms of sustainability risk management. In particular, it is important to indicate how these regulations contribute to the overall sustainability goals at the European and global levels. If the objectives are defined in a general manner, they may require clarification to ensure that enterprises understand what specific actions they need to take to meet the requirements.

Any other comments

Q27: Do you have any other comments on the consultation paper?

The consultation document requires further analysis and time to respond to the materials, as the topic is extensive. From a technical standpoint, the lack of header styles complicates navigation within the document. The regulatory context and best practices in the ESG area are still evolving, which may lead to challenges in the actual preparation of planning and reporting documents.

The proposed standard is general in nature, which may result in high costs for the insurance market, as consulting firms offer to prepare documentation for substantial fees. There is a risk that the documents will be of high quality, but actual ESG actions

may be insufficient, which may not necessarily indicate greenwashing.

Implementing new standards may be unnecessary, and additional regulations could increase operational challenges and costs for European insurers. Risks related to ESG should already be considered in the ORSA process, and the approach to regulation should be more flexible to avoid weakening the competitiveness of entities required to implement them compared to those that are not subject to regulations.

It is also important to consider the proportionality of new regulations and their potential impact on smaller insurers. Ensuring regulatory consistency with other elements of the system is crucial, especially in the context of transition and transformational plans within the insurance sector.

General comments

Europe is once again becoming a leader in regulations, this time in the financial sector, specifically in insurance. The proposals for new regulations regarding sustainability risks, which aim to amend the Solvency II Directive and introduce new Regulatory Technical Standards, align with actions taken by banking supervision. However, the main arguments in the EIOPA documents raise concerns, and the lack of a broader assessment of the implications of implementing these regulations is troubling.

On one hand, it is noted that insurers may fail to identify material risks, posing a threat to clients. On the other hand, the implementation of new regulations entails additional costs, such as new requirements for ORSA documentation and personnel and system costs. It is also significant that regulations may weaken the competitiveness of insurers required to implement them compared to institutions that are not subject to regulations, potentially limiting their ability to participate in projects unrelated to "green energy."

It is recommended that Europe, in the face of geopolitical challenges and competition from the US, should not forgo short-term benefits for uncertain future gains. It is also important that the regulatory approach is flexible and considers the specificities of different entities, which can support effective sustainability risk management.