GDV German Insurance Association

GDV COMMENTS | CONSULTATION PAPER EIOPA-BOS-24-458

Consultation on the proposal for RTS on management of sustainability risks including sustainability risk plans

General comments (submitted as answer to Q27)

The German insurance industry welcomes the opportunity to comment on the Consultation Paper. We appreciate EIOPA's efforts to make a sensible proposal under the given framework. However, we suggest significant improvements.

The German insurers are clearly committed to the goals of the Paris Climate Agreement goals and the UN Sustainable Development Goals. Sustainability is here to stay as a major strategic focus because it is a long-term economic necessity. Insurance companies, thus, integrate sustainability in their strategies, risk management and organization structures.

Responsible risk management is core of our business and shapes our daily work. Of course, this also applies to sustainability risks that are relevant to the own company. Corresponding to this, **there are already extensive and sufficient regulatory requirements** for the risk management process and the methods for measuring and managing risks. Especially sustainability risks are already adequately addressed in Solvency II, with further enhancements most recently implemented in 2022. There is no need for even more and increasingly detailed requirements.

The new requirements on the management of sustainability risks (sustainability risks plans) in Article 44 of the amended Solvency II Directive should therefore be deleted. This could be implemented short-term as part of the current Omnibus legislation. The new requirements are superfluous to the extent that they are already covered by existing provisions on risk management and the ORSA. Where they go beyond existing provisions, they cause substantial unnecessary costs for undertakings and supervisors without corresponding benefit. This has to be avoided.

If maintained, however, drafting and adoption of an RTS on sustainability risk plans should at least be postponed until further notice. The evolving regulatory landscape must be considered in the draft. Changes to other regulations by Omnibus legislation will affect what can reasonably be required from insurers in a sustainability risk plan.

In case that the introduction of these risk plans should be maintained, the following points should be taken in consideration:

Duplications with other regulatory requirements should be avoided. Disclosure of preparedness for below 2 °C climate targets is already a requirement under CSRD (transition plans). Ensuring consistency with other plans and methodologies (e.g., CSRD/ESRS, EUT, SFDR) would streamline efforts. However, the ORSA with its existing requirements should remain insurers' central tool for covering all material risks, including sustainability risks. Disclosure of sustainability risks is already part of the SFCR.

It should be clarified that for the Solvency II sustainability risk plan, the undertaking's impact on sustainability factors is only relevant insofar as this impact in turn has an effect on the undertaking's financial risks (e.g. transition risk of certain assets). The total amount of financed Scope 1,2 and 3 GHG emissions without further context is not relevant for the assessment of own financial risks.

Companies should be supported in focusing on their own risk profile, and the principle of proportionality must be fully applied. The governance requirements in the draft RTS are too comprehensive, especially for insurers without material sustainability risks. Instead, a more risk-oriented and proportional approach should be implemented. To balance costs and benefits, proportionality ensuring flexibility for all undertakings should be embedded throughout the RTS. If risks are not yet quantifiable, the use of purely qualitative approaches must be allowed. For SNCUs, no quantitative analyses should be prescribed at all.

Minimum standards and scenario analyses should be limited to climate risks. While the Directive defines sustainability via ESG, it does not require that the RTS sets minimum standards for all ESG areas. Analysis of climate risk is well established and sensible. For social, governance and environmental risks other than climate, the lack of established methods and metrics makes prescriptive requirements impractical.

The list of binding current view metrics for the materiality assessment must be significantly shortened and limited to an absolute minimum. The proposed multitude of metrics, their scope and their level of granularity are excessive. Metrics that are either not relevant for the undertaking or based on data not generally available should not be mandatory. This relates especially to social and governance risks.

In general, a time horizon longer than 15 years should not be required. A long-term horizon of 2050 (i.e. significantly more than 15 years ahead) is already very long for a meaningful use of climate scenarios in the ORSA, as the composition of the undertaking's assets and non-life obligations in 2050 is purely speculative. For other risk drivers, such as social or governance factors, analyses over such a long period are definitely not sensible.

1 Background and Rationale

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

2.1 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?

Yes

To avoid duplication between the sustainability risk plan and the ORSA, the ORSA should remain the central tool for covering all material risks, including sustainability risks. A pragmatic integration of the sustainability risk plan into the ORSA would be more effective than creating a separate report with new metrics.

The interlinkage between (or integration of) the sustainability risk plan and ORSA should apply only to companies that have material exposure to sustainability risks. Companies without material exposure should not be required to provide detailed reporting on ESG risk identification, measurement, management, and monitoring. In fact, the general risk management system under Article 44 already covers this.

Further clarification is needed whether the financial risk assessment to be performed for material risks identified has to be reported on in the sustainability risk plan (and thus in the RSR) or whether a reference to the ORSA would be sufficient. If the financial risk assessment needs to be included in the sustainability risk plan (i.e. the RSR) itself, this would be double reporting. According to margin number 3 of the consultation paper, EIOPA aims to limit the burden on companies with regards to the management of sustainability risks. It seems that this objective is not being met. We suggest questioning the sustainability risk plan as a stand-alone document and instead allowing it to be integrated into the RSR or ORSA.

2.2 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?

Yes

A single, integrated approach for sustainability risk plans within the ORSA would minimise redundancy, maintain consistency, and ensure proportionality in reporting, avoiding unnecessary administrative and operational burdens (please see our answer to Q1). In any case, to avoid duplication, referencing should be allowed where applicable.

EIOPA should clarify that there are no additional QRT reporting requirements intended (margin number 19 of the consultation paper mentions the QRTs as part of the existing reporting requirements, and margin number 34, Figure 1 also includes the QRTs).

2.3 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?

Yes

We welcome EIOPA's effort to align the sustainability risk plan with broader EU frameworks but highlights the uncertainty in the regulatory landscape. Given potential changes under the Omnibus legislation, the preparation of the RTS should be postponed. Further clarification and refinements are necessary to ensure proportionality, consistency, and practicality.

2.4 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?

Yes

We agree that disclosure requirements (and methodologies) in Solvency II should be aligned with the requirements set out in CSRD/ESRS. It is also important to align the RTS (and upcoming guidelines) with EFRAGs planned sector specific implementation guidelines regarding application of sector-agnostic ESRS for insurers as well as any potential additional disclosure requirements for insurance companies. Additionally, also the upcoming Omnibus legislation should be considered to address the overlapping reporting requirements (currently covering the EU taxonomy, CSRD and CSDDD).

Most of the information requested will already be included in the CSRD report, as well as, for a life insurer, in the SFDR report. While the reports remain distinct, it is deemed important to differentiate the expected objective of each one, to explain more precisely the links between them, and if possible, to align the perimeters.

With regard to methodological approaches to materiality assessment, the CSRD employs a dual materiality approach, integrating both impact and opportunity, which differs from Solvency II's risk-based approach. To minimise burdens, insurers should be able to reuse CSRD/ESRS resilience analyses in Solvency II reporting where they align with material risks. Consolidating reporting obligations would enhance efficiency and prevent inconsistencies.

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.

No

The sustainability risk plan will most definitely represent a considerable reporting burden as it is a new plan to be produced. The misalignment of time horizons (see margin number 88 of the consultation paper) represents a burden both in terms of performing risk assessments and reporting on the risks identified.

Furthermore, it is essential that EFRAG's work on sector-specific standards does not contradict these efforts. Additionally, it should be clearly defined which Solvency II values can be utilized for CSRD reporting purposes, particularly since the CSRD refers to book values in some instances.

Moreover, Annex II of the RTS should be thoroughly considered as it explains how the elements of the sustainability risk plan feed into the disclosures under the CSRD, potentially limiting the reporting burden. By adequately aligning these elements, undertakings can streamline their data processes and ensure consistency across both regulatory frameworks, ultimately reducing the administrative burden.

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

3.1 Basis for the sustainability risk assessment and plan

3.2 Elements of the sustainability risk plans

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

No

Sustainability risks should not be treated as a separate category within the Solvency II framework, as they are already integrated into existing risk categories. Any analysis of sustainability risks is best incorporated into the ORSA in a proportionate manner, recognising that these risks represent only a portion of an insurer's broader risk universe. The current proposal risks creating a disproportionate and excessively burdensome approach.

If the assessment of materiality and the assessment of financial risks has to be carried out at least every three years according to Article 3 (3), it should be clarified that inclusion as part of the RSR could only be done in these years, even if the RSR has to be submitted more often.

Margin number 33:

EIOPA's 2022 Application Guidance on climate change risks in the ORSA must not be implicitly considered part of the RTS. This would be in contradiction to the proper legislative process which in this case builds on an RTS. In fact, the Application Guidance explicitly states that it is not a supervisory convergence tool under Article 29 of Regulation (EU) No 1094/2010. Its purpose is to provide initial support to undertakings for conducting climate change analyses, allowing for company-specific approaches and portfolios. Moreover, the Application Guidance was issued before the introduction of new sustainability legislation and additional insights. To ensure relevance, the guidance should be reviewed and aligned with current sustainability legislation and objectives.

3.3 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?

Yes

The governance aspects that are defined in section 3.3 are too comprehensive, especially for insurers that have not identified any material sustainability risks. It is important to emphasise a risk-oriented and proportional approach. This is also supported by Article 44 (2b) subparagraph 3 of the Solvency II Directive, which explicitly refers to proportionality to the nature, scale, and complexity of the sustainability risks.

There are already established risk management processes and methods for measuring and managing sustainability risks. The consideration of long-term risks is part of the Pillar 2 analysis. Article 45 (2) requires ORSA to identify and assess the short- and long-term risks associated with the company's own business model. This also includes risks that could arise from climate change or other sustainability factors. In the ORSA report, insurance undertakings must already assess material risks resulting from climate change using scenario analysis. EIOPA should therefore examine whether existing governance requirements are sufficient.

Difficulties in further requirements arise from the fact that sustainability risks are not a separate risk category but are included in other risk categories like the investment risks or underwriting risks. We are not advocating for a separate risk category of "sustainability risks", as segregation would be extremely difficult. Sustainability risks may have a significant impact on all other risk types and be a factor that contributes to their materiality. Therefore, it seems difficult to implement an approach to measure and quantify the exposure to sustainability risks, including understanding the limitations of the methods used, and any gaps the undertaking faces in data and methodologies to assess the risks.

Additionally, we also see difficulties in quantifiable targets over the short, medium, and long term to address material risks. The time horizon and extent of sustainability risks are extremely uncertain; and the historical data basis for assessing the impact of future sustainability risks is insufficient. Particularly problematic and with limited value is the required "*forward-looking analysis of underwriting liabilities or investment portfolios under different future (transition) scenarios, setting out the key data inputs and assumptions as well as gaps and barriers (information, data, scenarios) which complicate undertaking's efforts to undertake scenario analysis.*" As EIOPA states "*science, data, or tools may not yet be sufficiently developed to estimate the risks accurately*."

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

No

On the whole, Article 3 (1a) is supported. However, it is important to emphasise a risk-oriented and proportional approach for the sustainability risk plan and the required governance aspects. Proportionality must not refer exclusively to SNCU in accordance with Article 12. This is also supported by Article 44 (2b) subparagraph 3 of the Solvency II Directive, which explicitly refers to proportionality to the nature, scale, and complexity of the sustainability risks.

Regarding the potential aggregation of sustainability risks, we take a critical view on a separate risk category of "sustainability risks". Sustainability risks may have a significant impact on all other risk types and be a factor that contributes to their materiality. Therefore, it seems difficult to implement an approach to aggregate sustainability risks.

It is questioned why there must be explanations in the sustainability risk plan on how the remuneration policy considers sustainability risks. This is beyond what is stipulated in Article 44 (2b)–(2e) in the Solvency II Directive.

3.4 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.

The most challenging aspect in setting the narrative is the integration of sustainability risks, the drivers behind them, and their relationship with financial risks. The 'Outside-In' perspective plays a significant role in this context.

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.

Lack of data and plausible scenarios make exposure assessments particularly challenging. For instance, in the 4th vintage of NGFS climate scenarios, shocks in the economic parameters were very small.

In recent years, political developments have become more and more unpredictable which means that the validity of exposure and risk assessments especially for longer-term time horizons is questionable.

The consultation paper assumes that future sustainability exposures/risks can be quantified, which in reality will not be the case for years. It is true that it is possible to make quantitative statements about current risk exposures in the area of climate risks via global event sets.

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

No

The consultation paper emphasises that sustainability risks must be analysed specifically for the respective undertaking. Contrary to this, Article 4 (3) (b) requires categorising prudential risks according to the standard formula. This is a contradiction with the regulatory requirements of the use test for internal models. Instead, the specific risk categories of an internal model must also be permitted in Article 4 (3) (b).

Regarding Article 4 (3) (c) (ii), it should be clarified that the impact of the undertaking's investment and underwriting strategy or decisions on sustainability factors is only relevant for the sustainability risk plans to the extent that this impact on sustainability factors in turn influences the undertaking's own financial risks (e. g. transition risk of certain assets).

3.5 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.

No

Apart from climate risks, there should be no general requirement to run scenario analyses. For other potentially material risks, standard scenarios are not available. It should be left to the undertakings to decide which analyses are most appropriate for their specific risk profile. It makes no sense to require scenario analysis if no plausible scenarios/data are available.

No empirical data is available to assess social and governance sustainability risks. This presents a big challenge for insurance companies because the risk in these areas depend heavily on future developments that cannot be predicted and risks in these areas are often reputational risks that are difficult to assess.

It can be noted that the term "*financial risk*" is not used elsewhere in the Solvency II Directive. EIOPA does not explain it in in the consultation either.

Regarding Table 4, it should be noted, that the disorderly 'delayed transition' scenario of the NGFS also fulfils the requirement of Article 45a of the Solvency II Directive to include a scenario where the global temperature increase remains below two degrees Celsius.

Q13: Do you agree on the proposed time horizons (1–5 years; 5–15 years; min. 15 years)? If not, please justify other time horizons.

No

The long-term horizon of 2050 (i.e. significantly more than 15 years) is already very long for a meaningful use of climate scenarios within the framework of the ORSA, as the composition of the undertaking's assets and non-life obligations in 2050 is purely speculative. For other risk drivers, such as social or governance risks, we certainly do not see meaningful analyses over such a long-term horizon.

3.6 Documentation and data requirements

3.7 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.

Yes

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

No

Article 5:

The relief defined in Article 5 (2) for SNCUs to use purely qualitative approaches should apply to all undertakings in case that the risks are not yet quantifiable. If quantification is impossible, any attempt to quantify such risks would be meaningless. Please note, that non-quantifiable risks are also excluded from the calculation of the SCR, as Article 101 (3) of the Solvency II Directive only requires quantifiable risks to be taken into account.

Apart from climate risks, there should be no general requirement to run scenario analyses. For other potentially material risks, standard scenarios are not available. It should be left to the undertakings to decide which analyses are most appropriate for their specific risk profile.

The long-term time horizon should be set to a general minimum of 15 years. There should be no mandatory extension to 2050 (i.e. significantly more than 15 years), or other target years set out in national or European legislation. The horizon of 2050 is already very long for a meaningful use of climate scenarios within the framework of the ORSA, as the composition of the undertaking’s assets and non-life obligations in 2050 is purely speculative. For other risk drivers, such as social or governance risks, we certainly do not see meaningful analyses over such a long-term horizon.

Article 6:

Similar to Article 5, apart from climate risks, there should be no general requirement to run scenario analyses. For other potentially material risks, standard scenarios are not available. It should be left to the undertakings to decide which analyses are most appropriate for their specific risk profile.

Sustainability risk assessment is a complex exercise, which the draft RTS takes into account by proposing an expert exposure assessment. Nevertheless, even in this qualitative assessment exercise, the uncertainty associated with the evolution of risk over time will require strong assumptions to differentiate between short-, medium- and long-term assessments. As far as quantitative assessments are concerned, it will be necessary to translate local scenarios (climatic, natural, social, etc.) into socio-economic parameters in order to integrate them into insurers' projection tools. These tools will undoubtedly have to be revised to take account of these new challenges. Unless they are guided and simplified, the introduction of quantitative measures is likely to take a long time and will probably be gradual.

Margin number 92:

Requiring insurers to replace estimates and proxies with investee/policyholder data as a remediation action is neither feasible nor necessary, especially for SMEs and personal lines customers.

Apart from this, if EIOPA deviates from the time horizon put forward by the EBA, additional attention should be given how financial conglomerates should integrate the differences in the time horizons.

3.8 Metrics

Minimum list of metrics

Q16 (1/2): Do you consider the current view metrics listed in the minimum binding list (Annex I) relevant?

Binding current view metrics	Relevant	Not relevant
a. Physical risks/non-life insurance and reinsurance except health insurance and reinsurance	X	
<u>i. Climate – Liability side:</u> Gross, ceded and net incurred losses and current exposure/sum insured by perils and regions (CRESTA/NUTS2 level) at the end of the financial year monitoring the evolution over time (number of events and amount).	X	
<u>ii. Nature – Liability side:</u> Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year monitoring the evolution over time in economic sectors with a high dependence on ecosystem services. If possible, upstream dependency and country specific output should be considered.		X
b. Physical risks/life insurance and reinsurance and health insurance and reinsurance	X	
<u>i. Climate – Liability side:</u> Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year and the evolution over time by regions and age group (amount of total claims paid). If possible, undertakings should consider monitoring the metric by the type of life/health impacts (increased mortality, morbidity, or hospitalisation cost), and by underlying drivers (e.g. due to natural catastrophe perils, heat waves, air pollution, infectious diseases, malnutrition, displacement…).	X	
c. Transition risks	X	
<u>i. Climate – Asset side:</u> Investments at the end of the financial year in climate relevant sectors (NACE sectors A to H and L), which include the oil, gas, mining and transportation sectors, at minimum by NACE for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio).	X	
<u>ii. Biodiversity – Asset side:</u> Investments at the end of the financial year in economic sectors with a high bio-diversity footprint at a minimum by NACE sectors for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio).		X
<u>iii. Climate – Asset and liability side:</u> At minimum gross and total amount of Scope 1, 2 and 3 greenhouse		X

Binding current view metrics	Relevant	Not relevant
gases (absolute amount of $mtCO_2e$), including carbon dioxide, methane, and nitrous oxide for financed emissions through the undertaking's investments and underwriting and gross greenhouse gas emissions intensity ($mtCO_2e$ per million euro invested) at the end of the financial year.		
d. Social risks		X
<u>i. Liability side:</u> Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year and the evolution over time, arising under workers' compensation or other employee indemnification benefits coverage at workplaces (e.g., work-related injury or fatalities) by region.		X
<u>ii. Asset side:</u> Investments at the end of the financial year in economic activities, for equity and corporate bonds (amount and share of equity/corporate bond portfolio): • in high-risk sectors, related to working conditions, affected communities (economic, social, cultural as well as civil and political rights or rights of indigenous people), or the well-being for consumers or end-users (related to treatment of information, personal safety or social inclusion) using the EBRD mapping of NACE sector at medium and high social risk. • in sectors related to the cultivation and production of tobacco and/or involved in the manufacture or selling of controversial weapons (NACE C10–12).		X
e. Governance		X
<u>i. Asset side:</u> Investments in companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour), without policies to protect whistle-blowers, and prevent and manage corruption (consistent with the United Nations Convention against Corruption) or with identified insufficiencies in actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.		X
<u>ii. Asset side:</u> Average ratio of female to male board members and average unadjusted gender pay gap in investee companies, expressed as a percentage of all board members.		X

Q16 (2/2): What changes to the metrics, additional metrics or deletions would you suggest?

Binding current view metrics	Suggested changes, additions or deletions
a. Physical risks/Non-life except Health	
i. **Climate – Liability side**: Gross, ceded and net incurred losses and current exposure/sum insured by perils[1] and regions (CRESTA/NUTS2 level) at the end of the financial year monitoring the evolution over time (number of events and amount).	
ii. **Biodiversity – Liability side**: Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year monitoring the evolution over time in economic sectors with a high dependency on ecosystem services. If possible, upstream dependency and country specific output should be considered.	**Change** by adding "*for business interruption cover*": "[…] *exposure/sum insured* ***for business interruption cover*** *at the end* […]" Otherwise **delete**, if this metric does not only relate to business interruption cover but rather refers to shrinking customer segments (previously insured companies) for each line of insurance. (Not relevant, and data generally not available) Further need for **changes**: It is unclear, what is meant by exposure (the event is not specified but needed). "*Sectors with a high dependence on eco-system services*" would have to be clearly defined rather than just referencing ENCORE and listing examples. Inconsistency: In Annex I (and in the first part of Q16), the metric is called "*Nature – Liability side*".
b. Physical risks/Life and Health	

i. **Climate – Liability side:** Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year and the evolution over time by regions and age group (amount of total claims paid). If possible, undertakings should consider monitoring the metric by the type of life/health impacts (increased mortality, morbidity, or hospitalisation cost), and by underlying drivers (e.g. due to natural catastrophe peril, heat waves, air pollution, infectious diseases, malnutrition, displacement…).	**Change** by deleting the following: "~~*and by underlying drivers (e.g. due to natural catastrophe peril, heat waves, air pollution, infectious diseases, malnutrition, displacement…)*~~" (This is too detailed for the mandatory materiality assessment.)
c. Transition risks	
i. Climate – Asset side: Investments at the end of the financial year in climate relevant sectors (NACE sectors A to H and L[1]), which include the oil, gas, mining and transportation sectors, at minimum by NACE for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio).	
ii. Biodiversity – Asset side: Investments at the end of the financial year in in economic sectors with a high biodiversity footprint, at a minimum by NACE sectors for equity and corporate bonds investments (amount and share of equity/corporate bond portfolio).	**Change**: The economic sectors should be clearly defined rather than just listing examples.
iii. Climate – Asset and liability side: At minimum gross and total amount of Scope 1, 2 and 3 greenhouse gases (absolute amount of $mtCO_2e$), including carbon dioxide, methane, and nitrous oxide for financed emissions through the undertaking's investments and underwriting and gross GHG emissions intensity ($mtCO_2e$ per million euro invested) at the end of the financial year.	**Delete** (The total amount of financed Scope 1,2 and 3 GHG emissions without further context is not relevant for the assessment of own financial risks. This could be different for more granular data which are additionally set in relation to the total amount of investments / underwriting activities. However, in both cases, for the analysis of transition risks, firm-level data would be needed which are generally not available. And sector-level data are already covered under point c.i.)
d. Social risks	
i. Liability side: Gross, ceded and net incurred losses and current exposure/sum insured at the end of the financial year and the evolution over time, arising under workers' compensation or other employee indemnification benefits coverage at workplaces (e.g., work-related injury or fatalities), by region.	**Delete** (Does the workers' compensation or other employee indemnification benefits coverage at workplaces relate to insurance for own staff or insurance for non-staff customers? In case

	of the latter, we do not see any relation to "social risks" for a company.)
ii. Asset side: Investments at the end of the financial year in economic activities, for equity and corporate bonds (amount and share of equity/corporate bond portfolio): a. in high-risk sectors, related to working conditions, affected communities (economic, social, cultural as well as civil and political rights or rights of indigenous people), or the well-being for consumers or end-users (related to treatment of information, personal safety, or social inclusion) b. in sectors related to the cultivation and production of tobacco and/or involved in the manufacture or selling of controversial weapons (NACE C10-12).	**Delete** (Not relevant, and data generally not available. These metrics do not represent social risks for the reporting company but could rather impact the reporting company through reputational risks. We do not consider these metrics to be meaningful.)
e. Governance	
i. Asset side: Investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour), without policies to protect whistle-blowers, and prevent and manage corruption (consistent with the United Nations Convention against Corruption) or with identified insufficiencies in actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.	**Delete** (Not relevant, and data generally not available)
ii. Asset side: Average ratio of female to male board members and average unadjusted gender pay gap in investee companies, expressed as a percentage of all board members.	**Delete** (Not relevant, and data generally not available)
Other comments and suggested additional metrics	

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

No

The list in the Annex should be significantly shortened (please see our answers to Q16).

Please note that unfortunately, the online tool does not allow individual questions in Q16, Q18 and Q19 to be left open or answered with 'partially' or 'under certain circumstances', for example. We have therefore selected 'not relevant' where we believe it would not be correct to answer with a clear 'relevant'.

If minimum metrics are required, a standardized data foundation should be established to ensure comparability and consistency among companies. This would also facilitate the work process since these are systemic risks.

Regarding paragraph 6 of Article 7, the limitation “*where relevant*” should be emphasized more prominently and the requirement “*at least*” be deleted. The sustainability risk plans should focus only on metrics relevant for the company. In particular, the company's own assessment of the ORSA should be maintained. In many cases, biodiversity, social and governance risks are considered as non-relevant in the ORSA.

Regarding social risk, considering the connection to CSRD, it is referred to as ESRS S1. Could you please clarify which specific metric you are referring to here?

Optional forward-looking metrics

Q18 (1/2): Do you agree with the relevance of the optional forward-looking metrics?

Optional forward-looking metrics	Relevant	Not relevant
a. Physical risks		X
i. Environmental risks (including climate, biodiversity loss…): Expected value and evolution (relative change) of the main balance sheet, profitability and technical components (e.g. premiums, claims, technical provisions, reinsurance balance…) using a sectoral and geographical differentiation as granular as possible under the different scenarios and time horizons.		X
b. Physical risks/non-life		X
i. Climate – Liability side: Expected average annual losses under the two scenarios and different time horizons using a sectoral, hazard and geographical differentiation as granular as possible (amount and expected change).		X
c. Physical risks/Life and health		X
i. Climate – Liability side: Expected average annual losses under the chosen scenarios and time horizons using age, geographical and risk drivers (e.g. due to natural catastrophe peril, heat waves, air pollution, infectious diseases, malnutrition, displacement…) differentiation as granular as possible (amount and expected change).		X
d. Transition risks		X
i. Climate – Asset side: Stressed value and price change of climate relevant assets in climate relevant sectors (NACE sectors A to H and L), which include the oil, gas, mining and transportation sectors), and at minimum for equity and corporate bonds, under different scenarios and time horizons.		X

ii. Climate - Asset and liability side: Expected gross and total amount of, at a minimum, Scope 1, 2 and 3 greenhouse gases, including carbon dioxide, methane, and nitrous oxide for financed emissions (absolute amount of $mtCO_2e$) and gross GHG emissions intensity ($mtCO_2e$ per million euro invested) under different scenarios – at sectoral level – and time horizons.		X
d. Social risks		X
i. Liability side: Expected losses linked to increased mortality, morbidity or hospitalization cost caused by socio-economic developments, lifestyle behaviour under different scenarios and time horizons.		X
ii. Asset side: Maximum expected losses linked to adverse social behaviour of investee companies (worsening working conditions, negative impact on communities, consumers, or end-users) under different scenarios and time horizons.		X
e. Governance risks		X
i. Asset side: Maximum expected losses due to investments in investee companies under different scenarios and time horizons due to breaches in procedures and standards of anti-corruption and anti-bribery.		X

Q18 (2/2): What changes to the specific metrics, additional metrics or deletions would you suggest?

Optional forward-looking metrics	Suggested changes, additions or deletions
a. Physical risks	Please note, that this answer relates not only to physical risks: **The entire list should be deleted from the consultation paper.** It is appropriate and to be welcomed that the draft RTS does not include a list of optional forward-looking metrics which will not be relevant for most undertakings' own assessment but may only send confusing messages

	towards the stakeholders/users of the information. Many of the metrics described have no clear causal relation to an actual sustainability risk. We therefore do not understand the purpose of including such a list in section 3.8 of the consultation paper.
i. Environmental risks (including climate, biodiversity loss…): Expected value and evolution (relative change) of the main balance sheet, profitability and technical components (e.g. premiums, claims, technical provisions, reinsurance balance…) using a sectoral and geographical differentiation as granular as possible under the different scenarios and time horizons.	
b. Physical risks/non-life	
i. Climate – Liability side: Expected average annual losses under the two scenarios and different time horizons using a sectoral, hazard and geographical differentiation as granular as possible (amount and expected change).	
c. Physical risks/Life and health	
i. Climate – Liability side: Expected average annual losses under the chosen scenarios and time horizons using age, geographical and risk drivers (e.g. due to natural catastrophe peril, heat waves, air pollution, infectious diseases, malnutrition, displacement…) differentiation as granular as possible (amount and expected change).	
d. Transition risks	
i. Climate – Asset side: Stressed value and price change of climate relevant assets in climate relevant sectors (NACE sectors A to H and L), which include the oil, gas, mining and transportation sectors), and at minimum for equity and corporate bonds, under different scenarios and time horizons.	
ii. Climate - Asset and liability side: Expected gross and total amount of, at a minimum, Scope 1, 2 and 3 greenhouse gases, including carbon dioxide, methane, and nitrous oxide for financed emissions (absolute amount of mtCO_2e) and gross GHG emissions intensity (mtCO_2e per million euro invested) under different scenarios – at sectoral level - and time horizons.	
d. Social risks	

i. Liability side: Expected losses linked to increased mortality, morbidity or hospitalization cost caused by socio-economic developments, lifestyle behaviour under different scenarios and time horizons.	
ii. Asset side: Maximum expected losses linked to adverse social behaviour of investee companies (worsening working conditions, negative impact on communities, consumers, or end-users) under different scenarios and time horizons.	
e. Governance risks	
i. Asset side: Maximum expected losses due to investments in investee companies under different scenarios and time horizons due to breaches in procedures and standards of anti-corruption and anti-bribery.	

Other optional metrics

Q19 (1/2): Do you agree with the relevance of the other optional metrics?

Other optional metrics	Relevant	Not relevant
Physical risk - Nature – Asset side: Investments in economic sectors with a high dependence on ecosystem services (e.g. using ENCORE database on dependencies		X
Transition risks - Asset side: investment in debt or bonds with commitments of the issuers to reduce future emissions through the implementation of transition plans as defined under CSRD.		X
Transition risks – Environmental: Investments at the end of the financial year for equity and corporate bonds (amount and share of equity/corporate bond portfolio) in economic activities with sites/operations located in or near to biodiversity-sensitive areas (at a minimum Natura 2000 sites) where activities of those investee companies potentially negatively impact those areas (amount and share of equity/corporate bond portfolio).		X
Transition risks – Investments: Investments at the end of the financial year for equity and corporate bonds (amount and share of equity/corporate bond portfolio) in economic activities with sites/operations located in areas of high water stress, which means in regions where the percentage of total water withdrawn is high (40-80 %) or extremely high (greater than 80 %) in the World Resources Institute’s (WRI) Water Risk Atlas tool ‘Aqueduct’.		X

Physical risk/Non-life – Climate: Share of market expected to become uninsurable by peril and region.		X
Transition risks – Climate – Asset side: Value (and share) of real estate investments with energy category G and F.		X
Transition risks - investments: Investments linked to the amount, absolute or proportion, of investee companies that have allocation of capital expenditure or operational expenditure or budgets to transition activities and/or the quantities of such allocation.		X
Transition risks – liabilities: Value (and share) of gross written premiums from oil and gas producers and from oil and gas producers committed to align to net zero by 2050.		X
Transition risks – liabilities: Expected legal liability claims by region.		X
Transition risks – investments: Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector.		X

Q19 (2/2): What changes to the other optional metrics, additional metrics or deletions would you suggest?

The entire list should be deleted from the consultation paper.

It is appropriate and to be welcomed that the draft RTS does not include a list of other optional metrics which will not be relevant for most undertakings' own assessment but may only send confusing messages towards the stakeholders/users of the information. Many of the metrics described have no clear causal relation to an actual sustainability risk We therefore do not understand the purpose of including such a list in section 3.8 of the consultation paper.

3.9 Targets

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

No

We agree with paragraph 1, 2 and 4 of Article 8 and welcome that paragraph 2 explicitly requires that targets should be set in accordance with the risk appetite and strategy of the undertaking. This is in line with Recital 15 of the draft RTS and with margin number 111 of the consultation paper which states that these targets should refer to reducing or managing sustainability-related risks/exposures.

We understand that when setting targets relating to their own sustainability risks, the undertakings should consider the latest reports and measures prescribed by the European Scientific Advisory Board on Climate Change, in particular in relation to the achievement of the climate targets of the Union (which may be relevant for the undertaking's expectation how its risks evolve). This seems to be implemented in paragraph 4.

However, the meaning of paragraph 3 is unclear, in particular the aspect how targets that relate only to the extent to which the undertaking is willing to assume own business risks should relate to overarching statutory climate targets. These two types of targets refer to totally different things, which seem to be wrongly mixed up here. The Directive does not require undertakings to reduce specific exposures or financed emissions to a certain extent. Such requirements may result from other laws, but not from Solvency II. The Directive only requires monitoring and addressing the risks which result from these exposures.

We suggest aligning the wording of paragraph 3 with the provisions of Article 44 (2b) of Directive 2009/138/EC. For example: "*In setting the targets, undertakings shall consider the latest reports and measures prescribed by the European Scientific Advisory Board on Climate Change, particularly concerning the achievement of the Union's climate targets.*"

Managing risks does not necessarily mean mitigating risks – the business model of insurance undertakings consists precisely in taking on risks. Therefore, in paragraph 5 "*mitigate the risk*" should be replaced by "*manage the risk*". This also means that no measures need to be listed in the sustainability risk plans if the analysed financial risks do not require any new explicit measures.

3.10 Actions

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

No

While the Article itself seems reasonable, the wording of the explanatory text is not sufficiently focused on the actions in the sense of the sustainability risk plan which must not be mixed up with actions in a CSRD transition plan.

4 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? If not, please specify why.

No

There seems to be a contradiction between margin numbers 121 and 123/127:

Margin number 121 states: "*Supervising financial risks arising from sustainability factors should not imply assessing the effectiveness of insurers' transition targets*." This suggests that supervisors are not expected to evaluate how well insurers' transition targets achieve their intended goals.

Margin number 123 states: "*Misalignment with EU transition targets, i.e., their effectiveness, can lead to reputational, legal, or financial risks. Supervisors will need to assess whether the undertaking's risk management strategy is aligned with EU transition targets and milestones*." This implies that the effectiveness of insurers' alignment with these targets is part of the supervisory process.

Similarly, Margin number 127 adds: "*Supervisors will need to assess whether the assumptions for managing transition risk are in line with the EU's objectives and targets, including, for example, the EU Climate Law*."

These statements appear inconsistent, as assessing alignment with EU targets inherently involves evaluating the effectiveness of insurers' strategies relative to those targets.
Margin number 126: What is meant by the "*appropriateness*" of the business model? This should be either deleted or replaced by "*resilience*".

5 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?

No

On the whole, we agree with the list of elements as set out in Article 11, but can nevertheless only comment when choosing "*No*".

The reference in margin number 130 to Article 51 1b (ca), (cb) and (cc) of the amended Directive is wrong. The correct reference is Article 51 (1b) (e), (f) and (g).

We consider the list of elements of the sustainability risk plan to be disclosed, as outlined in Article 11 of the RTS, to appropriately fulfill the disclosure requirements under Article 51 (1b) of Directive 2009/138/EC. We welcome the efforts to specify the RTS in a manner that ensures consistency in the public disclosure requirements under Article 11 and enables undertakings to utilise information disclosed under other regulatory frameworks or for other purposes. The option to reference disclosed information to avoid duplicate reporting should be included. This would be in line with the European Commission's general objective to reduce the reporting burden.

6 Proportionality

Q24: Do you agree with the proportionality measures included in Article 12 of the RTS?

No

For SNCUs, no quantitative analyses should be prescribed. SNCUs are exempted from the new provisions for analysing climate change scenarios in the ORSA process, as they are explicitly exempted under Article 45a (5) of the Directive. The climate change scenario analysis in the ORSA process is closely linked to sustainability risk plans. It would therefore be consistent and reasonable to exempt SNCUs from the requirement to develop sustainability risk plans as well. Until this is in place, we believe the simplified approach outlined in Article 11 of the draft RTS, which focuses on qualitative methods for assessing financial risks, is appropriate for SNCUs.

Furthermore, proportionality should not be limited to SNCUs but should apply to all companies. This is particularly relevant in cases where no scientific methodologies exist, or insufficient credible data is available. The governance requirements in the draft RTS are also too comprehensive, especially for insurers that have not identified any material sustainability risks. Instead, a more risk-oriented and proportional approach should be implemented. To balance costs and benefits, proportionality ensuring flexibility for all undertakings should be embedded throughout the RTS. In particular, there should be no list of standardised metrics as a minimum requirement.

Draft Technical Standards

Recitals

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

Recital 2:

It is unclear what is meant by the impact of risks ("… *assessing and managing the impact, in a comprehensive manner, of environmental risks,* …") The terms of impact and risk which normally stand for different directions of effect should not be mixed up.

In the last sentence "*material*" should be added: "*The scope of the plans includes all* ***material*** *sustainability risks*."

Recital 3:

The plans have of course to build on the Directive and on the Commission Delegated Regulation but not necessarily on (non-binding) policy statements and guidance issued by

EIOPA. It has to be avoided that EIOPA's 2022 Application Guidance on climate change risks in the ORSA is implicitly considered part of the RTS. This would be in contradiction to the proper legislative process which in this case builds on an RTS.

Recital 7:

We generally agree, but in the wording, a clear distinction should be made between impact / own financial risks / own financial risks that arise indirectly from own impact.

Recital 8:

While we broadly agree with the wording, it is not sure whether this passes the practical test.

Recital 12:

Apart from climate risks, there should be no general requirement to run scenario analyses. For other potentially material risks, standard scenarios are not available. It should be left to the undertakings to decide which analyses are most appropriate for their specific risk profile.

Recital 13:

Apart from climate risks, there should be no general requirement to run scenario analyses. For other potentially material risks, standard scenarios are not available. It should be left to the undertakings to decide which analyses are most appropriate for their specific risk profile.

Recital 14:

The long-term time horizon should be set to a general minimum of 15 years. There should be no mandatory extension to target years set out in European Climate Law. The horizon of 2050 is already very long for a meaningful use of climate scenarios within the framework of the ORSA, as the composition of the undertaking's assets and non-life obligations in 2050 is purely speculative. For other risk drivers, such as social or governance risks, analyses over more than 15 years are definitely not sensible.

Annex I: Impact Assessment

Policy issues

Q26: Do you have comments on the impact assessment (analysis of policy options, other)

Policy Issue A:

In fact, the supposed policy issue A is not an open issue as the Directive requires that EIOPA develops draft RTS to further specify minimum standards, reference methodologies, elements of the plan and supervisory approaches. Thus, as long as the Directive is not changed, options A.1 and A.3 are legally not possible.

Policy Issue B:

The preliminary preferred solution is B3. Alignment with CSRD appears to be the most effective and efficient approach, provided it minimizes the reporting burden and enables proportionate solutions for SNCUs. For this purpose, the option to reference CSRD information in the sustainability risk plan and vice versa should be included.

Any other comments

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

General Comments

The German insurance industry welcomes the opportunity to comment on the Consultation Paper. We appreciate EIOPA's efforts to make a sensible proposal under the given framework. However, we suggest significant improvements.

The German insurers are clearly committed to the goals of the Paris Climate Agreement goals and the UN Sustainable Development Goals. Sustainability is here to stay as a major strategic focus because it is a long-term economic necessity. Insurance companies, thus, integrate sustainability in their strategies, risk management and organization structures.

Responsible risk management is core of our business and shapes our daily work. Of course, this also applies to sustainability risks that are relevant to the own company. Corresponding to this, **there are already extensive and sufficient regulatory requirements** for the risk management process and the methods for measuring and managing risks. Especially sustainability risks are already adequately addressed in Solvency II, with further enhancements most recently implemented in 2022. There is no need for even more and increasingly detailed requirements.

The new requirements on the management of sustainability risks (sustainability risks plans) in Article 44 of the amended Solvency II Directive should therefore be deleted. This could be implemented short-term as part of the current Omnibus legislation. The new requirements are superfluous to the extent that they are already covered by existing provisions on risk management and the ORSA. Where they go beyond existing provisions, they cause substantial unnecessary costs for undertakings and supervisors without corresponding benefit. This has to be avoided.

If maintained, however, drafting and adoption of an RTS on sustainability risk plans should at least be postponed until further notice. The evolving regulatory landscape must be considered in the draft. Changes to other regulations by Omnibus legislation will affect what can reasonably be required from insurers in a sustainability risk plan.

In case that the introduction of these risk plans should be maintained, the following points should be taken in consideration:

Duplications with other regulatory requirements should be avoided. Disclosure of preparedness for below 2 °C climate targets is already a requirement under CSRD (transition plans). Ensuring consistency with other plans and methodologies (e.g., CSRD/ESRS, EUT, SFDR) would streamline efforts. However, the ORSA with its existing requirements should remain insurers' central tool for covering all material risks, including sustainability risks. Disclosure of sustainability risks is already part of the SFCR.

It should be clarified that for the Solvency II sustainability risk plan, the undertaking's impact on sustainability factors is only relevant insofar as this impact in turn has an effect on the undertaking's financial risks (e.g. transition risk of certain assets). The total amount of financed Scope 1,2 and 3 GHG emissions without further context is not relevant for the assessment of own financial risks.

Companies should be supported in focusing on their own risk profile, and the principle of proportionality must be fully applied. The governance requirements in the draft RTS are too comprehensive, especially for insurers without material sustainability risks. Instead, a more risk-oriented and proportional approach should be implemented. To balance costs and benefits, proportionality ensuring flexibility for all undertakings should be embedded throughout the RTS. If risks are not yet quantifiable, the use of purely qualitative approaches must be allowed. For SNCUs, no quantitative analyses should be prescribed at all.

Minimum standards and scenario analyses should be limited to climate risks. While the Directive defines sustainability via ESG, it does not require that the RTS sets minimum standards for all ESG areas. Analysis of climate risk is well established and sensible. For social, governance and environmental risks other than climate, the lack of established methods and metrics makes prescriptive requirements impractical.

The list of binding current view metrics for the materiality assessment must be significantly shortened and limited to an absolute minimum. The proposed multitude of metrics, their scope and their level of granularity are excessive. Metrics that are either not relevant for the undertaking or based on data not generally available should not be mandatory. This relates especially to social and governance risks.

In general, a time horizon longer than 15 years should not be required. A long-term horizon of 2050 (i.e. significantly more than 15 years ahead) is already very long for a meaningful use of climate scenarios in the ORSA, as the composition of the undertaking's assets and non-life obligations in 2050 is purely speculative. For other risk drivers, such as social or governance factors, analyses over such a long period are definitely not sensible.