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ESG in the insurance sector - EIOPA discussion paper on prudential treatment of sustainability risks

On 29 November 2022, EIOPA published a discussion paper on the prudential treatment of sustainability risks (“Discussion Paper”), assessing whether a specific prudential treatment of assets and activities associated with environmental or social objectives under the Solvency II framework could be warranted.

1. Key considerations

The Discussion Paper is structured around three main areas of analysis:

- **Assets and transition risk exposures**

The first area of analysis concerns insurers' investments and ways to assess how the risks originating from the transition to a less carbon-intensive economy could impact prudential risks relating to stocks, bonds and real estate.

EIOPA considers it relevant to start assessing quantitatively the potential for a dedicated treatment of transition risk exposures in the solvency capital requirements. It proposes to focus the analysis on market risks in terms of equity, spread and property risk, as these market risk categories relate to the most relevant asset classes for insurance undertakings.

- **Underwriting risk and climate change adaptation**

The second area of analysis focuses on non-life insurance business lines and examines the effect of climate-related adaptation measures on underwriting risk and related loss exposures.

EIOPA examines the potential for a dedicated prudential treatment of climate-related adaptation measures on non-life underwriting risks in the Solvency II Standard Formula. According to the Discussion Paper, if climate-related adaptation measures lead to a difference in the prudential risks for insurance products with and without these measures, risk-based capital requirements should recognise the resulting risk differential.

- **Social risks and objectives**

The third area of analysis discusses how social risks or harm to social objectives could translate into prudential risks and assesses their corresponding prudential treatment under the Solvency II framework in terms of governance, risk management, and reporting and disclosure requirements.

According to EIOPA, as a starting point, it is helpful to compare to what extent the existing framework for the measurement and prudential treatment of climate risks and objectives can be transposed to the analysis of the prudential treatment for social risks and objectives. However, EIOPA also points out that, whilst social risk factors can have prudential consequences on insurance undertakings' assets and liabilities in a conceptually similar manner to environmental risk factors, not all concepts and prudential measures from climate analysis may apply in a similar manner to social aspects.

2. Timeline

Comments on the Discussion Paper are welcome until 5 March 2023. Stakeholders may provide their feedback by responding to the questions in the online survey.

Contact our experts [Clara Bourgi](#), [Pierre-Michaël de Waersegger](#), [Emmanuelle Mousel](#) and [Sophie Selftsick](#) to help you meet the challenges of the constantly evolving ESG framework.

[The EIOPA Discussion Paper is accessible here_](#)

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