POSITION PAPER

ESBG response to EIOPA consultation on the opinion on sustainability within Solvency II

ESBG (European Savings and Retail Banking Group)

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General Comment

ESBG welcomes the publication of the European Commission's action plan on financing sustainable growth as sustainability is deeply entrenched within the values of our Association; therefore, we support the development of sustainable finance within the European Union.

However, we would like to express our concerns about the timing. Not only is the absence of a clear view on the outcome at Level 1 on sustainable finance legislation (including for the framework/taxonomy) challenging, but the lack of legal definitions (e.g. of sustainability risk or factors, makes integrating sustainability risks and factors problematic) both from a better regulation and implementation point of view. There is, in our view, a risk of inconsistent implementation throughout the Union.

With regard to sustainability factors, we agree that assessing the impact of investments on sustainable factors is desirable. However, the lack of common definitions, methodologies and guidance on how to capture the effects of investments on sustainability factors makes examining and evaluating these factors challenging.

Challenges on integrating sustainability risks in prudential Pillar 1 requirements ("time horizon")

Q1: Do you agree that no change in the time horizon for capital requirements would be required to integrate climate change considerations? Please elaborate.

The risks of climate change are long term. However, they can be accommodated with medium term models that include impacts on excess pollution charges or company costs arising from a transition process. We believe that the Standard Formula of the calculation of SCR should not be modified. It is essential to acquire further experience before changing capital requirements.

Q2: Do you agree that insurers should consider sustainability risks, and in particular, climate change risks, in a forward-looking manner? If yes, how should this be incorporated into current or new requirements? If not, please elaborate.

We believe that it is essential to have a first definition of sustainability risk in order to evaluate the implication of this risk. In general, the ESG risks supplement the traditional financial view and allow a better knowledge of the evolution of the risk incurred. It is important to highlight that there is a lack of standard information from the companies' side and additionally a concentration of ESG providers. These two facts make it difficult to assess these risks correctly.

EIOPA should be aware that sustainability risk is a new subject, which is evolving very quickly but there are many aspects under development, where a consolidated standard is not yet available.

Q3: Do you agree that long-term scenario analysis in risk management, governance and ORSA should enable insurers to develop a forward-looking approach with regard to sustainability risks, and in particular climate change risks? Please elaborate.

Yes, we agree with this approach. However, it is essential to have more details and consolidated methodologies to do it.

In addition, the implications of climate change related to the type of company may differ (life vs. non-life).

Q4: What are your views on incorporating a standardised set of quantitative scenarios in the ORSA, e.g. derived from the IPCC representative concentration pathways (RCP) - which are likely to evolve over time? Can you please elaborate on which scenarios you would use and which time span should be covered by such scenario analysis, specifying your approach for the valuation of assets, liabilities and your own solvency assessment (for standard formula and internal model users)?

We do not agree to include sustainability scenarios in the ORSA, to the extent that this risk does not represent a relevant part of the risk profile, of the financial institution. In any case, it could be addressed in a descriptive approach, through assessment and management of this risk by the institution.

Valuation of assets and liabilities

Q5: Do you agree that the principles of valuation of assets of Solvency II allow for the consideration of sustainability factors? Please elaborate.

Yes, we agree. To the extent that Solvency II sets out that valuation of assets should be to market. Consequently, all risks and factors that might influence in the valuation of assets must be addressed.

Q6: How in practice could the valuation of assets adequately (better) reflect sustainability risks?

These developments are still under development by the industry and currently there is a lack of consensus.

Q7: Should prudential disclosure requirements (e.g. Articles 263 and 296 of the Delegated Regulation) be amended to explicitly include sustainability considerations? Please elaborate.

ESG risks must be analysed as a whole. As example, an eventual penalization of brown companies with higher capital requirements or green companies which receive bonus. Consequently, the situation may arise that certain companies will be excluded, for example, companies that require further investments in order to do the energy and social transition.

About ESBG (European Savings and Retail Banking Group)
ESBG represents the locally focused European banking sector, helping savings and retail banks in 20 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 1,000 banks, which together employ 780,000 people driven to innovate at 56,000 outlets. ESBG members have total assets of €6.2 trillion, provide €500 billion in SME loans, and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking.

Learn more about ESBG at www.wsbi-esbg.org.

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