Response of the Association of German Public Insurers[1] to EIOPA's "Consultation Paper on an opinion on sustainability within Solvency II"

The Association of German Public Insurers (VöV hereafter, Verband öffentlicher Versicherer) welcomes the consultation on the role of sustainability within Solvency II[2]. As Germany's **second largest primary insurance provider** with a strong regional presence, the group is committed to constructive dialogue in the interests of all market participants and of a stable European and global insurance sector.

General remarks on underwriting practices[3]

EIOPA's conclusion that the majority of undertakings currently do not explicitly take sustainability risks into account in their underwriting policies might be misleading in our view. First, the **risk-based assessment and risk-based pricing** already **captures several ESG risks**, for instance the transition risk of fossil energy sources. Second, undertakings implicitly subsume a number of **sustainability risks in the category of reputational risks**. The VöV therefore concludes that market driven factors have already led to an extensive inclusion of sustainability risks into the underwriting policies. This development will continue at an even higher pace in the future and mandatory requirements will not be necessary to reinforce it.

The VöV supports the initiative to **develop voluntary and market driven approaches to incorporate ESG criteria** into the business models of insurers. While the role of sustainability in investment has grown considerably in the insurance sector in the past years, its role in underwriting is still in its infancy for many insurers, in particular small and medium ones. Guidance on a holistic treatment of ESG risks is therefore very welcome, whereas mandatory and inflexible rules would potentially exclude entire sectors from insurance coverage, with substantial negative effects on jobs, regions and growth.

[1] The Association of German Public Insurers (VöV) is the umbrella organisation of the German public insurance companies and a corporation established under public law. Founded in 1911, it represents 11 primary insurers across Germany that are deeply embedded in their regions. The group is the second-largest primary insurance provider in the German market, with more than EUR 140 billion of investments under management, thereby making a significant contribution to the European economy. The group is committed by law to support the public good. It has 52 million insurance contracts and pays out EUR 18 billion each year to its clients.
The public insurers employ 30,000 people. Through 17,500 own branches and offices of their partners, they offer advice and protection across most insurance sectors (health, life, pension, motor, indemnity, fire, etc.) for retail clients of all income groups and for professional clients, with a specific focus on small and medium-sized companies.
The Association of German Public Insurers represents the interests of its members at the national and the European level through its head offices in Düsseldorf and Berlin and its liaison office in Brussels.

[2] https://eiopa.europa.eu/Pages/Consultation-on-an-opinion-on-sustainability-within-Solvency-II.aspx

[3] This response focuses on the integration of environmental, social and governance (ESG) factors into the underwriting process, which is particularly important for German public insurers. For a view on all questions of the consultation, the group refers to the statement of the German Insurance Association (GDV).

In particular, the VöV supports an open approach that allows for **sufficient flexibility in strengthening ESG considerations** in the underwriting process on a voluntary basis. This openness is essential to help insurers of all sizes to succeed in this endeavour. Rigid rules would be a significant burden for smaller companies and **proportionality will be a key factor** for the progress of the initiative.

The VöV advocates an **approach that considers all risk appropriately in two separate steps.** Whereas financial risks are decisive in the underwriting process, ESG risks are relevant for an ESG assessment. To ensure a proper treatment of these different risks, we suggest not merging the two different processes. Underwriting comprises the economic calculation of premiums on a market and risk basis. It is essential for a financially viable business model of insurers and should not be overburdened. In a second step, ESG criteria should be analysed to see if a project complies with the ESG standards of the insurer and whether it should be insured also from this prospective. We refrain from mixing economic pricing mechanisms and political ESG considerations. Furthermore, insurers need to take decisions not to insure companies due to ESG-reasons with great care. Failing to be insured (fire insurance, liability insurance, etc.) has serious consequences on companies, their financing, employees and their regions. An ESG-mark-up would not be a serious option either. On the one hand, this implies a higher premium that is not based on risk considerations. On the other hand, it does not lower the potential reputational damage of the insurer in case an ESG-risk materializes.

The VöV therefore **opposes any attempt to exclude entire industries from insurance coverage** or the increase of premiums. This would be an unjustified and unproportional intervention into the business models of insurers with significant consequences on the companies in question, their employees, value chains, regional economies and tax earnings. An ESG-assessment must take these factors and implications on companies, jobs and growth into account as well.

Specific remarks

Q22: Do you consider "impact underwriting" described in the opinion to be a relevant way to take into account sustainability in underwriting policy?

German public insurers already take sustainability factors into account, as described above. Having a strong footage in non-life insurance, they actuarial calculation processes currently consider natural hazard events and their fluctuations appropriately. Gradual changes in the climate risk are continuously included in the premium determination. This is a market-driven development that reflects the long-term nature of the public insurers' business models with a strong focus on their regions. "Impact underwriting" as described in the opinion is therefore part of underwriting policies.

Q23: Do you explicitly consider risk mitigation and adaption strategies addressing climate change in your products? Please elaborate.
(a) What would be the main benefits/obstacles of the generalisation of such a practice?
(b) Which measures would you recommend to assess the risk mitigating effect of such underwriting?

The VöV sees prevention of sustainability risks as crucial factor. That comprises both preventive measures by the public sector (dikes, dams, retention areas for flood protection) and preventive measures by homeowners (e.g. flood-adapted and heavily rain-adapted construction). The key to sustainable, stable underwriting lies in the close interaction of risk transfer through the protection by insurance and sustainable risk reduction through prevention. German public insurers are very active in preventive measures, as pointed out in the answer to the next question. The existing protection gap in Germany is caused more by a lack of risk awareness among the population and the lack of sustainable and climate-friendly building regulations, than by an insufficient supply of insurance.

Q24: Do you identify other good practices than those described above?

German public insurers are highly committed to their regions and take responsibility for the people who live there. They actively work to improve public safety, for instance by outfitting fire brigades with technical equipment or participating in fire safety education in kindergartens and schools. They also regularly work together as a group for the common good, for instance in the development of innovative loss prevention techniques such as disaster warning systems for the general public.

Q25: What are your views on climate change potentially widening the protection gap for natural catastrophe (re)insurance?

Making risks more transparent and creating awareness of owners of previously uninsured properties are essential to limit a potential protection gap. See also the previous answer.

Q26: Do you have evidence on Solvency II impacting the insurance protection gap (e.g. for natural catastrophe risks) in light of climate change? Please elaborate.

We do not see any evidence.

We are looking forward to continuing the fruitful exchange on ESG risks in underwriting and we remain at your disposal for further questions.

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