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From: Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director

date of receipt: 21 April 2021

To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Subject: COMMISSION DELEGATED REGULATION (EU) .../... of 21.4.2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings

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Delegations will find attached document C(2021) 2628 final.

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Encl.: C(2021) 2628 final



Brussels, 21.4.2021  
C(2021) 2628 final

**COMMISSION DELEGATED REGULATION (EU) .../...**

**of 21.4.2021**

**amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings**

(Text with EEA relevance)

## EXPLANATORY MEMORANDUM

### 1. CONTEXT OF THE DELEGATED ACT

This Regulation is part of a broader Commission initiative on sustainable development. It lays the foundation for an EU framework which puts sustainability considerations at the heart of the financial system to support transforming Europe's economy into a greener, more resilient and circular system in line with the European Green Deal<sup>1</sup> objectives.

Following the adoption of 2016 Paris agreement on climate change and the United Nations 2030 Agenda for Sustainable Development Goals (SDGs), the Commission announced in the Action Plan: Financing Sustainable Growth the intention to clarify the integration of sustainability in so-called fiduciary duties in sectoral legislation. The **European Green Deal** Communication confirms the need for long-term signals to direct financial and capital flows to green investment and to avoid stranded assets. This Regulation will contribute to this specific objective

Commission Delegated Regulation (EU) 2015/35<sup>2</sup> implements Directive 2009/138/EC by further specifying among others requirements on governance, conflicts of interest and risk management for insurance and reinsurance undertakings.

This Regulation is based on technical advice by the European Insurance and Occupational Pensions Authority (EIOPA)<sup>3</sup>. The technical advice concludes that further clarifications are needed in respect of the integration of sustainability risks and sustainability factors in Commission Delegated Regulation (EU) 2015/35 and identifies specific provisions in this respect.

This Regulation and other sectoral delegated acts that adapt rules on fiduciary duties and suitability tests further reinforce the Regulation on sustainability-related disclosures in the financial services sector<sup>4</sup>, the Regulation on the EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks<sup>5</sup> and the Regulation on the EU taxonomy for sustainable activities<sup>6</sup>. These rules integrate sustainability considerations into the investment, advisory and disclosure processes in a consistent manner across sectors. They anchor environmental, social and governance (sustainability) considerations at the heart of the financial system to help transform Europe's economy into a greener, low-carbon, more resilient, resource-efficient and circular system.

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<sup>1</sup> Communication from the Commission to the European Parliament, to the European Council, the Council, the European Economic and Social Committee, and the Committee of the Regions: the European Green Deal (COM(2019)640 final)

<sup>2</sup> Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 12, 17.1.2015, p. 1).

<sup>3</sup> Final Report - EIOPA's Technical Advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD (EIOPA-BoS-19/172).

<sup>4</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

<sup>5</sup> Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (OJ L 317, 9.12.2019, p. 17).

<sup>6</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

## 2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

On 24 July 2018, the Commission requested EIOPA to issue technical advice on potential amendments to delegated acts to be adopted under Directive 2009/138/EU, with regard to the integration of sustainability risks and sustainability factors. EIOPA published its Final Report on technical advice to the Commission on 3 May 2019. The advice took into account the views expressed by stakeholders, including the Insurance and Reinsurance Stakeholder Group of EIOPA, during the public consultation between 28 November 2018 and 28 February 2019. It includes a cost-benefit analysis.

On 22 November 2019, the Commission services initiated a written consultation of the Expert Group on Banking, Payments and Insurance (E02885). The comments of the expert group were duly taken into account.

In line with Better Regulation Principles, a draft of this regulation was published on the Commission website for a public feedback period running from 8 June 2020 to 6 July 2020. After due consideration of the feedback, further modifications were introduced into the text.

## 3. LEGAL ELEMENTS OF THE DELEGATED ACT

The legal basis for this Regulation is set out in points (a) and (b) of Article 50(1) and point (a) of Article 135(1) of Directive 2009/138/EC.

This Regulation covers the following amendments to Regulation (EU) 2015/35:

Article 1(1) introduces three definitions. First, ‘sustainability factors’ are defined by referencing Article 2 of Regulation (EU) 2019/2088. Second, ‘sustainability risks’ are defined consistently with the definition of those risks in Regulation (EU) 2019/2088. Third, ‘sustainability preferences’ are defined in alignment with the definition of that term simultaneously introduced in Delegated Regulation (EU) 2017/2359<sup>7</sup> and in consistently with the definition of that term simultaneously introduced in Delegated Regulation (EU) 2017/565<sup>8</sup>.

Article 1(2) requires that insurance and reinsurance undertakings reflect sustainability risks in their risk management.

Article 1(3) includes the identification and assessment of sustainability risks in the tasks of insurance and reinsurance undertakings’ risk management function.

Article 1(4) requires that insurance and reinsurance undertakings’ actuarial function takes into account sustainability risks in its assessment of the uncertainty associated with estimates made in the calculation of technical provisions.

Article 1(5) lays down that the remuneration policy includes information on its consistency with the integration of sustainability risks.

Article 1(6) requires that sustainability risks are taken into account in the implementation of the prudent person principle.

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<sup>7</sup> Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products (OJ L 341, 20.12.2017, p. 8)

<sup>8</sup> Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (OJ L 87, 31.3.2017, p. 1)

Article 2 of this Regulation sets out that it shall apply as of 12 months after the publication in the Official Journal of the European Union.

# COMMISSION DELEGATED REGULATION (EU) .../...

of 21.4.2021

## amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2009/138/EC of the European Parliament and the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)<sup>9</sup>, and in particular Article 50(1) and Article 135(1), point (a), thereof,

Whereas:

- (1) The transition to a low-carbon, more sustainable, resource-efficient and circular economy in line with the Sustainable Development Goals is key to ensuring the long-term competitiveness of the economy of the Union. In 2016, the Union concluded the Paris Agreement<sup>10</sup>. Article 2(1), point (c), of the Paris Agreement sets out the objective of strengthening the response to climate change by, among others, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.
- (2) Recognising that challenge, the Commission presented the European Green Deal<sup>11</sup> in December 2019. That Green Deal represents a new growth strategy that aims to transform the Union into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net greenhouse gas emissions in 2050 and where economic growth is decoupled from resource use. This also requires offering clear, long-term signals to guide investors, to avoid stranded assets and to raise sustainable finance.
- (3) In March 2018, the Commission published its Action Plan ‘Financing Sustainable Growth’<sup>12</sup>, setting up an ambitious and comprehensive strategy on sustainable finance. One of the objectives set out in that Action Plan is to reorient capital flows towards sustainable investment to achieve sustainable and inclusive growth. The impact assessment underpinning subsequent legislative initiatives published in May 2018<sup>13</sup> demonstrated the need to clarify that sustainability factors should be taken into

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<sup>9</sup> OJ L 335, 17.12.2009, p. 1.

<sup>10</sup> Council Decision (EU) 2016/1841 of 5 October 2016 on the conclusion, on behalf of the European Union, of the Paris Agreement adopted under the United Nations Framework Convention on Climate Change (OJ L 282, 19.10.2016, p. 1).

<sup>11</sup> Communication from the Commission to the European Parliament, to the European Council, the Council, the European Economic and Social Committee, and the Committee of the Regions: the European Green Deal (COM(2019)640 final)

<sup>12</sup> COM(2018) 97 final.

<sup>13</sup> SWD(2018) 264 final.

account by insurance and reinsurance undertakings as part of their duties towards policyholders. Insurance and reinsurance undertakings should therefore assess not only all relevant financial risks on an ongoing basis, but also all relevant sustainability risks as referred to in Regulation (EU) 2019/2088 of the European Parliament and of the Council<sup>14</sup> that, where they occur, could cause an actual or potential material negative impact on the value of an investment or a liability. Commission Delegated Regulation (EU) 2015/35<sup>15</sup> does not explicitly refer to sustainability risks. For that reason and to ensure that the system of governance is properly implemented and adhered to, it is necessary to clarify that the system of governance of insurance and reinsurance undertakings and the assessment of those undertakings' overall solvency needs should reflect sustainability risks.

- (4) Insurance undertakings that disclose principal adverse impacts on sustainability factors in accordance with Regulation (EU) 2019/2088 should also adapt their processes, systems and internal controls with respect to those disclosures.
- (5) Given the ambitions of the Commission to ensure that climate and environmental risk are managed and integrated into the financial system and the importance of remuneration policies in ensuring that the staff of insurance and reinsurance undertakings effectively manage risks identified by the risk management system, the remuneration policies of insurance and reinsurance undertakings should contain information on how those policies take into account the integration of sustainability risks in the risk management system.
- (6) The prudent person principle laid down in Article 132 of Directive 2009/138/EC requires that insurance and reinsurance undertakings only invest in assets the risks of which they can identify, measure, monitor, manage, control and report properly. In order to ensure that climate and environmental risks are effectively managed by insurance and reinsurance undertakings, the implementation of the prudent person principle should take into account sustainability risks and insurance and reinsurance undertakings should reflect in their investment process the sustainability preferences of their customers as taken into account in the product approval process.
- (7) Delegated Regulation (EU) 2015/35 should therefore be amended accordingly.
- (8) Supervisory authorities and insurance and reinsurance undertakings should be given sufficient time to adapt to the new requirements contained in this Regulation. Its application should therefore be deferred,

HAS ADOPTED THIS REGULATION:

#### *Article 1*

#### **Amendments to Delegated Regulation (EU) 2015/35**

Delegated Regulation (EU) 2015/35 is amended as follows:

- (1) in Article 1, the following points 55c to 55e are inserted:

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<sup>14</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

<sup>15</sup> Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 12, 17.1.2015, p. 1).

- “55c. ‘sustainability risk’ means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential negative impact on the value of the investment or on the value of the liability;
- 55d. ‘sustainability factors’ means sustainability factors as defined in Article 2, point (24), of Regulation (EU) 2019/2088 of the European Parliament and of the Council\*;
- 55e. ‘sustainability preferences’ means a customer’s or potential customer’s choice as to whether and, if so, to what extent, one or more of the following financial instruments should be integrated into his or her investment:
- (a) a financial instrument for which the customer or potential customer determines that a minimum proportion shall be invested in environmentally sustainable investments as defined in Article 2, point (1), of Regulation (EU) 2020/852 of the European Parliament and of the Council\*\*;
  - (b) a financial instrument for which the customer or potential customer determines that a minimum proportion shall be invested in sustainable investments as defined in Article 2, point (17), of Regulation (EU) 2019/2088;
  - (c) a financial instrument that considers principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the customer or potential customer;

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\* Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

\*\* Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).”;

(2) Article 260 is amended as follows:

- (a) in paragraph 1, point (a), point (i) is replaced by the following:
  - “(i) actions to be taken by the insurance or reinsurance undertaking to assess and manage the risk of loss or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions due to internal or external factors, including sustainability risks;”;
- (b) in paragraph 1, point (c), the following point (vi) is added:
  - “(vi) actions to be taken by the insurance or reinsurance undertaking to ensure that sustainability risks relating to the investment portfolio are properly identified, assessed and managed.”;
- (c) the following paragraph 1a is inserted:
  - “1a. The insurance and reinsurance undertakings shall integrate in their policies referred to in points (a) and (c) of paragraph 1, and where relevant, policies on the other areas referred to in paragraph 1, sustainability risks.”;



- (3) Article 269 is amended as follows:
- (a) in paragraph 1, point (e) is replaced by the following:  
“(e) identifying and assessing emerging risks and sustainability risks.”;
  - (b) the following paragraph 1a is inserted:  
“1a. Emerging risks and sustainability risks as referred to in paragraph 1, point (e), and identified by the risk management function shall form part of the risks referred to in Article 262(1), point (a).”;
- (4) in Article 272(6), point (b) is replaced by the following:  
“(b) the effect of inflation, legal risk, sustainability risks, change in the composition of the undertaking’s portfolio, and of systems which adjust the premiums policy-holders pay upwards or downwards depending on their claims history (bonus-malus systems) or similar systems, implemented in specific homogeneous risk groups;”;
- (5) in Article 275, the following paragraph 4 is added:  
“4. The remuneration policy shall include information on how it takes into account the integration of sustainability risks in the risk management system.”;
- (6) in Chapter IX of Title I, the following Section 6 is added:

*“SECTION 6*

***Investments***

*Article 275a*

**Integration of sustainability risks in the prudent person principle**

1. When identifying, measuring, monitoring, managing, controlling, reporting and assessing risks arising from investments, as referred to in the first subparagraph of Article 132(2) of Directive 2009/138/EC, insurance and reinsurance undertakings shall take into account sustainability risks.
2. For the purpose of paragraph 1, insurance and reinsurance undertakings shall take into account the potential long-term impact of their investment strategy and decisions on sustainability factors and, where relevant, that strategy and those decisions of an insurance undertaking shall reflect the sustainability preferences of its customers taken into account in the product approval process referred to in Article 4 of Commission Delegated Regulation (EU) 2017/2358\*\*\*.

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\*\*\* Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors (OJ L 341, 20.12.2017, p. 1).”

*Article 2*

**Entry into force and application**

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

It shall apply from [*PO – Please insert 12 months after publication*].

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 21.4.2021

*For the Commission*  
*The President*  
*Ursula VON DER LEYEN*