

## SUBJECT I Open letter on the prudential treatment of sustainability risks

19th September 2024

Dear Members of the Board of Supervisors of EIOPA,

In view of the upcoming vote on the final EIOPA report on the prudential treatment of sustainability risks, 20 consumer and civil society organisations call on you to confirm the policy recommendation to adjust the equity risk and spread risk charges for fossil fuel-related stocks and bonds (respectively) by adjusting the shock factors in the standard formula of the solvency capital requirement.

The EIOPA consultation paper<sup>1</sup> clearly indicates that policy option 3 in relation to fossil fuel-related stocks and bonds would be the outcome most consistent with the empirical findings from the backward- and forward-looking analyses. These analyses take into account the higher risk profile due to the transition risk component in terms of the equity and spread risk of fossil fuel-related exposures. The findings were based on a methodology that EIOPA carefully compiled and consulted on<sup>2</sup>. Importantly, the methodology considers the forward-looking nature of climate-related transition risks, which so far has remained largely unaccounted in solvency ratio calculations. This policy option would also be the only option ensuring a robust regulatory framework, conducive to a European insurance sector that is resilient and prepared for future challenges.

As policyholders and taxpayers, European citizens expect insurance companies to protect them from current and future risks including climate change, and they trust you as supervisors to guarantee safety and soundness of the undertakings you supervise. This trust is maintained by ensuring that your work and that the regulatory framework you implement is based on solid empirical findings and a rigorous assessment of current and emerging risks.

The analysis underpinning the assessment of the prudential treatment of sustainability risks is evidence- and risk-based. As such, the evidence- and risk-based proposal deriving from it must be confirmed to give a sound decision basis to policymakers. This is important to safeguard trust in both the process and the regulatory framework's ability to ensure financial stability. Many civil society organisations and individual citizens have responded to the consultation and are now closely monitoring the outcome of this process, expecting their concerns to be taken into account.

We would be pleased to discuss this with you further or to address any questions you might have.

Yours sincerely,

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<sup>1</sup> [Consultation Paper: Prudential Treatment of Sustainability Risks, EIOPA-BoS-23-460, 13 December 2023](#)

<sup>2</sup> [Discussion Paper: Prudential Treatment of Sustainability Risks, EIOPA-BoS-22-527, 29 November 2022](#)



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## Organisations

1. ActionAid Denmark
2. AnsvarligFremtid / Denmark
3. Campax
4. Connecticut Citizen Action Group (CCAG)
5. Client Earth
6. Fair Finance Guide - Sweden
7. Ekö, Global
8. European Federation of Ethical and Alternative Banks and Financiers (FEBEA)
9. Finance Watch
10. Fossil Free Berlin
11. Greentervention
12. Leave in in the Ground Initiative (LINGO)
13. Milieudefensie - Friends of the Earth Netherlands
14. Mothers Rise Up,
15. New Economics Foundation
16. Reclaim Finance
17. Re-set
18. ShareAction
19. Urgewald
20. WWF European Office