



A U S T R I A N
FMA · FINANCIAL MARKET AUTHORITY

ESG IN INSURANCE: A SUPERVISORY APPROACH

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OVERVIEW

Key aspects

- Objective of the FMA regarding sustainability analyses
- Overview of the methods used as well as a short overview of the key results
- Using of the results in the supervisory process
- Experiences from the last years

OBJECTIVE OF THE FMA

Objectives

- **Insight into our market** and an **overall view from a supervisory perspective**.
- **Identify possible issues** which might affect the undertakings assets in the future.
- **Incorporation** of the results **into our supervisory process** and risk scoring
- **Leading role** in sustainability assessments:
 - **Understand** the methods used,
 - **Perform** the analyses,
 - **Communicate** with the industry,
 - **Implement** supervisory issues,
 - **Recreate** and **develop** own methods.

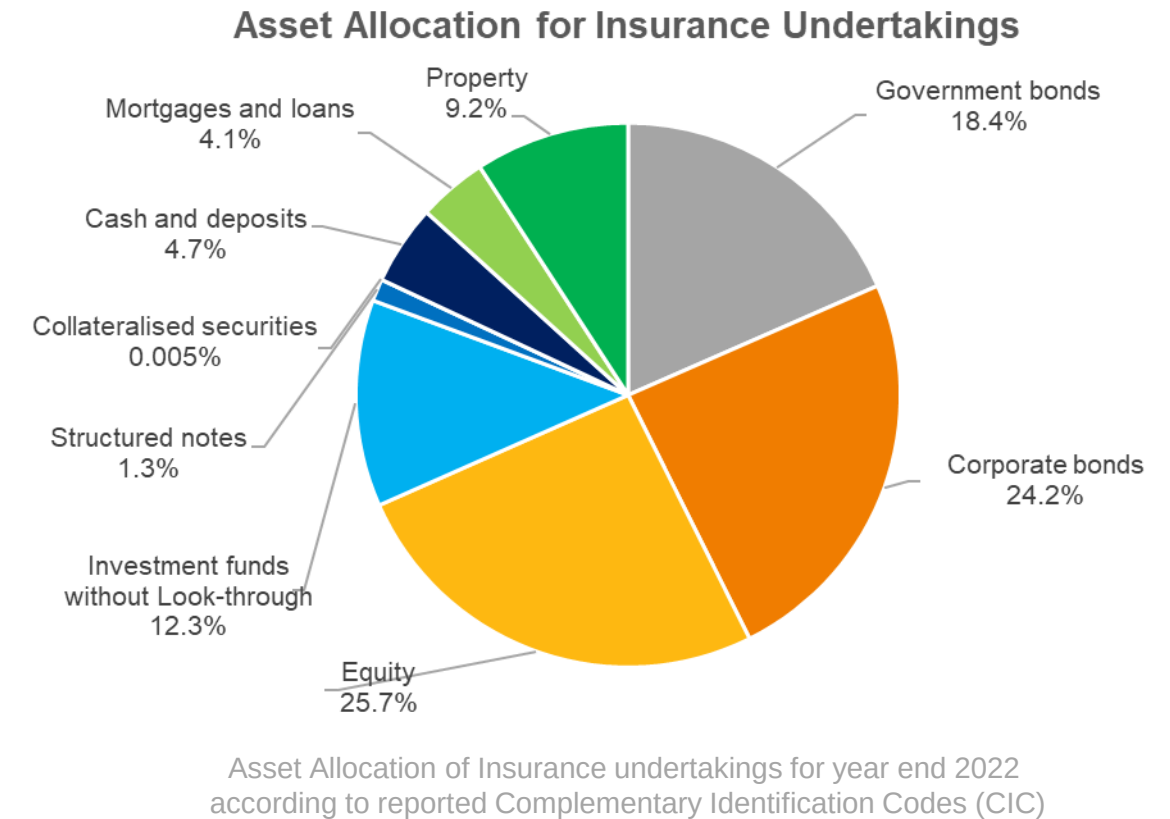
Carried out analyses

- ESG asset screenings
 - Climate relevant exposure
 - ESG scores
 - PACTA tool
- Climate stress tests for assets
 - Mainly according to EIOPA's exercises
 - Own adaptation with NGFS scenarios
- Integration of ESG in undertakings strategy and risk management
 - Impact underwriting assessment
 - Sustainability implementation check

METHODS USED AND KEY RESULTS

FMA analysis of asset portfolios

- NACE sector analysis according to Prof. Batiston
- Climate stress test for
 - Government bonds,
 - Corporate bonds,
 - Equitiesaccording to methodology from European Systemic Risk Board (ESRB)
- ESG scores from Refinitiv
- PACTA Tool from 2° Investing Initiative for
 - Listed Equities
 - Corporate bonds



NACE SECTOR ANALYSIS

Methodology

- Prof. Battiston's **NACE sector analysis** (Statistical Classification of Economic Activities in the European Community) is a methodology of identifying assets which can be mapped to **Climate Policy Relevant Sectors** (CPRS) and was initially published in 2016.
- Assets are mapped according to their NACE codes to 6 predefined CPRS.
- **In addition** assets with **Complementary Identification Code** (CIC) 32, 45, 55, 65, 84, 91-99 can be directly mapped to the sector buildings (regardless of their NACE code) because of their direct reference to real estates.
- In this way, it is possible to **identify assets** which would be **affected by a change in value** as a result of a **transition to a more carbon neutral economy**.

CPRS sector	NACE codes
1-fossil-fuel	05, 06, 08.92, 09.10, 19, 35.2, 46.71, 47.3, 49.5
2-utility electricity	35.11, 35.12, 35.13
3-energy-intensive	07.1, 07.29, 08.9, 08.93, 08.99, 10.2, 10.41, 10.62, 10.81, 10.86, 11.01, 11.02, 11.04, 11.06, 13, 14, 15, 16.29, 17.11, 17.12, 17.24, 20.12, 20.13, 20.14, 20.15, 20.16, 20.17, 20.2, 20.42, 20.53, 20.59, 20.6, 21, 22.1, 23.1, 23.2, 23.3, 23.4, 23.5, 23.7, 23.91, 24.1, 24.2, 24.31, 24.4, 24.51, 24.53, 25.4, 25.7, 25.94, 25.99, 26, 27, 28, 32
4-buildings	23.6, 41.1, 41.2, 43.3, 43.9, 55, 68, 71.1
5-transportation	29, 30, 33.15, 33.16, 33.17, 42.1, 45, 49.1, 49.2, 49.3, 49.4, 50, 51, 52, 53, 77.1, 77.35
6-agriculture	01, 02, 03

Updated mapping table according to Battiston from 2021

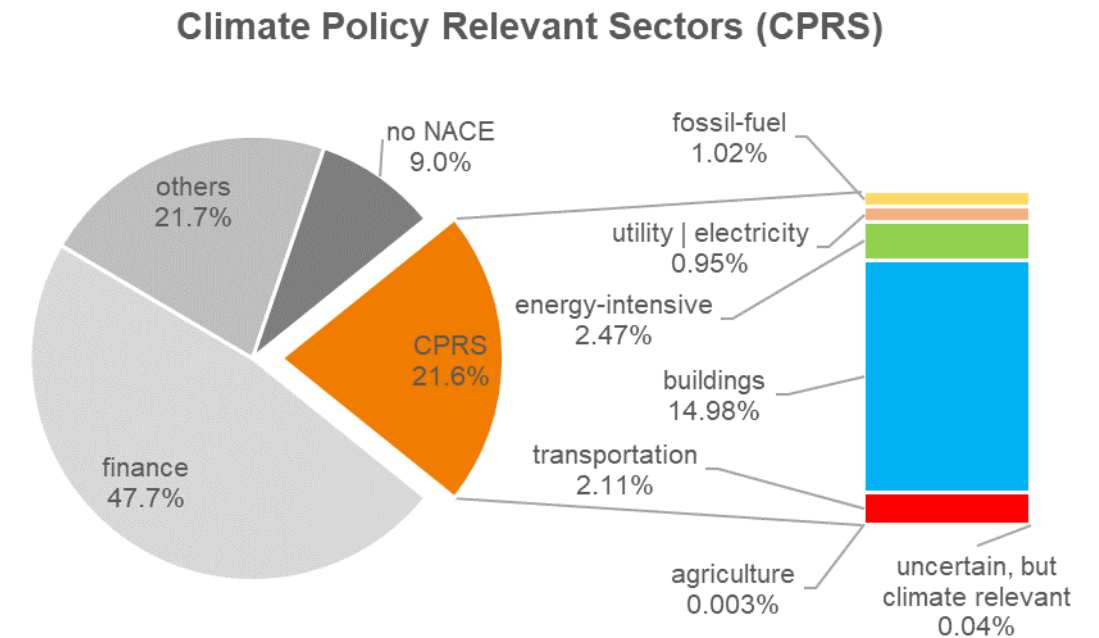
NACE SECTOR ANALYSIS

Overview of the results

- Identified 21.6% of all assets as invested in CPRS
- Neither NACE nor CIC for only 9% of all assets
- Variation of CPRS between 0.5% and 46% per undertaking

Restrictions

- As a result we **only get the amount of assets** invested in climate-relevant sectors without any information how these assets might be affected.
- The **4-digit NACE code is required**, what **creates data quality problems** because we usually don't get it reported in this granularity.



Climate Policy Relevant Sectors (CPRS) for Insurance undertakings for year end 2022

CLIMATE STRESS TEST

Scenario

- A **sudden and sharp increase in carbon prices** is assumed due to delays in the respective measures to **reduce carbon emissions** and to make fossil less attractive.
- This is based on **scenarios from the NGFS** (Network for Greening the Financial System), which assume an increase in carbon prices over three years (2030 – 2032) in order to **achieve the targets of the Paris agreement**.
- However, this stress test assumes that the increase would occur as early as **December 31st, 2022**.
- The stress test was calculated for
 - Government bonds,
 - Corporate bonds and
 - Equities.
- The allocation to the individual assets is based on the CICs.

CLIMATE STRESS TEST

Overview for Government bonds

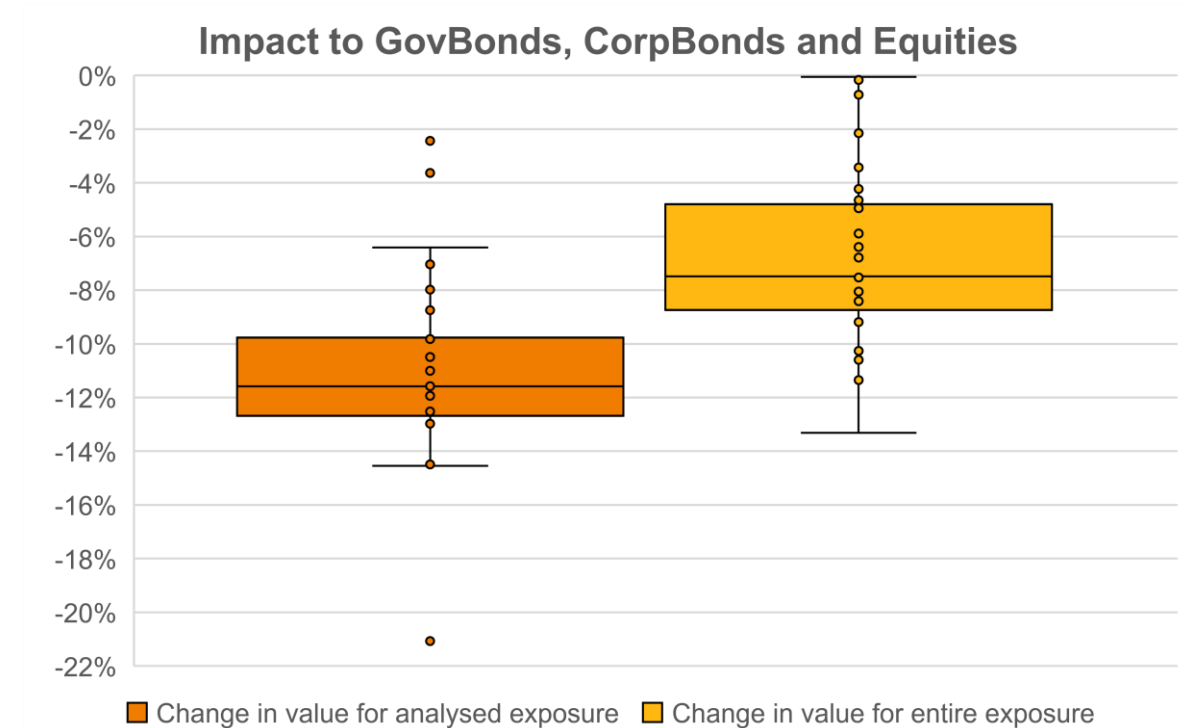
- Calculation of a **yield shock** was performed which depended on **maturity** and **issuer country**.
- **99.2%** of all Government bonds **were analysed** with an **impact of -11.9%** of all Government bonds.

Overview for Corporate bonds

- Calculation of a **yield shock** was performed consisting of two parts:
 - The first part was a shock to the risk-free rate which depended on **maturity** and **currency**.
 - The second part was a shock to the corporate credit spread which depended on the **NACE** code.
- **98.4%** of all Corporate bonds **were analysed** with an **impact of -13.6%** of all Corporate bonds.

Overview for Equities

- Calculation of a **price change** which depended on the NACE code.
- **100%** of all Equities **were analysed** with an **impact of -10.8%** of all Equities.



Impact to GovBonds, CorpBonds and Equities for Insurance undertakings for year end 2022

Impact for entire exposure

- **67.8%** of all assets **were analysed** with an **impact of -8.3%**.

ESG SCORES

Methodology

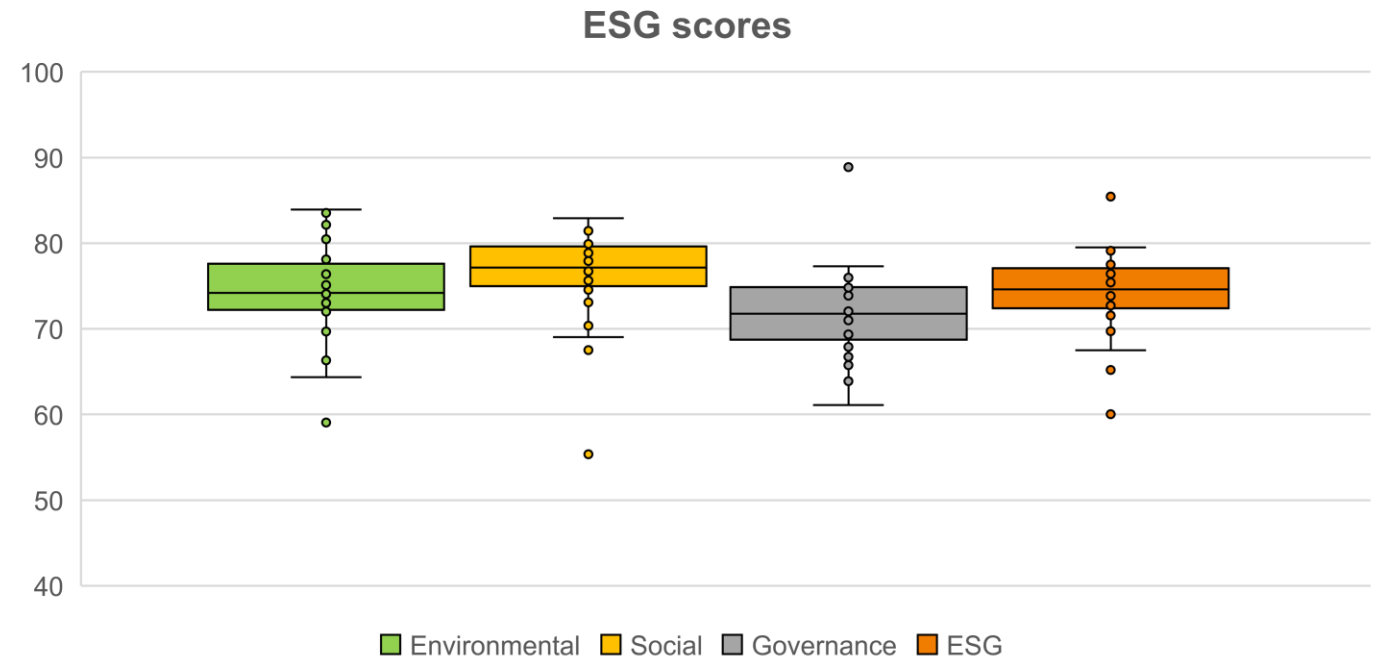
- Usage of **ESG scores** provided by an **extern provider** for Environmental (E), Social (S) and Governance (G).
- The result is to be interpreted as **best-in-class** score with a range between 0 (worst) and 100 (best).

Results

- For all assets where ESG scores were available, **96.3% were Equities and Corporate bonds**.
- For the overall market, ESG scores were generated for **29.8% of all Equities, Corporate bonds and Structured notes**.

Restrictions

- The analysis only includes assets with existing International Securities Identification Number (ISIN)



ESG scores for Equities, Corporate bonds and Structured notes from Insurance undertakings for year end 2022

PACTA TOOL



Methodology

- PACTA is an open-source tool developed by 2° Investing Initiative.
- It enables the valuation of **listed Equities** and **Corporate bonds** according to different transition sectors related to the decarbonization of the economy.

Key components

- **climate-relevant exposure** compared to global benchmarks
- **climate paths** for the next five years per sector

Restrictions

- The analysis only includes listed Equities and Corporate bonds with existing ISIN.
- The expected development of the portfolio is based on the companies' published production plans and should therefore not be interpreted as an extrapolated forecast. Given the time horizon of 5 years, it is even likely that the companies' plans will change.

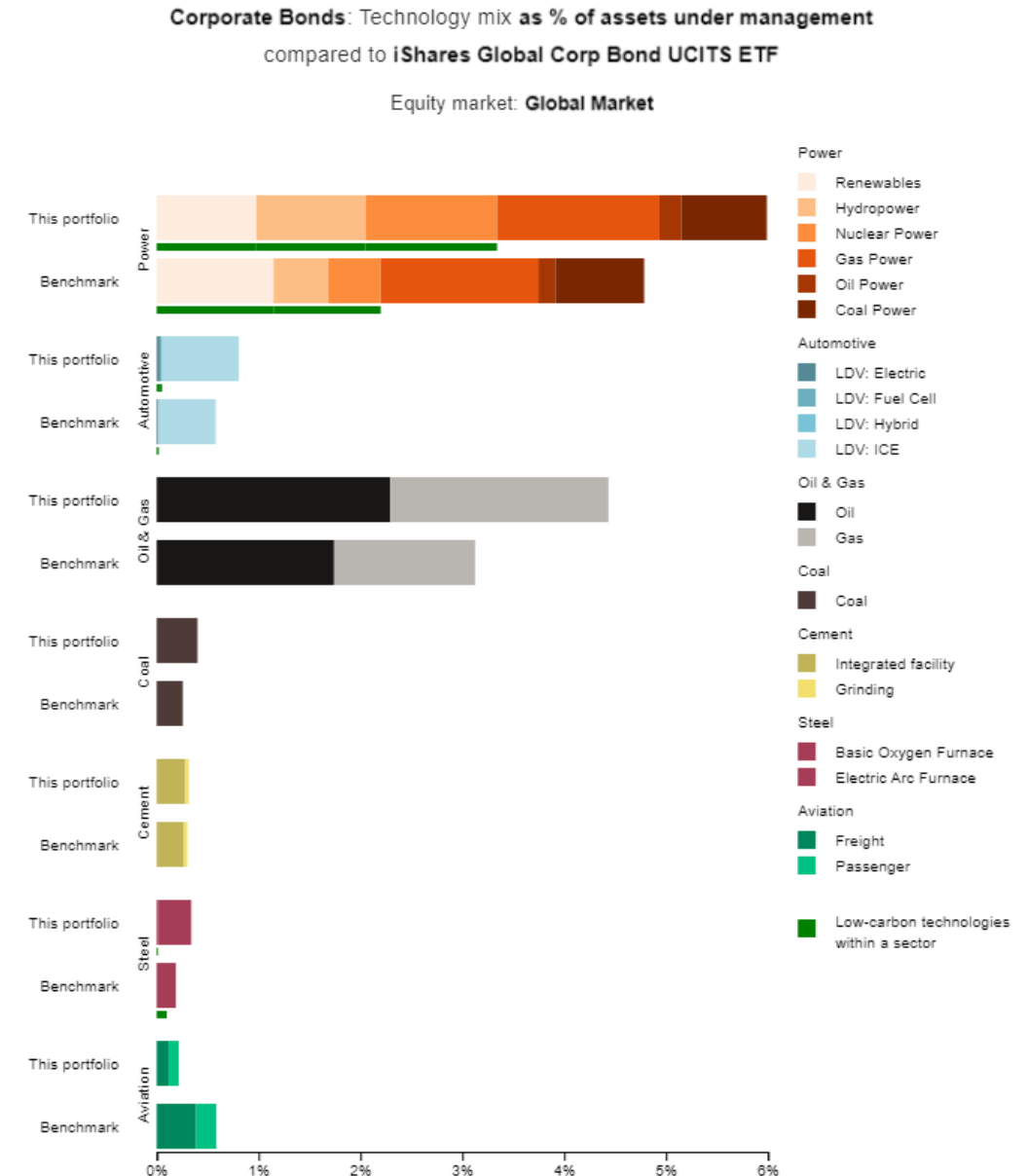
PACTA TOOL: CLIMATE-RELEVANT EXPOSURE

Description

- visualization of climate-relevant share per sector for Power, Automotive, Oil & Gas, Coal, Cement, Steel and Aviation
- share of low-carbon technologies per sector
- comparison to global benchmark
- available separate for listed Equities and Corporate bonds

Results

- 22% of listed Equities and 16% of Corporate bonds are invested in climate relevant sectors.



Climate-relevant exposure for Corporate bonds according to PACTA for year end 2021

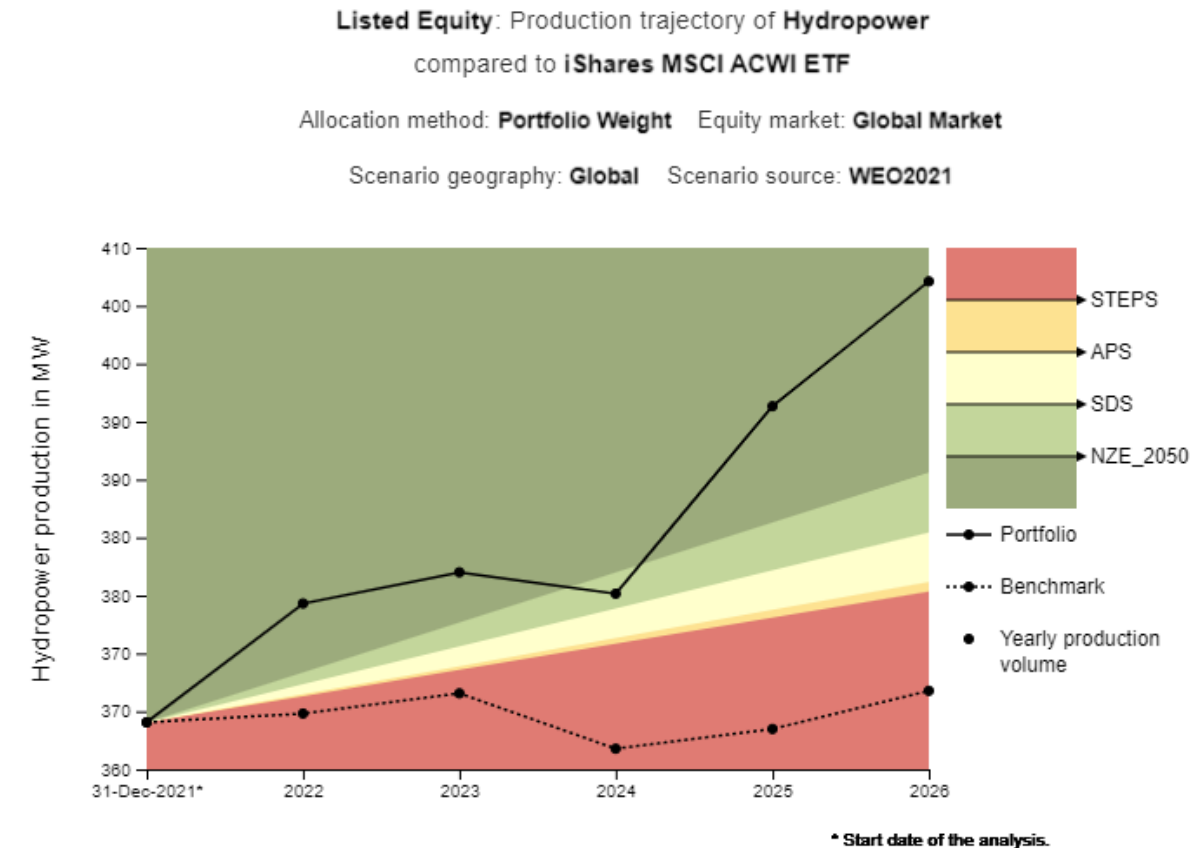
PACTA TOOL: CLIMATE PATH

Description

- The chart shows the alignment of Hydropower relative to the World Energy Outlook (WEO) 2021 scenario.
- The solid line indicates the projected production trajectory for the portfolio under the status quo for the next 5 years.
- The lines separating the background areas represent the portfolio's "target production" per technology under the WEO scenarios.
- The dashed line indicates the planned production development for the benchmark according to the status quo for the next 5 years (scaled to the same starting point as the portfolio).

Results

- If there were only the analysed companies on the market, the global warming would be limited to 1.5°C achieving net zero emissions in 2050.



Climate path for listed Equities according to PACTA for year end 2021

USING OF THE RESULTS IN THE SUPERVISORY PROCESS

Key aspects

- The performed exercises allow the FMA to
 - **assess sustainability risks** on the asset side,
 - **determine climate paths** of the portfolios,
 - better understand how climate risk could **impact the financial position** of the supervised entities,
 - **evaluate undertakings ESG strategies**.

Publication of the key results

- The FMA publishes the key findings in its **annual report** on the state of the Austrian insurance industry.
- Furthermore FMA implemented an **ESG Dashboard**.

Communication with supervised undertakings

- FMA engages with supervised entities through **structured dialogue with management boards and high-level representatives** of individual undertakings since 2019.
- The objective is to
 - **present the results** of top down ESG asset screenings and climate stress tests,
 - **communicate our supervisory expectations** regarding the identification, management and monitoring of material sustainability risks,
 - **ensure that supervised entities adequately integrate climate-related risks** in their business strategy, risk management and governance processes.

ESG DASHBOARD

Thema	Link
SFDR: Offenlegung	Link
SFDR: Offenlegung	Link

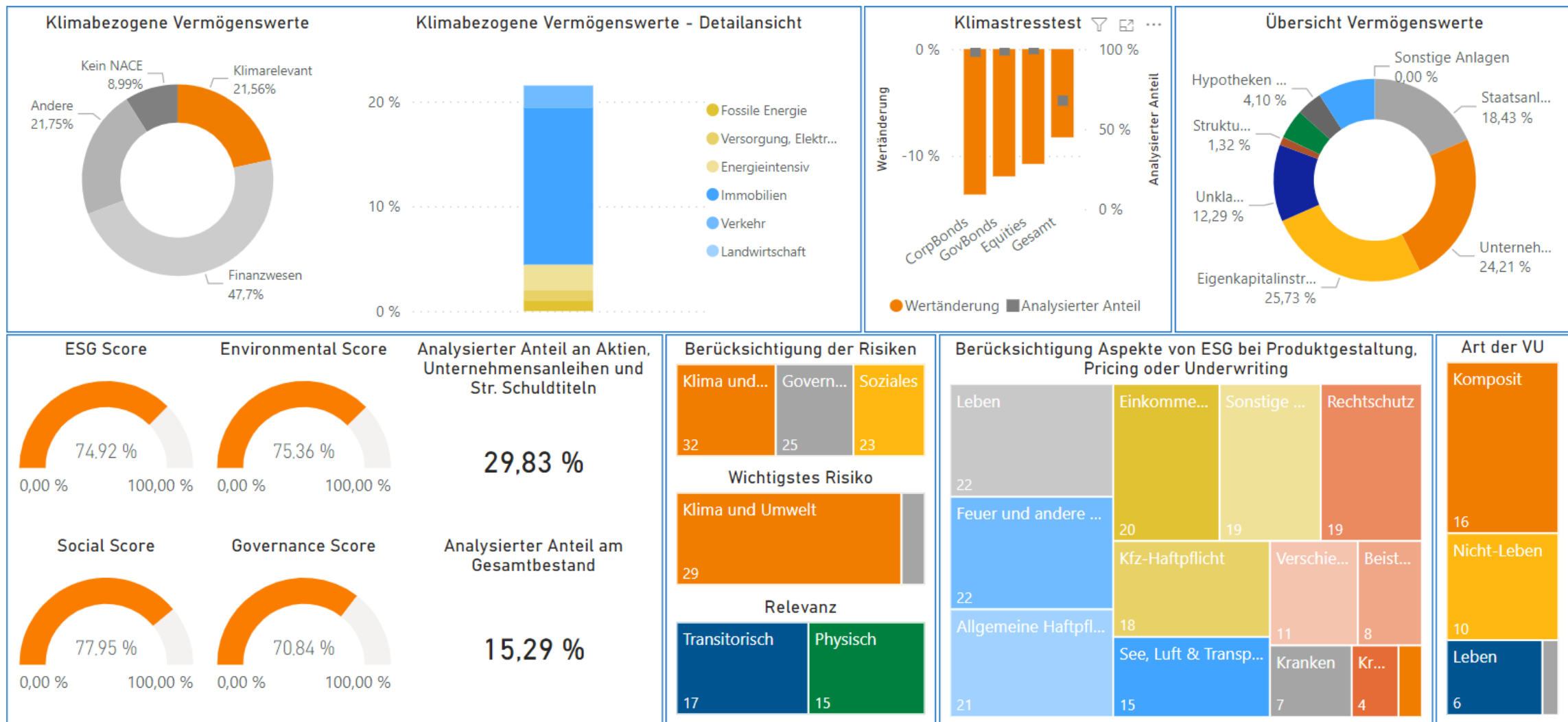
Thema	Link
NFRD: Berichterstattung	Link
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Stichtag

Q4 2022

VU

Gesamt



EXPERIENCES FROM THE LAST YEARS



Experiences

- Some methods are new and still in development.
- More developed methods are rare and often the **methodology is not available in full detail**.
- Another issues are **data granularity** and **data quality**:
 - The scope of the methods is regularly limited to **specific asset classes**.
 - Some methods are **rather a substitute** instead of being complementary to each other.
 - Since we work mainly with reported data, we are dependent on the **quality of the data**.
 - Most methods require **additional parameters** that are not included in the regular reporting. For this we rely on **external providers**.

Most urgent topics

- Looking for solutions to **improve data quality**.
- Further **development of the methods** and **closing the methodological black box** as far as possible.
- **Calibration of the scenarios** on a regular basis.
- **Supporting our supervised undertakings** and raising awareness related to the mentioned issues concerning the performed asset analyses.

AUSTRIAN FINANCIAL MARKET AUTHORITY

■ Competence

■ Control

■ Consistency