

**Insurance and  
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4 November 2022

Dear CEO

### **MFSA's expectations in relation to sustainable finance requirements**

As climate change, environmental and social risks continue having a greater impact on our lives, the importance of managing the said risks grows as well. If these risks are not properly managed, they can pose a material risk on the assets and liabilities of insurers.

The MFSA believes that Maltese insurance and reinsurance undertakings have an important role to play in the mitigation and adaptation of climate change or sustainability risks through their investments, products and services. In light of their role as society's risk managers and long-term investors, insurers have a very unique opportunity to address sustainability related challenges.

The European Insurance and Pensions Authority (EIOPA) has identified seven areas of activity on sustainable finance which it aims on working upon during the years 2022-2024. One of the seven key areas of activity on sustainable finance for 2022 is the integration of ESG risks in the prudential framework. In this respect the European Commission published the Commission Delegated Regulation (EU) 2021/1256 which amends the Delegated Regulation (EU) 2015/35. The amendments, which came into force on the 2<sup>nd</sup> August 2022, are a first step towards the integration of sustainability within the governance of insurance undertakings. The MFSA has issued a detailed [Circular](#) on the 9<sup>th</sup> June 2022, clarifying that the MFSA expects insurance and reinsurance undertakings to update their policies and have the said policies approved by the Board of Directors in line with the amendments identified in the Circular and the Delegated Regulation and ensure that the documents are readily available to the MFSA upon request.

Another key area which EIOPA is working on is the consolidation of the macro and micro prudential risk assessment of ESG risks. In this respect, EIOPA's Solvency II 2020 review also include proposals for the supervisory reporting of climate risks. In

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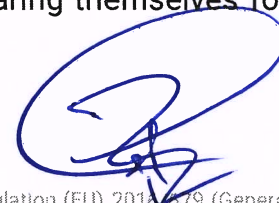
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the EIOPA Opinion on Sustainability within Solvency II, issued in 2019, EIOPA recommended that undertakings consider climate risks that go beyond what is captured in Solvency II. Following this Opinion, undertakings requested for further clarification on how this assessment can be carried out. EIOPA replied by issuing an Application guidance on climate change materiality assessments and climate change scenarios in ORSA in August 2022. The guidance is an initial aid for undertakings to start conducting an analysis on climate change risk. The MFSA expects all insurance undertakings to analyse and get acquainted with the said document which scope is to raise awareness and instigate discussions and ideas on undergoing a thorough assessment on whether climate change risk is a material risk for the undertaking or not, and if so, provide ideas on how these can be stressed in order to understand its impact on the company.

The MFSA understands that there are situations in which this can be problematic and that an undertaking might find difficulties at first, and therefore the MFSA expects a gradual improvement from year to year. This will also be made easier as specialised expertise, data and tools become more readily available. The MFSA has already noted that a number of undertakings are delving into climate change risk, and the MFSA's expectation is that this improves with each passing year.

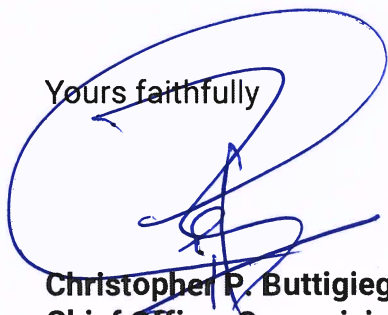
EIOPA is also working on the promotion of sustainability disclosures and a sustainable conduct of business framework, and in this respect has issued Regulation (EU) 2019/2088 (the Sustainable Finance Disclosure Regulation) which applicability commenced on the 10<sup>th</sup> of March 2021. In order to assess the state of operational readiness and the compliance status of insurance undertaking which makes available an insurance-based investment product, the MFSA issued a Circular, which Circular also included a Formal Request for Information. Following an analysis of the information received in the Formal Request for Information, the MFSA also issued a number of other Circulars. The Circulars refer to the technical standards which are to be used by insurance undertakings which make available an insurance based investment product when disclosing sustainability-related information under the SFDR. The standards, which take the form of a Delegated Regulation specify the exact content, methodology and presentation of the information which needs to be disclosed. Such undertakings are encouraged to continue preparing themselves for the application of the Commission Delegated Regulation.



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Moving forward the MFSA expects that undertakings continue their journey in transitioning to green embracing sustainable finance and engraining this in their governance, risk management and investment policies. As from next year, the MFSA is planning to engage with undertakings on a risk-based approach to assess their compliance with the new sustainability requirements and obtain a better understanding of their plans as to how they are and will continue their transition to green.

Yours faithfully



**Christopher P. Buttigieg**  
**Chief Officer Supervision**  
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