access to insurance initiative

AZN
Agencija za zavarovalni nadzor
Insurance Supervision Agency

Report on the Sustainability and ESG Regulatory Landscape in the CEET region

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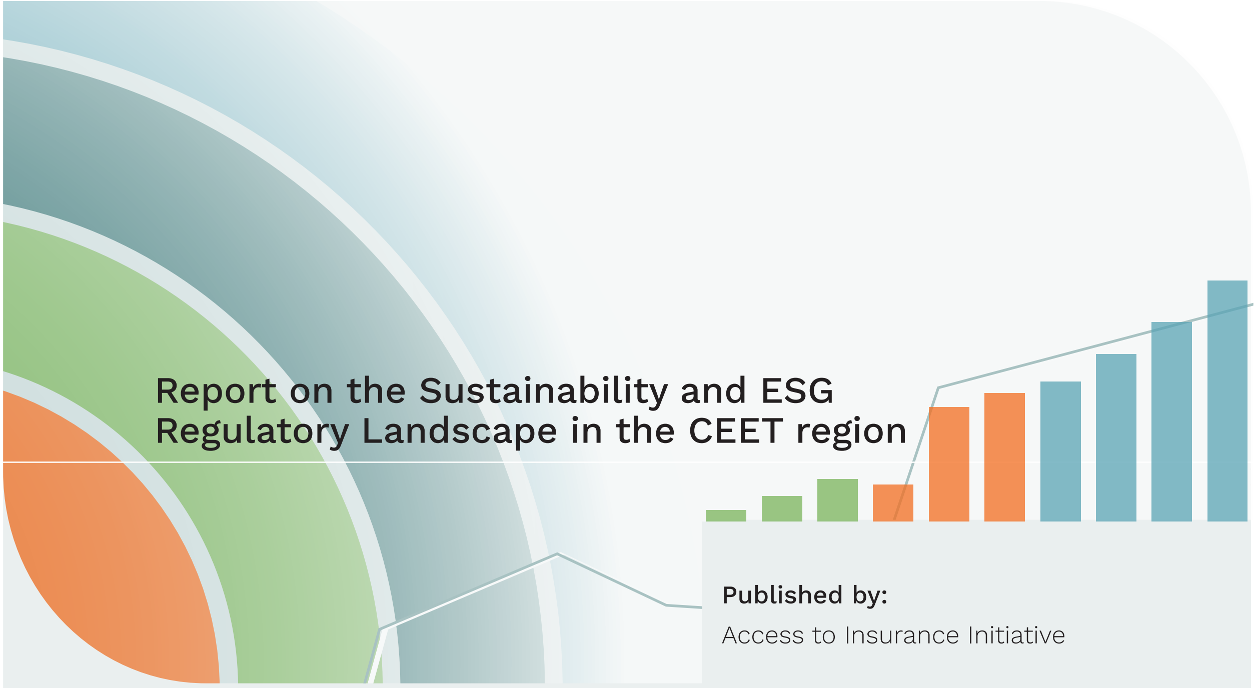

Report on the Sustainability and ESG Regulatory Landscape in the CEET region

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List of Abbreviations

A2ii	Access to Insurance Initiative
AZN	Insurance Supervision Agency of Slovenia
CEET	Central Eastern Europe and Transcaucasian Region
CSRD	Corporate Sustainability Reporting Directive
EIOPA	European Insurance and Occupational Pensions Authority
EU	European Union
ESG	Environmental, social and governance
IDD	Insurance Distribution Directive
NSFS	National Sustainable Finance Strategy
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
PRI	Principles for Responsible Investment
PSI	Principles of Sustainable Insurance
SDGs	Sustainable Development Goals
SIF	Sustainable Insurance Forum
SFDR	Sustainable Finance Disclosure Regulation
TCFD	The Task Force on Climate-related Financial Disclosures

1. EXECUTIVE SUMMARY

The essence of insurance lies in mitigating and pooling risks, core principles that are deeply intertwined with environmental, social and governance (ESG) standards. The insurance industry has a long-standing history of incorporating ESG factors into its operations. However, this has become more explicit in recent years due to heightened demand from investors, end customers, policymakers, and standard setters. Regulators and supervisors globally are also increasingly recognising the importance of ESG issues and are taking proactive measures to address them.

To have a deeper understanding of how ESG standards are integrating into the insurance sector in the Central, Eastern Europe, and Transcaucasia (CEET) region, the Access to Insurance Initiative (A2ii), the implementation partner of the International Association of Insurance Supervisors (IAIS) on inclusive insurance, commissioned a survey with the support of Agencija za Zavarovalni nadzor (AZN), the Insurance Supervisory Agency of Slovenia. The survey that was conducted in 2023 was designed to evaluate the current state of insurance regulations and initiatives that encourage sustainable insurance growth in the CEET region. The objective was to track the advancement of ESG standards across national insurance markets and provide guidance to regulators, in conjunction with policymakers and stakeholders, on the development of sustainability and ESG frameworks.

The survey took place during the period of January-March 2023 with responses from twenty-three authorities from twenty-two CEET countries.

Subsequently, the survey has indicated that the integration of ESG factors and risks into the CEET region's insurance sector is still in its early stages, with varying levels of maturity across different countries. Overall, there is a need for more robust regulatory and supervisory frameworks to support the integration of ESG considerations into the insurance sector. ESG factors should be prioritised in the development of national sustainable finance strategies (NSFS), and there should be a stronger focus on the financial sector's contribution to the Sustainable Development Goals (SDGs). Additionally, there is a need for more training and capacity building for insurance supervisors and regulators to effectively oversee the integration of ESG issues.

1.1 Introduction: The Regulatory Landscape

ESG factors encompass a range of criteria that evaluate a company's impact on the environment, its relationships with society, and the effectiveness of its governance structures. "ESG" and "sustainability" are related concepts, and these terms are often used interchangeably, but they are not synonymous. ESG is a set of environmental, social and governance criteria that measure a company's performance and risks. Sustainability is the company's strategic vision in a business model aimed at generating a positive impact on society and the environment. While ESG focuses on the short and medium term, seeking to mitigate risks, sustainability integrates a more complex and long-term view of the company's relationship with the world. Furthermore, ESG is a concept used by investors[1], giving them a framework to screen their investments, to assess companies´ performances and risks in the three areas. ESG standards and considerations contribute to sustainability, but they are not the sole factors contributing to it. Sustainability is a concept which has a broader stakeholder focus, including employees, customers, and shareholders, and also the communities in which businesses operate in.

The insurance sector has often recognised that a robust governance structure and an understanding of the impact of societal and environmental issues can safeguard corporate value. Over the last decade, the insurance sector's recognition has more explicitly transitioned to incorporating ESG standards into its operations. This is because of heightened demands from investors, end customers, regulators, and standard setters all voicing their concerns about ESG-related issues. While their perspectives and spheres of influence differ, they all share one commonality: rising expectations.

Recent regulatory developments are also holding insurers accountable to align their actions with these expectations, particularly on climate concerns. This is due to a changing risk landscape and an increase in ESG issues compelling insurance companies to develop more holistic and long-term risk management strategies that take ESG issues into account. As risk managers, risk carriers, and investors, the insurance industry has a vital interest and plays an important role in fostering sustainable economic development[2]. It plays a critical part in the transition to a net-zero, resilient, and socially just economy. Beyond providing financial resilience, insurance acts as an enabler of solutions that drive social and environmental sustainability. Moreover, insurers can support sustainable development through their investments across asset classes and geographies, and by incorporating ESG into their own risk assessment, and underwriting processes, as well as through their corporate responsibility initiatives. Globally, regulators and supervisors are increasingly recognising the importance of ESG issues and are taking proactive measures to address them. Regulatory frameworks focused on

1 While ESG initially played a role mainly for investments, ESG factors and considerations have also gained attention for integration into prudential frameworks in the financial sector such as for banking and insurance (eg Solvency II). The integration of ESG considerations and sustainability risks in the underwriting strategy and decisions as well as in the development of new products, addressing risks stemming from climate change and promoting risk mitigating behaviour, is amongst others, described in EIOPA's Opinion on Sustainability within Solvency II (30 Sept 2019).

2 Source: UNEP Finance Initiative (2012). Principles for Sustainable Insurance, Available at: www.unepfi.org/psi

ESG aim to encourage companies to integrate ESG considerations into their decision-making processes, operations, risk management and reporting practices. This is with the overall aim of promoting responsible business practices and sustainability within the finance sector. In this context, regulations are also designed to help investors and end customers identify and invest in sustainable companies by requiring companies to disclose more information about their ESG performance. In addition, ESG regulations are intended to help protect investors from greenwashing; drive sustainable investment; improve corporate ESG performance; and promote a more sustainable economy.

However, the implementation of ESG regulation has its challenges. Firstly, the implementation of these regulations can be complex and financially demanding for the industry as a whole and individual companies. Secondly, accurately measuring a company's performance across the ESG spectrum poses difficulties due to the complicated and sometimes intangible nature of these factors. Lastly, ensuring effective enforcement of ESG regulations can be complex, requiring robust oversight and mechanisms to hold non-compliant entities accountable.

There is currently no standardised global regulatory framework for ESG initiatives and instead, several countries have adopted ESG regulations or are in the process of doing so (**Table 1** ↪).

Table 1: Non-exhaustive list of ESG regulations across the world

Source: Adapted from ESG Laws Across the World (Squire Patton Boggs, 2023).

Country	Legislation in place/under development
The European Union	▸ the Taxonomy Regulation[3] ▸ the Corporate Sustainability Reporting Directive (CSRD)[4] ▸ the Sustainable Finance Disclosure Regulation (SFDR)[5] ▸ the Corporate Sustainability Due Diligence Directive (CSDDD) ▸ Integration of sustainability risks in the governance of insurance and reinsurance undertakings: Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021, amending Solvency II
Australia	▸ Prudential Practice Guidance on Climate Change and Financial Risks CPG229 November 2021
Brazil	▸ Management and Disclosure of Social, Environmental and Climate Risks 2021[6]

3 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

4 Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

5 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

6 Resolution BCB 139 of Sep 15, 2021 (in force from Dec 1st, 2022): disclosure of information in the Report on Social, Environmental and Climate-related Risks and Opportunities, available at: https://www.bcb.gov.br/en/financialstability/Brazilian-Prudential-Financial-Regulation

Canada	▸ ESG-related Investment Disclosure for Funds Guidance[7]
China	▸ ESG-related Amendments to the Disclosure Rules Applicable to Listed Companies[8]
Hong Kong	▸ Green and Sustainable Finance Strategy (Guidance on Climate Disclosures[9])
Israel	▸ Disclosure of ESG criteria in investment strategy for long term savings products. CMISA Circular no. 2021-9-13 of November 18th 2021 ▸ Instructions on the offering of ESG focused products by long term savings management firms. CMISA Circular no. 2022-9-30 of December 20th 2022
Singapore	▸ Environmental Risk Management for Asset Managers, Banks and Insurers 2020[10] [11] [12]
Switzerland	▸ The new law on transparency regarding non-financial matters[13]
The UK	▸ Sustainability Disclosure Requirements (SDR) and Investment Labels[14]
The USA	▸ Climate Disclosures for Public Companies (proposed rule)

In addition to the regulations mentioned above in Table 1, there is additional material on standards, in particular integrating environmental factors, and several other initiatives focused on improving sustainability, ESG investing, and corporate behaviour.

7 CSA Staff Notice 81-334 - ESG-Related Investment Fund Disclosure, available at: https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-334/csa-staff-notice-81-334-esg-related-investment-fund-disclosure

8 ESG-related Amendments to the Disclosure Rules Applicable to Listed Companies. Available at: http://www.csrc.gov.cn/csrc_en/index.shtml

9 HKEX Guidance on climate disclosures, available at: https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Environmental-Social-and-Governance/Exchanges-guidance-materials-on-ESG/guidance_climate_disclosures.pdf

10 Monetary Authority of Singapore (2020). Guidelines on Environmental Risk Management for Insurers. Available at: https://www.mas.gov.sg/-/media/mas/regulations-and-financial-stability/regulations-guidance-and-licensing/insurance/regulations-guidance-and-licensing/guidelines/guidelines-on-environmental-risk-management-insurers.pdf

11 Monetary Authority of Singapore (2020). Guidelines on Environmental Risk Management for Asset Managers. Available at: https://www.mas.gov.sg/-/media/mas/regulations-and-financial-stability/regulations-guidance-and-licensing/securities-futures-and-fund-management/regulations-guidance-and-licensing/guidelines/guidelines-on-environmental-risk-management-for-asset-managers.pdf

12 Monetary Authority of Singapore (2020). GUIDELINES ON ENVIRONMENTAL RISK MANAGEMENT (BANKS). Available at: https://www.mas.gov.sg/-/media/mas/regulations-and-financial-stability/regulations-guidance-and-licensing/commercial-banks/regulations-guidance-and-licensing/guidelines/guidelines-on-environmental-risk---banks/guidelines-on-environmental-risk-management-for-banks.pdf

13 Articles 964a-964c CO – transparency in non-financial matters & Articles 964j-964l CO – due diligence and transparency in relation to minerals and metals from conflict zones and child labor, which has been further detailed in an Ordinance (the ODiTr)

14 Financial Conduct Authority (2023). Policy Statement PS23/16: Sustainability Disclosure Requirements (SDR) and investment label. Available at: https://www.fca.org.uk/publication/policy/ps23-16.pdf

In May 2021, based on two previous issues papers, the *Application Paper on the Supervision of Climate-related Risks in the Insurance Sector* was jointly published by the IAIS, the global standard-setting body for supervision of the insurance sector, and the Sustainable Insurance Forum (SIF). The paper describes the role of the supervisors and how climate-related risks may affect the supervision of insurers. It focuses particularly on the following Insurance Core Principles (ICPs): ICP 9 (Supervisory Review and Reporting), ICP 7 (Corporate Governance), ICPs 8 and 16 (Risk Management), ICP 15 (Investments) and ICP 20 (Disclosures). Subsequently, the IAIS performed a gap analysis of existing IAIS supervisory material to assess how climate risk is already captured and to identify possible further work in terms of standard-setting and/or providing further guidance on supervisory practices. In this regard, since 2023, the IAIS has published a consultation package on the integration of climate-related risk (the "E" in ESG) within the ICP Introduction. The IAIS also made changes, among others, to existing supporting material related to governance, risk management and internal controls (ICP 7 and 8), role of the Board, remuneration, and is also working on transition planning[15].

Initiatives helping to raise awareness and drive the adoption of ESG standards by companies and investors include:

- Sustainable Insurance Forum (SIF)[16], the platform for insurance supervisors and regulators who want to address sustainability issues impacting consumers, firms, and markets in their countries.
- The Task Force on Climate-related Financial Disclosures (TCFD)[17]: The TCFD is an international group of experts that has developed a framework for companies to report on their climate-related risks and opportunities.
- The Principles for Responsible Investment (PRI)[18] : The signatories of the PRI form a global network of investors committed to incorporating ESG factors into their investment decisions.
- The Principles of Sustainable Insurance (PSI)[19]: A global framework for the insurance industry to address ESG risks and opportunities.

The European Union (EU) is considered to be a global leader in integrating ESG and sustainability into its regulatory framework. The EU seeks to make Europe the first climate-

15 https://www.iaisweb.org/activities-topics/climate-risk/

16 https://sustainableinsuranceforum.org/

17 https://www.fsb-tcfd.org/

18 https://www.unpri.org/

19 https://www.unepfi.org/insurance/insurance/

neutral continent by 2050 through the adoption of the European Green Deal[20]. To overcome the existing lack of long-term perspective, promote transparency and sustainability in financial markets and mobilise finance towards sustainable growth, the European Commission has established the EU Action Plan for Sustainable Finance. This includes the development of a legislative package that consists of the EU sustainable finance taxonomy, EU green bond standard, corporate disclosure of climate-related information, the EU climate benchmarks and benchmarks' environmental, social and governance disclosures, as well as the sustainability disclosure obligations for companies operating in the financial service sector. Within its work on sustainable finance, the European Insurance and Occupational Pensions Authority (EIOPA) aims to ensure that (re)insurers and occupational pension funds integrate sustainability risks in their risk management, to protect consumers and secure financial stability.

The CEET region is highly heterogeneous in terms of the political environment, economic development and the importance and structure of the financial systems. Among thirty-two countries of the CEET region[21], twelve countries are EU member states, eight countries are recognised as official candidates[22] for EU accession and are in the negotiation process, while two countries[23] have submitted EU membership applications[24]. As official and potential candidate countries, they are improving their institutional infrastructure and implementing new legislation in line with EU legislation and standards. Compared to the EU, ESG issues and the sustainability agenda are still an ambitious development challenge overshadowed by existing socioeconomic and political challenges in the majority of the CEET region. Even though the transition to a more sustainable economy requires insurance supervisory authorities to address ESG issues in their supervisory frameworks, the regulatory framework for sustainable finance and insurance is still underdeveloped. Consequently, there is little research on sustainability and ESG issues in the insurance industry in this region.

20 European Commission (2018). COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. Action Plan: Financing Sustainable Growth. COM/2018/097 final

21 The countries of the CEET region comprise: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Greece, Hungary, Israel, Kazakhstan, Kosovo, Kyrgyzstan, Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan.

22 Albania, Bosnia and Herzegovina, Moldova, Montenegro, North Macedonia, Serbia, Ukraine and Turkey (candidate with frozen negotiations).

23 Georgia and Kosovo

24 Source: https://european-union.europa.eu/principles-countries-history/joining-eu_en

1.2 Key survey findings

From the survey results, six broad insights emerged.

Integrating ESG factors and risks in the CEET region's insurance sector has yet to gain momentum. In the past 15 years, the global insurance sector has witnessed a notable acceleration in its awareness of sustainable finance and ESG issues and risks, especially within the EU. However, when considering the existing supervisory and regulatory frameworks, their implementation and forthcoming developments in the CEET region, it is evident that ESG considerations within the insurance sector have yet to gain substantial momentum.

CEET countries that participated in this survey are at different stages of integrating ESG into their regulatory and supervisory frameworks. The CEET countries are at different maturity stages for ESG regulatory/supervisory framework development as well as the adoption of tools to integrate ESG issues in investment activity, product offerings, disclosure, and efforts to integrate climate risk considerations into a prudential framework. Three stages of current sustainability/ESG regulatory and supervisory approaches were identified among the countries within the scope of this study: established, advancing, and initiating.

The role of the insurance sector, as a risk protection mechanism and in achieving the SDGs is not fully recognised and understood by all supervisors and global and regional policymakers. In particular, regulators and supervisors do not fully recognise that their regulatory and policy initiatives can ensure that the insurance market offers the necessary range and diversity of products and services that inclusively support the SDGs.

A limited number of CEET countries have National Sustainable Finance Strategies (NSFS) that are focused of supporting an environmentally and socially sustainable financial system that includes the financial sector's contribution to the SDGs. The objective of a NSFS is to create a sustainable finance ecosystem and to help prioritise actions and coordinate activities among stakeholders to accelerate the expansion of sustainable finance. There is a need therefore to develop and promote NSFS/roadmaps with a stronger focus on the financial sector's contribution to the SDGs.

The perception of the materiality of ESG factors among supervisors is different, but there are regional commonalities. Social and governance issues currently take precedence due to the long-established regulation around these issues. Environmental issues should not be neglected, and the awareness and maturity of environmental initiatives in the insurance industry are currently evolving. There is a strong need for continued efforts to raise awareness and drive practices in achieving sustainability in the insurance sector.

Establishing a trained and competent workforce on sustainability/ESG topics is imperative for insurance supervisors and regulators. For the benefit of effective supervision and regulation of the insurance industry, fostering sustainability and incorporating ESG considerations should be a high priority. The current situation indicates that there is limited capacity, resources, and expertise to develop a regulatory framework and oversee the integration of ESG issues. Thus, supervisory capacity building is a necessity and of utmost high importance.

2. SCOPE AND METHODOLOGY OF THE SURVEY

2.1 Scope and methodology

The A2ii, implementation partner of the IAIS on inclusive insurance, commissioned this survey (Annex 1), that was circulated among representatives of insurance supervisory authorities in the CEET region with the support of AZN Slovenia. The survey took place during the period of January-March 2023. From the twenty-seven authorities invited to contribute, twenty-three responded (see Annex 2). In this regard, the sample represents a diverse set of CEET countries in terms of geographical areas, economic and insurance market development.

The questionnaire consists of four sets of questions (Annex 1) covering the following areas:

1. The existence of sustainability and ESG regulations and/or initiatives in the insurance sector in the CEET region.
2. Current national policy approaches to achieve the SDGs and to finance sustainable growth.
3. The awareness of the country's insurance sector and preparedness to implement ESG frameworks.
4. Identification of supervisory capacity building needs for the promotion of the SDGs and implementation of ESG frameworks.

2.2 Definitions used

Sustainable finance refers to "the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects"[25]. By incorporating climate, green and social finance, sustainable finance takes into consideration "the longer-term economic sustainability of the organisations that are being funded, as well as the role and stability of the overall financial system in which they operate"[26].

25 Source: https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en

26 Source: ICMA (2020). Sustainable finance: high-level definitions. Available at: www.icmagroup.org/assets/documents/Regulatory/Green-Bond/Sustainable-Finance-High-Level-Definitions-May-2020-051020.pdf

Sustainable insurance is defined as a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues[27].

ESG regulation for the purpose of this survey represents a set of requirements on (re)insurance companies to publicly disclose information about their performance in environmental, social, or governance topics (such as a sustainable finance regulatory package for insurers consisted of *Sustainable finance directive regulation* (SFDR), *EU taxonomy regulation, Corporate sustainability reporting directive* (CSRD) and *Insurance distribution directive* (IDD) in the European Union).

In summary, the survey focuses on ESG/sustainability disclosure, distribution and investments, but also on integration of ESG considerations and sustainability risk into risk management, ORSA and underwriting.

27 Source: UNEP FI (2012) Principles for Responsible Insurance. Available at: https://www.unepfi.org/insurance/insurance/

3.
RESULTS AND FINDINGS OF THE ESG INSURANCE SURVEY

Regulatory requirements and supervisory actions can be a powerful catalyst to the insurance sector's adoption of practices that adequately reflect sustainability issues and ESG considerations in risk management, underwriting, investment activity and product offerings. This survey has identified the following key findings.

FINDING 1: CEET countries in this survey can be grouped into three categories according to the status of ESG regulatory/supervisory frameworks: established, advancing and initiating.

Established Group:
EU member states (e.g., Slovenia, Hungary, Lithuania, Latvia) and Israel, that have the following:

- (EU) binding legislation and non-legally binding documents to address ESG integration in investment activity, insurance product offer, and ESG/sustainability disclosure (in the case of Israel, there is a national sustainable finance regulation in place);
- Adopted and applied specific guidelines to identify, measure, and manage climate-related risks.

Advancing Group:
EU member states that have the following:

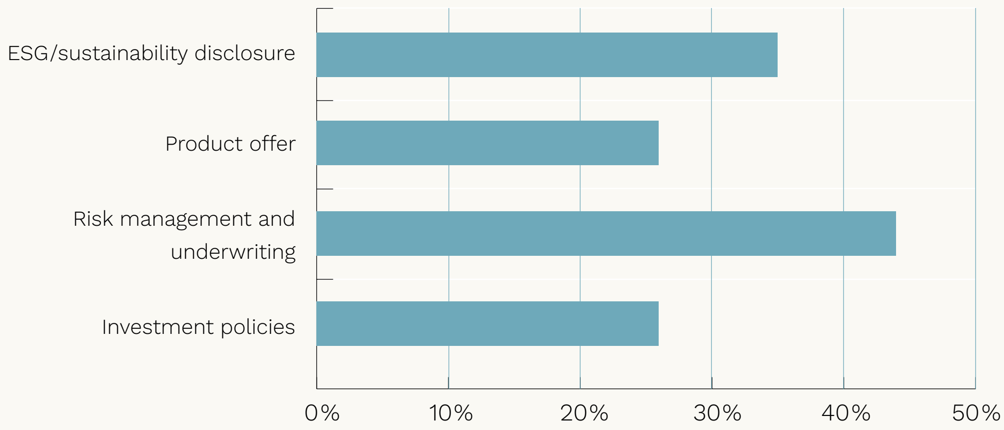
- EU binding legislation in place;
- Still in the process of integrating climate-related risks in the national regulatory and supervisory frameworks.

Initiating Group:
Non-EU member states that have the following:

- Not yet started integrating ESG factors and risks into their regulatory /supervisory actions;
- May have initiated or plan to initiate work through the EU accession process[28] and/or through international collaboration[29].

For the CEET supervisory authorities that are proactively taking steps to introduce ESG elements into their regulatory framework (**Figure 1** ↪), almost half of the respondents (44 %) have integrated ESG considerations into risk management and underwriting policies, 26 % into the investment activities and product offerings, and 35 % into ESG/sustainability disclosure process.

Figure 1: Areas of ESG/ sustainability considerations



The CEET region is highly heterogeneous in terms of political environment, economic development and the importance and structure of the financial systems. Insurance markets differ significantly in size, concentration, and level of maturity. The observed differences in the maturity of the ESG regulatory framework could be the consequences of different factors, with an important contributor being the level of insurance market development. The survey results indicate that there is a relationship between the maturity of the ESG regulatory framework and the insurance market penetration (premiums as a percentage of Gross Domestic Product). The supervisory authorities operating in markets with higher insurance penetration, including from the EU, are focused on the implementation of the new standards and methodologies for managing emerging risks, such as climate related-or generally ESG/sustainability

28 Financial Services falls under Chapter 9 of the EU accession process: Concerning Chapter 9, as of May 19 2023, Albania and North Macedonia are in the screening phase, in Türkiye it is suspended (as of 11 December 2006), while in Montenegro the chapter „Financial Services“ is opened.

29 For example the EU's *Twinning* projects which is an instrument for institutional cooperation between Public Administrations of EU Member States and of beneficiary or partner countries.

risks. On the other hand, supervisory authorities operating in markets with lower penetration rates are primarily focused on the insurance market development.

FINDING 2: The Implementation of ESG into national regulatory frameworks depends on the priority of sustainability topics within supervisory authorities rather than their institutional structure.

There is a divergence in the institutional structure employed by insurance regulators and supervisors in the CEET countries, which can vary from an integrated authority to an insurance-specific authority.[30]

Even though it could be hypothesised that the higher level of ESG regulatory framework development is associated with the integrated supervisory authorities, the findings of the survey indicate that the level of ESG regulatory framework development does not depend on how the insurance supervision is structured.

FINDING 3: Regulatory/supervisory frameworks on environmental risks and/or climate-related risks are developing rapidly.

In order to evaluate and measure ESG risks in a common and comparable way, a fundamental component is to have common definitions of ESG factors, to understand how these factors translate into financial risks and may impact entities individually and the financial system as a whole.

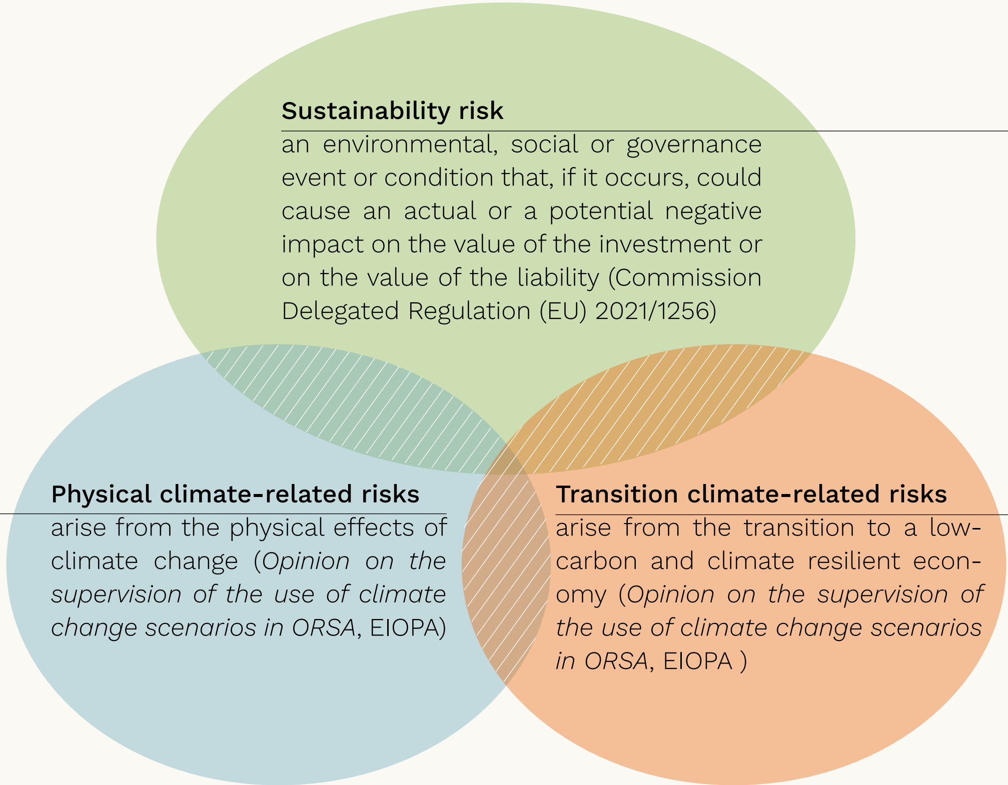
In the EU's policy context, the Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 is a key milestone as regards the integration and reflection of sustainability risks in the system of governance and the prudent person principle of insurance and reinsurance companies. It also defines sustainability risk (**Figure 2 ↪**).

Concerning (physical and transition) climate-related risks[31], 6 of 23 respondents are using the definitions given in the Opinion *on the supervision of the use of climate change risk scenarios in ORSA* (EIOPA, 2021).

30 Most commonly, supervision is performed by integrated institutions either by the central banks (Armenia, Czech Republic, Hungary, Kazakhstan, Kosovo, Lithuania, Slovakia and Ukraine) or by financial supervisory authorities (Poland, Latvia, Albania, Bulgaria and Croatia). Other countries supervise the insurance markets as non-integrated institutions (Bosnia and Herzegovina, Georgia, North Macedonia, Montenegro, Slovenia and Türkiye).

31 Initially, definitions on physical, transition as well as on liability risks were published in the EIOPA Opinion on Sustainability within Solvency II (30 September 2019) and based on the definition by the Bank of England in 2015 mentioned in the "Breaking the tragedy of the horizon – Climate change and financial stability" speech of Mark Carney, then Governor of the Bank of England and Chairman of the Financial Stability Board.
Furthermore, the IAIS and Sustainable Insurance Forum's (SIF) joint Application Paper on the Supervision of Climate-related Risks in the Insurance Sector (May 2021) used similar terminology and definitions.

Figure 2: Sustainability, physical and transition climate change-related risks definitions ("S" and "G" factors are not reflected here)



43 % of respondents indicated that they have a definition of ESG risks.
26 % of the responding supervisory authorities have a definition of climate-related risks and are using the definitions given in the *Opinion on the supervision of the use of climate change risk scenarios in ORSA* (EIOPA, 2021).

Over one-third of the supervisors covered by the survey have already or have plans to introduce a regulatory/supervisory framework or risk assessment process on environmental risks/ climate-related risks. In this regard, *quantitative approaches* are intended to achieve a measure of the financial condition of the (re-)insurer under a pre-determined set of assumptions. Such approach could only provide valuable information to support near-term underwriting and investment decisions when all key business and economic boundary conditions can be reflected and forecast reasonably well[32]. Compared with the quantitative approaches, a *qualitative assessment* aims at understanding the future position of the organisation, under a set of assumptions on a potential path for the emergence of climate change risk, and also the implication of changes in the socio-economic environment on the business strategy. Qualitative assessments, such as scenario analysis, leave greater flexibility for considering key drivers of the climate-related/sustainability risks and offer a better starting point for climate-related strategies for (re)insurers. According to the survey, over one-third (39 %) of respondents currently perform climate scenario analysis or stress testing or are planning to do so soon. The main countries that perform scenario analysis include Lithuania, Hungary, Latvia, Slovenia and Israel.

39 % of respondents have established qualitative criteria for the assessment of the impact of climate-related risks.
39 % of respondents have in place quantitative criteria for the assessment of the impact of climate-related risks.

The findings of the survey indicate the increased awareness of ESG/sustainability risks, as well as the importance of developing the assessment capabilities of those supervisory authorities that are missing them and experimenting with different approaches and engaging in dialogue to promote peer-learning. A number of supervisory bodies have started incorporating both qualitative and quantitative risk assessments, while the industry is still in the experimentation and innovation phase.

FINDING 4: Conducting awareness-raising campaigns within the supervisor and the industry is a common initial step in ESG promotion.

According to the results, awareness raising is an important initial step for insurance supervisors. This includes raising awareness about the significance of sustainability factors and risks, both within their authorities and within their insurance market. It involves educating internal stakeholders, financial institutions, associations, insurance companies, and other participants in the financial sector on the impact of climate change on their operations and business models. By doing so, it ensures that these entities are well-informed about climate change-related financial risks and can effectively address them[33].

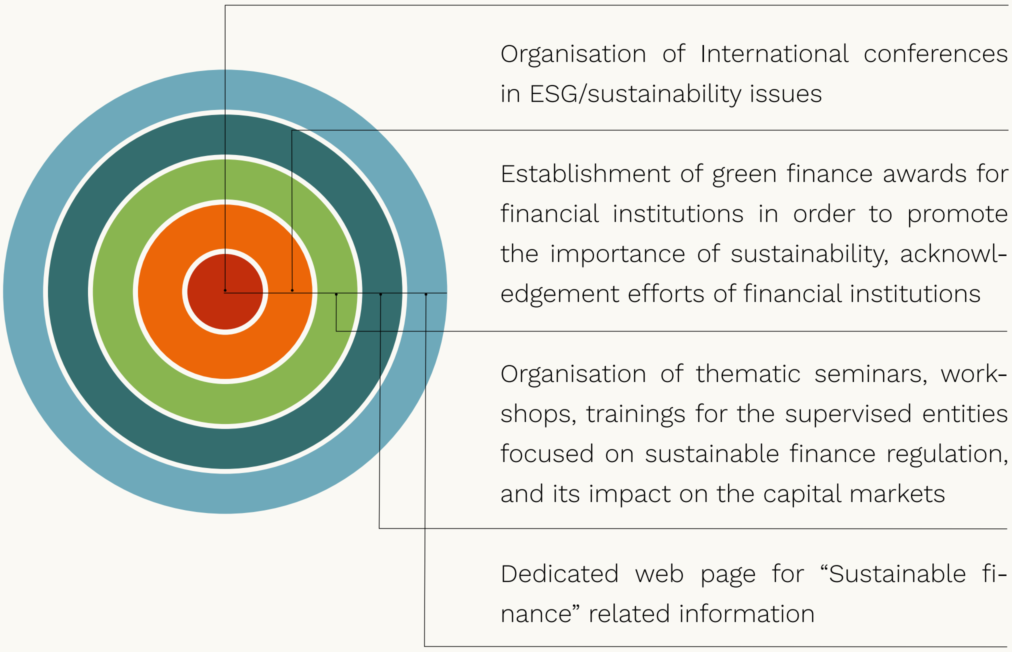
32 About different approaches to climate change risk assessment, see more in: The Geneva Association (2021). *Climate Change Risk Assessment for the Insurance Industry: A holistic decision-making framework and key considerations for both sides of the balance sheet,* Authors: Maryam Golnaraghi and the Geneva Association Task Force on Climate Change Risk Assessment for the Insurance Industry.

33 Dikau, S. et al. (2019). Building a sustainable financial system: the state of practice and future priorities. FINANCIAL STABILITY REVIEW, ISSUE 37, Banco de Espana, pp. 76 – 98.

> 57 % of respondents are running or planning to run an awareness-raising campaign(s)/event(s) among insurance market stakeholders on the topic of insurance sustainability/ESG.

According to the survey findings, 57 % of the supervisory authorities are running or plan to run an awareness campaign among insurance stakeholders on the topic of insurance sustainability/ESG. As shown in **Figure 3** ↪, awareness campaigns include a wide spectrum of activities, from the issuance of publications to the organisation of international conferences, workshops, and seminars on ESG/sustainability issues.

Figure 3: Awareness-raising activities among insurance stakeholders on the topic of insurance sustainability/ESG



FINDING 5: There is a need to develop and promote NSFS focused on financial sector contribution to SDGs.

Almost all CEET countries have defined high-level national policy approaches to achieve the SDGs (in documents such as: Nationally Determined Contributions to the Paris Agreement, National Development Programmes, Climate Change strategies, Green Action Plan, Low-

Carbon Development Strategy or Sustainable Development Agenda until 2030). In contrast, an NSFS, focused on supporting an environmentally and socially sustainable financial system in the long term and leveraging the financial sector's contribution to the SDGs, is often missing. In a few instances, such supportive frameworks (or NSFS) aiming at creating a sustainable finance ecosystem do exist (**Annex 3 ↪**):

- Sustainable Finance Framework (Türkiye),
- Strategy and Action Plan on Sustainable Finance (Lithuania),
- MNB Green Program (Hungary),
- Capital market/Financial sector development strategy (Georgia, Latvia),
- Concept for transition of the Republic of Kazakhstan to Green Economy (Republic of Kazakhstan),
- NBU Sustainable Finance Development Policy (Ukraine).

The purpose of these supportive frameworks is manifold: firstly, to create a sustainable finance ecosystem that enables interaction between private financial market players and public bodies. Secondly, to convene and coordinate the different range of stakeholders involved in the transition to sustainable finance and help prioritise actions and coordinate activities among stakeholders, including policymakers, supervisors, regulators, associations, corporations, and other financial sector participants to accelerate the expansion of sustainable finance. Thirdly, to provide incentives for the financing of sustainable projects by private financial market players. Considering that national sustainable finance strategies are important for greening the financial system and services, for mobilising funds for green goals, and encouraging financial institutions' greener operations, there is a strong need to develop and further promote these strategies focused on financial sector contributions to the SDGs. Currently, only eight of the twenty-two CEET countries analysed have a distinct national sustainable finance strategy (**Annex 3 ↪**).

FINDING 6: The role of insurance in achieving the SDGs is not fully recognised and understood by supervisors.

The SDGs were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity[34]. Insurance supervisors can support government efforts in achieving the SDGs as the insurance sector plays an important role in achieving nine of the SDGs and an indirect and supporting role in five of the SDGs[35]. By taking regulatory and policy actions, supervisors can provide that

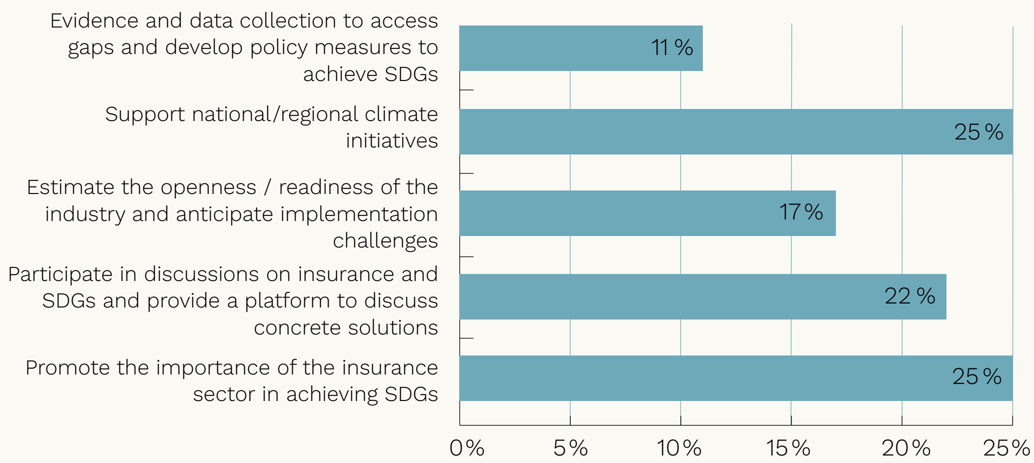
34 Source: https://www.undp.org/sustainable-development-goals

35 Source: https://a2ii.org/en/sustainable-development-goals

the essential scope and diversity of products and services that support the development goals are provided in their insurance market.

The findings of the survey indicate that the support of national or regional climate initiatives and the promotion of the importance of the insurance sector in achieving SDGs are roles assumed by only 25 % of supervisory authorities (Figure 4 ↪).

Figure 4: Supervisory authorities' actions taken with regard to supporting government efforts in achieving the Sustainable Development Goals



Under supervisory mandates, authorities can collect the necessary data needed to meet SDG goals relevant for SDG-related product offerings (such as data on premiums, number of contracts, claims data, distribution channels, as well as a registry of products offered by insurers). Furthermore, supervisors can participate in broader and international discussions on insurance and sustainability issues and inform relevant stakeholders about the latest developments in this area. Surprisingly, the survey findings point out that these two roles are not fully recognised and understood by supervisors since actions are only taken by 11 % and 22 %, respectively, of the responding CEET authorities.

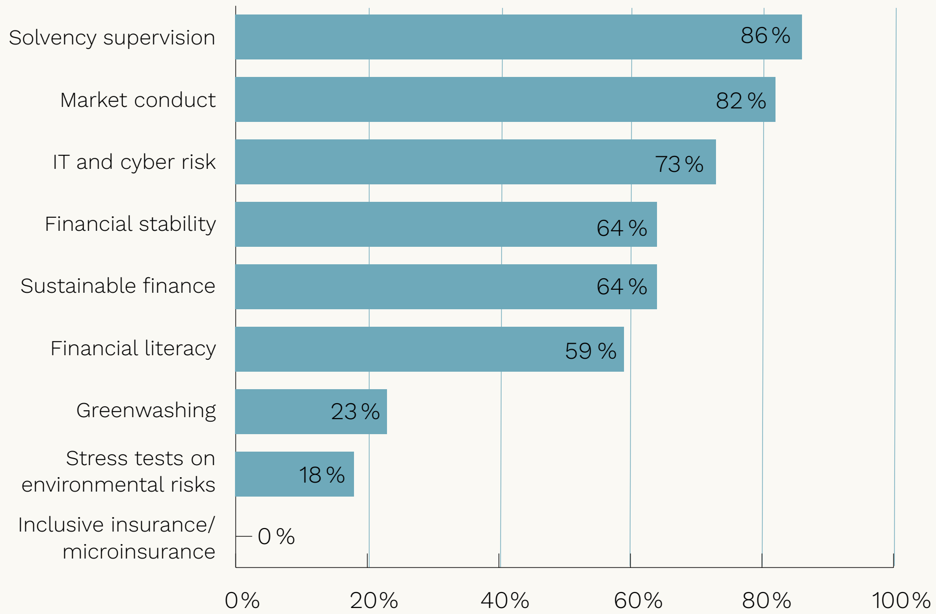
FINDING 7: In setting supervisory priorities, authorities should give more attention to sustainable finance.

The concept of sustainable finance has gained significant attention during the last decade, and it is advisable for insurance supervisory authorities to prioritise sustainable finance considerations. According to EIOPA, by giving more attention to sustainable finance principles and strategies, insurance supervisory authorities can contribute to the transition towards a more sustainable and resilient insurance sector while protecting policyholders and maintaining financial stability[36].

Based on the survey responses (Figure 5 ↪), solvency, market conduct and financial stability remain a high priority for authorities. Due to the rapid growth of cyber threats and cyber attacks, IT and cyber risks have gained importance and are identified as supervisory priorities in 16 authorities.

Integrating sustainable finance considerations across other priorities, such as solvency supervision, market conduct, and financial stability, can demonstrate a more holistic approach to promoting sustainability in the insurance industry. Regarding sustainable finance, fourteen authorities out of twenty-three insurance supervisory authorities have recognised the importance of this topic by assigning it as a supervisory priority. Sustainability issues such as greenwashing or stress tests on environmental risk are even less observed as important.

Figure 5: Supervisory authorities' priorities for 2023



36 Source: EIOPA (2021a), *SUSTAINABLE FINANCE ACTIVITIES 2022 – 2024*, Available at: https://www.eiopa.europa.eu/browse/sustainable-finance_en

By adjusting supervisory priorities and integrating sustainable finance considerations across various supervisory areas, insurance supervisory authorities can strengthen their commitment to promoting sustainability and ensure that the insurance industry plays its part in addressing ESG challenges.

The survey results indicated that inclusive insurance/microinsurance has not been defined as a priority by any respondent which is an even more significant concern in relation to the low level of development of the insurance market, the vast protection gap, and the high share of underserved populations. Assigning a higher supervisory priority to this area would align with the goals of sustainable development and enhancing social resilience.

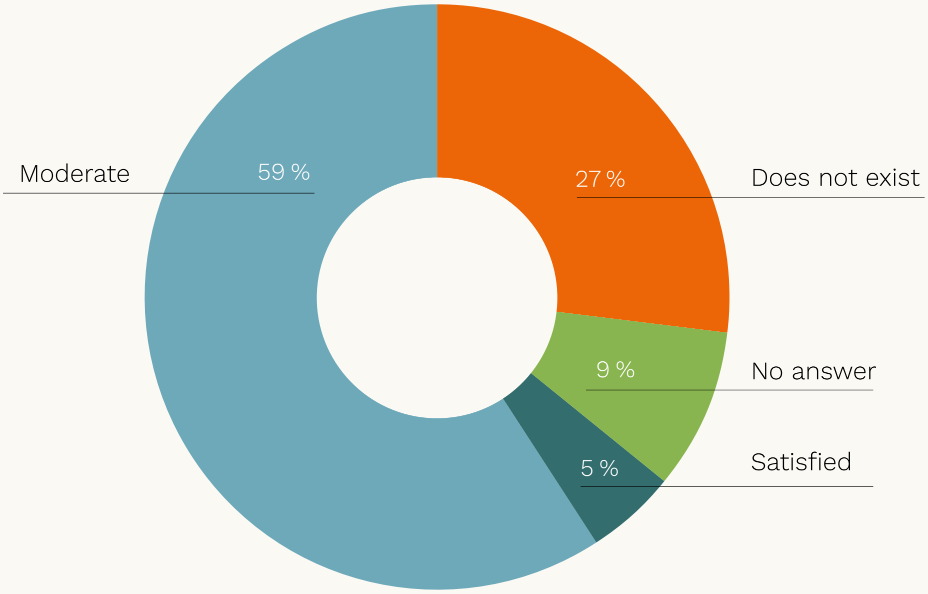
FINDING 8: Fragmented regulatory views on national insurance sector awareness and preparedness to implement ESG frameworks.

The insurance sector in CEET countries is exposed to various ESG risks that are associated with the different economic sectors, and the corporate and retail clients that they serve. For example, the region has a significant exposure to environmental risks, such as air and water pollution, natural disasters, and to climate change-related risks in general. The region is also exposed to social risks, such as inequality, social unrest, and demographic changes. The corporate and SME sectors face regulatory compliance issues, labour practices and human rights concerns, i.e. risks that can not only affect the financial performance and viability of the companies themselves but also of the insurance companies that provide coverage to them. Therefore, it is very important in the survey to explore the regulatory/supervisory perspective on the awareness and preparedness of the national insurance sector to implement ESG frameworks.

Overall, based on the survey results (**Figure 6** ↪), the local insurance sector's awareness and preparedness to implement ESG frameworks in CEET can be assessed as moderately satisfactory. However, the responses need to be split into two groups of countries: EU Member States and non-EU countries. For the EU Member States, the level of awareness and preparedness is higher than for non-EU member countries. In the non-EU region, except for three jurisdictions, the awareness and preparedness to implement ESG frameworks do not exist, or is very low.

Local insurance sector awareness and preparedness to implement ESG frameworks in CEET can be assessed as moderately satisfactory. However, there are differences between EU and non-EU countries, where the awareness of and preparedness for ESG framework implementation are high for the EU supervisory authorities.

Figure 6: Regulatory perspective on the national insurance sector's awareness and preparedness to implement ESG frameworks



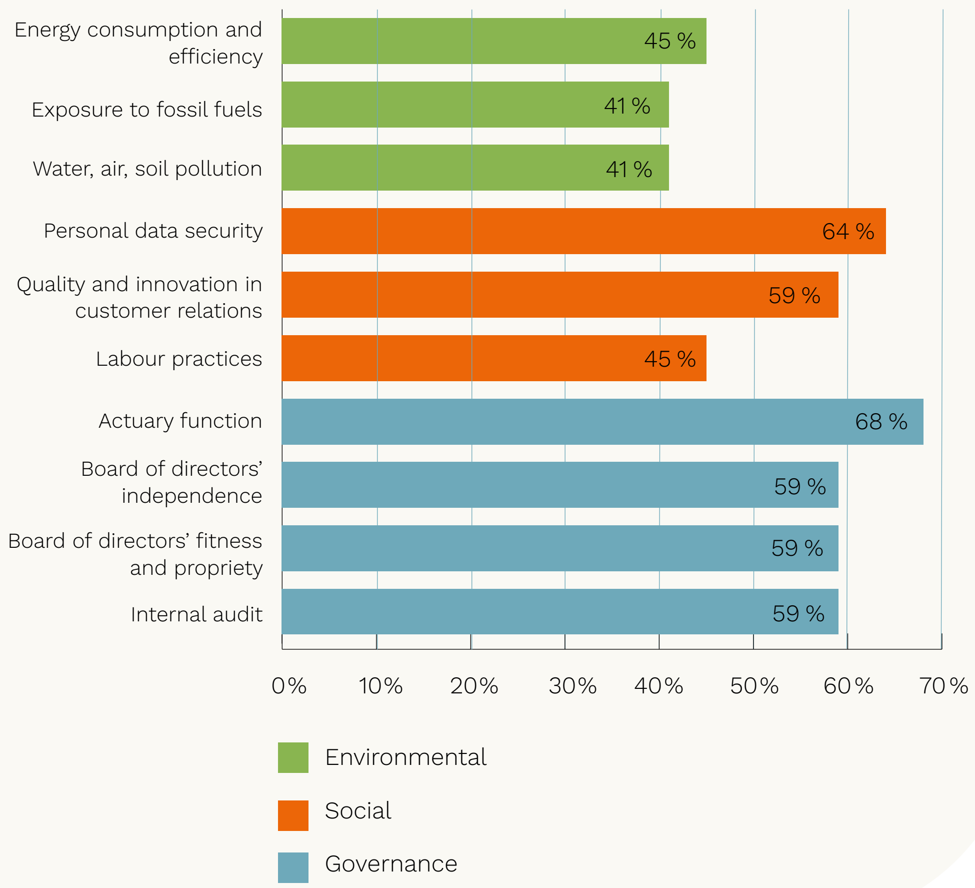
FINDING 9: Governance issues, or the "G" in the ESG, are considered the most materially important factors for the insurance industry.

Climate change adaptation and mitigation strategies, including investing in renewable energy and reducing carbon emissions, are becoming increasingly important for insurers. Strong corporate governance practices are essential for insurers to maintain the trust of their customers and investors. Insurers need to ensure that their boards are diverse and independent and that they have effective risk management and control processes in place. Insurers have a role to play in promoting social responsibility, such as by providing insurance products that support sustainable development, ensuring the promotion of diversity and inclusion in their workplaces, and by engaging in corporate social responsibility initiatives that benefit their communities.

The survey focused on identifying the most important (materially important) ESG issues in the insurance sector. **Figure 7** ↪ shows that governance issues are considered to be the most critical to the success and sustainability of the insurance industry. Among governance issues, the actuarial function can be attributed the most importance, with 68 % of total responses. Also, very high scores were achieved on the importance of the internal audit function, which ensures the quality of corporate governance and thus contributes to building trust and maintaining financial stability over the long term.

Governance issues are the most critical to the success and sustainability of the insurance industry. Among governance issues, the actuarial function has the most importance (material importance), with 68% of total responses, followed by board of directors´ independence, fitness and propriety and internal audit (each of them with 59 % of total responses).

Figure 7: The most important ESG issues (materially important) in the insurance sector



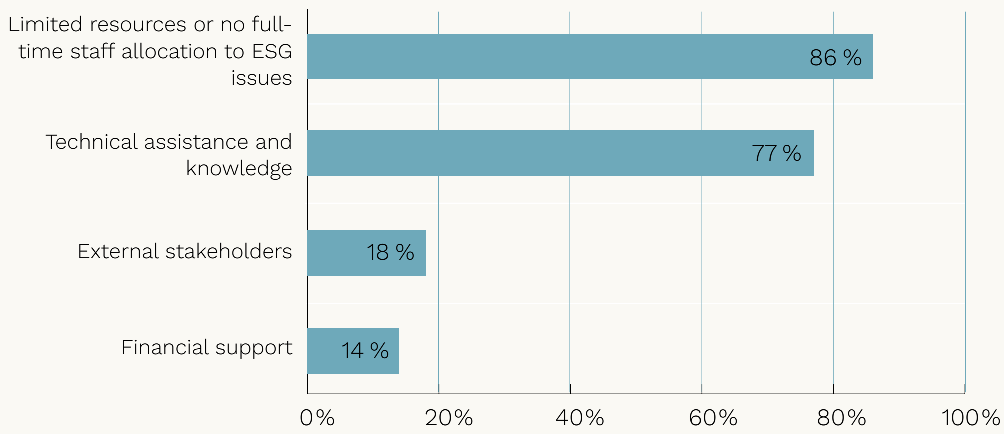
The use of digital technology has become more prevalent in the insurance industry, creating new risks and challenges for data protection. In that respect, the survey found 64 % of jurisdictions recognised personal data security, as well as the quality and innovation in customer relations (59 % of the responses), as the most important social factors. We expected environmental issues to be identified as the most important ones, but the results show less relevance than S and G issues. Energy consumption has the highest score at 45 %, followed by exposure to fossil fuels and water, air, and soil pollution at 41 %, respectively.

From a regulatory perspective, there has been more focus on creating regulation on social and governance issues in the past. However, in recent years, there has been a significant increase in regulation around environmental issues. Regulatory bodies and industry associations have emphasised data security, board governance, customer relations, and employee practices. While environmental issues are undoubtedly critical, the awareness and maturity of environmental initiatives in the insurance industry are still evolving. These issues in the CEET countries may be gaining traction at a relatively slower pace compared to social and governance matters. However, this does not diminish their long-term importance, and it highlights the need for continued efforts to raise awareness and drive sustainable practices in the insurance sector.

FINDING 10: Authorities have limited capacity, resources, and expertise to develop a national regulatory framework and oversee the integration of ESG issues.

The survey findings identified the most relevant topics for supervisory capacity building. **Figure 8** ↪ shows that 19 authorities (86.4 % of respondents) have limited capacity, resources, and expertise to develop a national regulatory framework and oversee the integration of ESG issues. Four jurisdictions indicated that they are relying on external support and consultants. The high percentage assigned to limited resources or no full-time staff allocation to ESG issues indicates a significant challenge and gap in knowledge in terms of dedicated resources for sustainable/ESG regulation. This suggests that there is a need for additional resources, both human and financial, to effectively address ESG-related issues in insurance regulation and its implementation as well as in supervision.

Figure 8: The most relevant topics for supervisory capacity building in the field of sustainable/ESG regulation



Furthermore, 77 % of the authorities need technical assistance and know-how transfer. The focus on technical assistance and knowledge highlights the importance of providing regulatory authorities with comprehensive training and resources to enhance their understanding of sustainable finance and ESG principles. This can include workshops, seminars, webinars, and collaborations with international organisations or experts in sustainable finance. Building technical capacity will enable regulators to develop and implement effective regulations, guidelines, and supervisory frameworks that promote ESG practices within the insurance sector.

Strong, trained, and experienced staff in the field of sustainability/ESG for insurance supervisory authorities is critical for ensuring that they have the necessary knowledge, skills, and resources to effectively oversee and regulate the insurance industry in a way that does not impair sustainability and ESG considerations. Therefore, supervisory capacity building is a necessity and of utmost high importance.

FINDING 11: There is an emerging need for ESG education and training.

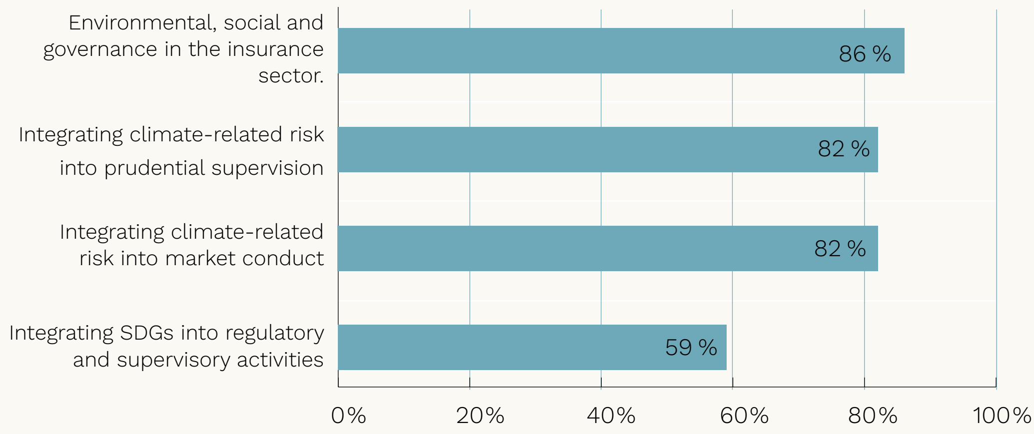
By investing in education and training in the areas of ESG, the SDGs and integrating climate-related risks into prudential and market conduct regulation and supervision, supervisory authorities can enhance their capabilities. This will in turn enhance supervisory oversight of the insurance sector's practices on how to address sustainability risks, including how the sector manages climate-related risks, and aligns itself with broader sustainability objectives.

> 86 % of respondents (**Figure 9** ↪) indicate a strong need for education and training in understanding and implementing ESG within the insurance industry, and in establishing sound practices on how to address and manage ESG risks in the sector.

Furthermore, the high percentage also assigned to integrating climate-related risks into prudential (82 %) and market conduct (82 %) supervision indicates a strong need to build necessary supervisory skills and tools in assessing and managing climate-related risks within the prudential and conduct oversight of insurance companies, aiming to ensure customer confidence and fair treatment.

The results indicate a lower need for training on integrating the SDGs into regulatory and supervisory activities. This could be explained by more pressing concerns on ESG and climate-related risks. This does however not diminish the SDGs' importance.

Figure 9: Identified areas for greater education and training



FINDING 12: The lack of high-quality ESG data is a constraint in setting supervisory strategies.

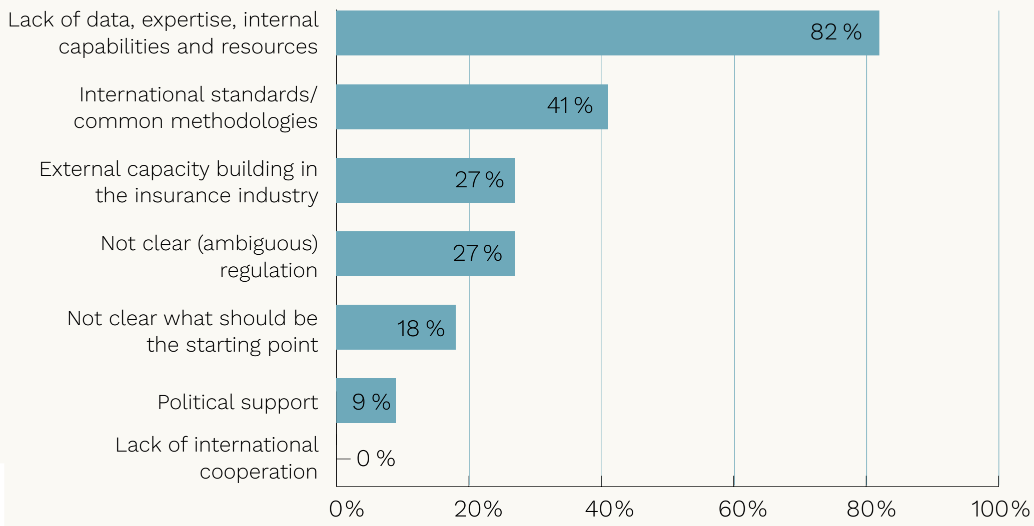
The most pressing risks/challenges in setting supervisory priorities and developing strategies in the sustainability/ESG regulation domain in CEET jurisdictions revolve around the lack of data, expertise, internal (i.e. supervisory authorities') capabilities, and resources. Additionally, challenges related to international standards, external capacity building, regulatory clarity, and political support also need to be addressed. By focusing on these challenges and implementing appropriate measures, regulatory authorities can enhance their supervisory effectiveness and drive the adoption of sustainable finance practices within the insurance industry.

Figure 10 ↪ shows a very high percentage (82 %) assigned to the insufficient availability of data, expertise, internal capabilities, and resources as a constraint in setting supervisory strategies. Insurance supervisors must ensure that the authorities themselves as well as insurers have access to reliable data to make informed decisions and to accurately assess the risks associated with ESG factors. However, it is worth noting that ESG risk assessment is still an evolving field and a one-size-fits-all approach is not suitable for all companies and industries.

The lack of a globally accepted standard for sustainability/ESG reporting[37], including ambiguous regulation and the lack of common methodologies that provide a comprehensive assessment of a company's ESG risks is an obstacle for regulators to establish consistent supervisory priorities and to develop effective strategies. It is worth emphasising that 18% of respondents are unaware of where to start in setting ESG supervisory priorities. To overcome

37 The survey was carried out in 2023 ahead of the International Sustainability Standards Board (ISSB) release of the IFRS 1 and IFRS 2 standards and at the time of responding there was no global framework for general sustainability-related disclosures, covering environmental, social and governance topics.

Figure 10: The most pressing risks/challenges in setting supervisory priorities and developing strategies in sustainability/ ESG regulation



this challenge, regulatory authorities need to conduct thorough assessments, engage with relevant stakeholders, in particular market participants, and develop a roadmap or action plan that outlines the key focus areas, timelines, and objectives for sustainable finance integration.

Political/policymaker support is crucial in driving sustainable finance initiatives and ensuring a conducive regulatory environment. Challenges may arise from varying political priorities, competing interests, or a general lack of understanding of the importance of sustainability/ESG issues at the political level. The survey identified a modest level of pressing political unawareness in only two jurisdictions. To address this challenge, supervisory authorities must engage policymakers, raise awareness about the benefits of sustainable finance, and advocate for political commitment and support.

International cooperation is vital in sharing best practices, facilitating the establishment of sound regulatory regimes integrating sustainability/ESG, based on international standards, and their consistent implementation, as well as effective supervision, and fostering a globally aligned sustainable finance ecosystem. This perspective is shared by the respondents of the survey and reiterates the importance of actively participating in international forums, engaging with fellow regulators in peer-to-peer exchanges, and contributing to global sustainability initiatives to leverage the benefits of international cooperation in the long run.

4. RECOMMENDATIONS

Regulatory requirements and supervisory actions can be a powerful catalyst to the insurance sector's adoption of practices that adequately reflect sustainability issues and ESG considerations. Taking into account the key findings of this survey we recommend the following steps at the government and regulatory/supervisory authority (**Figure 11 ↪**) level alike.

Figure 11: Key survey recommendations

Governments

- Defining national sustainable finance strategies (NSFS)
- Building regulatory framework on ESG principles and standards
- Intensive and strong collaboration with financial sector stakeholders
- Awareness campaign, education, research and projects support

National supervisory authorities

- Promoting ESG-related guidelines and standards
- Prioritising training programs and facilitating knowledge transfer
- Fostering technical dialogue among insurance supervisors
- Conducting follow-up sessions to assess the implementation and effectiveness of ESP measures

Governments

National governments should prioritise a comprehensive approach to drive sustainable finance. Governments have an important role in encouraging the financial sector to actively contribute to the achievement of the SDGs. Here are some key recommendations they can implement:

- Develop and implement regulatory frameworks that incentivise insurance companies to integrate sustainability considerations into their business practices. This can include offering tax incentives for sustainable insurance products or establishing guidelines for responsible underwriting.
- Establish robust monitoring and reporting mechanisms to track progress towards SDG targets, promoting transparency and accountability.
- Take decisive steps to mitigate and adapt to climate change, including the development of renewable energy sources, carbon reduction initiatives, and climate-resilient infrastructure.
- Social Inclusion: Prioritise policies that promote social inclusion, gender equality, and diversity, ensuring that no one is left behind in the pursuit of sustainable development.
- Community Engagement: Involve local communities in decision-making processes, acknowledging their unique needs and perspectives in the implementation of sustainable development initiatives.

National governments can also encourage the integration of ESG considerations in the insurance sector in a number of ways including;

- Mandating ESG disclosures. Governments can require insurance companies to disclose their ESG performance, including their environmental impact, social initiatives, and governance practices. This would help to increase transparency and accountability in the insurance sector.
- Providing financial incentives. Governments can provide financial incentives to insurance companies that adopt ESG practices. For example, governments could offer tax breaks, subsidies, or grants to insurance companies that invest in sustainable assets or underwrite sustainable businesses.
- Supporting ESG research and development. Governments can support ESG research and development in the insurance sector. This could include funding for universities and research institutions to develop new ESG insurance products and services.
- Educating the public about ESG topics in insurance. Governments can educate the public about sustainable insurance and its benefits. This could be done through public awareness campaigns, school programs, and other initiatives.

- Foster collaborations between government agencies, insurance regulators and supervisors, and the private sector to promote sustainable insurance practices.
- Invest in training programs and capacity-building initiatives for insurance professionals to enhance their understanding of sustainable finance.

National supervisory authorities

National supervisory authorities can support ESG integration and sustainability within the insurance sector in several ways, including:

- Promoting ESG-related guidelines and standards. This can help to ensure that insurers and insurance intermediaries are following a consistent approach to ESG integration and sustainability.
- Encouraging insurance companies to conduct thorough ESG risk assessments to identify and assess potential ESG-related risks across their operations, including underwriting, investments, and risk management.
    - promote the development and use of consistent and robust ESG risk assessment methodologies to ensure a standardised approach and comparability across the industry.
    - facilitate collaboration and knowledge sharing among insurance supervisors to foster a shared understanding of ESG risks and best practices for their management.
- Strengthening governance and oversight:
    - mandate the establishment of dedicated ESG committees or roles within insurance companies to oversee the integration of ESG considerations into their strategic planning, risk management, and decision-making processes.
    - require insurance companies to disclose their ESG strategies, risk management frameworks, and performance indicators to enhance transparency and accountability.
    - encourage the adoption of ESG-related metrics and benchmarks to guide insurance companies in evaluating and managing their ESG exposures.
- Integrate ESG factors into supervisory practices:
    - incorporate ESG factors into supervisory assessments of insurance companies, including capital adequacy, liquidity, and profitability.
    - conduct regular stress tests and scenario analysis to assess the resilience of insurance companies to potential ESG-related events, such as climate change or natural disasters.
    - encourage insurance supervisors to collaborate with other financial sector regulators, such as securities and banking supervisors, to ensure a consistent approach to ESG oversight across financial sectors.

- Support the development of ESG data and reporting:
  - promote the development of standardised data collection and reporting frameworks for ESG-related metrics and information.
  - encourage the use of credible ESG data providers and methodologies to improve the quality and comparability of ESG data available to insurance supervisors.
  - facilitate the sharing of ESG data and insights among insurance supervisors to enhance their understanding of ESG trends and risks.
- Prioritising training programs and facilitating knowledge transfer[38]. This can help to build the capacity of supervisors to assess and manage ESG risks. Promote knowledge sharing and capacity building initiatives to equip insurance supervisors with the skills and expertise necessary to effectively oversee ESG integration in the industry.
- Fostering and participating in technical dialogue among regional and global insurance supervisors. This can help to share best practices and promote convergence in supervisory approaches.
- Conducting follow-up sessions to assess the implementation and effectiveness of ESG measures. This can help to identify any areas where further improvement is needed.

In addition to these specific measures, national supervisory authorities can also be supported by global and regional standard-setting bodies as they can facilitate the exchange of information and expertise among supervisors from different countries.

38 Insurance supervisors can find further information on capacity building for supervisors on environmental and climate risks by accessing the A2ii's Connect.a2ii and the Climate Training Alliance (CTA).

5. CONCLUSIONS

In conclusion, the regulatory and supervisory bodies in the CEET region play a key role in promoting the integration of ESG considerations in the insurance industry. However, several challenges impede their progress in attaining this objective. The following key insights emerge from the survey findings and need to be addressed to progress with effective implementation of ESG considerations:

- **Limited Awareness and Technical Expertise:** Insufficient awareness and understanding among regulators and supervisors, insurers, and stakeholders regarding the importance of ESG considerations is frequently a barrier. Additionally, some regulatory entities and supervisory authorities lack the necessary technical proficiency and resources to effectively integrate ESG factors/considerations.
- **Scarce ESG Data Availability:** Limited availability of ESG-related data and information poses a barrier for supervisory authorities to adequately assess insurers' implementation of ESG standards into their operations, risk management and business models and to monitor their observance of ESG-related regulations.
- **Regulatory Fragmentation and Inconsistencies:** The insurance industry is regulated at both the national and regional levels, which can lead to regulatory fragmentation and inconsistencies in ESG-related regulations. This is especially relevant for a heterogenous region such as CEET, which includes countries with differences in regulatory regimes and levels of insurance market development.
- **Paucity of ESG Research:** The landscape of ESG research in the CEET region is still in its nascent stages, with a noticeable scarcity of comprehensive research articles, reports, and surveys addressing the multifaceted dimensions of ESG-related issues. As the importance of ESG factors continues to grow, there is an urgent need for an expanded and rigorous body of research to inform decision-makers across various sectors.
- **Resource-Intensive Integration Process:** Incorporating ESG issues into insurers' operations can require significant investments in data collection and analysis, as well as in developing and implementing new policies and procedures. Consequently, insurers may exhibit hesitancy in adopting ESG, unless incentivised or required by clear but robust regulations and supervisory expectations.
- **Role of Sustainable Finance Strategies:** NSFS focused on the financial sector's contribution to the SDGs can play an essential role in mobilising private finance to support sustainable development. Unfortunately, in most of the CEET jurisdictions, these strategies are missing.

Annex 1
QUESTIONNAIRE

Respondent Details	
Name	
Email Address	
Authority	
Country	

I The existence and assessment of sustainability and ESG regulations and initiatives

1. Are there any sustainable insurance[39]/ESG regulations in your jurisdiction[40]?

   O Yes, **go to question 2**
   O No

2. Please indicate and provide links on the regulation(s) that exist in your jurisdiction? Please also indicate from the list below if EU regulation is applicable in your jurisdiction.

   O SFDR: Sustainability Related Disclosures in the Financial Services Sector Regulation 2019/2088
   O TR: Taxonomy Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment
   O IDD : Insurance Distribution Directive (EU) 2016/97
   O CSRD: Corporate Sustainability Reporting (COM(2021)0189 – C9-0147/2021 – 2021/0104 (COD)) amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014
   O Other, please indicate ....

3. Are there any regulatory initiatives planned?

   O Yes, please include relevant links or information
   O No

39 *For the sake of this survey, we define "**sustainable insurance**" as "a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues."*

40 Under "**ESG regulation**" we consider a set of requirements on (re)insurance companies to publicly disclose information about their performance in environmental, social, or governance topics (such as a sustainable finance regulatory package for insurers consisted of SFRD, EU taxonomy and IDD in the European Union).

4. Does your jurisdiction have legislation, or non-legally binding documents (communiqué, announcement, notification, guidelines, or action plan) to address the following:

   a) ESG issues in risk management and underwriting
   O Yes, please provide the link to source document ....
   O No

   b) ESG issues in investment activity
   O Yes, please provide the link to source document..........
   O No

   c) ESG issues in product offer
   O Yes, please provide the link to source document ....
   O No

   d) ESG/sustainability disclosure
   O Yes, please provide the link to source document ....
   O No

5. Does your jurisdiction have a definition of ESG risks (environmental, social and governance risks) in legislation, or in a non-legally binding document such as a communiqué, an announcement or notification, guidelines, discussion papers or an action plan?

   O Yes, please provide the definition and the link to source document ....
   O No

6. Does your jurisdiction have a definition of climate-related risks (including physical risks and transition risks)/environmental risks in legislation, or in a non-legally binding document such as a communiqué, an announcement or notification, guidelines, discussion papers or action plan?

   O Yes, please provide the definition and link to source document ....
   O No

7. Does your jurisdiction have or plan to introduce a regulatory/supervisory framework or process on environmental risks / climate-related risks in the following areas;

   a) *qualitative criteria for the assessment of the impact of climate-related risks on the financial stability of insurance companies in the short-, medium- and long-term development.*
   O Yes, please provide the link to source document ....
   O No

   b) *quantitative criteria for the assessment of the impact of climate-related risks on the financial stability of insurance companies in the short-, medium- and long-term development.*
   O Yes, please provide the link to source document ....
   O No

   c) *Climate-related risk stress tests and scenario analyses.*
   O Yes, please provide the link to source document ....
   O No

8. Is your authority running or planning to run an **awareness-raising campaign(s)/ event(s)** (surveys, conferences, dialogue) among insurance stakeholders on the topic of insurance sustainability / ESG?

   O Yes, please provide the details and events link if available: ....
   O No

9. Please, indicate from the list below the supervisory priorities of your authority for the year 2023:

   O IT and cyber risk,
   O Solvency supervision
   O Financial stability
   O Market conduct,
   O Financial literacy,
   O Sustainable finance,
   O Greenwashing,
   O Stress tests on environmental risks,
   O Inclusive insurance/microinsurance,
   O Other, please indicate ....

II Current national policy approaches for achieving SDGs and finance sustainable growth

10. Are there any supportive regulation/documents/guidelines in your country, such as ***national sustainable finance strategy*** *(national sustainable finance platform/roadmap for the development of sustainable finance)*, focused on financial market policy and aiming at supporting and strengthening the regulatory framework for environmental, social and governance sustainability requirements?

    O Yes, please provide the link to source document ....
    O No

11. The Sustainable Development Goals were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity[41]. Insurance supervisors need to support government efforts in achieving the Sustainable Development Goals (SDG)[42] . From the list below, please indicate the action(s) that your authority has taken in this regard:

    O Promote the importance of the insurance sector in achieving SDGs.
    O Participate in discussions on insurance and SDGs and provide a platform to discuss concrete solutions.
    O Estimate the openness / readiness of the industry and anticipate implementation challenges.
    O Support national / regional climate initiatives.
    O Evidence and data collection to access gaps and develop policy measures to achieve SDGs.
    O Other, please indicate ....

41 Source: https://www.undp.org/sustainable-development-goals

42 Source: https://a2ii.org/en/sustainable-development-goals

12. Are there **studies and/or research findings on sustainable insurance** conducted in your jurisdiction by the academia, public and private sectors or/and international organisations? (For e.g., reports, studies, articles, others)

O Yes – Please could you share or forward these document(s)/data to gorazd.cibej@a-zn.si and copy to petra.hribernik@a-zn.si
O No

III The country's insurance sector's awareness and preparedness to implement ESG frameworks

13. How would you assess the **level of local insurance sector awareness and preparedness to implement ESG frameworks?**

O Satisfied
O Moderate
O Non-existent
Please include a comment on your assessment ....

14. In your opinion, which are **the most important environmental issues** (materially important) in the insurance sector in your country[43] ?

Environmental factor	Importance		
	High	Medium	Low
Energy consumption and efficiency	○	○	○
Exposure to fossil fuels	○	○	○
Water, air, soil pollution	○	○	○
Water usage, recycling and management	○	○	○
Waste productionand management (hazardous, non-recycled)	○	○	○
Raw materials consumption	○	○	○
Biodiversity and protection of healthy ecosystems	○	○	○

Other, such as ....

43 Please, consider that in the insurance sector the environmental factors, mentioned in the question, may be taken into account from various perspective. For example, from the insurance portfolio point of view (risks insured), from investment point of view (investment structure in respect of industry sector), as well as from the point of view of business operations.

15. In your opinion, which are the most important social issues (materially important) in the insurance industry in your country?

Social factor	Importance		
	High	Medium	Low
Quality and innovation in customer relations	○	○	○
Labour practices: human resource management and employee relations, diversity issues, gender equality, workplace health and safety considerations	○	○	○
Remuneration	○	○	○
Financial inclusion	○	○	○
Personal data security	○	○	○
Diversity, equity and inclusion (DE&I)	○	○	○
Investment in human capital	○	○	○
Responsibility to the local community	○	○	○

Other, such as ....

16. Provide the list of the corporate governance issues of materially importance in insurance sector in your country?

Governance factor	Importance		
	High	Medium	Low
Board of directors independence	○	○	○
Board composition and structure	○	○	○
Board of directors fitness and propriety	○	○	○
Ethics and Integrity in corporate conduct/conduct frameworks	○	○	○
Executive compensation	○	○	○
Internal audit	○	○	○
Risk management system	○	○	○
Actuary function	○	○	○
Bribery and corruption	○	○	○

Other, such as ....

17. Do **sustainable/green/social products** exist at your local insurance market?

O Yes, please provide the list of products and short description of the risk coverage
O No

18. Has your regulatory authority identified or come across insurance products or/and investments that were **subject of greenwashing**?

O Yes, please provide a description and the main aspects of greenwashing
O No

IV Identification of supervisory capacity building g needs for promotion of SDGs and implementation of ESG framework

19. What are **the most relevant topics for supervisory capacity building** in your jurisdiction in the field of sustainable/ESG regulation?

O Limited resources or no full-time staff allocation to ESG issues
O Technical assistance and knowledge
O Financial support
O External stakeholders
O Other, such as: ....

20. What are **the most pressing risks/challenges in setting supervisory priorities** and developing strategies in the sustainability /ESG regulation domain in your jurisdiction?

O Not clear what should be starting point
O Lack of data, expertise, internal capabilities and resources
O Lack of international cooperation
O International standards /common methodologies
O External capacity building in the insurance industry
O Political support
O Not clear (ambiguous) regulation
O Other, such as: ....

21. From the list below please indicate, on which area(s) would your authority benefit from greater training and capacity building?

O Environmental, Social and Governance in the insurance sector (this includes practical skills, tools and materials necessary to assess relevant risks)
O Integrating climate related risk into prudential supervision
O Integrating climate related risk into market conduct
O Integrating SDGs into regulatory and supervisory activities
O Other, please indicate: ....

22. Do you think there are still some climate change-related effects that have not been properly addressed by the insurance sector due to lack of capacities/knowledge?

O Yes, please indicate which one(s): ....
O No

23. If you have any further comments you wish to add, please specify below.

Annex 2
RESPONDING JURISDICTIONS DETAILS

Country	Cluster	Authority	IAIS member	EU member[44]
Bulgaria	CEE-EU	Financial Supervision Commission	Yes	Yes
Croatia	CEE-EU	Croatian Financial Services Supervisory Agency	Yes	Yes
Czech Republic	CEE-EU	Czech National Bank	Yes	Yes
Estonia	CEE-EU	Estonian Financial Supervision and Resolution Authority	Yes	Yes
Hungary	CEE-EU	The Central Bank of Hungary	Yes	Yes
Latvia	CEE-EU	Financial and Capital Market Commission	Yes	Yes
Lithuania	CEE-EU	Central Bank of Lithuania	Yes	Yes
Poland	CEE-EU	KNf-Polish Financial Supervision Authority	Yes	Yes
Slovakia	CEE-EU	National Bank of Slovakia	Yes	Yes
Slovenia	CEE-EU	Insurance Supervsion Agency	Yes	Yes
Albania	SEE	Albanian Financial Supervisory Authority	Yes	Cand. country, neg. opened
Bosnia and Herzegovina	SEE	· Insurance Agency of Bosnia and Herzegovina · Insurance Agency Of Republic of Srpska	No	Candidate country
Kosovo	SEE	Central Bank of the Republic of Kosovo	Yes	Potential candidate country
North Macedonia	SEE	Insurance Supervision Agency	Yes	Cand. country, neg. opened
Montenegro	SEE	Insurance Supervision Agency	Yes	Cand. country, neg. opened
Armenia	EE	Central Bank of Armenia	Yes	No

44 As of 14 December 2023. Available at:
https://commission.europa.eu/strategy-and-policy/policies/eu-enlargement_en and at:
https://neighbourhood-enlargement.ec.europa.eu/countries_en

Georgia	EE	Supervision Services of Georgia	Yes	Candidate country
Kazakhstan	EE	Astana Financial Services Authority	Yes	No
Moldova	EE	National Commission for Financial Supervision	No	Cand. Country, neg. opened
Ukraine	EE	National Bank of Ukraine	Yes	Cand. Country, neg. opened
Turkey	EE	Insurance and Private Pension Regulation and Supervision Agency of Türkiye	Yes	Cand. country, neg. standstill
Israel	CEET	Capital Markets, Insurance and Savings Authority	Yes	No

Annex 3

NATIONAL SUSTAINABLE FINANCE STRATEGY (NSFS) DOCUMENTS (PLATFORMS, ROADMAPS, ACTION PLANS, RESOLUTIONS)

Authority	Jurisdiction	NSFS documents
Central Bank Of Armenia	Armenia	Nationally Determined Contribution 2021–2030 of the Republic of Armenia to Paris Agreement, available at: https://unfccc.int/sites/default/files/NDC/2022-06/NDC%20of%20Republic%20of%20Armenia%20%202021-2030.pdf 2021–2026 Action Plan of the Government of the Republic of Armenia, available at: https://www.arlis.am/Annexes/6/2021_N1902hav1.eng.pdf
Financial Supervision Commission	Bulgaria	National program for development Bulgaria 2030, available at: https://www.minfin.bg/bg/1394
Supervision Services of Georgia	Georgia	2023–2028 capital market development strategy approved by government decree, available at: https://matsne.gov.ge/ka/document/view/5683209?publication=0 · Government of Georgia approved the resolution on 2030 development strategy of Georgia that includes sustainable financial strategy issues, available at: https://matsne.gov.ge/ka/document/view/5604706?publication=0 · Order of the President of the National Bank "Rules for disclosure of information by commercial banks within the framework of Pillar3", available at: https://matsne.gov.ge/ka/document/view/3709120?publication=16 · The order of the President of the National Bank "Rules for Classifying and Reporting Loans According to the Taxonomy of Sustainable Finance" available at: https://matsne.gov.ge/ka/document/view/5537339?publication=0

Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan	Kazakhstan	Concept on Transition towards Green Economy until 2050 (national scope - Kazakhstan), available at: https://policy.asiapacificenergy.org/node/133 AIFC – Concept on introduction and development of green finance instruments and principles (AIFC scope), available at: https://aifc.kz/uploads/AIFC%20Commitment.pdf
Financial And Capital Market Commission	Latvia	Financial Sector Development Plan for 2021 to 2023, available at: https://www.fm.gov.lv/en/financial-sector-development-plan-2021-2023?utm_source=https%3A%2F%2Fwww.google.com%2F The Roadmap for sustainable financial sector in Latvia, available at: https://www.bank.lv/en/operational-areas/supervision/supervision-of-sustainability-of-the-financial-sector
Central Bank of Lithuania	Lithuania	Lithuanian strategy and action plan on sustainable finance, available at: https://finmin.lrv.lt/uploads/finmin/documents/files/Strategy_and_Action%20Plan_2021-12-30_small(2).pdf
The Central Bank of Hungary	Hungary	Green programme (comprehensive supervisory programme to improve the resilience of the financial system, understand the impact of environmental risks and promote green finance), available at: https://www.mnb.hu/en/supervision/green-program
National Bank of Slovakia	Slovakia	Low-carbon development strategy of the Slovak Republic until 2030 with a view to 2050; Agenda 21, available at: https://www.minzp.sk/en/documents/strategic-documents/
Insurance and Private Pension Regulation and Supervision Agency of Türkiye	Turkey	Sustainable Finance Framework, available at: https://ms.hmb.gov.tr/uploads/2021/11/Republic-of-Turkey-Sustainable-Finance-Framework.pdf
National Bank of Ukraine	Ukraine	NBU Sustainable Finance Development Policy 2025, available at: https://bank.gov.ua/en/news/all/politika-natsionalnogo-banku-ukrayini-schodo-rozvitku-stalogo-finansuvannya-na-period-do-2025-roku

Annex 4

STUDIES AND/OR RESEARCH FINDINGS ON SUSTAINABLE FINANCE/INSURANCE

Jurisdiction	Study description/link to the source
Bulgaria	*Opportunities for the insurance business in Bulgaria in the context of green economy, Journal of Innovations and Sustainability,* INSTITUTE FOR SUSTAINABLE TRANSITION AND DEVELOPMENT, https://www.istd.bg/en/
Czech Republic	A series of studies within by the *International Sustainable Finance Centre* (ISFC), an independent and apolitical not-for-profit think tank that specialises in sustainable finance, available at: https://www.isfc.org/en/publications
Hungary	Publications of the Central Bank of Hungary, available at: https://www.mnb.hu/en/publications
Latvia	Publications of the Central Bank of Latvia, expert articles on climate risks and insurance by central bank experts, available at: https://www.bank.lv/en/news-and-events/news-and-articles
Macedonia	· Denčić-Mihajlov, K., Poposki, K., Pavlović, M. (2021). *What can be learned from sustainability reporting at the frontier markets? The case of the Republic of Serbia and North Macedonia,* FACTA UNIVERSITATIS, Series: Economics and Organization, University of Niš, Vol. 18, No. 3, pp. 243 – 257. Available at: http://casopisi.junis.ni.ac.rs/index.php/FUEconOrg/article/view/7913 · Spasić, D., Denčić-Mihajlov, K., Poposki K., Srbinoski, B. (2021). *A critical review of the climate-related reporting requirements in the financial service sector.* Proceedings from the 26th International Scientific Conference “Strategic Management and Decision Support Systems in Strategic Management (2021)“, University of Novi Sad, Faculty of Economics Subotica, Subotica, 21 May 2021, pp. 382 – 389., Available at: https://www.researchgate.net/publication/353024454_A_Critical_Review_of_the_Climate-Related_Reporting_Requirements_in_the_Financial_Service_Sector

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Promoting access to responsible, inclusive insurance for all.

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