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Biodiversity report

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Responding to the paper

EIOPA welcomes comments on the Consultation paper on the Report on biodiversity risk management by insurers.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please provide your comments to EIOPA via EU Survey **by 26 February 2025, 23:59 CET**.

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About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.
  - (•) Public
  - ( ) Confidential
  - ( ) Partly confidential

* Stakeholder name

WeeFin

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Contact person phone number

Questions to stakeholders

Chapter 2. Defining biodiversity and risk drivers for insurers

2.1 Definition of biodiversity risk

* Q1: In your view, should biodiversity risks be assessed together with climate risks, or subject to a dedicated risk assessment? Please explain.

- ( ) Assessment together with climate risks
- ( ) Subject to a dedicated risk assessment
- (•) Other

Please provide your comments to Q1.

At WeeFin, we consider that, in the end, financial companies such as insurers should be able to assess biodiversity and climate risks together. Nevertheless, in view of multiple constraints and complexities facing insurers (as described below), in upcoming years, it seems preferable to separate the assessment of climate risk from that of biodiversity risk.

Climate and biodiversity risks are closely interlinked and mutually reinforcing, as such, insurers should not completely dissociate them in their risk assessment:
- Climate change is a major driver of biodiversity erosion, and loss of biodiversity also accelerates climate change processes.
- Climate and biodiversity share multiple risks such as the ones associated with water scarcity or fires.
- Solutions considered as key in climate risks mitigation are also negatively impacting biodiversity and increase nature related risks (e.g., lithium for batteries used in electric cars: extraction and processing processes harm significantly the environment through land degradation, habitat loss, water contamination and consumption).

In conclusion, as recommended by the NGFS, the best practice would be to assess the biodiversity risks by including climate change as a sub part of the biodiversity analysis, notably because it represents one of the pressures that lead to its loss.

However, through WeeFin's specific positioning in the financing ecosystem, we know that such a risk assessment methodology is complex and requires time and resources to be developed and implemented by insurers. Yet, the subject of biodiversity risks must be addressed as early as possible.
The best is the enemy of the good. In other words, if it appears easier for insurers to measure climate and biodiversity risks separately, we would recommend in the short term, to provide them with guidelines to perform separate assessments while not fully independently. We highlight the need to ensure the consistency between the results of the two analyses. For instance, insurers have to guarantee that the sources used, such as the heat-maps allowing the identification of water scarcity areas for example, are matching when evaluating the similar biodiversity and climate risks

In both cases (separate or unique risks assessment), insurers, despite an increasing commitment to measuring climate and biodiversity risks, are constrained by the lack of data and the search for an absolute metric. We believe that efforts should therefore focus on these two problems.
Indeed, we do consider that there is no unique indicator to assess biodiversity risks as it is multidimensional. Granular data and technical support via a dedicated and flexible tool are required to ensure that insurers are correctly measuring biodiversity risks. For more details on this, please refer to our answer to question 6.

* Q2: Would you agree that for financial risk assessment purposes, insurers could be guided by identifying their exposure of investments or liabilities to (i) economic activities that are dependent on biodiversity and ecosystem services and (ii) economic activities that impact biodiversity and ecosystems ('biodiversity footprint')?

- (●) Yes
- ( ) No

2.2 Biodiversity risk drivers for insurers

* Q3: Do you agree with the description of the transmission of biodiversity risk to insurers' assets and liabilities? Please explain.

- (●) Yes
- ( ) No

Please provide your comments to Q3.

As for every financial institution, the risks and impacts, whether they are climate-related or nature-related, come mainly from the scope 3 of insurers activities (i.e., indirect activities that correspond to their investments and insurance businesses). Thus we agree to the description of the transmission of biodiversity risks to insurers' assets and liabilities. It is indeed highlighted by the ACPR that the exposure of insurers to nature-related risks are indirect and originate from risks directly affecting the companies owning insurance policy (liabilities) and the entities in which insurers make investments (assets). On the other hand, exposure to direct risks can also occur but seem less important than indirect risks.

The distinction made in the consultation between physical and transition risks looks accurate according to us, notably as this methodology is aligned with climate risks assessment.

To note that at WeeFin we do not focus on liabilities of insurers but we are offering our services to financial institutions from an investment perspective.

Chapter 4. Biodiversity risk assessment in Solvency II

4.2 Materiality assessment

* Q4: Do you identify relevant market practices of undertakings in describing their narrative on the impact of biodiversity risks to their business? Please share them below.

For several years now, we have been carrying out an in-depth analysis of the Article 29 LEC reports published by insurers. A part of this report is dedicated to the biodiversity strategy in which insurers are required to set alignment objectives and associated methodological details.
As of today, we did not identify relevant market practices regarding narratives on biodiversity and are able to justify it:

- As in the case of climate risks, insurers can rely on the narratives already developed by scientific groups such as the NGFS, and refined by data providers (private or public).
- Nevertheless, on biodiversity risks, such narratives are still under development and some initiatives are being launched by several stakeholders, such as the Biodiversity and Ecosystem Services Scenarios Modelling Initiative led by Swiss Re Foundation in 2023, for which the full finding is expected to be published

at the end of 2025.
- So we understand that this work is under progress and no relevant market practice can be identified yet due to the complexity of the subject and its maturity level relatively low compared to the one of climate.

However, despite the absence of these narratives, we suggest that financial institutions start initiating the work, by reproducing the climate risks schemes and relying on recommendations already issued by experts and regulators (e.g., the NGFS has already published a report in December 2023).
We recommend having progressive methodologies and go from a high-level analysis (i.e., to-down analysis) to a granular analysis. To sum up, we believe at WeeFin, insurers cannot wait for a perfect scenario and narrative to occur, and have to build and implement advanced risk assessment methodologies gradually. In that order, they can already initiate their work on biodiversity risks assessment.

* Q5: Please share relevant approaches, tools and practices for undertakings to perform sectoral and/or geographical biodiversity exposure risk assessment.

At WeeFin, in view of our singular and unique position within the financial ecosystem, has been able to identify the best approaches that financial companies can use to assess their biodiversity risk and concretely mitigate them. The approach that we are referring (see below) to is an example of good practice that enables financial institutions to reach results while maximizing their costs.

Nevertheless, we are aware that innovations in biodiversity risk measurement are numerous and we welcome them, including initiatives such as TNFD that promote the integration of nature into decision making.

As part of a project dedicated to biodiversity, we develop a methodology to assess sectoral risk exposure relies on open-source data such as ENCORE, allowing the financial institutions to:
- create a heatmap to identify the most important impacts that its investments have on nature or their greater dependencies
- highlight which thematic of biodiversity should be addressed first according to sectors invested in.

This methodology relies on a top-down analysis, to compensate for the lack of data. For more details on this methodology, you can refer to our dedicated guide.

Nevertheless, for geographical exposure analysis, keeping in mind that the best practice for biodiversity evaluation is to analyse the risks from the most granular perspective, it would be recommended to identify the geographical positions of all the activities of each company invested. This can be done via information issued by data providers.
Once these data have been collected, an insurer can use the services of the public source WWF Risk Filter. To facilitate the implementation of this methodology, a new partnership has been made between MSCI and WWF Risk Filter in November 2024.

This method, as being the most granular, is the most recommended one. However, as we know that lack of data can be a challenge, we recommend financial institutions facing this issue to still assess the geographical biodiversity risk assessment, by adopting a high-level approach via a top-down model or by focusing on high priority sectors previously identified thanks to ENCORE.

In the end, whichever approach chosen, it is essential for insurers to rely on a data aggregator in order to easily and quickly connect with multiple sources, in an agnostic way, match the biodiversity and financial data and ensure a high quality level of data. Having in mind these requirements, we develop an ESG operating system in order to allow insurers to:
- automatically integrate of all their ESG data sources, both public and private, as well as their investment

data
- guarantee quality of these data as well as results of risk models with automated controls
- maximise coverage with a matching algorithm.

* Q6: Please share relevant approaches, methodologies and reference to relevant data for **assessing underwriting risk exposure to biodiversity losses**.

The lack of data is a challenge that is often highlighted when speaking about biodiversity. Indeed, the biodiversity theme being less mature than the climate one, the data at disposal are less developed. However, from our point of view, insurers should not rely only on an absolute aggregated metric for measuring risk exposure to biodiversity losses, like it was done for climate (i.e., use of GHG carbon footprint or temperature alignment).

Biodiversity is a multidimensional matter that cannot, according to us, be consolidated into a unique data. We believe that insurers should use multiple indicators, quantitative and qualitative, to assess and manage biodiversity risks associated with their investments and liabilities.

Indeed, we are witnessing the large use of biodiversity footprint by financial institutions. However, after having interviewed multiple financial stakeholders (ESG analyst, risk and compliance managers, portfolio managers, scientists), we understand that this aggregated metric is always used for reporting purposes and is not a tool that enables financial institutions to define appropriate strategies for mitigating exposure to biodiversity losses.

At WeeFin, we believe that this indicator cannot be used alone, notably due to its “black box” effect, and must be completed by more granular indicators in order for the financial institutions to really manage their investment and insurance strategies and make informed decisions.

Even if the data available is not fully developed, several tools already exist today to assess risk exposure to biodiversity losses, such as:

- ENCORE: to help assess the sectoral impacts and dependences of the sectors insurers invested in or insured;
- WWF risk filter: to evaluate the biodiversity risks of invested or insured companies thanks to their localisation;
- Private data sources: make granular data available to financial institution, such as companies revenue derived from palm oil or water consumption, in addition of providing aggregated score to evaluate companies’ or portfolio biodiversity risks

As we can see, there are a lot of actors, public or private, that offer their services and provide biodiversity data to financial institutions. Once insurers have selected the biodiversity data used as part of their risk assessment, they can face multiple challenges such as:
- Receive data via automatic data flows;
- Ensure the quality of the data and get alerts when a metric seems inadequate;
- Ensure a high level of coverage for each selected metric;
- Understand the methodology behind the data selected, to make sure that it is used in the best way possible in both investment and risk strategies.

Via the development of our platform, we aim to help financial actors in such tasks that are time-consuming and can be automated, so that their time can be dedicated to analyzing and monitoring biodiversity risk assessment and defining and implementing actions to mitigate the risks.

4.3 Financial risk assessment

* Q7: Please share relevant approaches, tools and practices for undertakings to perform a **financial risk assessment for biodiversity risk**. Please provide reference to potential scenarios and models.

As of today, we consider that we cannot share more elements than the ones already provided in the Consultation Paper, as the work on the evaluation of investments exposure to nature-related risks is being initiated by financial institutions.
However, the quantification of potential financial losses that could occur due to nature related problems is currently being theorized and tested by experts. Indeed, some scientific papers are being written, notably on the construction of a “BioVar” (i.e., biodiversity value at risk), a concept that would replicate the climate VaR used for assessing climate financial risks. For example, a recent paper published in April 2024 by the ZHAW Zurich University of Applied Sciences, details a bio-value-at-risk concept that assesses the Implications of Biodiversity Risks on Portfolio Management using Geospatial Analysis.

At WeeFin, we have worked with a life-insurer to measure the exposition and vulnerability of its investments to climate risks and to model the financial impact of their climate risk.
However, we have not yet established this type of model for nature-related risk. We are really interested in such work, notably in regards to the important interest of our clients on this topic, as they understand the necessity to assess the financial impacts of nature-related risks on their activities.

* Q8: Please share references to relevant scenarios for assessing the **financial risks of biodiversity loss for specific lines of business or exposures** (e.g. agriculture, health, …)

As a data aggregator and ESG operating system, we have developed expertise on climate and biodiversity data methodologies. Nevertheless, we do not consider ourselves to be sufficiently expert in these specific risks associated with specific lines of business to be able to provide a consistent response.

* Q9: Please share references to relevant scenarios for **integrated climate-biodiversity financial risk assessment**.

We cannot share relevant information on this topic, as we do not have the sufficient knowledge that scientific communities, academic, quant can have on these specific topics thanks to dedicated means and resources. As having a key position making us in constant relation with data providers to answer our clients’ demands, we can assume that data providers are looking to integrate these elements into their offers, as the demand from financial institutions is growing.

4.4 Targets and actions

* Q10: Please share relevant examples of targets set by insurance undertakings to manage biodiversity risks. Where possible, please identify how these targets relate to global or EU biodiversity and nature conservation or restoration targets.

As of today, the number of financial companies that have defined long-term targets related to global or EU biodiversity and nature conservation or restoration remains very limited.

Just like financial players have set themselves targets for the climate pillar, they could also define targets for biodiversity, such as :

- contributing to nature global positive goal by 2030;
- having an investment strategy that fully integrates the concept of no net loss by 2040.

Nevertheless, definition of such targets may be called into question in view of the setbacks currently experienced by initiatives based on a net zero objective. According to NewClimate Institute, “on average, net-zero targets of the top 50 asset managers currently cover only 25% of the total AUM”.

In that context, and in view of the lack and complexity of biodiversity risk data and models, it appears that it is inadequate for insurers to already set such type of long-term target. According to us, this type of target requires firstly to assess, understand and integrate the topic to ensure full achievement of defined objectives .

This observation does not prevent insurers from defining short-term objectives to limit their exposure to biodiversity risks. Notably, as risks associated with biodiversity losses are already present and growing year on year, they need to be addressed today, and cannot wait until 2050. While targets set for 2040 or 2050 can help to establish a trajectory, players must also define them from year to year and already define actions to mitigate risks (exclusions, engagement, etc):
- Obtain and analyse data on biodiversity risks for both liabilities and investments;
- Integrate these risks into the internal risk management system;
- Engage invested or insured companies;
- Exclude from investment/insurance strategies issuers that are highly exposed to these risks and do not take actions to mitigate them.

Still with these elements in mind, we developed our platform in order to allow insurers to integrate data into their ESG processes (risks monitoring, vote and engagement, exclusions, etc.).

* Q11: Please share relevant examples of actions which insurance undertakings can take to mitigate prudential biodiversity-related risks, including through nature-based investment and underwriting strategies.

After having measured their exposure to nature-related risks and identifying which sectors in their investments have the most impacts / dependencies on biodiversity and which thematic / pressure should be addressed first, insurers can establish strategies to mitigate these risks. As mentioned in the previous answer, when defining these mitigation actions, financial institutions can set targets on these strategies. These methods can include:

-> Commit to invest a certain percentage in nature related investments:
- Axa : "In 2021, the Group committed to a natural capital target of €1.5 billion, comprising €500 million dedicated to a Natural Capital Fund managed by AXA IM, and €1 billion dedicated to investments in sustainably managed forests."
- Crédit Agricole Assurances: "Crédit Agricole Assurances continues to increase the proportion of real estate assets with environmental certification (such as HQE, BREEAM or LEED), which constitutes a minimum guarantee for the protection of biodiversity."

-> Engage with a number of companies regarding biodiversity matters. For example CNP Assurance promotes the following objective: "Engage in annual dialogue with 5 companies to encourage them to adopt a strategy aligned with international biodiversity agreements by the end of 2024". To ensure the engagement strategy is a relevant mitigation strategy, it is necessary for financial actors to:
- Gain expertise on the matter it wishes to engage the company with, to be able to fix realistic objectives and propose the best alternatives to the company regarding the activity that needs to transition
- Define clear, realistic but ambitious objectives with companies,
- Create a robust escalation process with the obligation of disinvesting if no improvement is made.

- Finally, to make the engagement with the company impactful, a follow up of her action is mandatory.

-> Stop investing in companies involved in harmful activities. The creation of exclusions on biodiversity-related themes is increasing. Indeed, according to a barometer made by WeeFin on 50 financial institutions, 24% of them have constructed an exclusion policy on palm oil, and 6% on pesticides. Other sectoral exclusions are being implemented such as deforestation policy, as Axa did. To create these policies, financial institutions can use private data providers but also public sources specialized on several thematics (Urgewald on coal and fossil fuels, Global Canopy on deforestation, Planet Tracker regarding Seafood database etc.). When constructing an exclusion policy, the best practice is to cover all the value chain of an activity. However, if the data available does not encompass all the perimeter, we, at WeeFin, consider that it should not be an impediment to the integration of the thematic into the strategy. Indeed, a financial institution could create an exclusion policy based on the existing data and improve it as the data are themselves increasing. Indeed, financial players have to keep in mind the possibility to make their policy evolve.

-> A financial institution can also select relevant indicators such as Principal Adverse Impacts (PAI) number 7, 8 and 9 and define evolution targets on these metrics. This can also be applied on aggregated indicators such as biodiversity footprint.

-> Commit to invest in companies with a minimum percentage of activities aligned with the biodiversity objective of the european taxonomy. The insurer can also set the objective of taxonomy alignment at the level of its entity. In addition, a consultation is ongoing with the objective of increasing the number of eligible activities on this objective, as the potential universe of aligned activities is today quite limited.

* Q12: Please share reference to relevant approaches to integrate biodiversity or nature-related data into cat modelling.

We cannot share relevant information on this topic, as we do not have the sufficient knowledge that scientific communities, academic, quant can have on these specific topics thanks to dedicated means and resources.

5. Conclusions

* Q13: Do you agree on these preliminary conclusions? Which additional practices should be highlighted?

We agree with the preliminary conclusions, in particular with the following elements:
- Only a few financial institutions have the resources, expertise, data and tools to fully address these risks.
- The biodiversity risk is not only a reputational risk.
- Considering the climate risks does not automatically mean taking into account biodiversity risks, even if some similarities exist (see answer to question 1).

In addition to the conclusions above, we would like to highlight the following elements:
- We think that public sources are a real opportunity for insurers. Indeed, they can 1) help reduce the gap regarding data availability and 2) be complementary of private data sources and challenge them. To use them, however, it is necessary to use technological tools such as ESG Connect to centralize and ensure quality of the data.
- Nevertheless, expertise is always required. As such, on top of having a technological tool, WeeFin also has an ESG expertise team that carries out this work. For more information, you can refer to the panorama of public sources published by WeeFin in partnership with the FIR.

- We believe that there is also a necessity for insurers to make strategic partnerships both in terms of technology (to centralize, control, update, check, monitor ESG data) and scientific view (joining forces with real experts on biodiversity is essential).

Any other comments

Q14 Do you have any other comments on the consultation paper?

- (●) Yes
- ( ) No

Please provide your other comments on the consultation paper.

We think that the following elements should be recommended to financial institutions when addressing biodiversity risks:
- Financial institutions should capitalize on what they have already done / understand regarding climate risks.
- Financial companies need to dedicate financial, human and technological resources to integrate biodiversity into their strategies. Indeed, they may need to
-> subscribe to private data providers dedicated to this theme;
-> use the services of specialized companies in this area;
-> use an ESG operating system in order to ensure a good use of data and models.

This is why at WeeFin, in addition to offering a technological platform specialized in ESG data and processes, we are supporting financial institutions in the understanding of this kind of matter. We cannot replace specific professionals (scientists, ESG analysts, etc.) but through our specific position within the financial ecosystem, we can help insurers with a high comprehension of biodiversity and how they can concretely integrate associated risks and opportunities into their strategies as well as day-to-day activities.

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