**Background**

The Federal Financial Supervisory Authority (BaFin) is an integrated authority supervising banks and financial services providers, insurance undertakings, institutions for occupational retirement provision, and securities trading. BaFin operates in the public interest. Its primary objective is to ensure the proper functioning, stability and integrity of the German financial system. With regard to insurance supervision, in supervising and monitoring insurance undertakings, BaFin helps insurers to justify the confidence that customers place in them. The legal basis for insurance supervision is the Insurance Supervision Act (Versicherungsaufsichtsgesetz - VAG). Pursuant to section 294 of the Act, the primary objective of insurance supervision is the protection of policyholders and beneficiaries. BaFin ensures that:

- the interests of the insured are adequately safeguarded;
- the obligations under insurance contracts can be fulfilled at all times; and
- the business operations are properly conducted and statutory provisions are met.

In this respect, particular importance is attached to solvency supervision. In particular, insurers must establish adequate technical provisions, invest their assets in accordance with the ‘prudent person principle’ and observe the principles of good business practice.

On 1 May 2002, the Federal Banking Supervisory Office (Bundesaufsichtsamt für das Kreditwesen – BAKred) was merged with the Federal Securities Supervisory Office (Bundesaufsichtsamt für den Wertpapierhandel – BAWe) and Federal Insurance Supervisory Office (Bundesaufsichtsamt für das Versicherungswesen – BAV) to become BaFin. Since 1 January 2018 BaFin is also the national resolution authority (Nationale Abwicklungsbehörde - NAB) in Germany.

**Sustainability objectives**

Sustainable Finance is one of the overarching priority areas for 2020, and a strategic cross-sectoral item for the upcoming years. In September 2019, BaFin launched a consultation on its Guidance Notice on Dealing with Sustainability Risks. Market participants were informed that BaFin would be placing a greater emphasis on environmental, social and governance risks (ESG) in future. BaFin has made it clear that this is aimed at ensuring that credit institutions, insurance undertakings, institutions for occupational retirement provision and asset management companies systematically incorporate sustainability risks into their risk management systems. The Guidance Notice was published in December 2019. In 2020, BaFin will develop a concept and strategy in order to specify a supervisory approach for the management of sustainability risks. From 2021 onwards, sustainability risks are to be systematically accounted for and addressed using BaFin’s supervisory tools.

In the first half of 2020, BaFin discussed and exchanged views on initiatives and developments on Sustainable Finance at the national and EU levels with different stakeholders, such as insurance undertakings, institutions for occupational retirement provision, actuaries and accountants.

BaFin is actively participating in international and national work in the field of sustainable finance, including in the SIF, the EIOPA Project Group on sustainable finance, the EBA Sustainable Finance
Network, the ESMA Coordination Network on Sustainability, the ECB Climate Risk Contact Group, the NGSF, the Joint Committee ESG Disclosures Sub-Group (EIOPA/ESMA/EBA), and the German Sustainable Finance Advisory Committee.

BaFin is also actively participating in EIOPA’s work in the field of sustainable finance that focuses in 2020 on topics such as climate change risk scenarios in ORSA, the development of a natural catastrophe (NAT CAT) protection gap dashboard, and a methodology for the possible inclusion of climate change in the NAT CAT standard formula calibration, pricing in light of climate change and a climate risk sensitivity analysis. The work will continue in 2021.

At the national level, BaFin is an observer to the Sustainable Finance Advisory Committee of the German Federal Government. The aim of the Sustainable Finance Advisory Committee is to advise the government on the development and implementation on its Sustainable Finance Strategy. In March 2020, the Sustainable Finance Advisory Committee published its draft interim report on *The Significance of Sustainable Finance to the Great Transformation*, which deals with strategic fundamentals and preliminary considerations, resilience, transformation, transparency and disclosure and the role of the public sector. The key takeaways from the public consultation of the interim report have already been drawn. The Sustainable Finance Advisory Committee plans to publish the final report in early 2021. In addition, BaFin is also advising the Federal Ministry of Finance at national and international level in the area of sustainable finance.

**Sustainability work highlights**

In November 2020, BaFin will be hosting a NGFS Steering Committee meeting.

**Membership of any other initiatives/networks working on sustainability**

- IAIS
- NGFS
- International Organization of Securities Commissions (IOSCO)
- Basel Committee on Banking Supervision (BCBS)
- International Organisation of Pensions Supervisors (IOPS)
- EIOPA Project Group on sustainable finance
- EBA Sustainable Finance Network
- ESMA Coordination Network on Sustainability
- Joint Committee ESG Disclosures Sub-Group (EIOPA/ESMA/EBA)
- ECB Climate Risk Contact Group.

**Recent engagement with SIF**

BaFin participated in SIF 8 in Basel, Switzerland in February 2020. It also provided an update on its work in the sustainability agenda in *SIF’s half yearly report 2020* and shared an exclusive update on its work with the SIF members in *SIF’s half yearly report 2020* (members-only version).

BaFin contributed a case-study to the *SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures* and to discussions about the future work programme of the SIF by participating in SIF’s virtual meetings in May 2020. BaFin is contributing to the drafting of the SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector and participated in the *SIF/IAIS Webinar on Climate-Related Risks in the Insurance Sector.*