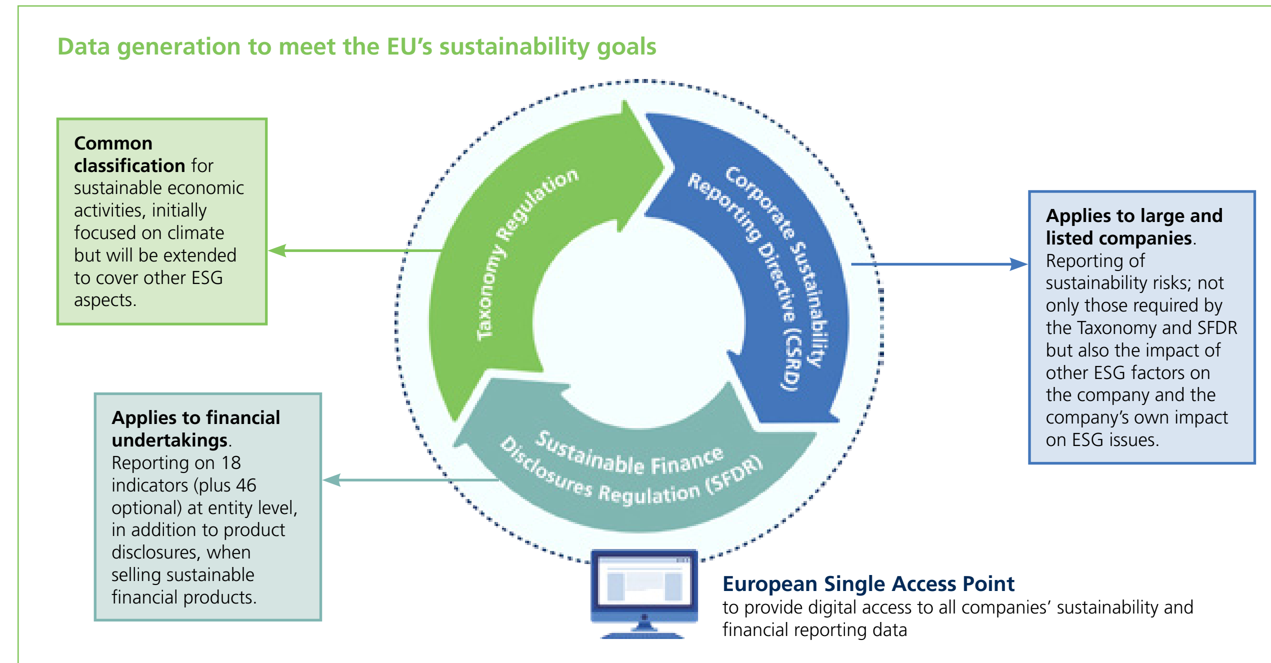
Roman Sauer
Chair, Corporate Reporting Working Group, Insurance Europe
Head of group accounting & reporting, Allianz SE, Germany



SUSTAINABILITY REPORTING

A clearer perspective

New reporting rules will help provide insurers with the data they need to direct investment to sustainable assets

Insurers support the EU's ambitious agenda on sustainability. As Europe's largest institutional investor, with over €10trn of assets under management, the insurance industry is in a unique position to help finance the transition to carbon-neutral, resource-efficient and more sustainable economies.

To make appropriate investment decisions and comply with sustainability regulation it is vital that consistent, comparable and machine-readable sustainability data is available and can be accessed and used efficiently. The Corporate Sustainability Reporting Directive (CSRD), together with the European Single Access Point (ESAP) initiative, can achieve this.

The insurance industry therefore supports many important aspects of the EC's CSRD proposals, which are also supported by the Council of the EU and the European Parliament.

Firstly, it supports the fact that, under the CSRD, there is mandatory reporting for a very large number of companies — expected to be more than 50 000 — in machine-readable format, but there is also a simplified set of standards that listed SMEs will use.

Insurance Europe also welcomes the fact that the data that is needed for the EU Taxonomy Regulation and the Sustainable Finance Disclosures Regulation (SFDR) reporting is prioritised and included in the first set of sustainability reporting standards. EU sustainability reporting standards should build on and contribute to global standardisation initiatives through constructive, two-way cooperation between the European Financial Reporting Advisory Group (EFRAG) and those proposing international initiatives. EFRAG's role in developing the standards, in consultation with stakeholders, is also welcome.

However, Insurance Europe believes certain key points, which are not yet agreed by the co-legislators, should be included in the final text. These include that mandatory reporting should only apply at consolidated (group) level and that companies should be able to use the same audit firm for their financial reporting and sustainability reporting.

And on the subject of SMEs, mandatory reporting should be required of listed SMEs but according to simplified standards. Also, the standard definition for SMEs needs adjusting because even very small insurers can have balance sheets and turnover figures that exceed the limits used.

It will also be important to explicitly allow for a multiphase approach — both for issuing specific sets of standards and for setting their application dates — so that priority can be given to key data points.

IFRS 17: the end of a journey

After over 20 years of development, International Financial Reporting Standard (IFRS) 17, which applies to insurance liabilities, was ultimately endorsed in the EU in November 2021. During the endorsement, a range of necessary improvements were incorporated to better reflect the special features of insurance liabilities including their long-term nature, the impact of risk-pooling and mutuality and the importance of asset liability management.

One of the last issues that was addressed was the requirement to split product portfolios into annual cohorts, which would have added costs and not adequately reflected the true economic nature of certain insurance products. Fortunately, the EU endorsement includes an amendment to address this issue and IFRS 17 will be applied in the EU from 1 January 2023, in line with the timetable of the International Accounting Standards Board (IASB).

The amendment grants EU insurers the option to exempt contracts that meet certain criteria relating to mutualisation or cash flow matching from the annual cohort requirement. It is hoped that the IASB will apply this amendment globally during the post-implementation review by 2027.

IFRS 9: recycling should be allowed

International Financial Reporting Standard (IFRS) 9, which applies to assets, was introduced in 2018 and is now undergoing a post-implementation review by the International Accounting Standards Board (IASB), even though — given the strong links between insurers' assets and liabilities — the insurance industry was allowed to delay its implementation of IFRS 9 to 2023 to align with that of IFRS 17.

One key improvement to IFRS 9 that the insurance industry wishes to see in the IASB review relates to the treatment of profits (or losses) from realised capital gains on equity investments. If it is not fixed, IFRS 9 could make investing in equities look artificially less attractive and so create an unnecessary barrier to insurers' equity investments.

IFRS 9 provides a welcome mechanism to avoid temporary share price volatility from distorting the profit and loss account. This feature is called FVOCI (fair value through other comprehensive income) and is very important for many insurers, but currently IFRS 9 does not allow insurers to recognise any of the actual realised gains from FVOCI equity investments in their profits, which is called recycling.

One reason recycling was not included in IFRS 9 was concern that there could be a lack of comparability in how companies report losses on their equity investments. To address this, the insurance industry has developed a robust standard impairment model to accompany recycling. The EC has also asked the IASB to revisit the ban on recycling, as greater investment in equities is a key part of its Capital Markets Union project.

ESAP ASAP

As for the ESAP, it will allow insurers to access the data they need in digital format to steer their investment portfolios more effectively towards sustainability objectives and to comply with their disclosure requirements. Insurers welcome the aim to have it established by the end of 2024 and the fact that it does not create new reporting requirements and respects the "file only once principle" to avoid redundant reporting channels.

However, there are certain issues that should still be taken into account in finalising the ESAP text. There should be free or low-cost access for users, such as insurers, who need the ESAP data to make sustainable investment decisions and comply with regulatory reporting. And, as with the CSRD, there should be phased implementation, prioritising the ESG data needed under the CSRD, SFDR and Taxonomy Regulation.

Strong governance, and stakeholder and expert input, is key to the successful development of the ESAP. Insurers support the establishment of an advisory steering board, composed of users, preparers and national and EU competent authorities.

So that EU companies with investments outside the EU can fulfil their reporting obligations, voluntary submission from non-EU companies should be possible. Technical specifications should be finalised as early as possible so that entities can carry out the relevant IT developments. Finally, inclusion of certain product information in the ESAP is premature, in particular PRIIPS (packaged retail and insurance-based investment products), which do not currently provide appropriate information and are under review.

Timing issues

From a preparer perspective, the mismatch in application dates between the various reporting frameworks creates difficulties meeting the obligations. The financial sector faces a data gap of at least a year because it needs data from the CSRD, which is available from 2024 at the earliest, to comply with quantitative data reporting requirements under the SFDR in 2023. Both the Council of the EU and the European Parliament are discussing potential delays to the EC's proposed CSRD timetable, so the data gap is likely to lengthen.

Therefore, it is important to recognise that it will take a number of years for all the planned reporting to be in place and that, in the meantime, insurers and other investors must be allowed to use third-party data, estimates and proxies on a best-effort basis to fulfil their new reporting obligations.