

## Response to EC call for feedback on the Platform on Sustainable Finance's draft report on social taxonomy

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### General comments

**Europe's insurers are committed to supporting sustainability and can play a key social role by both providing insurance coverage and investing in sustainable assets.** Insurers have, in fact, been at the forefront of sustainable investment for many years.

**Insurance Europe notes that the timing of this consultation (ie its length and the fact that it is held over summer vacation period) means that the views expressed must be considered preliminary and may be updated/refined.**

**The European insurance industry is supportive of the future establishment of a social taxonomy, but takes the view that, given the extreme urgency of climate-related action and the challenge of developing the climate taxonomy (including related KPIs and data in place and working), the EC should only work on a social taxonomy after more progress has been made on implementing the climate-related taxonomy.**

The industry is aware that it may be hard to agree on a common set of social objectives and translate them into targets because of significant challenges:

- **Social matters tend to be reliant on national traditions and history.** The understanding of social justice and positive social impact may vary significantly from one country to another.
- **It is not possible to establish social criteria and metrics that are fully "science-based".** It will be particularly challenging to establish "substantial contribution" criteria on this social dimension.

To develop an efficient tool for investors, the industry would like to provide the following comments:

- **It is important to prioritise the completion of the environmental taxonomy.** This is urgently needed, and will serve as a blueprint for a social taxonomy.
- While the industry considers that the social aspect is fundamental to sustainability, the EC should first **focus on identifying what is "significant harm" in terms of the social component.** This will allow the identification of environmental measures with negative social impacts. In this respect, the work on minimum social safeguards in the context of the environmental taxonomy should take priority, as it will provide a clear indication on the future needs in terms of social taxonomy.
- **A cost-benefit analysis is needed to identify what framework would be most suitable from the investment perspective and to limit its complexity level.** This should also consider current

limitations regarding data availability and the possible impact on reporting obligations for companies, in particular SMEs.

- **It is important to ensure that the transition to a more sustainable and resilient economy and society is done in a just and inclusive manner.** Therefore, the development of a social taxonomy should also initially focus on the just transition aspect.
- It is also crucial to avoid overlapping EU legislation on social and environmental criteria, as it could lead to additional burdens and complexity for the Taxonomy users. More broadly, it is important to account for existing initiatives and upcoming legislation on sustainable finance (including measures on sustainable corporate governance, the Corporate Sustainability Reporting Directive (CSRD), the Sustainable Finance Disclosure Regulation (SFDR) and work by the European Financial Reporting Advisory Group (EFRAG) on sustainability standards) and to avoid complexity/legal uncertainty.

## Merits and concerns

### **Q1.1 Which in your view are the main merits of a social taxonomy?**

*Please select as many answers as you like*

X	supporting investment in social sustainability and a just transition
X	responding to investors' demand for socially orientated investments
X	addressing social and human rights risks and opportunities for investors
X	strengthening the definition and measurement of social investment
	other
	none

### **Please specify to what other merit(s) you refer in your answer to question 1.1:**

The insurance industry is supportive of the future establishment of a social taxonomy although a cost-benefit analysis is needed, especially regarding complexity.

It is important to prioritise the completion of the environmental taxonomy, especially given that it will serve as a blueprint for a social taxonomy. In addition, the report by the Platform on the functioning of the minimum safeguards and Article 18, will provide an important indication on future work and needs. Hence, it would be reasonable to carry out this assessment before proposing a social taxonomy framework.

Given its complexity and novelty, a social taxonomy should aim to avoid that measures linked to the environmental transition have negative social impacts. Its development should also focus on the just transition aspect as initial focus. It is also crucial to avoid overlapping EU legislation on social and environmental criteria, as it could lead to additional burdens and complexity for users.

It is important to account for existing initiatives/upcoming legislation (including sustainable corporate governance measures, the CSRD, SFDR and EFRAG's work on sustainability standards) and to avoid complexity/legal uncertainty.

### **Q1.2 Which in your view are the main concerns about a social taxonomy?**

*Please select as many answers as you like*

X	interference with national regulations and social partners' autonomy
X	increasing administrative burden for companies
X	other
	none

### **Please specify to what other concern(s) you refer in your answer to question 1.2:**

Insurers are committed to supporting the transition to sustainability and can play a key role by both providing insurance coverage and investing in sustainable assets. Insurers have been at the forefront of sustainable investment, taking concrete actions and incorporating sustainability-related disclosures, standards and strategies into their portfolios.

The transition to a more sustainable and resilient economy and society should be done in a just and inclusive manner. However, social matters are strongly reliant on national traditions and history. The understanding of social justice and positive social impact may vary significantly from one country to another. It would be difficult to establish social criteria and metrics that are “science-based” and particularly challenging to establish “substantial contribution” criteria on this social dimension.

A step-by-step approach to the development of a social taxonomy appears an acceptable approach ie focusing initially on the just transition aspect, which means strengthening environmental taxonomy from a social perspective, before extending it to a classification system similar to the environmental taxonomy. Many of the governance objectives should rather be covered via existing governance safeguards.

### Structure of the social taxonomy

**Q2. In your view, are there other objectives that should be considered in vertical or horizontal dimension?**

	Yes
X	No
	Don't know / no opinion / not applicable

**Please explain your answer to Q2:**

The proposed objectives cover a broad spectrum and provide a comprehensive view on European social issues and ambitions. They are aligned with the other ongoing EU initiatives such as the non-financial reporting standardisation and the implementation of the Renewed Sustainable Finance Strategy.

However, the industry has some concerns about the choice and the use of the terms “horizontal” and “vertical” to define the two different dimensions of the social taxonomy. It is key that the framework is usable for investors. Substantial contribution would result primarily from the vertical dimension, in particular from products. The horizontal dimension mostly refers to the company level and this is therefore difficult to distinguish from social ‘Do no significant harm’ (DNSH) or Principle adverse indicators (PAI) criteria, as in the SFDR.

**Q3. Which of the following activities should in your view be covered in the vertical dimension (social products and services)?**

*Please select as many answers as you like*

x	A1 - Crop and animal production,
	A1.1 - Growing of non-perennial crops
x	A1.2 - Growing of perennial crops
x	A1.4 - Animal production
x	A3 - Fishing and aquaculture

	J59.1 - Motion picture, video and television programme activities
	J60 - Programming and broadcasting activities
x	K - Financial and insurance activities
	L68.2 - Renting and operating of own or leased real estate
	M71 - Architectural and engineering activities; technical testing and analysis

x	C10 - Manufacture of food products
	C10.8.2 - Manufacture of cocoa, chocolate and sugar confectionery
	C10.8.3 - Processing of tea and coffee
	C10.8.6 - Manufacture of homogenised food preparations and dietetic food
	C13 - Manufacture of textiles
	C20.1.5 - Manufacture of fertilisers and nitrogen compounds
	C20.2 - Manufacture of pesticides and other agrochemical products
x	C21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations
	C23.3 - Manufacture of clay building materials
	C23.5 - Manufacture of cement, lime and plaster
	C25.2.1 - Manufacture of central heating radiators and boilers
x	C30.1 - Building of ships and boats
x	C30.2 - Manufacture of railway locomotives and rolling stock
x	C30.3 - Manufacture of air and spacecraft and related machinery
x	C30.9.2 - Manufacture of bicycles and invalid carriages
	C31 - Manufacture of furniture
	C32.2 - Manufacture of musical instruments
	C32.3 - Manufacture of sports goods
	C32.5 - Manufacture of medical and dental instruments and supplies
x	D35.1 - Electric power generation, transmission and distribution
	D35.3 - Steam and air conditioning supply
x	E - Water supply; sewerage; waste management and remediation activities
x	E36 - Water collection, treatment and supply
x	E37 - Sewerage
x	E38 - Waste collection, treatment and disposal activities; materials recovery
x	E38.3 - Materials recovery

	M72.1.1 - Research and experimental development on biotechnology
x	N77.1.1 - Renting and leasing of cars and light motor vehicles
x	N77.2 - Renting and leasing of personal and household goods
	N78.1 - Activities of employment placement agencies
	N78.2 - Temporary employment agency activities
	N78.3 - Other human resources provision
x	O84.1.2 - Regulation of the activities of providing health care, education, cultural services and other social services, excluding social security
	O84.2 - Provision of services to the community as a whole
	O84.2.4 - Public order and safety activities
	O84.2.5 - Fire service activities
x	O84.3 - Compulsory social security activities
x	P85.1 - Pre-primary education
x	P85.2 - Primary education
x	P85.2.0 - Primary education
x	P85.3 - Secondary education
	L68.2 - Renting and operating of own or leased real estate
	M71 - Architectural and engineering activities; technical testing and analysis
	M72.1.1 - Research and experimental development on biotechnology
	N77.1.1 - Renting and leasing of cars and light motor vehicles
	N77.2 - Renting and leasing of personal and household goods
	N78.1 - Activities of employment placement agencies
	N78.2 - Temporary employment agency activities
	N78.3 - Other human resources provision
	O84.1.2 - Regulation of the activities of providing health care, education, cultural services and other social services, excluding social security

x	E39 - Remediation activities and other waste management services
x	F41 - Construction of buildings
x	F42.1 - Construction of roads and railways
x	F42.1.2 - Construction of railways and underground railways
x	F42.2.2 - Construction of utility projects for electricity and
x	F43.3 - Building completion and finishing
x	G45.2 - Maintenance and repair of motor vehicles
	G46.1.6 - Agents involved in the sale of textiles, clothing, fur, footwear and leather goods
	G46.1.7 - Agents involved in the sale of food, beverages
	G47.5.1 - Retail sale of textiles in specialised stores
x	H49.1 - Passenger rail transport, interurban
x	H49.2 - Freight rail transport
x	H49.3 - Other passenger land transport
x	H49.3.1 - Urban and suburban passenger land transport
x	H50.1 - Sea and coastal passenger water transport
x	H50.3 - Inland passenger water transport
	H51.1 - Passenger air transport
	J58.1 - Publishing of books, periodicals and other publishing activities

	O84.2 - Provision of services to the community as a whole
	O84.2.4 - Public order and safety activities
	O84.2.5 - Fire service activities
	O84.3 - Compulsory social security activities
x	P85.3.2 - Technical and vocational secondary education
x	P85.4.2 - Tertiary education
x	Q - Human health and social work activities
x	Q86.1 - Hospital activities
x	Q86.2 - Medical and dental practice activities
x	Q87 - Residential care activities
x	Q88 - Social work activities without accommodation
x	Q88.9.1 - Child day-care activities
x	Q88.9.9 - Other social work activities without accommodation n.e.c.
	R - Arts, entertainment and recreation
	R93.1.3 - Fitness facilities
	S95 - Repair of computers and personal and household goods
	S96.0.4 - Physical well-being activities
x	Other

**Please specify to what other activity(ies) you refer in your answer to Q3:**

While further clarification on the vertical dimension, how it would work, and clear definitions are needed first, with a view to that the “just transition” aspect should be addressed first, having a broad list of activities is considered beneficial, covering activities addressed in the environmental taxonomy as well as basic human needs. The insurance industry can play a key role in the transition to sustainability through insurance coverage and investment in sustainable assets. In addition to environmental sustainability, this applies to insurance products and investments that have a social value and positive impact.

Insurance can directly contribute to these objectives, by reducing the protection gap in health, pensions, as well as indirectly by collaborating with public authorities in activities which are aligned with the UN Sustainable Development Goals (SDG). Examples of such specific insurance products include products that respond to the needs of specific categories of customers or unfortunate events in life (such as disability insurance and income protection insurance), products that promote responsible and healthy lifestyles (including mental health prevention), products that supplement the public health service and pension saving products which help reduce the pension gap. It is also worth noting the contribution of microinsurance to social objectives.

Insurers are also already significant investors in green, social and sustainability bonds. This includes financing sustainability-related projects, such as renewable energy projects, sustainable water management, energy-efficient, as well as affordable housing, and other work, again supporting the UN SDG.

**Q4. Do you agree with the approach that the objectives in the horizontal dimension, which focusses on processes in companies such as the due diligence process for respecting human rights,**

**would likely necessitate inclusion of criteria targeting economic entities in addition to criteria targeting economic activities?**

X	Yes
	No
	Don't know / no opinion / not applicable

In some jurisdictions such criteria are already embedded in law (eg a 2017 law on vigilance duty and PACTE law in France). It is essential to ensure the consistency of all the criteria at European and national level.

The horizontal dimension requires further analyses / information as well as additional criteria, especially with regard to the KPIs. The industry notes that:

- A substantial contribution in terms of horizontal dimension is difficult to identify and to distinguish from social DNSH and PAI criteria in the SFDR. The meaning of the horizontal dimension is also related to the fact that social matters are strongly reliant on national traditions, understanding of social justice and country-specific cultural variations. Therefore, especially at international level, identification of the limits of substantial contribution at company level may require further discussions.
- There are analogous difficulties with the governance component. The question also arises as to whether and to what extent a substantial contribution can be achieved via governance aspects alone.

In addition, similar concerns and criteria may also be raised in the upcoming EC proposal on Sustainable Corporate Governance. A consistent articulation between the different proposals will therefore be crucial to avoid excessive compliance costs for companies.

### Harmful activities

**Q5. Based on these assumptions, would you consider certain of the following activities as 'socially harmful'?**

*Please select as many answers as you like*

	A1.1.5 - Growing of tobacco		C15.2 - Manufacture of footwear
	B5 - Mining of coal and lignite		C20.2 - Manufacture of pesticides and other agrochemical products
	B7 - Mining of metal or iron ores		C25.4 - Manufacture of weapons and ammunition
	B9 - Mining support service activities		C25.4.0 - Manufacture of weapons and ammunition
	B9.1 - Support activities for petroleum and natural gas extraction		C30.4 - Manufacture of military fighting vehicles
	C10.8.1 - Manufacture of sugar		G46.1.6 - Agents involved in the sale of textiles, clothing, fur, footwear and leather goods
	C10.8.2 - Manufacture of cocoa, chocolate and sugar confectionery		G46.3.5 - Wholesale of tobacco products
	C10.8.3 - Processing of tea and coffee		G46.3.6 - Wholesale of sugar and chocolate and sugar confectionery
	C11.0.1 - Distilling, rectifying and blending of spirits		G46.4.2 - Wholesale of clothing and footwear
	C11.0.2 - Manufacture of wine from grape		G47.1.1 - Retail sale tobacco predominating
	C11.0.5 - Manufacture of beer		N80.1 - Private security activities
	C11.0.7 - Manufacture of soft drinks;		O84.2.2 - Defence activities
	C12 - Manufacture of tobacco products	X	Other

C13 - Manufacture of textiles
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**Please specify to what other activity(ies) you refer in your answer to Q5:**

The industry considers that the Nomenclature of Economic Activities (NACE) code classification is not fully adapted to the social taxonomy as it is based on the sector/activity rather than on the company process and policies (the horizontal dimension). Only a few sectors/activities can be easily classified as socially harmful, such as tobacco manufacture or manufacture of controversial weapons (anti-personnel landmines, cluster munitions, chemical, biological, and nuclear weapons). Others can decide to improve their social performance (such as manufacture of textiles), and thus, actively participate in the transition. In this case, due to the fact that the same type of activity can have very different impacts depending on how it is performed, the NACE code cannot be the only reference to classify these activities.

**Governance objectives**

**Q6. Sustainability linked remuneration is already widely applied in sustainable investment. In your view, would executive remuneration linked to environmental and social factors in line with companies' own targets, therefore also be a suitable criterion in a social classification tool such as the social taxonomy?**

	Yes
	No
X	Don't know / no opinion / not applicable

**Please explain your answer to question 6:**

Remuneration can be used as an incentive to integrate environmental and social goals. Management of corporates and investors is more and more attentive to governance and the link with remuneration. However, it is difficult to assess and factually prove a manager's good or bad behaviour in terms of social factors when assessing remuneration. It is therefore important to avoid any "social washing" if sustainability-linked remuneration is used as a criterion and considers that remuneration policies should remain at companies' discretion.

**Q7. The report envisages governance objectives and analyses a certain number of governance topics. Please select the governance topics which in your view should be covered:**  
*Please select as many answers as you like*

X	Sustainability competencies in the highest governance body
X	Diversity of the highest governance body (gender, skillset, experience, background), including employee participation
X	Transparent and non-aggressive tax planning
X	Diversity in senior management (gender, skillset, experience, background)
X	Executive remuneration linked to environmental and social factors in line with companies' own targets
X	Anti-bribery and anti-corruption
	Responsible auditing
X	Responsible lobbying and political engagement
	Other

**Please specify to what other governance topic(s) you refer in your answer to Q7:**



In light of the fact that an EC proposal on Sustainable Corporate Governance is planned, **only minimum safeguards on corporate governance – as in the green Taxonomy – should be considered.** Corporate Governance objectives should be considered separately from a Social Taxonomy.

### Models for linking an environmental and a social taxonomy

**Model 1:** The social and an environmental taxonomy would only be related through social and environmental minimum safeguards with governance safeguards being valid for both. The [UN guiding principles](#) would serve as minimum safeguards for the environmental part, while the environmental part of the [OECD guidelines](#) would serve as environmental minimum safeguards for the social part. The downside would be thin social and environmental criteria in the respective other part of the taxonomy.

**Model 2:** There would be one taxonomy with a list of social and environmental objectives and DNSH criteria. It would essentially be one system with the same detailed 'do no significant harm' criteria for the social and environmental objectives. The downside would be that there would be fewer activities that would meet both social and environmental 'do no significant harm' criteria.

#### Q8. Which model for extending the taxonomy to social objectives do you prefer?

	Model 1
	Model 2
X	Don't know / no opinion / not applicable

#### Please explain your answer to question 8:

Both proposed models have advantages and limitations. On the one hand, Model 1 seems to facilitate better readability and clarity, especially in terms of SH. In addition, Model 1 relies on international guidelines which could be beneficial to use, given that the Taxonomy has the ambition to be applicable globally.

On the other hand, Model 2 could be favourable as it translates into one system. Moreover, Model 2 would allow better incorporation of the vertical dimension at activity level as the same standards/criteria would apply to "E" and "S". Although being more restrictive, this could be more consistent and less complex. Therefore, further assessment of the proposals and how the two models could work in practice is certainly needed.

In any case, irrespective of the Model chosen, the use of different standards/criteria should be avoided and an approach shall rely as much as possible on well-established international guidelines.

### General expectation from the social taxonomy

#### Q9. What do you expect from a social taxonomy?

The Platform recommends including the objective "Improving accessibility of products and services for basic human needs" in a future social taxonomy, including housing (p28). The investment gap for affordable housing has reached €57bn ("Boosting investments in social infrastructure in Europe", HLTF on Investing in Social Infrastructure in Europe, 2018, p41). The ECB decision to include property for own use in its inflation calculation underlines that housing is becoming a challenge. The United Nations' Sustainable Development Goal 11 (Sustainable cities and communities) also targets affordable housing. However, public funds are not sufficient. Private investments are needed to narrow the investment gap for affordable housing, but investors need legal certainty about the classification of their investments as "sustainable" in particular under the new investment KPI for reporting under the Non-Financial Reporting Directive (NFRD). This is exactly where the EU Taxonomy comes into play. The Taxonomy can deliver this legal certainty and a future extension to social objectives, including affordable housing, is supported.





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