To: EFRAG
Attn: Ms Lopatta (Interim Chair of EFRAG Sustainability Board)
35 Square de Meeûs (fifth floor)
1000 Brussels
Belgium

Our reference: ECO-CORP-22-163

Subject: Insurance Europe-CFOF cover letter - response to EFRAG Public consultation on the first set of Draft ESRS

Brussels, 05-08-2022

Dear Ms Lopatta,

This letter is coming to you from Insurance Europe, representing 95% of the premium income of the European insurance market, and the European Insurance CFO Forum, a body representing 23 of Europe's largest insurance companies. Accordingly, it represents the consensus view of the European insurance industry.

Insurance Europe and the CFO Forum would like to congratulate EFRAG on officially receiving the role, through the Corporate Sustainability Reporting Directive (CSRD), of developing sustainability reporting standards for the EU.

European insurers are committed to supporting the transition to a more sustainable economy and to tackling climate change as a matter of priority. The European insurance sector strongly supports the EU's objective of transforming Europe into a climate-neutral continent by 2050 and is ready to contribute to that objective. The insurance industry shares the European Commission's ambitious objective of developing a robust sustainability reporting framework through the CSRD. Insurers need the data the CSRD will provide to fully develop and embed environmental, social and governance (ESG) factors into how they operate, to progress with net-zero transition plans and to comply with mandatory reporting requirements. More broadly, the CSRD will also ensure greater transparency about the way many companies operate and manage social and environmental challenges.

Against that background, the opportunity to comment on EFRAG's first draft European Sustainability Reporting Standards (ESRS) is welcome. In addition to the points raised in our detailed response, the insurance industry would like to stress the importance of the following key points:

The urgent need for a phased approach in the development and implementation of the ESRS with the aim of the first phase being to focus exclusively on standards related to mandatory reporting (eg, Sustainable Finance Disclosures Regulation (SFDR)/EU Taxonomy Regulation) and on those requirements that overlap with the International Sustainability Standards Board (ISSB) standards.

Insurance Europe and the CFO Forum agree that the standards should cover the three aspects of ESG reporting and commend EFRAG on the very significant achievement of developing a full set of draft standards. However, it is estimated that there are over 750 reporting elements in the standards under consultation and it is simply not possible for stakeholders to conduct the necessary assessments to provide comprehensive input on all of these in the time allowed, or for EFRAG to deliver proposals of suitable quality on all of these by mid-November 2022, while at the same time ensuring it provides the necessary input into the ISSB process and integrates those standards, where appropriate, into its proposals. In addition, it would not be feasible for the 50 000 companies that fall within the scope of the CSRD to implement all the reporting elements at the same time, given the need to develop IT systems and processes to gather and consolidate the data and to fulfil limited assurance requirements upon first implementation. A focus on quantity over quality would also put unsustainable pressure on EFRAG's limited resources and governance processes.

Olav Jones• Deputy Director General, Director Economics & Finance
Insurance Europe aisbl • Rue du Champ de Mars 23, B-1050 Brussels
Tel: +32 2 894 30 13 •E-mail: Jones@insuranceeurope.eu

The insurance industry therefore urges EFRAG to adopt a phased approach from September by first focusing its work on those reporting elements needed for compliance with existing EU rules[1] and those that overlap with ISSB standards for the first set of standards to be delivered to the EC by 15 November 2022. This will include key climate-related elements, but also a (feasible) number of other ESG data points. The CSRD requirement to cover all sustainability topics mentioned therein can be achieved at this stage by, for example, limiting the requirements in the first phase to high-level, qualitative disclosures. After meeting this challenging mid-November deadline, EFRAG should agree on a multi-year plan to extend the first set as relevant and to develop the remaining standards to meet the full intended scope of the CSRD, including cross-sector elements, sector specific elements, simplified (SME) standards and standards for non-EU companies.

Such a phased approach would also enable companies to progressively develop expertise and produce robust sustainability information. Sustainability reporting should not become a pure compliance exercise and should primarily reflect a true change in mindsets and business models towards achieving a sustainable future.

Finally, Insurance Europe and the CFO Forum commend EFRAG's ambition to develop, over the next year, 40 sector-specific ESRS not yet covered at cross-sectoral level, but call on EFRAG to phase in their development and include them in its multi-year plan. Prioritising high-impact sectors would be most effective so that investors receive sustainability data for their own reporting purposes as well as to steer their portfolios towards sustainable activities.

The insurance industry supports the EU's ambition to go beyond the ISSB's global baseline, with a clear goal that compliance with European standards will mean automatic compliance with relevant ISSB standards ("super equivalence").

Europe's insurers support the ISSB's ambition to create a global baseline for sustainability reporting. To achieve this, EFRAG will need to engage significantly with the ISSB to contribute to and influence its standards, and then to integrate the ISSB standards into the ESRS to the extent that they are consistent with the EU's legal framework. A phased approach to the application and implementation of sustainability reporting requirements in Europe would facilitate this process and foster increased alignment between the European and international standards because the ISSB is adopting a similar prioritisation.

European sustainability reporting standards should favour quality and relevance over exhaustiveness.

While insurers commend the impressive efforts made by EFRAG to develop draft ESRS covering all aspects of sustainability, it is important to favour the quality and relevance of disclosures over their exhaustiveness.

Care must be taken to ensure that each of the draft disclosure requirements and each of the related data points are needed and are addressed via appropriate guidance. This is especially important where the draft ESRS overlap with existing disclosure requirements. While cross-referencing can be used where duplication is unavoidable, this can also add to the complexity of reporting processes and increase the risk of inconsistencies.

Limiting the standards to data that is the most useful and relevant will limit unnecessary costs, avoid information overload and allow for higher quality data.

For financial undertakings more specifically, care must be taken to ensure that regulatory reporting requirements will not be duplicated and overlapping, given that the financial sector is already highly regulated and subject to extensive sustainability-related reporting obligations (eg, SFDR). EFRAG should duly assess which information from financial companies is useful and needed by stakeholders for decision-making but not yet reported under existing (sector-specific) regulation (eg, SFDR/Solvency II).

[1] Notably the SFDR, the EU Taxonomy Regulation as well Solvency II Pillar 3 disclosure requirements for insurance undertakings

Companies need to be able to focus their efforts efficiently on the standards that relate to relevant and material activities and impacts.

Proportionality in the requirements and application of the CSRD is very important. The assessment determining whether a particular standard or data point is material for a group needs to be performed at company level, and this should not be presumed by the ESRS. The process must not be overly burdensome and must not be accompanied by significant disclosure requirements. This can also benefit stakeholders, who should not be overloaded with immaterial data.

As currently proposed, the rebuttable presumption would create a significant "need of justification" to the public, as well as more significant effort in terms of documentation, materiality assessments, alignment with the auditor, stakeholder engagements, etc. This could lead to a situation in which the effort to justify non-disclosure (ie, using the rebuttable presumption) exceeds the effort of reporting immaterial data.

European insurers therefore support the suggestion in the EFRAG draft ESRS to allow entity-specific materiality assessments as a key proportionality mechanism. The results could be provided through, for example, a materiality matrix, which would enable most users to easily identify the main points being made in a straightforward manner. However, EFRAG should not introduce the rebuttable presumption, as it would create inconsistencies with financial reporting and the ISSB proposals.

Furthermore, it appears that not all the disclosure requirements and underlying application guidance are sector-agnostic and many of them do not seem to be material across sectors. Only truly sector-agnostic requirements should be included in the first set of ESRS, as required by the CSRD.

If the first set of ESRS remain unchanged, guidance should be developed on sectoral exclusions where certain standards or data points can be identified as having no material relevance for specific sectors, especially if the draft ESRS remain as comprehensive.

The definition of value chain for the financial sector is currently too vague and needs to be clarified.
The definition of value chain is very broad and can be very extensive for the financial sector. More clarity is needed on how the value chain is defined for financial undertakings and how the requirements should be applied. In any case, a look-through to (all) investees, clients and policyholders for all disclosures should be avoided given the significant implications for reporting and the challenges related to data availability.

The insurance industry's detailed responses to the specific consultation questions were submitted through the online tool. If you would like any further information on any of them or wish to discuss them further with us, we would be pleased to assist.

Yours sincerely,

Olav Jones
Deputy Director General
Insurance Europe

Giulio Terzariol
Chairman
European Insurance CFO Forum

About:

Insurance Europe:
Insurance Europe is the European insurance and reinsurance federation. Through its 36 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.

European CFO Forum:
The European Insurance CFO Forum ("CFO Forum") is a body representing the views of 23 of Europe's largest insurance companies. Accordingly, it represents the consensus view of a significant element of the European insurance industry. The CFO Forum was created in 2002. More information on the CFO Forum is available at www.cfoforum.eu.