Position Paper

Key messages in view of trialogue negotiations on the proposal for a regulation on disclosures for sustainable investments and sustainability risks

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Comments for the trialogues on the disclosure proposal

General comments

Insurance Europe supports the efforts of European co-legislators towards financing a more sustainable economy and welcomes the recent proposal for a regulation on disclosures relating to sustainable investments and sustainability risks.

With more than €10tn of assets under management, the insurance industry is the largest institutional investor in Europe. As a result of their business model, insurers invest their assets with a long-term perspective. Several considerations affect insurers' investment decisions and sustainability is already a key factor for insurers. The increasing number of insurance companies voluntarily committing to sustainability objectives confirms that a transition towards sustainability is already taking place.

The European insurance sector welcomes increased transparency in sustainable investments and sustainability risks, provided disclosures are balanced and help consumers make informed financial decisions aligned with their objectives.

The sector looks forward to achieving a shared understanding of sustainability across market players. Therefore, Insurance Europe welcomes the work conducted in parallel on an EU taxonomy (EC proposal 2018/01781). In this context, the development of the EU taxonomy needs to be prioritised and accelerated. Equally important, sustainability-related regulatory requirements that are linked to the taxonomy should apply on a voluntary basis until all aspects of the taxonomy are sufficiently mature. This approach will ensure that market players are not exposed to uncertainty and legal risks.

Subject matter – Article 1

- Insurance Europe supports the EC proposal and Council position with respect to the **scope of the proposal**. In contrast, the change in scope proposed by the EP (ie extension of the scope to all financial products or services, whether or not targeting a sustainable impact) is not justifiable as it:

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- has not been subject to an adequate impact assessment to determine whether benefits to consumers overcome the burden on for financial players.
- does not sufficiently consider feasibility and proportionality considerations with respect to both operations (availability of data, methodology) and size/resources of various financial market players.

Definition of sustainable investments and sustainability risks – Article 2

- With respect to the definition of **sustainability risks**, the industry's position is that a definition should refer to financially relevant/material risks. In this respect, the EP definition appears too detailed and beyond scope. It is key that insurers have sufficient flexibility to deal with the sustainability risks that are financially relevant /material to their specific risk profile.
- With respect to the **definition of sustainable investments**, the insurance sector supports a definition that does not only focus on the environmental objective (in line with the EC proposal on a taxonomy), but also includes a social and governance component.

Transparency of the sustainability risk policies – Article 3

- The insurance sector welcomes the EC and Council positions regarding the **publication of sustainability risk policies** on markets participants' websites.

Transparency of the integration of sustainability risks – Article 4

- Insurance Europe is supportive of the need to provide customers with **relevant and accurate information at the pre-contractual stage**. Overall, detailed requirements on the integration of sustainability risks should be limited to the **aggregate portfolio** level, and be **proportionate and feasible**.
- In this respect, the proposed requirements introduced by the EP, eg on the **due diligence requirement**, are overly-prescriptive and currently not justifiable as they have not been subject to an impact assessment to determine whether benefits to consumers overcome the burden on companies.
- The requirement to disclose the **impact of sustainability risks on returns** is also premature and risks to expose insurers to potential liability risks. Given the difficulty to reliably predict investment performance, eg due to limited market data, standardised methodologies and related indicators, this requirement should remain **voluntary** at this stage.

Transparency of sustainable investments – Article 5

- Providing **granular information on sustainable investments** as indicated in Article 5 is challenging from an investment perspective and it can end up hindering the financial attractiveness of ESG investments. Specifically, such disclosures might bring about high costs for customers due to compliance and administrative pressures related to the modification of pre-contractual disclosures within undertakings.
- Considering also the limited availability, quality and consistency of adequate sustainability data, the sector suggests that these requirements only apply to sustainable products as proposed by both the EC and Council, and not all financial products/services on the market, as required by the EP.

Transparency of sustainable investments in websites and periodical reports – Article 6 and Article 7

- The provision of information under Article 5, 6 and 7 should be efficient and feasible, without leading to **increased confusion and information overload**. An extension of the scope of these requirements, as suggested by the EP, could lead to potential negative consequences, eg issues with technical feasibility, administrative burden for financial players and disadvantages to investors. Therefore, the insurance sector is supportive of the Council and the EC positions, suggesting to address these requirements to:
    - sustainable products rather than to all financial products/services on the market
    - financial market participants active in the marketing and offering of sustainable investments.

Amendments to Directive (EU) 2013/34 – new Article 10a (introduced by the EP)

- The EP proposal to amend Directive 2013/34 on accounting rules is premature. As noted in the results of the EC Fitness Check on the EU framework for public reporting, existing requirements already include non-financial disclosures as per NFI directive 2014/95 (Directive on non-financial reporting). In fact, insurance undertakings are required to include non-financial statements in their annual reports from 2018 onwards (i.e. for 2017 financial years). Given that the new and extended transparency requirements in the NFI directive were implemented only one year ago, a period of stability to evaluate the impact and effectiveness of the directive should be observed before proposing new changes.

Amendments to Directive (EU) 2016/2341 – Article 10

- The IORP II Directive is due for transposition into national law by January 2019. The IORP II Directive currently leaves it to member states to require or not IORPs to consider ESG factors in their investment policies and investment decisions. The insurance sector suggests aligning the current proposal to ensure legal consistency and clarity, as well as avoid duplication and/or overlaps between the two pieces of legislation and their foreseen legislative processes.