Press statement

31 January 2018

HLEG sustainable finance report: valuable contribution with good recommendations

Insurance Europe has welcomed the report on sustainable finance published by the High-Level Expert Group (HLEG), set up by the European Commission.

Particularly welcome are the recommendations that the EU's Solvency II regulatory framework for insurers needs adjustment; that an EU taxonomy should be developed for sustainable finance; that the supply of suitable sustainable assets in which to invest needs to increase; and for a proportionate and careful approach in encouraging disclosure of climate-related factors.

Michaela Koller, director general of Insurance Europe, said:

"European insurers are already embedding sustainability objectives in their approach to investing and in their products. It is positive that the report acknowledges insurers' inherent interest in (climate) risk mitigation and their ability to promote sustainability through investments.

"The insurance industry also supports the recommendations to develop a taxonomy for sustainable finance, which should include investments in climate mitigation/adaptation projects and also social investments, such as schools, hospitals, social housing."

Likewise welcome is the recognition of the importance of increasing the supply of assets. An increased supply of appropriate assets that meet not only sustainability criteria, but also quality and security requirements, will be key to increasing sustainable investment not just by large, but also by small and medium-sized, insurers.

Insurance Europe supports the encouragement of greater adoption of the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures. It also supports the recommendation that these disclosures are voluntary and that any requirements are proportionate to a company's size and exposures.

On the regulatory side, the HLEG report appropriately acknowledges that both International Financial Reporting Standard developments, as well as aspects of the Solvency II framework, require a careful review of how they measure insurers' balance sheets and investment risks. The report highlights that Solvency II incorrectly generally assumes that insurers trade all their assets and liabilities all the time. As the report points out, this is not consistent with either insurers' long-term business model or policymakers' desire for insurers to maintain and grow their long-term and sustainable investments.

"Solvency II is — and should remain — a risk-based framework, but more work is needed to ensure that the risks for long-term business are correctly identified and measured. While the insurance industry does not believe that prudential regulation should be used to provide artificial *incentives* to green investment, policymakers should focus on identifying and removing the *disincentives*, for example by recognising the important difference between short-term and long-term investment risks," Koller concluded.

"Insurance Europe looks forward to seeing the European Commission's action plan to accelerate Europe's sustainability goals, while, as the report notes, avoiding an increase in regulatory burden and complexity."

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Notes for editors

1. In 2016, the European Commission established the High-Level Expert Group (HLEG) on Sustainable Finance to advice the Commission on developing a comprehensive EU strategy on sustainable finance. The HLEG is comprised of 20 senior experts from civil society, the finance sector and academia as well as a limited number of observers from European and international institutions.
2. For further information, or to be added to our mailing list, please contact Richard Mackillican, policy advisor communications & PR (tel: +32 2 894 30 69, mackillican@insuranceeurope.eu).
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