

Response to EC consultation on the update of the NBGs on NFR

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Philippe Angelis, Policy Advisor,
Financial Reporting

E-mail: angelis@insuranceeurope.eu

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1. Do you have any comments on [Chapter 2 "How to use these guidelines"](#) of the report?

The insurance industry is a preparer of public reports and also, with over 10 trillion of assets under management, a major user. Insurance Europe welcomes the Commission's initiative to update the Non-Binding Guidelines (NBGs) of the Non-Financial Reporting Directive (NFRD) with regard to the reporting of climate-related information. The NBGs are and should remain a source of useful accessible guidance for companies to promote the improvement of non-financial reporting over time. From an investor perspective, insurers encourage the additional information non-financial reporting brings. Once a consistent taxonomy is used across all companies for ESG type reporting, it can facilitate taking into account climate and other sustainability impacts into insurers' investment decisions. However, climate-related reporting, like other areas of non-financial reporting, is far from mature.

It is therefore important that the NBGs remain principle based, and do not provide overly prescriptive guidance – both to allow for evolutions in non-financial reporting and to have a better reflection of entities' business model. For example, the differentiation between type 1 and type 2 disclosures may create an impression of minimum requirement towards type 1 disclosures. Furthermore, providing too detailed Key Performance Indicators (KPIs) may again create mandatory minimum requirement expectations by undertakings and the public which goes against the principle-based nature of NBGs.

It is important that companies retain flexibility in their choice of reporting standard, frameworks, methodologies and disclosures of non-financial information to reflect the underlying business model and to consider the different level of maturity in non-financial reporting. While this consultation focuses on climate related disclosures, it may be useful to leave a certain degree of flexibility given that other frameworks that go beyond climate-related disclosures exist and are already in place.

Furthermore, it is very important to maintain the option of publishing a separate report allowing companies to decide whether or not to integrate non-financial statement in the management report (subject to the Member States decision). This is important for a number of reasons including the relative early stage of development of taxonomy and data availability, range of impact and relevance across different companies and industries, the need to avoid automatic audit requirements and to avoid crowding out key financial data.

The Commission's recognition that climate related disclosures should be dependent on materiality is key for

incorporating proportionality and to ensure that the, sometimes considerable, costs and investment required to develop and maintain non-financial reporting can be optimized and channeled to where it is of most value.

The NBGs should be kept principles based and it is too early to include the detailed reporting guidelines in the annex. Given the early stage of development, availability and use of a consistent taxonomy and the related data, inclusion of the detailed guidance for insurance companies (and banks) provided in the annex is premature.

2. Do you have any comments on [Chapter 3.1 “Business Model”](#) of the report?

Insurance Europe notes that in many cases the assessment of impact of different climate scenarios would be difficult to implement in practice and that differentiation proposed in Table 1 between Type 1 and Type 2 disclosures, was not included in the TCFD and may increase complexity of assessment and hinder comparability of companies from an investment perspective.

3. Do you have any comments on [Chapter 3.2 “Policies and Due Diligence Processes”](#) of the report?

Insurance Europe notes that some of the proposed indicators maybe highly subjective – for example, describing the degree of climate competency.

As regards Scope 3 (indirect GHG emissions), the sector notes that these will be the most challenging to disclose for companies whose supply chain or user market may involve actors from virtually all over the globe. We also note that getting appropriate information on the upstream and downstream impact in the value chain is particularly demanding.

4. Do you have any comments on [Chapter 3.3 “Outcomes”](#) of the report?

Insurance Europe welcomes the use of a qualitative approach as a complement to quantitative metrics. Specifically, in some cases quantitative metrics alone may be insufficient or not useful on a short-term basis.

5. Do you have any comments on [Chapter 3.4 “Principal Risks and Their Management”](#) of the report?

6. Do you have any comments on [Chapter 3.5 “KPIs”](#) of the report?

Insurance Europe acknowledges the Commission's effort to increase the number of companies reporting on GHG emissions by including all Scopes (1-3) in Table 5. But due to the relatively poor data availability and the risk for double counting (in particular within scope 3), we would like to recommend focusing first on Scope 1-2 and in the future with improving data quality focusing on Scope 3.

7. Do you have any comments on [Annex I “Proposed disclosures for Banks and Insurance companies to the report”](#)

Insurance Europe does not support the inclusion of the following disclosure: *“Describe how climate-related risks could affect their present and future regulatory capital requirements and, for instance, how they are integrated in their Own Risk and Solvency Assessments (ORSAs), under Pillar 2 of Directive 2009/138/EC (“Solvency II”).* The sector considers that prudential concerns should be addressed by the prudential framework and not through non-financial disclosures. This requirement would only add to existing overlaps (for example with the Solvency and Financial Condition Report – SFCR). The Commission has a welcome initiative on the Fitness Check on supervisory reporting to streamline reporting and remove overlaps and duplications (and includes, for example, the SFCR). Any new guidelines should be written taking these objectives into account and so avoid duplications and overlaps.

In addition, as also noted in the context of the EIOPA recent consultation on its technical advice integration of sustainability risks and factors in the Delegated Acts under Solvency II, the insurance industry believes that the consideration of the effect of sustainability risks should be included in the overall solvency needs assessment of the undertakings (ORSA) as long as these risks are financially relevant and material for the undertaking. This is because the sector believes that sustainability risks should get the same treatment as other risk types. The link between sustainability risks and the ORSA is critical, but the analysis of sustainability risks is dependent on the company-specific strategy and risk assessment. Therefore, the measurement and quantification of the effects of sustainability risks is necessary only when these effects are financially material. Where this is the case, Solvency II already requires them to be managed and incorporated as appropriate into the undertaking's ORSA and SFCR.

As noted earlier, the NBGs should be kept principles based and it is too early to include the detailed reporting guidelines in the annex. Given the early stage of development, availability and use of a consistent taxonomy and the related data, inclusion of the detailed guidance for insurance companies (and banks) provided in the annex is premature. When, in the future, there

is sufficient maturity and experience to provide such guidance it should apply to all financial institutions, including asset managers, not only such banks and insurers.

8. Do you have any comments on [Annex II “Mapping of NFRD requirements and TCFD recommended disclosures”](#) to the report?

It is important that the alignment of NFRD requirements is compatible with the disclosure of Directive 2014/95/EU, Directive 2013/34/EU, and any other European regulatory initiatives as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

9. Do you have any additional comments on the report as a whole?

The following comments were in the answers to the first question but are included here as they are key points that also apply to the report as a whole:

- **It is important that the NBGs remain principle based, and do not provide overly prescriptive guidance**
- **It is important that companies retain flexibility in their choice of reporting standard, frameworks, methodologies and disclosures of non-financial information.**
- **Furthermore, it is very important to maintain the option of publishing a separate report allowing companies to decide whether or not to integrate non-financial statement in the management report (subject to the Member States decision).**
- **The Commission’s recognition that climate related disclosures should be dependent on materiality is key**
- **The NBGs should be kept principles based and it is too early to include the detailed reporting guidelines in the annex.**

Climate-related disclosures should not pressure insurers to reveal business-sensitive information, as this could compromise competitiveness. Where insurers use scenarios in underwriting weather-related risks, having to disclose too detailed information could potentially undermine the competitive advantage of insurers, stemming from — for example — superior underwriting methodologies and risk pricing. Overall, disclosures should have high enough aggregation of categories to mitigate the risk of revealing business-sensitive information.

It remains important that discretionary reporting will not be subject to audit requirements since non-financial information is often not defined and prepared in the same way as financial data. This may increase costs and pressure companies to produce much more limited set of information.

We emphasise the current lack of consistent data on ESG (environmental, social and governance) factors for insurers to use in their assessment of the financial risks associated with climate change. This will improve over-time but any guidance and especially any requirements need to take this into account.

Finally, it would be helpful to clarify how the report’s recommendations are supposed to interact with various other climate-related disclosure initiatives by the European Commission.