Position Paper

Response to EC Consultation on Sustainable Finance Strategy

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Contact person:	Andrea Pintus, Policy Advisor, Investments	E-mail:	investments@insuranceeurope.eu
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Summary

The insurance industry supports the ambitious objectives of the European Green Deal to make the EU economy sustainable, and the aim of achieving net-zero greenhouse gas emissions by 2050. Europe's insurers remain as committed as ever to supporting the transition to a more sustainable society and to tackling climate change.

The insurance industry can play a key role in the transition to sustainability through providing both insurance coverage and investment in sustainable assets. However, insurers are only one component in a wider effort to make the economy sustainable. And they can only play their part in the transition to a sustainable economy provided that other companies and governments are willing to fulfil their own roles by financing sustainable projects and issuing green bonds which meet EU sustainability standards.

With respect to the three areas covered in the EC consultation, the industry has the following comments.

1. Strengthening the foundations for sustainable finance

Company reporting and transparency

The industry supports **a centralised electronic EU register for ESG data** (see here). Such a data register, meeting the ESG requirements under the Non-Financial Reporting Directive (NFRD), Taxonomy and Disclosures regulations, will help achieve better comparability, increased transparency and lower costs, as well as help data preparers by eliminating multiple requests for information. Investee companies should be directly required to report standardised ESG data on a mandatory basis. The register should include disclosures – to allow investors to have access to ESG data – at both investee company level and from public institutions such as governments, central banks, statistical bodies, etc.

Insurance Europe aisbl
Rue Montoyer 51, B-1000 Brussels
Tel: +32 2 894 30 00 • Fax: +32 2 894 30 01
E-mail : info@insuranceeurope.eu
www.insuranceeurope.eu

Sustainability research and ratings

ESG ratings and data providers are developing into oligopolistic structures, which has led to an increase in the costs to access ESG ratings and data. In this respect, existing issues with the availability and reliability of ESG data should not force market participants to rely on third party providers to obtain them.

Taxonomy

Once it is finalised and companies report the information necessary to perform the analysis, the EU Taxonomy will likely play a major role in companies' activities and investment decisions. However, whether the Taxonomy will become a mainstream sustainability tool, will ultimately depend on whether it:

1. Provides a fair and dynamic assessment of sustainability (eg recognising the transition efforts and accounting for the life cycle of economic activities).
2. Is usable for investment purposes (eg not limited in scope and not becoming a data-intensive tool at activity level).

The fact that the Taxonomy does not cover a considerable share of investments (government bonds, bank securities, etc.) might also be problematic for insurers who hold these types of securities. It is crucial that the scope of the Taxonomy includes these assets.

Finally, the industry notes that while the Taxonomy will help increase transparency regarding the sustainability of investments, it will not create alone the sustainable investments needed to finance the transition. For this to happen, the supply of green investable assets must increase. The main problem here does not lie in the willingness of investors to invest sustainably, but in the access to instruments that fit the investors' needs.

EU Green Bond Standard

When establishing an EU Green Bond Standard (GBS) it is key that all its core components remain standardised at EU level to safeguard transparency, uniformity and comparability. This market should be regulated at EU level to ensure that reports by accredited verifiers respect the GBS commitments and are in line with the Taxonomy.

Standards and labels

European insurers generally welcome the Commission's efforts to extend the scope of the EU Ecolabel Regulation to financial products, but they note that the multiplication of labels could have a detrimental effect on clarity for retail investors. Therefore, while standardisation and transparency are generally useful, further standards and labels might not necessarily represent the best course of action to mainstream sustainability.

A broad unique label to cover a range of thematic issues could be very useful. In any event, the completion and the alignment of the EU Ecolabel for retail financial services proposal with the EU Taxonomy is a necessary first step before other labels are considered.

Capital markets infrastructure

The key policy objective should not be to create a sustainable parallel financial infrastructure, but to integrate sustainability in common practice in all market and trading segments, based on reliable and comparable information from companies. This goes for both financial and non-financial information and is essential for investors to make informed decisions about capital allocation.

Corporate governance, long-termism and investor engagement

Insurers have a strong interest to invest long-term and sustainably, but this is not happening to the extent that it could because of the lack of suitable long-term projects in which to invest. EU policies should focus on good design and calibration of regulations to better reflect the long-term nature of the insurance and pension business. In this respect, long-term investment should refer to the ability to have a long-term investment strategy aligned with the nature of the liabilities, rather than numerical thresholds.

Variable remuneration

The industry is of the opinion that companies should integrate the long-term interests of their stakeholders in their decision-making processes and that the remuneration policies may constitute an adequate tool to align these interests with companies' business strategy. In this respect, Solvency II effectively ensures a balanced approach by empowering competent authorities to address remuneration principles in the supervisory process. In addition, the recent EC sustainability-related amendments to the Solvency II framework also require consistency in the remuneration policies of insurance undertakings. Non-financial performance ought to be part of remuneration assessments, along with other relevant factors, such as financial performance.

However, setting a mandatory share of variable remuneration linked to non-financial performance with a one-size-fits-all approach would ignore the differences in sustainability risks and factors associated with various companies' business models and would not contribute to enhanced stakeholder's engagement. Should the EC decide to implement any provisions on a mandatory share, then these should apply to all sectors.

Accounting standards and rules

The industry supports the reintroduction of recycling for equities measured at fair value through other comprehensive income (FVOCI) to ensure that the profit and loss account of long-term investors using FVOCI correctly reflects their financial performance. While not all long-term equities are sustainable, this will strongly benefit sustainable equity investments too.

2. Increasing opportunities for citizens, financial institutions and corporates

Mobilising retail investors and citizens

Financial advice guidelines to ensure retail investors are asked about their sustainability preferences already exist. No further detailed guidance on ESG preferences is needed as the selection of the right product for a client is already complex and a highly individual process depending on customer's characteristics and situation. This is the role of professional recommendation, as required under the Insurance Distribution Directive (IDD). It is key to provide maximum flexibility to companies for the assessment of ESG preferences of the retail investors.

Regarding the possibility to offer retail investors sustainable products as default option, it is important that a "suitability test" is performed, so that customers are not presented with anything by default, but rather with products that are truly suitable for them.

Digital sustainable finance

EU policy action is needed to maximise the potential of digital tools for integrating sustainability into the financial sector. The industry is supportive of the development of digital finance solutions and encourages the EU to develop the standards required for transparency of sustainable finance. The industry also notes that:

- Innovation must be consistent and give consideration to the entire distribution chain.
- While there should indeed be a focus on improving the customer experience, there is a need to ensure that firms who innovate can harness the benefits of such innovations.
- Any proposed regulatory actions should be innovation-friendly and technology neutral to ensure that they are fit for the digital age and do not create any obstacles to further innovation.

Project Pipeline and Incentives to scale up sustainable investments

Policy efforts to make sustainability more mainstream will likely be reflected in a higher uptake of sustainable investments. However, the main issue will remain the lack of attractive long-term sustainable investments in the real economy and the difficulty in unambiguously defining sustainable finance solutions.

In this respect, the industry considers that there are key market and regulatory obstacles that prevent an increase in the **pipeline of sustainable projects:**

- A common framework defining what is sustainable or not is absent (until the Taxonomy is implemented).
- Often, the risk/return profile of sustainable projects does not fit the risk appetite and engagements of insurers.
- The risk profiles of sustainable projects often do not meet regulatory requirements. Partial public guarantees/credit enhancements could help, but they should not lead to crowding-out of private investors.

- Insurers need to ensure an appropriate relationship between expenses/transaction costs and investment volumes. For small scale investments, this can be problematic due to high costs. In addition, the maturity profiles of available green investments often do not match insurers' long-term cash flows.
- Lack of stability of regulations as well as uncertainty about future regulatory requirements also represent obstacles.

Sustainable finance tools and frameworks by public authorities

The industry believes that the public sector should lead by example in the transition to a more sustainable economy: greening public procurement and expenditure is key. In particular, the EU Taxonomy should play a role in the context of public spending frameworks at EU level, and social objectives should be incorporated in the EU Taxonomy. Equally important, fair and suitable policy framework conditions and appropriate incentive structures need to be created and aligned with the communicated strategies/targets.
The industry also encourages public issuers, including Member States, to make use of a future EU GBS for their green bond issuances, including the issuance of sovereign green bonds.

Promoting sustainable finance globally

Sustainability is a global issue. Therefore, it needs to be addressed through a global approach and international coordination. However, the industry notes that the current level of global coordination between public actors for sustainable finance is not sufficient to promote sustainable finance globally. There is currently a need for a consensus view on climate change and the categorisation of environmental degradation as an urgent and global problem. Further policy action is needed to promote global standards and best practices, as well as to constantly increase the number of countries involved in the effort to move towards a more sustainable economy. This is vital to avoid the fragmentation of markets.

Implementation of "polluter pays" principles in more jurisdictions is also welcome. A global, reliable and significant carbon pricing with strong incentives for the real economy would likely have a more decisive impact on strengthening sustainable investments than uncoordinated national efforts.

Finally, EU sustainable finance tools (eg taxonomy, benchmarks, disclosures) can be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies. Their requirements may need adaptation to emerging markets and developing countries, which are at different stages of transition. In this respect, a more holistic view of unsustainable practices may be needed, with a strong focus on social and governance aspects for investments in emerging markets and/or developing markets.

3. Reducing and managing climate and environmental risks

Exposures to harmful activities/assets and environmentally harmful investments

While defining a brown taxonomy could be very useful, this should not be the priority of EU policymaking. The focus should be on mobilising capital towards the transition and on finalising the "green" taxonomy to assess how to best to use and implement it in the existing legal framework.

EU legislation should encourage all activities/sectors to participate in the transition. A brown taxonomy could instead lead to unwanted exclusion, cutting off the financing for these activities that may actually need financing most in order to transform. Repercussion on social and governance factors should also not be ignored. The industry's priority is ensuring that the investment universe is not unnecessarily restricted and the materialisation of existing sustainability risks (stranded assets, green bubbles, transition risk) is not accelerated.

Financial stability risk

The industry recognises that climate change might affect the industry through both physical and transition risks. Regarding **physical risks**, changing weather patterns and rising sea levels as a result of global warming are leading to increases in large and catastrophic events, with serious consequences on insurability. More frequent and severe climactic or weather-related events will likely see an accompanying increase in the gap between the losses that are (and can be) insured and total losses. Enhancing public resilience and placing focus on the implementation of adaptation measures through effective prevention planning is key to tackle climate change.

Regarding **transition risks**, the insurance industry expects risks involved in the transition to a low-carbon economy to affect underwriting business performance: eg shrinking cover for "brown" industries. Good underwriting performance will require adjustments to insurance products and proper risk assessment by professional expertise. On the investment side, pro-active risk management and risk modelling are key. Foreseeable and reliable planning for the carbon pricing and transition paths are of great importance for investors. Stable and simple legislation can also help decrease transition risk from regulatory changes.

Insurance prudential framework

The industry is of the opinion that the EU should take further action to support insurance companies in financing the transition and manage climate and environmental risks. The EU could:

- Play a role in increasing and structuring the supply of sustainable investment projects/assets in a format adapted to institutional investors' needs.
- Address the current flaws in Solvency II's measurement of long-term business and assets.
- Develop strong public policies that provide a clear trajectory on the reduction of greenhouse gas emissions.
- Work on an accessible, free of cost, centralized database on ESG information to better identify sustainable assets and activities.

Pension providers

Consistency, clarity and legal certainty of existing provisions are essential to encourage pension providers to achieve the EU's ambitious sustainability goals. Therefore, the sector invites the ESAs to take action to ensure clarity in existing work. This is key because:

- Understanding and identifying the ESG rules applicable to pensions is not straightforward, as they are regulated at EU level by different texts and in different ways. Pensions can fall under multiple sectorial frameworks, such as Solvency II or the IDD when provided by insurers. Finally, there are also additional rules established at national level to consider.
- ESG provisions applicable to pensions overlap and contradict each other.
- The multiple disclosure frameworks applicable to pensions create a risk of information overload. The cumulative impact of individual rules can result in information overload and burden.
- The scope of the SFDR is not at all straightforward for pensions and it must be clarified to avoid regulatory arbitrage based on different interpretations of EU texts at national level.

Climate-related loss and physical risk data

The EC should take action to enhance the availability, usability and comparability of data on climate-related loss and physical risk across the EU.

With respect to loss data, more and better data is needed to improve the integration of sustainability risks into business models across the EU. Collecting this data at an EU-level allows for efficient adaptation measures and a better understanding of certain sustainability risks. Sharing loss data can also enable better estimates of the financial resources needs of insurers and reinsurers. However, it needs to be clear that insured losses are likely to be an insufficient proxy for total climate-related losses.

With respect to physical risk, data sharing allows better targeted preventative measures and actions, and even favours partnerships beyond borders. Physical risk data can be useful for investors looking to price in these risks in the short and longer term: eg as input for scenario analyses. Collecting this data at EU-level allows for efficient adaptation measures and for a better understanding of sustainability risks. In addition, education and prevention are key to keep future losses within limits, to encourage adaptation and to insure natural hazards.

Financial management of physical risk

The industry is of the opinion that the EU has a role in promoting more equal access to climate-related financial risk management mechanisms for businesses and citizens across the EU. Specifically, this can be done through:

- Financial support to the development of more accurate climate physical risk models.

- Raising awareness about climate physical risk.
- Promoting ex-ante "build back better" requirements to improve the future resilience of affected regions and or/sectors after a natural catastrophe.

Insurability of climate-related risks

The insurance sector is of the opinion that the EU can play a role in this area, as it could:

- Subsidise insurance premiums of certain products and services with low penetration rates on the condition that they are related to resilience and prevention measures.
- Facilitate private public partnerships in cases where there is a lack of insurability through the private sector alone: eg caused by an absence of diversification and resulting pricing issues.
- Develop a clear framework for identifying and classifying activities that enhance policyholder resilience.
- Anchor climate resilience in planning standards and building regulations to improve policyholders' resilience to natural hazards beyond a mere financial compensation function.

Additional key points for the industry

To promote the transition to a more sustainable economy, the industry strongly highlights the need to:

- Increase **the supply of long-term sustainable assets** to meet institutional investors needs and growing willingness to invest sustainably. The demand for these assets is not matched by their availability. The right incentives need to be in place to stimulate the transformation. Investors cannot transform the economy alone: public policies are needed to increase the supply of long-term sustainable assets. In this respect, the industry recognises carbon pricing as an appropriate approach to reducing carbon emissions and make green projects more financeable compared to other ones.
- Make **sustainability more mainstream in an affordable, simple and streamlined way**, finding a balance between ESG analysis and adverse impacts identification at reasonable costs. This requires:
  - Affordable centralized access to reliable, comparable and standardised digital ESG data from investee companies and public entities (see joint initiative here).
  - Balanced disclosures for customers and other users of ESG information. The development of standardised data must be fit-for-purpose. Consumers should be able to rely on simple labels and information. Clarity and simplicity in the communication are also key.
- Fully integrate ESG factors into global, diversified portfolios, while accounting for sustainability risks. This involves:
  - Filling the training gap between finance professionals and governance bodies.
  - Having shared frameworks and assessment tools across financial actors.
  - Enhancing sustainability and financial literacy, considering differences in the geography, education and income of customers.

Unfortunately, there are obstacles in current EU policies and regulations that hinder the sustainable finance efforts of insurers. Such obstacles include:

- **Solvency II built-in mechanisms,** which create barriers for insurers in holding long term assets. The review of Solvency II should focus on fixing the existing flaws in the measurement of long-term business and the calibration of long-term assets. In this respect, the industry does not support artificial incentives/disincentives based on green/brown qualifications, but rather a risk-based approach to Solvency II that appropriately captures the intrinsic risk in all assets, including sustainable ones.
- The **lack of requirements on investee ESG data** to ensure alignment with the data needed by investors to comply with the disclosure and taxonomy regulations – more details here.
- The poor **alignment across existing and upcoming legislations**: eg the Disclosure and Taxonomy Regulations, as well as Non-Financial Reporting Directive. Clear policy planning, stable policy frameworks and transparent communication to stakeholders will be key in accelerating the transformation and needed to track the progress.
- the **complexity of the definition of sustainability**. The EU Taxonomy risks being too narrow from an investment perspective and delivering a static view of sustainability. Policymakers should provide the right incentives to facilitate the transformation of the real economy, taking into account the risks that come with it and the need to encourage all sectors to make their business models more sustainable.

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Detailed Comments

Section I: Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

***Question 1**: With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate and environmental-related challenges, do you think that (please select one of the following):*

- *Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.*
- *Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.*
- *No further policy action is needed for the time being.*

- **Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.**

***Question 2**: Do you know with sufficient confidence if some of your pension, life insurance premium or any other personal savings are invested in sustainable financial assets?*

- *Yes/No/Do not know/No opinion.*

N/A

***Question 3**: When looking for investment opportunities, would you like to be systematically offered sustainable investment products as a default option by your financial adviser, provided the product suits your other needs?*

- *Yes/No/Do not know/No opinion*

N/A

***Question 4:** Would you consider it useful if corporates and financial institutions were required to set and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?*

- *Yes, corporates;*
- *Yes, financial institutions;*
- *Yes, both;*
- *If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement?*
- *Do not know.*

- **Yes, both**

***Question 5:** One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:*

- *Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law,* *with a view to encouraging these companies to adopt more sustainable business models: scale from 1 (strongly disagree) to 5 (strongly agree).*

- *Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law: scale from 1 (strongly disagree) to 5 (strongly agree).*
- *In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?*

N/A

Section II: Questions targeted at experts

Question 6: *What do you see as the* ***three main challenges and three main opportunities for mainstreaming sustainability*** *in the financial sector over the coming 10 years?*

The key challenges are to:

1. **Increase the supply of long-term sustainable assets** to meet institutional investors' needs and growing willingness to invest sustainably. The demand for such assets is not matched by their availability. The right incentives need to be in place to stimulate the transformation and increase the volume of "green" investments. Investors cannot transform the economy alone: public policies are needed to accelerate the transition and increase the supply of long-term sustainable assets. Carbon pricing should be considered to reduce emissions and make green projects more financeable.
2. **Fully integrate ESG factors into global, diversified portfolios** (rather than just certain niche funds or asset classes), while accounting for sustainability risks. This involves:
   - Filling the training gap among finance professionals and governance bodies.
   - Having shared frameworks and assessment tools across financial actors.
   - Enhancing sustainability and financial literacy, considering differences in the geography, education and income of customers.
3. Make sustainability more mainstream **in an affordable, simple and streamlined way**, and finding the right balance in performing ESG analysis and identify adverse impacts at reasonable costs. This requires:
   - Affordable centralized access to reliable, comparable and standardised digital ESG data from investee companies to allow better performance of financial activities. International standardisation is key.
   - Balanced disclosures for customers and other users of ESG information, focusing on clarity. The development of standardised data must be fit-for-purpose. Consumers should be able to rely on simple labels and information without technical details. Simple communication is also key.

The main opportunity is to increase long-term investment to the advantage of the economy and society overall. Building a more resilient economy also improves financial actors' ability to contribute to society: eg to prevent sustainability risks or to meet customers' ESG preferences. More opportunities will come from defining a pathway towards sustainable business models and having EU regulations as global standards.

Question 7: *Overall, can you identify specific* ***obstacles in current EU policies and regulations*** *that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making? Please provide a maximum of three examples*

Solvency II has built in mechanisms which may make it difficult for insurers to hold long term assets. The review of Solvency II should focus on changes that help, rather than hinder, insurers from playing a key role in supporting Europe's need for investment to achieve carbon neutrality and economic growth.

In practice, this means that the Solvency II framework should appropriately measure the risks of long-term business and not exaggerate long-term liabilities or the risks of the long-term assets that back them (including sustainable investments).

Capital requirements related to long-term sustainable investments should reflect the actual risk associated with this type of investment product, not be set artificially lower to promote such investment products. The industry does not support artificial incentives/disincentives based on green/brown qualifications. Solvency II is, and should remain, a risk-based framework. Any differential treatment between green assets or brown assets should be based on the difference in underlying risks.

Other obstacles in current EU policies and regulations that hinder the development of sustainable finance are:

- The lack of requirements on **investee ESG data** to ensure alignment with the data needed by investors to comply with the disclosure and taxonomy regulations. Investee companies should be directly required to report standardised ESG data on a mandatory basis.
- Poor **alignment across existing and upcoming legislations**. The disclosure and taxonomy regulations, as well as Non-Financial Reporting Directive, must be aligned.
- **Complexity of the definition of sustainability**. The EU Taxonomy focuses on specific economic activities instead of entities. From an investment perspective, it risks being too narrow and delivering a static view of sustainability. Related Level 2 measures should fully recognise the role of enabling and transition activities and encourage all sectors to make their business models more sustainable.

Question 8: *The transition towards a climate neutral economy might have* ***socio-economic impacts****, arising either from economic restructuring related to industrial decarbonisation, because of increased climate change-related effects, or a combination thereof. For instance, persons in vulnerable situations or at risk of social exclusion and in need of access to essential services including water, sanitation, energy or transport, may be particularly affected, as well as workers in sectors that are particularly affected by the decarbonisation agenda. How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, no or limited negative socio-economic impacts?*

Subsidy policies on green technologies and the EU's subsidies schemes should be limited to avoid distortions (eg in producer prices for export subsidies) and short-term benefits without lasting effects. Excessive subsidy can result in hampering global competitiveness for subsidised industries, with repercussions on their labour force and other negative socio-economic impacts.

In this respect, the EU can support member states in providing active labour market policies to retrain and re-educate workers in sectors affected by decarbonisation. It can also encourage a multi-stakeholder approach for transitioning of exposed sectors, companies and regions. For example, it can provide European funds to support an equitable transition.

Furthermore, the EU can support and facilitate investments in and provision of essential services; eg through public-private partnerships. While managing the socioeconomic impacts of decarbonisation is primarily a national concern, the EU can encourage a gradual transition, where possible and in line with net-zero pathways. This will limit socio-economic impacts and enable a broad transformation of the economy.

Question 9: *As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated* ***policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions****, based on the climate objectives set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future?*

- *Please express your view by using a scale from 1 (not important at all) to 5 (very important).*

- *For scores of 4 to 5, what are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution?*

- **5**

Policymakers should provide the right incentives to facilitate the transformation of the real economy, while also taking into account the risks that come with it. Moreover, financial actors have limited leverage effect to play this role in place of public authorities. Achieving the EU's sustainability objectives requires political actions as well as clear and transparent communication to accelerate the transformation. For this reason, clear planning and stable policy frameworks are key for the economy.

For instance, achieving the necessary greenhouse gas (GHG) emissions reduction cannot solely rely on financial actors' divestments, eg from coal-intensive sectors. The energy mix of the future economy should be clearly decided at political level with appropriate strategies and cohesive transition plans to accompany social impacts and other risks, such as stranded assets or green bubbles.

Focusing on climate mitigation, a clear evaluation process is needed to track the progress on decarbonisation. Sector-specific trajectories will be important to develop (eg for companies) and compare (eg for investors) the transition goals of companies. Attention needs to be placed on the instruments applied for steering (eg the EU Emission Trading System). Likely, the strongest impact to reduce all types of GHG emissions from all relevant sectors would be achieved by having a comprehensive EU-level carbon pricing system, with significant price levels and clear trajectories over time to allow for clear investment planning.

The insurance industry stands ready to contribute to this transition with high-level engagement with corporates and with guidance and expertise in developing such frameworks. In this respect, the public sector should lead by example: greening public procurement and expenditure is key. It is equally important that fair and suitable policy framework conditions and appropriate incentive structures are created and aligned with the communicated strategies/targets.

Question 10: *Should institutional investors and credit institutions be required to* ***estimate and disclose which temperature scenario their portfolios are financing*** *(e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?*
- *Yes, investors*
- *Yes, credit institutions*
- *Yes, both*
- *No*
- *Do not know*

- **No**

Question 11: *Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy.*
However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects, as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of ***biodiversity loss****?*
- *Yes/No/Do not know/No opinion*
- *If yes, please specify potential actions the EU could take.*

- **Yes**

The loss of biodiversity is of the utmost importance. We believe its inclusion in the EU Taxonomy is the appropriate way to deal with this issue. The objective of "protection of healthy ecosystems" could be prioritized, along with the mitigation and adaptation objectives of the taxonomy.

It is also important to develop:

- Standardised reporting on biodiversity issues for companies in the context of the NFRD revision, linked closely with the technical selection criteria and the Do-Not-Significant Harm (DNSH) criteria of the Taxonomy Regulation regarding protection of biodiversity and healthy ecosystems.
- A shared framework and tools that help asset managers to integrate biodiversity into their risk management processes or other business operations, including tailored sector-specific guidelines helping managers identify good management practices and important areas for biodiversity.
- Financial instruments and incentives to finance nature-based solutions that contribute to both climate change adaptation and restoration of biodiversity.

Question 12: *In your opinion, how can the Commission best* ***ensure that the sustainable finance agenda is appropriately governed over the long term*** *at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan?*

The EC should allow the initiatives under the Action Plan to gain traction and settle among corporates and financial institutions, while maintaining close cooperation with business and experts on these matters. Collaboration with market participants should be continued to further strengthen established best practices. The platform for sustainable finance established under the Taxonomy Regulation can help in this sense: eg with tracking financial flows towards sustainable investments and the EU's progress. In general, the implementation of sustainability initiatives should maintain a focus on the actual impact and endeavour to keep the regulatory burden to a minimum level sufficient to achieve its purpose. This will avoid discouraging sustainability efforts and help the initiatives gain traction from broad range of businesses including SMEs.

Regarding private and public funding, it is key that the ambitious EU transition goals are achievable and equitable. Public financing should not crowd-out private financing but should enable it to finance the real economy. In this respect, policy actions aimed at developing project pipelines and at providing sustainability-related data would be welcome.

The EC should also align public funding including EU funding with the sustainable finance agenda as well. Updates should be made to the sustainable finance agenda, when new technology or knowledge make such revisions appropriate. The pursuit of the sustainable finance agenda should not overshadow the equally important priority of healthy, stable financial markets and economic prosperity.

Question 13: *In your opinion, which, if any,* ***further actions*** *would you like to see at international, EU, or Member State level to enable the financing of the sustainability transition? Please identify actions aside from the areas for future work identified in the targeted questions below (remainder of Section II), as well as the existing actions implemented as part of the European Commission's 2018 Action Plan on Financing Sustainable Growth.*

As sustainability is a global issue, it requires a global approach to address it efficiently. In particular, better international coordination of efforts is needed to mitigate and adapt to climate change. Beyond the International Platform on Sustainable Finance, further effort is required to promote global standards and best practices as well as to constantly increase the number of countries involved in the effort towards a more sustainable economy.

Implementation of "polluter pays" principles in more jurisdictions, specifically carbon taxes and carbon pricing to control and discourage emissions, is also welcome. A global, reliable and significant carbon price with strong incentives for the real economy would likely have a more decisive impact on strengthening sustainable investments than uncoordinated national efforts in the EU. In addition, there should be a better understanding of the interlinkages affecting climate change and environmental degradation, such as biodiversity loss and "tipping points". Policy efforts to address these concerns are needed.

Finally, international standardisation of non-financial reporting should also be a key area of action to account for global linkages of financial markets and avoid competitive disadvantages for globally operating companies. Sustainability disclosures should be strengthened for all sectors as well as for public entities, and they should be publicly available. In addition, actions to increase the consistency between financial and non-financial reporting should be considered to ensure that both follow a similar rationale, especially as non-financial aspects become increasingly relevant from a financial viewpoint.

1. Strengthening the foundations for sustainable finance

1.1 Company reporting and transparency

Question 14: *In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost* ***environmental data space for companies' ESG information****, including data reported under the NFRD and other relevant ESG data?*

- *Yes/No/Do not know/No opinion*
- *If yes, please explain how it should be structured and what type of ESG information should feature therein.*

- **Yes**

The industry supports a centralised electronic EU register for ESG data. Comparable and reliable ESG data is key to identify and assess sustainability risks in insurer's activities and is necessary to enable investors to allocate capital efficiently to the EU's sustainability objectives. Recent regulatory developments on sustainable finance have also created an urgent need for publicly available ESG data, which is currently very limited.

Such data register, in line with ESG requirements under NFRD, Taxonomy and Disclosures Regulations, will help achieve better comparability, increased transparency, lower costs, and help data preparers by eliminating multiple requests for information. This would create an effective and unified playing field and improve data quality and availability while limiting costs.

This register should include:

1) Disclosures at investee company level to allow investors to have access to ESG data - especially that which is necessary to comply with regulatory requirements (eg on adverse impacts, sustainability risks, taxonomy-eligible investments, etc.). Investee companies under the NFRD should report this data in an electronic and standardised format.
2) ESG data by public institutions such as governments, central banks, statistical bodies, etc. This is needed for the optimal performance of business activities, especially because insurers heavily invest in government bonds, which are not considered in the EU Taxonomy.

Data should follow the general criteria for good reporting and be measured in a reliable way, in line with EU regulation. The implementation could start with a limited number of indicators to assess relevance, efficiency and costs of such a tool. Targeted, quality data is more important than a high number of data points. Finally, the database should limit the burden for preparers to enter data in the database. This requires streamlining existing multiple reporting channels, so that companies can submit public information via a single reporting channel.

Question 15: *According to your own understanding and assessment, does your company currently carry out* ***economic activities that could substantially contribute to the environmental objectives*** *defined in the Taxonomy Regulation?*

- *Yes/No/Do not know/No opinion*
- *If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation), how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). If necessary, please specify*

- **Yes, likely**

Insurers carry out activities that contribute to the objectives of the Taxonomy:

- Investment activities contribute indirectly to finance economic activities aligned with the EU Taxonomy (see also answer to question 27).
- Non-life insurance activities contribute directly to adaptation to climate change when insurance products cover climate risks.

As a supporter of the objectives of the EU Green Deal, the definitions in the Taxonomy are very important for the performance of insurers' activities. For example, institutional investors rely on these definitions to assess investee companies' environmental sustainability. However, a prerequisite for making full use of the Taxonomy is that the tool remains usable from an investment point of view. In particular, investee companies should be obliged to report data on their alignment with the Taxonomy (beyond the requirement of article 8 of the Taxonomy regulation to provide information on their activities, they should ideally provide a sustainability assessment for each funding instruments). This should be dealt with under the NFRD review.

Furthermore, transparency regarding updates of the Taxonomy criteria will be extremely important as investors will make long-term decisions based on the current criteria without knowing with certainty whether some investments will be no longer considered sustainable in future revisions. These revisions must be planned, communicated and exercised in good time and in accordance with strict procedures.

1.2 Accounting standards and rules

Question 16: Do you see any further areas in existing **financial accounting rules** (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?

- *Yes/No/Do not know/No opinion*
- *If yes, what is in your view the most important area (please provide details, if necessary):*
  - *Impairment and depreciation rules.*
  - *Provision rules.*
  - *Contingent liabilities.*
  - *Other, please specify.*

- **Yes, other**

The industry supports the reintroduction of recycling for equities measured at fair value through other comprehensive income (FVOCI). Its reintroduction is necessary to ensure that the profit and loss account of long-term investors using FVOCI correctly reflects their financial performance. It is important that equity-like instruments, such as undertakings for collective investments in transferable securities (UCITS), or private equity structures, be eligible for recycling. Allowing recycling would remove the existing accounting disadvantage for long-term equity investments under International Financial Reporting Standard (IFRS) 9 – financial instruments.

Indeed, the prohibition of recycling means that gains or losses on disposal from the sale of equity instruments measured at FVOCI are not reported in profit and loss. This is in contrast with International Accounting Standard (IAS) 39 – financial instruments: recognition and measurement – and creates the false impression that the cumulative gains and losses at the time of disposal of equity instruments are not relevant or economically significant, and therefore not a part of the financial performance. Yields from capital gains have been larger historically than dividends and are therefore equally, if not more, relevant. They are also a fundamental reason for investing in equities and such long-term investments are a key element of the insurance business model. Finally, the current FVPL accounting treatment under IFRS 9 is not appropriate when the Other Comprehensive Income (OCI) option is elected under IFRS 17 – insurance contracts. Ensuring a level playing field for the treatment of all equity investments is needed, also considering the link to IFRS 17.

However, a reintroduction of recycling and impairment for equity instruments should not limit the possibility for companies to continue measuring equity instruments at FVTPL where this provides the appropriate representation of their performance.

The systematic deficiency with the IFRS 9 regarding the recycling ban on equities has been identified by the European Financial Reporting Advisory Group (EFRAG) in its endorsement advice on IFRS 9. A recycling approach would be more preferable to the current status quo.

1.3 Sustainability research and ratings

Question 17: Do you have concerns on the level of **concentration in the market for ESG ratings and data**?

- *Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned).*
- *If necessary, please explain the reasons for your answer.*

- **5**

The industry notes that the need for comparability, broad coverage of ESG assessment (both in terms of geographies and the various types of financial assets: eg infrastructure, SME, government bonds) and the resource/expertise intensive nature of rating business is quickly leading to a **strong market concentration in the market for ESG ratings and data**. The differences between used definitions, standards and methodologies, as well as the lack of transparency, also create significant switching costs for market participants.

In addition, as a result of increasing mergers, acquisitions and alliances, ESG ratings and data providers are developing into oligopolistic structures, often with a prevalence of US-based entities which do not always reflect the European approach to sustainability: eg regarding the "ESG double materiality" concept.

This concentration has also led to an increase in the costs to access ESG ratings and data. Lack of data standardisation and consistency is also leading to significant inefficiencies. With thousands of insurers (and many thousand more other investors) investing in thousands of different globally diversified investments, each investor would have to do their own sustainability assessment for each investment. This would be feasible only for the most sophisticated investors and would also lead to inconsistent results with different investors arriving at different assessments for the same investment and increased costs for customers. The risk is also that product fees end up being higher for sustainable products, with consequences on the long-term performance of the products and therefore on the demand for sustainable product options. In this respect, the industry highlights that such ESG data is also key to facilitate compliance with sustainability-related requirements, such as those under the Sustainable Finance Disclosure Regulation (SFDR), which should not force market participants to rely on third party providers to obtain them.

Mainstreaming sustainable finance at a fast pace requires publicly available and free of charge ESG data. Only publicly available ESG information – especially under a centralised database – can drastically lower the cost of ESG data.

Question 18: *How would you rate the comparability, quality and reliability of ESG* ***<u>data</u>*** *from sustainability providers currently available in the market?* • *Please express your view by using a scale of 1 (very poor) to 5 (very good).* • *If necessary, please explain the reasons for your answer.*

- **2**

As noted in response to question 17, ESG data from sustainability data providers, is often not comparable and of poor quality and reliability. Given the lack of standardised and publicly available ESG data, as well as the lack of transparency on used proprietary methodologies, the outcomes of the assessments by these data providers are not comparable.

The ESG data from sustainability providers is often not comparable across the investment market, to the detriment of consumers, and it might even be inconsistent for the very same company under assessment: for example, due to differences in the definition of sustainability, timing, reporting and usage of the ESG data. The industry also notes a degree of opaqueness regarding methodologies and data sources. Moreover, the frequency of the data update is not always sufficient to take into account the most recent existing data and methodologies. Moreover, differences in companies' ESG reporting and language of publication add to this complexity. As a result, insurers often have to rely on more than a single ESG rating or data provider, with significant inefficiencies.

In this respect the industry stresses that mainstreaming sustainable finance at the required pace to meet the EU objective depends on the availability of public and free of charge ESG data. Not only publicly available ESG information – especially under a centralised database - can drastically lower the cost of ESG data collection, it can also encourage financial actors to embed sustainability throughout their business operations, especially when such information is readily available and directly supplied by the investee companies in a standardised and electronic format.

This data availability should create an advantage for investee companies too: for example, in terms of easier access to financing and to financial solutions in general, as well as the elimination of multiple and resource-consuming requests for ESG information from companies as preparers of non-financial information.

Question 19: *How would you rate the quality and relevance of ESG* ***<u>research</u>*** *material currently available in the market?* • *Please express your view by using a scale of 1 (very poor) to 5 (very good).* • *If necessary, please explain the reasons for your answer.*

- **2**

Existing research material is affected by the fact that available data from individual companies is poorly standardised. Furthermore, data assurance often does not have a very high priority. Although some ESG data providers make significant efforts to overcome the shortages in data, research inevitably suffers from the basic lack of good quality data. In addition, investors cannot rely on external research material alone, as additional in-house analysis is always needed on top of it.

While significant progress has been made in ESG research over the last few years, the insurance industry notes that a move towards greater transparency and the disclosure of data is needed to meet the objectives of the EU Green Deal.

Question 20: *How would you assess the quality and relevance of ESG* ***ratings*** *for your investment decisions, both ratings of individual Environmental, Social or Governance factors and aggregated ones?*

- *Individual: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good).*
- *Aggregated: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good).*
- *If necessary, please explain the reasons for your answer.*

- **3 (on both individual and aggregated)**

Despite the mentioned shortcomings considered, ESG ratings for investment decisions tend to be of better quality than general sustainability data and serve as a good basis for preliminary analysis. However, insight information at company level is often missing. The quality and relevance of ESG ratings can also be problematic, especially due to the fact that ESG risks and factors are poorly comparable across the retail investment market, to the detriment of consumers.

Question 21: *In your opinion, should the EU take* ***action in this area****?*

- *Yes/No/Do not know/No opinion*
- *If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention?*

- **Yes**

First, the insurance industry supports actions to establish a centralised EU register for ESG data in an electronic and standardised format (see response to question 14). A database for public and free of charge ESG data can lower the cost of ESG data, which would likely lead to improved ESG research and ratings. For this to be possible, more stringent non-financial reporting standards are needed. It is also important that ESG standardisation is achieved to ensure the consideration of a double materiality approach.

Second, in terms of actions aimed at ESG rating and notations, more transparency of sustainability research/ratings and encouragement of best practice among firms could be taken into consideration. However, regulatory intervention might not be the optimal solution to tackle these issues. Therefore, before choosing regulation as the preferred course of action, the insurance industry invites the EC to carefully assess the needs of financial market players, the impact of legislation (existing or under development, such as the EU Taxonomy Regulation and its level 2 measures, the review of the NFRD, etc) and potential issues from EU intervention in this area, such as the duplication of standards for global firms.

1.4 Definitions, standards and labels for sustainable financial assets and financial products

EU Green Bond Standard

Question 22: *The TEG has recommended that verifiers of EU Green Bonds (green bonds using the EU GBS) should be subject to an accreditation or authorisation and supervision regime. Do you agree that verifiers of EU Green Bonds should be subject to some form of* ***accreditation or authorisation and supervision****?*

- *Yes, at European level*
- *Yes, at a national level*
- *No*
- *Do not know*
- *If necessary, please explain the reasons for your answer*

- **Yes, at European level**

When establishing an EU Green Bond Standard (GBS) it is rather important that all core components of the GBS remain standardised at EU level. This safeguards transparency, uniformity and comparability. This market should be regulated at EU level to consistently verify that reports provided by accredited verifiers respect the commitments within the EU GBS, and are therefore in line with the EU Taxonomy. Making verifiers subject to supervision will remove uncertainty and promote transparency for investors, thereby facilitating sustainable investments for investors. In addition, it removes any room for diverging interpretations of the rules of the GBS.

***Question 23**: Should any action the Commission takes on verifiers of EU Green Bonds be linked to any potential future action to regulate the market for **third-party service providers** on sustainability data, ratings, research?*

- *Yes / No / Do not know*
- *If necessary, please specify the reasons for your answer*

- **No**

***Question 24:** The EU GBS as recommended by the TEG is intended for any type of issuer: listed or non-listed, public or private, European or international. Do you envisage any issues for **non-European issuers** to follow the proposed standard by the TEG?*

- *Yes/ No/ Do not know*
- *If necessary, please specify the reasons for your answer*

- **Yes**

Non-European issuers might face potential issues related to specific EU-related legislation, such as the EU Taxonomy, as well as EU terms and conditions. In addition, international issuers may want to use standards from their own country. While alignment with the EU GBS technically is possible in theory, disagreements on the sustainability of the sector, thresholds or Do-Not-Significant Harm (DNSH) in the EU Taxonomy may limit their adoption in practice. To mitigate or avoid these issues, the standard needs to be built on appropriate methods based on transparency.

Prospectus and green bonds

***Question 25:** In those cases where a **prospectus** has to be published, do you believe that requiring the disclosure of specific information on green bonds in the prospectus, which is a single binding document, would improve the consistency and comparability of information for such instruments and help fight greenwashing?*

- *Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree)*
- *If necessary, please specify the reasons for your answer*

- **4**

Since a prospectus is a legally binding document, it needs to provide consistency and comparability for investors. While easy access to reliable information is important for investors in their investment decision process and to guarantee adequate clarity and comparability, sufficient flexibility might be needed at issuer level regarding how to provide relevant information.

***Question 26:** In those cases where a prospectus has to be published, to what extent do you agree with the following statement:*

"Issuers that adopt the EU GBS should include a link to that standard in the prospectus instead of being subject to specific disclosure requirements on green bonds in the prospectus"

- *Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree)*
- *If necessary, please specify the reasons for your answer*

- **4**

As some issuers may go further than the standard (on a best practice basis), a reference that the bond will be aligned with the EU GBS would suffice and more information can be provided in the GB framework document. In addition, the industry notes that the required information in the prospectus should be aligned with the required information in the EU GBS and vice versa. A successful EU GBS also requires uniformity with other EU-level disclosure requirements.

Other standards and labels

Question 27: *Do you currently market* ***financial products that promote environmental characteristics or have environmental objectives****?*

- *Yes/No/Do not know/No opinion*
- *If yes, once the EU Taxonomy is established, how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). Please specify if necessary.*

- **Yes, likely**

The EU Taxonomy will likely play a major role for companies and will probably be used in investment decisions once it is finalised (including the related technical regulatory standards) based on its six environmental objectives and when companies will report the information necessary to perform the analysis. However, whether the Taxonomy will become a mainstream sustainability tool, ultimately depends on whether it:

3. Provides a fair and dynamic assessment of sustainability (eg whether it recognises transition efforts, and accounts for the entire lifecycle of economic activities).
4. Is usable for investment purposes (eg that it is not limited in scope and not a niche data-intensive tool at the level of economic activities).

In addition, the fact that the taxonomy does not cover a considerable share of investments (government bonds, bank securities, etc.) might also be problematic for insurers who need to invest in these types of securities in order to satisfy the investment requirements of capital guarantees for customers. This could result in a low proportion of Taxonomy-eligible investments, especially in comparison with fund providers. As there is no level playing field between the various providers, it is crucial that these assets are included in the scope of the Taxonomy and that the required ESG data is made available in a dedicated data register (see question 14).

Equally important is the fact that, while the Taxonomy will help increase transparency regarding the sustainability of investments, it is not a means to an end. This means that it alone will not create the sustainable investments which are needed to finance the transition. In order to invest more in underlying assets aligned with the Taxonomy, the supply of green investable assets must increase. The main problem here does not lie in the willingness of investors to invest sustainably, but in the access to instruments that fit the investors' needs.

Question 28*: In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a* ***minimum standard for sustainably denominated investment funds*** *(commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at retail investors. What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?*

- *No regulatory intervention is needed.*
- *The Commission or the ESAs should issue guidance on minimum standards.*
- *Regulatory intervention is needed to enshrine minimum standards in law.*
- *Regulatory intervention is needed to create a label.*

- **The EC or the ESAs should issue guidance on minimum standards**

Question 29*: Should the EU establish a* ***label for investment funds*** *(e.g. ESG funds or green funds) aimed* ***at professional investors****?*
- *Yes/No/Do not know/No opinion*
- *If yes, should this be in the context of the EU Ecolabel?*
  - *Yes/No/Do not know/No opinion*
- *If necessary, please explain your answer*

- **No**

The insurance industry notes that there are a number of ongoing sustainability-related developments related to the creation of standards and labels for sustainability-related funds. These include the development of the technical standards under the Taxonomy, the work related to sustainability-related products under the SFDR and the development of the EU Ecolabel. While standardisation and transparency are generally useful, further standards and labels might not necessarily represent the best course of action to mainstream sustainability.

In addition, it is better to develop common standards, applicable to both retail and professional investors. Therefore, the EU Ecolabel could also apply for professional investors and not only for retail investors. The creation of a label at European level, applicable in all Member States, would be a more cost-effective solution than the creation of various national labels. This is also consistent with the CMU objectives.

In addition, given their expertise, professional investors should be able to assess the sustainability of funds without labels and to collect specific sustainability-related information based on their needs, on top of the information that is already publicly available. In addition, to have a meaningful label that allows customers to make informed investment choices, it is vital that the criteria for the label are adequate for all products that are in the scope of the PRIIPs Regulation. Please see further our answer on Q 34.

Question 30*: The market has recently seen the development of a sustainability-linked bond, whose return is dependent on the company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach. Should the EU develop* ***standards for these types of sustainability-linked bonds****?*
- *Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).*
- *If necessary, please explain.*

- **4**

Standards in general safeguard transparency and reliability, which is important for investors in their decision-making process. However, there are already well-functioning frameworks in place, including the Green Bond Principles (GBP). If a new standard should be developed, it is important to coordinate and align it with the GBP/other frameworks available.

In addition, given that the market for sustainability-linked bonds is relatively new, there is a risk that standards for sustainability linked bonds could be seen as an easy shortcut with respect to the intensive work required from issuers of Green Bonds.

Question 31: *Should such a potential standard for target-setting sustainability-linked bonds make use of the EU Taxonomy as one of the key performance indicators?*

- *Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).*
- *If necessary, please explain.*

- **3**

Such a standard should refer to the EU Taxonomy to set the targets based on environmental objectives and technical screening criteria. However, such a potential standard should not be limited only to environmental objectives but should include the whole variety of sustainability issues.

Some sustainability-linked bonds are linked to social indicators, not included in the EU Taxonomy. Given that there is no Taxonomy for the "S" factor, at best these bonds can be linked to the minimum safeguards under the Taxonomy at this point. In the case of green projects, then the Taxonomy could be of guidance. However, there is no tracking of funds in these types of operations, which results in a risk of window-dressing.

Question 32: *Several initiatives are currently ongoing in relation to* ***energy-efficient mortgages and green loans*** *more broadly. Should the EU develop standards or labels for these types of products?*

- *Yes/No/Do not know/No opinion*

N/A

Question 33: *The Climate Benchmarks Regulation creates two types of EU climate benchmarks - 'EU Climate Transition' and 'EU Paris-aligned' - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a* ***broader 'ESG benchmark'****. Should the EU take action to create an ESG benchmark?*

- *Yes/No/Do not know/No opinion.*
- *If no, please explain the reasons for your answer, if necessary.*
- *If yes, please explain what the key elements of such a benchmark should be.*

- **No**

The sector supports increased transparency of ESG information, for customers and users of information in general, but any related action should not result in any requirements to the companies' product portfolio.

In addition, if a benchmark is built, it is unclear which would be the ESG targets. This would require that a common ESG methodology agreed by all market participants is formalised and easy to track.

Question 34: *Beyond the possible standards and labels mentioned above (for bonds, retail investment products, investment funds for professional investors, loans and mortgages, benchmarks), do you see the need for any* ***other kinds of standards or labels for sustainable finance****?*

- *Yes/No/Do not know/No opinion.*
- *If yes, what should they cover thematically and for what types of financial products?*

- **Yes**

While insurers generally welcome the EC's efforts to extend the scope of the EU Ecolabel Regulation to financial products, they note that the multiplication of labels could have a detrimental effect on clarity for retail investors. However, a broad unique label (which might be different from the EU Ecolabel that only covers environmental issues) that is able to cover a range of thematic issues could be very useful. In any event, the completion and the alignment of the EU Ecolabel for the retail financial services proposal with the EU Taxonomy is a necessary first step before other labels are considered.

In addition, policy efforts should focus first on ensuring a level playing field with respect to the EU Ecolabel, properly considering making it available for unit-linked life and pension insurance via a "look-through" approach. Another issue which needs to be addressed concerns the current work of the Joint Research Centre (JRC), which excludes products with partial or full investment in the security assets.

1.5 Capital markets infrastructure

***Question 35**: Do you think the existing **capital market infrastructure** sufficiently supports the issuance and liquidity of sustainable securities?*
- *Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).*
- *For scores of 1 and 2, please list the main problems you see (maximum three).*

- **4**

***Question 36:** In your opinion, should the EU foster the development of a **sustainable finance-oriented exchange** or trading segments that caters specifically to trading in sustainable finance securities and is better aligned with the needs of issuers?*
- *Yes/No/Do not know/No opinion.*
- *If necessary, please explain the reasons for your answer.*

- **No**

The main objective of policymakers should be the full integration of ESG factors in all market and trading segments, based on reliable and comparable information from companies. This goes for both financial and non-financial information and is essential for investors in order to make informed decisions about capital allocation.

There is no reason why particularly sustainable securities should be traded at particular exchanges or segments. There are more efficient levers for the EU to use, and a very ambitious Action Plan is already in process. Furthermore, the key policy objective should not be to create a sustainable parallel financial infrastructure, but rather to integrate sustainability into common practice.

***Question 37**: In your opinion, what **core features** should a sustainable finance–oriented exchange have in order to encourage capital flows to ESG projects and listing of companies with strong ESG characteristics, in particular SMEs?*

As noted under Q36, it is very important not to set up ad-hoc exchanges for ESG projects or companies as the integration should be the policymakers' focus, not their separation. The crucial thing for investors is the degree to which capital raised by an issuance will be directed towards sustainable activities. Therefore, the industry is of the opinion that the priority should be to ensure that companies make information available in this respect.

In other words, should a sustainable finance-oriented exchange or trading venue become a reality, it's crucial that its core features are precisely those that are core features for any securities exchange venue, such as transparent, verified and standardised disclosure of (ESG-)performance with easy comparison and filtering functions. Additionally, access to good long-term risk and return data with the ability to compare different projects and companies would be useful.

For coherence, the integration of sustainability in exchanges should also be considered within CMU solutions to tackle current issues that SMEs face in financing themselves in capital markets.

1.6 Corporate governance, long-termism and investor engagement

Question 38: *In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle* ***short-termism****? Please select among the following options.*

- *Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management;*
- *Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors;*
- *Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);*
- *Other, please specify.*

- **Other**

The insurance industry is Europe's largest European institutional investor. Most of these assets back long-term liabilities (eg pension and savings products), so insurers have **a key interest in long-term sustainable investment**. As insurers are liability-driven entities, they need to invest with a long-term horizon:

- Acting in the interest of policyholders, whose premiums they are investing.
- Achieving attractive returns, with targeted risk/return profiles.
- Enabling a good portfolio diversification.

Interest by insurance companies has grown over the past years. However, while there is a strong interest to invest long-term and sustainably, this is not happening to the extent that it could. The main reason is the **lack of suitable long-term projects in which to invest**.

Focusing on portfolio turn-over ratios and holdings periods, the industry stresses that long-term investment should refer to the ability to have a long-term investment strategy aligned with **the nature of the liabilities, rather than numerical thresholds**. This is what enables a long-term investment strategy and even forces insurers to follow one, because of their implied fiduciary role.

Therefore, holding period indicators are inappropriate as they assume a passive investment strategy, which is not coherent with investment management nor with the need to have a gradual transition to sustainability. Instead, EU policies should focus on the **good design and calibration of regulations to better reflect the long-term nature of the insurance and pension business. While not all long-term assets are sustainable, this will also strongly benefit sustainable investments.** Having said that, it also needs to be recognised that markets also need short-term oriented investors.

When it comes to regulatory intervention, the industry notes that adequate information from investee companies is essential: both regarding remuneration policies and the assessment of long-term and short-term risks and opportunities by companies.

Question 39: *Beyond the recommendations issued by the ESAs, do you see any* ***barriers in the EU regulatory framework*** *that prevent long-termism and/or do you see scope for further actions that could foster long-termism in financial markets and the way corporates operate?*

- *Yes/No/Do not know/No opinion.*
- *If yes, please explain what action(s).*

- **Yes**

The increase in European regulation and changes to existing regulation, often with short-term implementation deadlines, and sometimes with additional national requirements above, force financial actors to adopt a short-term vision based on compliance and limit their possibility to adopt long-term policy. A similar issue arises regarding labels: they take into account the composition of the portfolio and the compliance with criteria at a given moment and do not follow a dynamic and forward-looking approach.

Long-termism requires a stable and reliable regulatory set-up. Uncertainty with respect to future regulatory developments further inhibits long-termism. The prudential framework governing insurers have built in mechanisms which may make it difficult for insurers to hold long-term assets. This is because capital requirements related to long-term investments may be excessive, particularly if the possibility of typical mean reversions of asset prices after severe downturns are not treated adequately in the prudential frameworks.

Policy action is required to address the fact that market values of the assets in insurers' balance sheet are subject to short-term market fluctuations which can create artificial balance sheet volatility. This is because the short-term price movements often do not impact the asset cash flows, which match the insurer's expected claims and expenses. In order to address the artificial volatility arising from fixed income investments, a volatility adjustment (VA) to the risk-free interest rate term structure is needed. The VA should recognise the additional returns insurers can and do earn above the risk-free rate and as such mitigate the effects of short-term exaggerations in bond spreads.

Policymakers should also focus on keeping regulation concise and adequate to its purpose. Supporting or developing simple, digital tools to ease the regulatory burden and compliance efforts is also welcome. In addition, EU regulation should require less frequent reporting (eg no quarterly reporting).

Policy action is equally important to stimulate the supply of suitable long-term projects to invest in and removing regulatory barriers to long-term sustainable investments.

Question 40*: In your view, should there be a* ***mandatory share of variable remuneration linked to non-financial performance*** *for corporates and financial institutions?*

- *Yes/No/Do not know/No opinion.*
- *If yes, please indicate what share.*

- **No**

The industry fully agrees that companies should integrate the long-term interests of their stakeholders in their decision-making processes and that the remuneration policies may constitute an adequate tool to align these interests with companies' business strategy. However, the current regulation of insurance companies – which applies to undertakings beyond the scope of the Shareholders Rights Directive (SRD) – effectively ensures a balanced approach by empowering competent authorities to address remuneration principles in the supervisory process.

According to Solvency II article 275, remuneration policies should already include non-financial criteria: "*financial and also non-financial criteria shall be taken into account when assessing an individual's performance*". In addition, if implemented, the recent EC amendments relative to the integration of sustainability risks and factors the Solvency II framework already require consistency in the remuneration policies of insurance undertakings. Therefore, non-financial performance ought to be part of remuneration assessments, along with other relevant factors, such as financial performance.

While for directors' remuneration, in light of the Shareholder Rights Directive II, setting a mandatory share linked to non-financial performance is sensible, a one-size-fits-all approach would ignore the differences in sustainability risks and factors associated with various companies' business models and would not contribute to enhanced stakeholder's engagement.

Should the EC decide to implement any provisions on a mandatory share, then these should apply to all sectors, not only to financial undertakings. In addition, the specific share of remuneration linked to non-financial performance should be in reasonable proportion to the share linked to financial performance, without significantly jeopardising other functions of remuneration policy. This course of action should be properly assessed based on research.

***Question 41**: Do you think that a defined set of EU companies should be required to include **carbon emission reductions**, where applicable, in their lists of ESG factors affecting **directors' variable remuneration**?* • *Yes/No/Do not know/No opinion.*

- **No**

***Question 42:** Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further **enhance long-term engagement** between investors and their investee companies?* • *Yes/No/Do not know/No opinion.* • *If yes, what action should be taken? Please explain or provide appropriate examples.*

- **No**

***Question 43:** Do you think **voting frameworks** across the EU should be further harmonised at EU level to facilitate shareholder engagement and votes on ESG issues?* • *Yes/No/Do not know/No opinion*

- **No**

***Question 44:** Do you think that EU action is necessary to allow **investors to vote on a company's environmental and social strategies** or performance?* • *Yes/No/Do not know/No opinion.* • *If yes, please explain.*

- **No**

***Question 45**: Do you think that **passive index investing** can be a threat to the interests of long-term shareholders?* • *Yes/No/Do not know/No opinion.* • *If no, please explain the reasons for your answer, if necessary.* • *If yes, what should the EU do, in your view?*

- **Yes**

Some long-term investors believe that ESG exclusions should be taken into account for sectors that are inconsistent with climate agreements (risk for stranded assets), and may consider ESG factors in passive indices as a risk mitigation factor.

In addition, passive index investing could lead to increased inertia in channelling finance to assets with good ESG-performance. The EU can address it by making ESG data more comparable, available and transparent, by creating low-carbon and ESG benchmarks and by supporting the financial literacy of citizens and the availability of affordable, digital investment solutions.

Question 46: *Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change.*
Do you think companies and their directors should take account of these ***interests in corporate decisions*** *alongside financial interests of shareholders, beyond what is currently required by EU law?*

- *Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.*
- *Yes, as these issues are relevant to the financial performance of the company in the long term.*
- *No, companies and their directors should not take account of these sorts of interests.*
- *I do not know.*

- **YES, as these issues are relevant to the financial performance of the company in the long term.**

Question 47: *Do you think that an EU framework for* ***supply chain due diligence*** *related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?*

- *Yes/No/Do not know/No opinion.*

- **No**

Question 48: *Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?*

- *Yes/No/Do not know/No opinion.*
- *If yes, please select your preferred option:*
  - *All companies, including SMEs.*
  - *All companies, but with lighter minimum requirements for SMEs.*
  - *Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise.*
  - *Only large companies.*

- **All companies, but with lighter minimum requirements for SMEs.**

2. Increasing opportunities for citizens, financial institutions and corporates to enhance sustainability

2.1 Mobilising retail investors and citizens

Question 49: *In order to ensure that retail investors are asked about their* ***sustainability preferences*** *in a simple, adequate and sufficiently granular way, would detailed guidance for financial advisers be useful when they ask questions to retail investors seeking financial advice?*

- *Yes/No/Do not know/No opinion.*
- *If necessary, please provide an explanation of your answer.*

- **No**

The insurance industry notes that it is important to ensure that any guidance does not become overly complex and is coherent with the Insurance Distribution Directive (IDD). It should be considered if any such guidance would add value to the already very prescriptive rules and definitions expected to be adopted by the EC next month on the integration of sustainability factors into distribution processes under IDD.

Guidelines on financial advice already exist and public authorities should not provide further detailed guidance on ESG preferences as the selection of the right product for a client is already complex and a highly individual process depending on a customer's characteristics and situation. This is the role of professional recommendation. Advisers are professionally trained to give financial advice as required under IDD. This training now needs to include consideration of sustainability in the advice and selection process. Instead of guidance, the EU could enhance the training of active financial professionals: eg via certifications.

It is important to allow companies maximum flexibility in the assessment of sustainability preferences of retail investors. This will be assessed through precontractual documentation and a questionnaire that allow for a degree of flexibility and are sometimes detailed at national level.

Regarding the possibility to offer retail investors sustainable products as a default option: it is key that a "suitability test" is performed, so that customers are not presented with anything by default, but with products that are suitable for them, in line with the amended IDD Delegated Acts on the integration of sustainability factors into distribution processes under IDD. Care is needed to ensure that retail investors are not assigned to a sustainable investment product just because it was a default option, without a specific fund selection by the customer.

Question 50: *Do you think that retail investors should be systematically offered* ***sustainable investment products as a default option****, when the provider has them available, at a comparable cost and if those products meet the suitability test?*

- *Yes/No/Do not know/No opinion.*

- **No**

Question 51*: Should the EU support the development of more structured actions in the area of* ***financial literacy and sustainability****, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals? Please reply using a scale of 1 (completely disagree) to 5 (fully agree)*

- *If you agree (for scores of 4 to 5), please choose what particular action should be prioritised:*

- **4**

Integrate sustainable finance literacy in the training requirements of finance professionals. [1-5]	**4, agree**
Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability. [1-5]	**3, neutral**
Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions. [1-5]	**4, agree**
Directly, through targeted campaigns. [1-5]	**4, agree**
As part of a wider effort to raise the financial literacy of EU citizens. [1-5]	**5, strongly agree**
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [1-5]	**5, strongly agree**
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [1-5]	**4, agree**

Other, please explain.	-

2.2 Better understanding the impact of sustainable finance on sustainability factors

***Question 52**: In your view, is it important to better measure the **impact of financial products on sustainability factors**?* • *Please express your view by using a scale of 1 (not important at all) to 5 (very important).* • *For scores of 4 to 5, what actions should the EU take in your view?*

- **5**

The EU should continue the work as outlined in the Action Plan and seek to harmonise the various pieces of regulation to ease the burden of being sustainable and ensure that the obligations for financial market participants can be realistically implemented.

The industry understands that question 52 relates to financial products within the meaning of Article 2 (12) of the Disclosure Regulation. In this respect, the industry is concerned about the extensive quantitative disclosures and indicators proposed in the consultation under the RTS of the SFDR (Annex 1). Such proposals go beyond the objective of considering the impact of financial products on sustainability factors. They are also static and mostly focused on corporates, without considering actions taken by financial market participants in this respect (except for exclusions). In addition, they fail to adequately consider that the required data cannot be reasonably assessed by financial market participants.

The industry wishes to highlight that, in order to better measure the impact of financial products on sustainability factors, the EU should support research into the link between finance and sustainability, not least as ESG data becomes better and more available, especially through a centralised free of charge EU register. A point of equal importance is that an accessible, free of cost, centralized database on ESG information from companies could help encourage selection of relevant indicators depending on the investment strategy.

***Question 53:** Do you think that all financial products / instruments (e.g. shares, bonds, ETFs, money market funds) have the same **ability to allocate capital to sustainable projects and activities**?* • *Yes/No/Do not know/No opinion.* • *If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way.*

- **No**

Efficient capital allocation to sustainable projects and activities depends on the supply side for these investments, which are currently limited.

Sustainable projects usually require a long-term allocation of funds. Not all instruments can be used reasonably to promote sustainable projects and not all instruments have the same ability to allocate funds over a long time horizon. In this respect, money market funds tend to be short term and liquid, thus are likely to have a low impact in terms of the allocation of funds to sustainable projects and activities.

Direct investments in sustainable projects are likely to have a high share of "dark green" economic activities with high impact. Long-term sustainable financing is also possible both through equity capital (shares, holdings) and debt capital (bonds, loans). Investments in shares can be supportive and necessary for a listed firm to carry out sustainable economic activities, but they may have a lower direct impact on sustainability. Green bonds can have a high impact, but it is unclear whether they finance projects that would have been undertaken anyway. ETF's have a low impact because they rely on the availability of impactful, sustainable indices in which to invest.

The impact of these various financial products may change, as sustainability becomes more common and integrated. The choice of instruments also depends on investor preferences. Funds may also be suitable if several projects are to be bundled. It is important not to reward or penalise any financing method in order to prevent false allocative incentives.

The time horizon of investment is key regarding impact. For example, investments in monetary funds do not have the same impact as investments in corporate bonds or equities.

The level of risk is also a major factor. Some sustainable or green projects could have a higher risk level, given the lack of maturity of low carbon technologies. Not all instruments are able to take those risks.

2.3 Green securitisation

Question 54: *Do you think that* ***green securitisation*** *has a role to play to increase the capital allocated to sustainable projects and activities?*

- *Please express your view by using a scale of 1 (not important at all) to 5 (very important).*
- *If necessary, please explain your answer.*

- **4**

Illiquidity limits the pool of eligible investors. Securitisation could lower the bar to investing in sustainable projects, thus increasing the supply of sustainable investments, also to smaller and retail investors.
Additionally, higher liquidity may result in more accurate pricing.

Question 55: *Do the existing EU securitisation market and regulatory frameworks, including prudential treatment, create any* ***barriers*** *for securitising 'green assets' and increasing growth in their secondary market?*

- *Yes/No/Do not know/No opinion.*
- *If yes, please list the barriers you see (maximum three).*

- **Yes**

Improving the treatment of securitisation is key to increase financing for sustainable investments, as well as other investments that remain strongly dependent on lending to satisfy their financing needs: eg for SMEs. Improvements should be integrated in the general Simple, Transparent and Standardised (STS) securitisation framework. Without a proper framework in place, any additional dedicated regulatory and prudential framework for 'green securitisation' is unlikely to have the desired effects. Without such general improvements to the STS framework, securitising 'green assets' will also be difficult. For example, barriers might be investigated within the prudential framework, especially for the Solvency Capital Requirement (SCR) within Solvency II.

In addition, the insurance sector wishes to highlight that EU prudential frameworks are risk-based. Any dedicated regulatory and prudential treatment for green securitisation should be justified based on the difference in underlying risks. The industry does not support artificial incentives/disincentives on the basis of green/brown qualifications. Therefore, there should not be a differential treatment of green securitisations and no supporting factor in Solvency II. Solvency II is, and should remain, a risk-based framework.

The proposals on how to make the STS securitisation framework work are welcome, especially improvements in the SCR within Solvency II. However, the insurance sector suggests that, before reviewing the current securitisation framework, a careful assessment of the impact of previous changes is performed. While some improvements have already been achieved in the Solvency II framework, the calibration of SCR of senior tranches may benefit from a revision to align their credit spread shocks with those for bonds and loans for all credit rating levels. Back in 2017-2018, when the EC reviewed the calibrations for STS securitisations, the insurance industry noted that a better treatment for junior tranches was needed.

Question 56: *Do you see the need for a* ***dedicated regulatory and prudential framework for 'green securitisation'****?*
- *Yes/No/Do not know/No opinion.*
- *If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations?*

- **No**

2.4 Digital sustainable finance

Question 57: *Do you think EU policy action is needed to maximise the potential of* ***digital tools for integrating sustainability*** *into the financial sector?*
- *Yes/No/Do not know/No opinion*
- *If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives.*

- **Yes**

Potential EU policy actions might include the:
- Development of a public, accessible, free-of-cost sustainability database for ESG data.
- Development of a crowdfunding platform to finance public-private partnership sustainable investments.
- Centralisation of all the use of proceeds and impact monitoring of green bonds across the world.
- Development of guidelines and requirements for Internet of Things (IoT)-enabled traceability of use of proceeds and update reporting requirements on an ongoing basis.
- Dissemination of Taxonomy-assessments in a transparent, affordable, digital manner, including for the public sector and its financing.
- Reporting of adverse sustainability effects (Do No Significant Harm), subject to verification at investee company level.

Question 58*: In particular, do you consider that public authorities, including the EU and Member States should support the development of* ***digital finance solutions that can help consumers and retail investors*** *to better channel their money to finance the transition?*
- *Yes/No/Do not know/No opinion.*
- *If yes, please explain what actions would be relevant from your perspective and which public authority would be best-positioned to deliver it. Please list a maximum of three actions.*

- **Yes**

The industry is supportive of the development of digital finance solutions and encourages the EU to develop the standards required for the transparency of sustainable finance and to create credible labelling and certifications. This could also include a label for crowdfunding on sustainable investments dedicated to retail investors, as long as it is fully transparent about the involvement of considerable risks for retail customers. Member states should also support digital initiatives in sustainable finance and enforce oversight and reporting requirements.

The industry also notes that:
- Innovation must be consistent and give consideration to the entire distribution chain.

- Whilst there should indeed be a focus on improving the customer experience, there is a need to ensure that firms who innovate can harness the benefits of such innovations. This will encourage innovation and ensure that the correct incentives are maintained.
- Any proposed regulatory actions should be innovation-friendly and technology neutral to ensure that they are fit for the digital age and do not create any barriers or obstacles to further innovation.

Insurers are keen to be closely involved in the development of innovative digital finance solutions, given insurers' track record of managing customer data securely. Promoting a data-driven financial sector is an important and valuable aim, and the insurance industry is supportive of efforts to facilitate appropriate data sharing. Enhancing legislation on access to, processing and sharing of data is important in order to promote innovation and competition. At the same time, the focus of any innovative digital finance solutions should always be on customers' willingness to share their data, ensuring that they retain full control over their data.

Question 59: *In your opinion, should the EU, Member States, or local authorities use digital tools to involve EU citizens in co-financing local sustainable projects?*
- *Yes/No/Do not know/No opinion.*
- *If yes, please detail, in particular if you see a role for EU intervention, including financial support.*

- **Yes**

2.5 Project Pipeline

Question 60*: What do you consider to be the key market and key regulatory obstacles that prevent an increase in the* ***pipeline of sustainable projects****? Please list a maximum three for each.*

Key market and regulatory obstacles include:
- The fact that a common framework defining what is sustainable or not is absent (until the implementation of the Taxonomy regulation).
- The risk/return profiles of sustainable projects that do not fit the risk appetite and engagements of insurers.
- The fact that the risk profiles of sustainable projects often do not meet regulatory requirements. Partial public guarantees, eg from development banks, could help make it easier for the financial sector to invest more in such projects, but they should not lead to crowding-out of private investors. Public financing should be directed towards projects that otherwise could not be financed in normal market conditions. This should be fully considered in the legal requirements for public investment and development programmes.
- Uncertainty in the market about the success or failure of nascent green technologies is also problematic, as there is insufficient demand for these sustainable solutions, given the cost, and a lack of risk mitigating measures.
- The asset management capacities of financial market participants also play a role. Insurers need to invest large amounts of money and, in the interests of their customers, they need to ensure an appropriate relationship between management expenses/transaction costs and investment volumes. For small scale investments, reaching an adequate value can be more problematic due to high costs. In addition, the maturity profiles of green investments offered in the market often do not match the long-term cash flows needs of insurance companies.
- The lack of stability of regulations and no consensus definition of sustainability (yet) represent additional obstacles, as well as uncertainty about future regulatory requirements and vested interests in carbon-heavy industries. In this respect, carbon pricing should be considered to reduce emissions and make green projects more financeable.

Question 61: *Do you see a role for Member States to address these obstacles through their NECPs (**National Energy and Climate Plans**)?*
- *Yes/No/Do not know/No opinion*
- *If necessary, please provide details.*

- **Yes**

Sustainability considerations ought to be integrated into NECPs, since financing models such as public private partnerships may be necessary to scale green technologies and mitigate demand uncertainty. The regulatory framework and incentive structures must be aligned with (inter)national emissions reduction ambitions. See also answer to Q60 on development banks and institutions.

Question 62: *In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by **SMEs and smaller professional investors**? Please list a maximum of three actions you would like to see at EU-level.*

Simple sustainability disclosure requirements for SMEs, transparent labelling standards, access to affordable, standardised sustainability data of corporates and financial instruments, access to financing of and/or guidance on sustainable projects, eg. saving energy, making production less wasteful etc.

Question 63: *The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models. How could the EU ensure that the financial tools developed to **increase sustainable investment flows turn R&I into investable (bankable) opportunities**?*

The EC should:
- Develop appropriate framework conditions for the demand for sustainable solutions. Particularly for high-risk innovation projects, a partial assumption of risks by national or European instruments might be necessary, provided that no crowding out of private investors takes place.
- Condition suitable EU funds on sustainability criteria.
- Assist sectors disrupted by R&I in transitioning to new modus-operandi.

Question 64: *In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?*
- *Yes/No/Do not know/No opinion*

- **Yes**

Question 65: *In your view, do you consider that the EU should take **further action** in:*
- *If necessary, please explain your answer.*

Bringing more financial engineering to sustainable R&I projects? Yes/No	**No opinion**
Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No	**Yes**
Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No	**Yes**
Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No	**Yes**

Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No	■ **Yes**
Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No	■ **Yes**
Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No	■ **Yes**
Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No	■ **Yes**

2.6 Incentives to scale up sustainable investments

***Question 66**: In your view, does the EU financial system face **market barriers and inefficiencies** that prevent the uptake of sustainable investments?*
- *Please express your view on the current market functioning by using a scale of 1 (not well functioning at all) to 5 (functioning very well).*
- *Please specify your answer.*

■ **3**

Policy efforts to make sustainability more mainstream will likely be reflected in a higher uptake of sustainable investments. There are no inherent barriers in the EU financial system, preventing sustainability becoming a priority, and as policy action on sustainability kicks in, and sustainability data becomes more available, the system will begin to reflect this. The main issue remains the lack of attractive long-term sustainable investments in the real economy and the difficulty in unambiguously defining sustainable finance solutions.

From an insurance perspective, as part of the Action Plan, the EC also investigated what should/could be done in Solvency II to better reflect sustainability in key areas. The industry believes that the framework allows for sustainability considerations and agrees that insurers should assess their exposure to sustainability and climate change risks. However, a limited number of improvements in Solvency II can ensure the framework measures correctly insurance business and risks, therefore facilitating long-term business and investments. Together with the EC initiatives on sustainable finance, these improvements can drive the industry's capacity and interest to invest in long-term sustainable assets.

Question 67: *In your view, to what extent would potential **public incentives** for issuers and lenders boost the market for sustainable investments?*
- *Please express your view on the importance of financial incentives by using a scale of 1 (not effective at all) to 5 (very effective).*
- *In case you see a strong need for public incentives (scores of 4 to 5), which specific incentive(s) would support the issuance of which sustainable financial assets, in your view? Please rank their effectiveness using a scale of 1 (not effective at all) to 5 (very effective).*

■ **4**

Types of incentives	Bonds	Loans	Equity	Other
Revenue-neutral subsidies for issuers	■ **3, neutral**	■ **3, neutral**	■ **3, neutral**	■ **-**
De-risking mechanisms such as guarantees and blended financing instruments at EU-level	■ **5, very effective**	■ **5, very effective**	■ **5, very effective**	■ **-**
Technical Assistance	■ **4, effective**	■ **4, effective**	■ **4, effective**	■ **-**
Any other public sector incentives - Please specify below.	■ **3, neutral**	■ **3, neutral**	■ **3, neutral**	■ **-**

- *Please specify the reasons for your answer (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider.*

Risk mitigation mechanisms, such as guarantees and mixed financing instruments at EU level, could be helpful to boost the market for sustainable investments.

***Question 68:** In your view, to what extent would potential incentives for investors (including retail investors) help create an attractive market for sustainable investments?*
- *Please express your view by using a scale of 1 (not effective at all) to 5 (very effective).*
- *For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? [drop down menu]*
  - *Revenue-neutral public sector incentives*
  - *Adjusted prudential treatment*
  - *Public guarantee or co-financing*
  - *Other*
- *Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other).*

- **4:**
  - Revenue-neutral public sector incentives
  - Public guarantee or co-financing

Public sector incentives and risk mitigating measures, such as public guarantees or co-financing would be effective for institutional investors. Tax subsidies would also be useful to create the necessary incentives, provided they come with clear identification for or adequate labelling of sustainable investments. Large investments, eg in energy infrastructure or renewable energy production, are more likely to happen with some risk mitigation and public involvement. Incentive alignment, eg through suitable taxation could further increase sustainable investments, by adjusting prices and demand.

***Question 69:** In your view, should the EU consider putting in place **specific incentives** that are aimed at facilitating access to finance for **SMEs carrying out sustainable activities or those SMEs that wish to transition**?*
- *Yes/No/Do not know/No opinion.*
- *If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue?*

- **Yes:**
  - Earmark targeted financing for the green transition: eg through the European Investment Fund.
  - Ensure the availability of resources on making SME's more sustainable.
  - Develop a credible EU certification for sustainable SME's, possibly with inclusion into a green EU SME database.

2.7 The use of sustainable finance tools and frameworks by public authorities

***Question 70**: In your view, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for **use by the public sector**, for example in order to classify and report on green expenditures?*
- *Yes - please explain which public authority could use it, how and for what purposes.*
- Yes, but only partially - please explain which public authority could use it, how and for what purposes, as well as the changes what would be required to make it fit for purpose.

- No - please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view.
- Do not know.

- **Yes**

Public finance institutions can screen, steer and disclose their financing of Taxonomy compliant projects / assets. Public entities at a municipal level can steer their asset base (buildings, fleet etc.) towards long-term compliance. In addition, they could use the Taxonomy as a screening tool for public expenditures, eg procurement.

Question 71*: In particular, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector in the area of* ***green public procurement****?*

- *Yes/Yes, but only partially/No /Do not know*
- *If no or yes, but only partially, please explain why and how those reasons could be best addressed.*

- **Yes, but only partially**

Many activities which fall under public procurement will likely not be covered by the Taxonomy classification yet. In addition, as for ESG information for investments by financial market participants, data availability will also be a problem for the public sector, at least in the short- to mid-term.

Question 72: *In particular, should the EU Taxonomy play a role in the context of* ***public spending frameworks at EU level****, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.*

- *Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;*
- *Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.*
- *No;*
- *Do not know.*

- **Yes, but only if social objectives are incorporated in the EU Taxonomy.**

Follow-up question:

- *If yes, what role should it play and is the taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for the following purposes? Select all that apply:*
  - *In the context of some EU spending programmes.*
  - *In the context of EU state aid rules*
  - *Other, please specify.*

- **In the context of some EU spending programmes.**

In the short-term, application of the existing Taxonomy might be helpful to steer recovery programs. In mid-term, a fully developed Taxonomy should be required, including social and societal aspects.

- *If yes, but only if social objectives are included; what role do you see for a social, climate and environmental taxonomy? Select all that apply.*
  - *In the context of some EU spending programmes.*
  - *In the context of EU state aid rules.*

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- *Other, please specify.*

- **In the context of some EU spending programmes**.

EU spending programmes that fund projects relevant to the Taxonomy should link eligibility to sustainability. This may not involve all EU spending programmes, and it should be applied with caution in the early days of the Taxonomy, not least until social and governance aspects are also included in the Taxonomy.

Question 73: *Should public issuers, including Member States, be expected to make use of a future EU Green Bond Standard for their green bond issuances, including the issuance of* ***sovereign green bonds*** *in case they decide to issue this kind of debt?*

- *Yes/No/Do not know/No opinion.*
- *If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for?*

- **Yes**

2.8 Promoting intra-EU cross-border sustainable investments

Question 74: *Do you consider that* ***targeted investment promotion services*** *could support the scaling up of cross-border sustainable investments?*

- *Yes/No/Do not know/No opinion.*
- *If yes, please specify what type of services would be useful for this purpose:*
  - *Information on legal frameworks*
  - *Individualised advice (e.g. on financing)*
  - *Partner and location search*
  - *Support in completing authorisations*
  - *Problem-solving mechanisms*
  - *Other, please specify*

- **Yes**
  - Information on legal frameworks
  - Partner and location search
  - Support in completing authorisations

2.9 EU Investment Protection Framework

Question 75: *Do you consider that the investment protection framework has an impact on decisions to engage in* ***cross-border sustainable investment****? Please choose one of the following:*

- *Investment protection has* ***no impact.***
- *Investment protection has* ***a small impact*** *(one of many factors to consider).*
- *Investment protection has* ***medium impact*** *(e.g. it can lead to an increase in costs).*
- *Investment protection has a* ***significant impact*** *(e.g. influence on scale or type of investment).*
- *Investment protection is a factor that can have a* ***decisive impact*** *on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments.*
- *Do not know.*

- **Investment protection has a significant impact.**

2.10 Promoting sustainable finance globally

Question 76: *Do you think the current level of* ***global coordination between public actors for sustainable finance*** *is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?*

- *Please express your view by using a scale of 1 (highly insufficient) to 5 (fully sufficient).*
- *For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions?*

- **2**

Coordination and action at a global level are needed to tackle climate change and sustainability. There is currently a need for a consensus view of climate change and environmental degradation as an urgent and global problem. The gradual development of common principle-based global standards, including disclosure items and KPIs, is vital to avoid the fragmentation of markets. While in many jurisdictions even basic data, such as the level of greenhouse gas emissions, is not yet existent or planned, other markets (eg Canada) are making progress and have indicated their desire to develop their own taxonomies. Better alignment of other taxonomy systems (eg those in China) would also be beneficial. In general, the insurance industry believes that there should be a close discussion within and between global economic governance and steering bodies (eg G20, FSB, TCFD, etc.) to coordinate and align efforts for those jurisdictions inclined to take the same government regulatory approach as the EU.

There is also a need to finance climate adaptation and a decoupling of growth from emissions, especially in emerging markets and developing countries, necessitating suitable financial models. Finally, there is a need to adopt polluter pays principles globally, such that emissions and pollution do not simply reallocate from one country's "account" to another's (or evade assignment to countries altogether, such as international shipping and aviation).

Question 77*: What can the Commission do to facilitate* ***global coordination*** *of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs? Please list a maximum of three proposals.*

The EC should advocate and engage in global cooperation and coordination towards common principles-based global standards in order to avoid the fragmentation of markets. The EC can help the UN to develop an ambitious sustainable finance roadmap and a global capital-raising plan to meet the SDGs and Paris agreement, eg to develop credible national capital raising plans for the SDGs and the Paris Agreement, in collaboration with the private sector and civil society. The EU should also leverage its strong presence in many of the key multilateral and standard-setting bodies; especially the G20, G7, and FSB.

Key areas of action include:

- Deliver on regulation, data and standards that make sustainable finance more transparent, applicable and impactful.
- Support global green R&I and facilitate financial models to scale new technologies.
- Work on international standardization of non-financial reporting, and development of a set of mandatory KPIs, eg for GHG accounting.
- Provide definitions/assessments of sustainability along low-carbon transition pathways to allow for the global scaling of portfolios, while allowing for a gradual transition to a sustainable economy.
- Promote the importance of financing the SDGs and facilitate the SDGs translation into private-sector indicators: eg carbon emission KPIs as indicators for SDG 13 climate action.
- Mainstream sustainability considerations in trade agreements. The EU has a long history of referencing sustainable development in its Free Trade Agreements, several of which include references to the Paris Agreement.

Potential initiatives should be launched carefully and build further on what already works well, in order to not interfere with the innovation already coming from the private sector. Any potential initiatives should encourage and/or build further on already existing, well-functioning projects.

Question 78: *In your view, what are the main* ***barriers*** *private investors face when financing sustainable projects and activities* ***in emerging markets and/or developing economies****? Please select all that apply.*

- *Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.);*
- *Lack of clearly identifiable sustainable projects on the ground;*
- *Excessive (perceived or real) investment risk;*
- *Difficulties to measure sustainable project achievements over time;*
- *Other, please specify.*

- **Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.).**
- **Lack of clearly identifiable sustainable projects on the ground.**
- **Excessive (perceived or real) investment risk.**
- **Other:**

Conflicting sustainability goals are an obstacle, especially for investments in emerging and developing countries. Clearly positive effects on the environment often contrast with unclear social and governance impacts. These are also difficult for the investor to influence, resulting in unmanageable reputational risks. As a consequence, these investment risks are hardly bearable without risk sharing with the public sector.

Question 79: *In your opinion, in the context of* ***European international cooperation and development policy****, how can the EU best support the mobilisation of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions? Please provide a maximum of three proposals.*

The EU should make financing models and sustainability resources available to all investors and link EU funds to appropriate Taxonomy requirements, which should be simple enough to apply internationally. In addition, risk-sharing platforms/mechanisms are useful to guarantee the certainty and the creditworthiness of insurers' investments.

The EU should also work to ensure that financing from international financial institutions (IFIs) is consistent with the SDGs and the Paris Agreement. This is essential to attract private finance into projects that contribute to the SDGs (as opposed to hampering their achievement). To deliver the scale of investment needed, IFIs should also continue to develop blended finance mechanisms to attract private finance investments at scale.

Question 80: *How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help* ***scale up the financing of sustainable projects and activities in emerging markets and/or developing economies****? Which tools are best-suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them? Please select among the following options.*

- *All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change.*
- *Some tools can be applied, but not all of them. If necessary, please explain.*
- *These tools need to be adapted to local specificities in emerging markets and/or developing economies. Please explain how you think they could be adapted.*
- *Do not know.*

- **Some tools can be applied, but not all of them.**
- **These tools need to be adapted to local specificities in emerging markets and/or developing economies:**

A more holistic view of unsustainable practices may be needed, in terms of analysing any unintended consequences of applying sustainable finance tools. It is key to have a strong focus on social and governance aspects for investments in emerging markets and/or developing markets.

Finance tools requirements may need adaptation to emerging markets and developing countries. While it should be recognised that the Taxonomy was developed for the EU market, it could however be progressively adapted as a template for other markets. A flexible approach is required that accounts for the fact that emerging markets are at different stages of transition. Local taxonomies and rules could be adapted to local conditions, at least initially.

The EC International Platform on Sustainable Finance should consider how the EU Taxonomy might progressively be adapted to other markets, also in line with the recommendation of the Technical Expert Group (TEG) on Sustainable Finance for its international usage. In this respect, the usability of the Taxonomy from an investment perspective is key. Specifically, key difficulties in applying the EU Taxonomy in emerging markets and/or developing economies without local adaptation are:

- The thresholds it uses are very ambitious (eg for electricity generation from hydropower and gas combustion, cement, steel and aluminium production) and potentially unrealistic for markets that are not as far along the transition path as those in the EU.
- The "do no significant harm" (DNSH) principles are based on EU rules, making full endorsement by non-EU firms highly challenging. A review of the DNSH principles might be necessary for international recognition and equivalence.
- Mandatory due diligence to determine whether investee/borrowing companies endorse all minimum social safeguards might be hard: eg for International Labour Organisation (ILO) core labour conventions may be challenging in certain jurisdictions as data on the extent to which local companies respect these standards is often unavailable.

Question 81*: In particular, do you think that the EU Taxonomy is suitable for* ***<u>use by development banks</u>****, when crowding in private finance, either through guarantees or blended finance for sustainable projects and activities in emerging markets and/or developing economies?*

- *Yes / Yes, but only partially / no / do not know.*
- *If no or yes, but only partially, please explain why and how the obstacles you identify could be best addressed.*

- **Yes, but only partially**

The Taxonomy can be used for sustainable projects in emerging markets and/or developing economies, but possibly only partially. As mentioned, the DNSH principles may need to be reviewed, and there should be a strong focus on social and governance considerations. Obstacles include limited control, oversight and data compared with advanced economies, hence a partial application of the taxonomy. Also, a potentially significant obstacle is political risk, which could be addressed by risk mitigating measures.

Please also consider response to question 80.

3. Reducing and managing climate and environmental risks

3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments

Question 82: *In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "**brown taxonomy**") at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?*

- *Yes/No/Do not know/No opinion.*
- *If no, please explain why you disagree.*
- *If yes, what would be the purpose of such a brown taxonomy? (select all that apply)*
  - *Help supervisors to identify and manage climate and environmental risks.*
  - *Create new prudential tools, such as for exposures to carbon-intensive industries.*
  - *Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities.*
  - *Identify and stop environmentally harmful subsidies.*
  - *Other, please specify.*

- **No**. However, should a brown taxonomy be developed, its purpose should be to:
  - Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities.
  - Identify and stop environmentally harmful subsidies.
  - Other

Defining a brown taxonomy could be very useful, but this should not be the priority of EU policymaking. The focus should be on mobilising capital towards the transition and on finalising the "green" taxonomy to assess how to best use and implement it in the existing legal framework.

EU legislation should promote the sustainability transition and encourage all activities/sectors to participate in it. A brown taxonomy could lead to unwanted exclusion instead, cutting off the financing for activities that may actually need financing to transform. Repercussion on social and governance factors should also not be ignored.

The sector notes that the DNSH principle de facto establishes a brown taxonomy. It is vital to ensure that the investment universe is not unnecessarily restricted and the materialisation of existing sustainability risks (stranded assets, green bubbles, transition risk) is not accelerated. Therefore, a positive approach is preferred to brown-labelling.

Should a brown taxonomy be implemented, its definitions should be clearly established and include the concept of transition needs (not only transition risks). Investments are needed to encourage the transition and steer capital into sustainable investments. In this sense, a brown taxonomy could help both public authorities and investors to identify companies that need to transform their business model within a defined time frame:

- Public authorities could better regulate these activities (eg through compulsory strategies for decarbonation), but also address the social impacts of the transition, as "brown" companies play a significant role, delivering energy and creating employment.
- Investors could still invest in these companies: eg if certain environmental conditions are met or to finance their transitioning.

The development of a brown taxonomy should not automatically lead to the same reporting requirements as – for example, the green taxonomy – and the impacts of disclosures on this issue should be carefully analysed.

Question 83: *Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover **all other economic activities that lie in between the two ends of the spectrum**, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?*

- *Yes/No/Do not know/No opinion.*
- *If yes, what should be the purpose of such a taxonomy? Please specify.*

- **No**

As the taxonomy focuses on economic activities and not on company pathways towards transition, the industry invites policymakers to consider a "transition" taxonomy to fully consider the transition aspects based on company pathways, targets and milestones. This would take into account the process of transformation instead of purely providing a static view/assessment of green activities only.

3.2 Financial stability risk

Question 84*: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important* ***channels through which climate change will affect your industry****? Please provide links to quantitative analysis when available.*

- *Physical risks, please specify if necessary*
- *Transition risks, please specify if necessary*
- *Second-order effects, please specify if necessary*
- *Other, please specify*

- **Physical risks**

Physical risks (PR) arise both from changing frequencies/intensities of individual extreme weather events and their consequences, as well as slowly evolving changes (temperature or sea level rise). The changing weather patterns and rising sea levels that come as a result of global warming are leading to increases in large and catastrophic events, with serious consequences for the insurability of various risks and the business model of the insurance industry as a whole. More frequent and severe climactic or weather-related events will likely see an accompanying increase in the gap between the losses that are (and can be) insured and total losses.

PR are the calculable risks that emerge from forecasted changes by climate science. For more damaging events, a first phase could lead to a rise in demand for insurance coverage. Under such conditions, sound risk management needs to adequately factor in climate change (via knowledge of rare high-impact events and climate modelling). With increasing frequencies of damaging events, there may be a situation when prices will go up and affect insurance affordability for customers and insurability for insurers. For systematic losses, local non-insurability may become an issue.

A basic principle of insurability is that insurance products cannot correct for errors in land-use planning. Insurance is a helpful instrument to manage "peak risks": ie unforeseen and volatile risks. However, with more foreseeable risks, for example those associated with a steadily increasing rise in sea levels, there is typically a need for physical protection measures and land-use planning to avoid losses that are 100% certain to occur. This type of risk is precisely the type of area in which government action is needed to support the insurance sector.

Enhancing public resilience and placing focus on the implementation of adaptation measures through effective prevention planning is key if the EU is to tackle the consequences of climate change.

- **Transition risks**

The insurance industry expects risks involved in the transition to a low-carbon economy to affect the underwriting business performance: eg shrinking cover offering for "brown" industries. Over the next decades, developments in technology, systems and associated markets might gradually change the characteristics of insured assets, businesses, processes, thereby fostering new product designs, making new risk assessment approaches necessary in the absence of already existing information, eg on losses. Good underwriting performance will lead to adequate adjustments to insurance products and proper risks assessment.

Unforeseen changes are a key risk on the investment side. In terms of transition risks (eg stranded assets), pro-active risk management and risk modelling are key, but delayed and abrupt carbon pricing would have a negative impact on insurers' assets. Some sectors in the economy also face big shifts in asset values or higher costs of doing business (eg energy and shipping), which leads to changes in the values of investment portfolios., Foreseeable and reliable planning for the carbon pricing and transition paths are of great importance: especially for long-term investors such as insurers.

Transition risk can also arise from regulatory changes. This underlines the necessity for uniform and non-complex regulations and standards. Regulatory frameworks must be clear and stable in order to improve transparency, reliability, comparability and the dissemination of information related to climate risk. Another risk is also associated with liability risks: eg business seeking compensation for losses they may have suffered from transition risks from climate change.

- **Second-order effects**

Climate science expects weather extreme events to increase in frequency and intensity in the future. As relevant scenarios of future greenhouse gas concentrations – ie, representative concentration pathways (RCPs) – show increases in tropical cyclones, flooding and storm surges caused by sea level rise, heat waves and wildfire, the insurance industry expects that underwriting practices and performance will be affected. Impacts on insurance business will come from increased market demand, claim management, strategies for risk mitigation/prevention.

As noted above, regulation itself could be a source of financial instability: therefore sustainability-related regulation, in particular, should have reasonable timeframes and transitionary phase of implementation. In addition, it should avoid unexpected short-term changes of insurers' portfolios.

Question 85: *What key actions taken in your industry do you consider to be relevant and impactful to enhance the* ***management of climate and environment related risks****?*
- *Please identify a maximum of three actions taken in your industry*

As investors, insurers deal with sustainability risk within their investment process and within their investment strategies, in line with their risk appetite. As providers of protection, insurers provide protection to businesses and individuals against the increased number of extreme weather events (physical impact) that are a consequence of climate change.

Equally important, insurance is an integral part of the risk-management cycle, from risk identification to risk transfer and recovery. This is vital to the economy since it allows businesses and individuals to plan with more certainty and recover more quickly, even in the case of rare events.

Insurers also:
- Raise awareness of risks through risk-based terms and conditions and customer advice and offer incentives for clients to increase prevention and risk management measures.
- Provide clients with tools and advice on matters such as risk zoning and mapping, land-use planning and building codes.
- Provide advice to public authorities on projects: eg on flood defences.
- Contribute to a better understanding of risk: eg by developing forward-looking risk models. They are updating their risk assessment and underwriting policies to improve how long-term changes in climate are taken into account, often via innovative solutions. This helps insurers develop tailor-made products for consumers with different risk profiles.

An awareness of changing risk levels in the future is relevant from a strategic point of view. Therefore, insurers monitor projected changes in weather-related hazards and assess uncertainty involved in such projections. A number of regulations will further encourage consideration of sustainability risks in the insurance industry:

- The Taxonomy to facilitate sustainable investment.
- The Disclosure Regulation to increase transparency.
- Amendments to Solvency II and the Insurance Distribution Directive to explicitly embed sustainability risks.

Question 86: *Following the financial crisis, the EU has developed several **macro-prudential instruments**, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macro-prudential policy tool for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?*

- *Please express your view by using a scale of 1 (highly inadequate) to 5 (fully sufficient).*
- *For scores of 1-2, what solution would you propose? Please list a maximum of three.*

- **5**

Insurance prudential framework

Question 87: *Beyond prudential regulation, do you consider that the EU should take further action to mobilise **insurance companies** to finance the transition and manage climate and environmental risks?*

- *Yes/No/Do not know/No opinion.*
- *If yes, please specify which actions would be relevant.*

- **Yes**

It is important to recognise that insurers' business models typically support long-term investments. This is particularly so for life insurance companies, which often have liabilities with very long durations. Insurers aim to match such liabilities with investments that generate long-term, stable returns. Therefore, many infrastructure investments, for example, are very suitable for insurance companies, given that a reasonable risk/return profile can be achieved. For this reason, there is room for more public-private partnerships, when it comes to investments supporting the transition and management of climate and environmental risks. The EC could do more to facilitate cooperation along these lines.

In addition, the EU could develop various instruments to encourage insurance companies to finance the transition:

- As mentioned in question 6, the EU could play a role in increasing and structuring the supply of sustainable investment projects/assets in a format adapted to institutional investors' needs (eg public guarantee, de-risking instruments, subsidies to green activities, etc).
- Strong public policies that provide a clear trajectory on greenhouse gas emission reduction.
- An accessible, free of cost, centralized database on ESG information is crucial to better identify green assets and activities

Banking prudential framework

Question 88*: Do you consider that there is a need to incorporate ESG risks into prudential regulation in a more effective and faster manner, while ensuring a level-playing field?*

- *Yes/No/Do not know/No opinion.*

N/A

Question 89: *Beyond prudential regulation, do you consider that the EU should take further action to mobilise banks to finance the transition and manage climate-related and environmental risks?*

- *Yes one or both, please specify which action would be relevant*
- *No.*
- *Do not know/No opinion.*

N/A

Question 90: *Beyond the possible general measures referred to in section 1.6, would more specific actions related to banks' governance foster the integration, the measurement and mitigation of sustainability risks and impacts into banks' activities?*

- *Yes/No/Do not know/No opinion.*

N/A

Asset managers

Question 91*: Do you see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?*

- *Yes/No/Do not know/No opinion.*
- *If yes, what solution would you propose?*

- **No**

Pension providers

Question 92: *Should the EU explore options to improve ESG integration and reporting beyond what is currently required by the regulatory framework for pension providers?*

- *Yes/No/Do not know/No opinion.*
- *If yes, please specify what actions would be relevant in your view.*

- **No**

Question 93: *More generally, how can pension providers contribute to the achievement of the EU's climate and environmental goals in a more proactive way, also in the interest of their own sustained long-term performance? How can the EU facilitate the participation of pension providers to such transition?*

Consistency, clarity and legal certainty of existing provisions are essential to support the role to be played by pension providers in achieving the ambitious EU sustainability goals. Therefore, the sector invites policymakers to consider work already performed and to take action to ensure clarity and guidance with respect to the below issues:

- **Understanding and identifying the ESG rules applicable to pensions is not straightforward**. ESG factors are now regulated at EU level by different texts, of a different nature, in different ways with different scopes and definitions (entity and product levels). In addition, pensions can fall under multiple sectorial frameworks, such as Solvency II or the IDD when provided by insurers. Finally, there are also additional rules established at a national level to consider.

- **ESG provisions applicable to pensions overlap and contradict each other**. For instance, the SFDR provisions overruled the member state option laid down in the Institutions for Occupational Retirement Provision (IORP) II framework when it comes to integrating ESG factors in investment policies and risks management systems.
- **In terms of information disclosures, the multiple frameworks applicable to pensions create a risk of information overload**. This is because the SFDR adds another layer of disclosures to both pre-contractual and ongoing information. The cumulative impact of individual rules can result in information overload and burden, especially for providers subject to a range of rules. Most rules result in inconsistencies, overlaps and duplication between different pieces of legislation applicable to the products, their distribution and providers.
- **The scope of the SFDR for pensions is not at all straightforward**. It applies to 1) different entities (manufacturers, Pan European Personal Pension Product providers and IORPs), 2) to pension products and 3) to "financial products" which can be a pension scheme or product. The current political ambition supports a comprehensive scope. However, this must be clarified to avoid regulatory arbitrage based on different interpretations of EU legislation at national level.

***Question 94:** In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members' and beneficiaries' ESG preferences in the investment strategies and the management and governance of **IORPs**?*
- *Yes/No/Do not know/No opinion.*
- *If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration?*

- **Yes**

The integration of members' and beneficiaries' ESG preference may help better engage people with their pension providers. However, any requirement to do so comes with practical challenges.

The aim of such requirements would have to be clear and consider conflicting hazards for trustees of pension schemes and their fiduciary duties: eg a conflict between trustees' primary objective to maximise the chance that members receive their benefits through maximising the return on investments, and incorporating the ESG preferences of members/beneficiaries.

Assessment and integration of ESG preferences into the investment strategy also need practical consideration:
- What response rate from the membership would represent adequate coverage to influence the investment strategy of the IORP (eg a majority of over 50% response rate)?
- With contradictory preferences, how should trustees reach a final consensus?

The integration of such ESG preferences in the investment strategies and the management and governance represents major challenges for the IORPs. Any further requirements to integrate ESG preferences would also require guidance on how IORP's should address these challenges. The industry also notes that the IORP II Directive has only recently come into force. It is too early evaluating it.

The EU green agenda requires further action, not only on the supply-side, but also on the demand-side: ie raising awareness and financial education. The results of a pan-European pension survey conducted across 10 European countries, show limited appetite for sustainable investments compared to other pension saving priorities (10 000 Europeans were asked to select their priorities when saving for retirement, but only 12% of respondents expressed interest). These results are slightly different depending on demographic characteristics (single people, students, respondents with higher levels of education, younger people are more likely to prioritise sustainability).

3.3 Credit rating agencies

Question 95: *How would you assess the transparency of the* ***integration of ESG factors into credit ratings*** *by CRAs?*

- *Please express your view by using a scale of 1 (not transparent at all) to 5 (very transparent).*
- *If necessary, please explain the reasons for your answer.*

■ **2**

The industry finds ESG factor integration in credit rating rather opaque. Credit rating agencies (CRAs) are, obviously, limited with respect to the ESG information they can obtain from rated companies, in much the same way as institutional investors in general. The upcoming revision of the NFRD is a great opportunity to ensure that CRAs can access the relevant data to incorporate ESG factors into ratings.

Further to this, however, it is still unclear how CRAs weigh various ESG factors into their ratings, as they usually take an approach based on sustainability risks, rather than sustainability factors. It could be beneficial to require CRAs to disclose information about the models they apply to filter in ESG factors.

Question 96: *How would you assess the* ***effectiveness*** *of the integration of ESG factors into credit ratings by CRAs?*

- *Please express your view by using a scale of 1 (very ineffective) to 5 (very effective).*
- *If necessary, please explain the reasons for your answer.*

■ **3**

Integrating ESG factors into credit rating is still a work in progress, and as of yet mostly comparative in nature. Furthermore, the impact of some factors, especially E and S, differs quite considerably between industries, while the positive performance of G appears somewhat more consistent.

Question 97: *Beyond the guidelines, in your opinion, should the EU take* ***further actions*** *in this area?*

- *Yes/No/Do not know/No opinion.*

N/A

3.4 Natural capital accounting or "environmental footprint"

Question 98: *Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing* ***standardised natural capital accounting/environmental footprinting practices*** *within the EU and internationally?*

- *Yes/No/Do not know/No opinion.*

N/A

3.5 Improving resilience to adverse climate and environmental impacts

Climate-related loss and physical risk data

Question 99*: In your opinion, should the European Commission take action to enhance the availability,* ***usability and comparability of climate-related loss and physical risk data*** *across the EU?*

- *Yes/No/Do not know/No opinion.*
- *If yes, please select all that apply:*
  - *Loss data, please explain why.*
  - *Physical risk data, please explain why.*

- **Yes**
  - Loss data, please explain why

In order to improve the integration of sustainability risks into business models across the EU, more and better data is needed. Loss data relating to, for example, climate and weather events, can be useful for assessing risks related to future climate and weather events. Collecting this data at an EU-level allows for efficient adaptation measures and a better understanding of certain sustainability risks. Sharing loss data can also enable better estimates to be made regarding the financial resources needs for insurers and reinsurers.

However, it needs to be clear that insured losses are likely to be an insufficient proxy for total climate-related losses. In a similar vein, the industry also notes that the high-resolution loss datasets developed by insurers are naturally the intellectual property of insurers. Without ruling out the provision of high-resolution data for specific research projects, this data therefore is not *freely* available.

  - Physical risk data, please explain why

Climatic hazards and extreme events are cross borders and could concern various EU countries. Sharing physical risk data allows societies to better target preventive measures and actions, and even to enable partnerships to deal with climate risks beyond borders.

In order to improve the integration of sustainability risks in business models across the EU, more and better data is needed. Physical risk data can be very useful for investors looking to price in these risks in the short and longer term, especially as input for scenario analyses. Collecting this data at an EU-level allows for the efficient adaptation measures and a better understanding of certain sustainability risks.

In addition, education and prevention are essential to keep future losses within limits, to encourage adaptation and to insure natural hazards. European insurers are taking action to increase public awareness about the hazards of extreme weather events and natural disasters. However, all experts must cooperate on adaptation strategies: eg to enhance the information available about prevention measures.

Financial management of physical risk

Question 100: *Is there a role for the EU to promote more equal access to **climate-related financial risk management mechanisms for businesses and citizens** across the EU?*
- *Yes/No/Do not know/No opinion.*

- **Yes**

- *If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning:*
  - *Financial support to the development of more accurate climate physical risk models.*

- **4**

The industry notes that scientific projects are already under way, but urgent improvements are needed in other areas. This considered, the key component for pricing in climate risks is good data on how such risks can materialise and affect the real economy and finance. The EU is in a favourable position to support EU-wide efforts to model physical risks relating to climate, which ought to be accessible on an affordable, digital platform to all investors and insurers in order to create a well-informed, level playing field.

- *Raise awareness about climate physical risk.*

5

Citizens tend to be forgetful about natural disasters. At the moment, there is no platform and no overarching initiative to raise awareness, therefore action in this sense would be welcome.

Based on collected sustainability data and modelling, the EU could share knowledge about acute climate physical risks and further develop adaptation and prevention measures. It could underscore the urgency of action and assist in making well-informed, efficient decisions on the basis of sound climate risk modelling.

- *Promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe.*

5

"Build back better" and resilience requirements should be included at the very beginning, in building standards and labels, and not only after a natural catastrophe. Learning from past lessons is key, therefore the latest findings on climate adaptation should be incorporated to a reasonable extent during reconstruction following natural catastrophes. In particular, fostering long-termism and good building practices may require a more prominent appraisal of the benefit of building resiliently. There could be a role for the EU to play in this connection: eg by sharing knowledge and numbers on (re)building resiliently.

- *Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage.*

3

Some member states have solid public-private sector partnerships in providing affordable insurance and high penetration rates, but this is not the case for all member states. These questions should be first clarified at national level.

- *Reform EU post-disaster financial support.*

3

While this would be valuable for those without any insurance coverage, avoiding moral hazard is key to increasing climate adaptation. Prevention and adaptation measures must be embedded in member states' socio-economic culture, which requires a shift in thinking. More action on risk prevention and risk management is often severely hampered by member states' and citizens' overreliance on post-disaster relief, be it at national-level or that provided through, for example, the EU Solidarity Fund. If the relief provided in the wake of a disaster does not come hand-in-hand with concrete actions or requirements on a country's prevention and adaptation measures, a vicious circle of moral hazard occurs that leaves the country ill-prepared for future crises.

Insurance Europe strongly advises the EC to monitor and support where necessary member states that have repeatedly failed to implement preventive and adaptation measures following a natural disaster, as well as to engender a more responsible use of post-disaster financial support.

- *Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events.*

3

There are already existing products for that on the market. These products provide a way to share the risk and cost of catastrophes, and catastrophe bonds hedging against, for example, natural disasters, could provide useful price signals for member states. There would be a need to monitor risk, risk concentration and avoid moral hazard. However, it should be noted that not all catastrophes are suitable for securitisation and the terms of such securitisation might be difficult to calibrate in order to assure adequate coverage at an affordable price, especially for rare tail events. For example, it is not clear that pandemic bonds would be a useful financial instrument. The current Covid-19 outbreak has not triggered pay-outs from the World Bank's pandemic bonds, as it has failed to meet the exponential growth rate. Furthermore, determining whether it was a pandemic eligible for pay-out took 122 days, which even in the event of pay-out would have been prohibitively long for many health systems.

- *Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks.*

3

Such an advisory capacity by the EU should be rooted in data and research. However, intervention at EU-level should be dependent on the action taken at member state level. The EC can and should monitor and support where necessary member states that have repeatedly failed to implement preventive and adaptation measures following a natural disaster especially in the long term — for example, through responsible land-use planning and enforcement of adequate building codes, which help avoid to the extent possible the devastating effects of a natural catastrophe.

Insurance can help incentivise the take-up of preventative and adaptation measures: eg through deductibles and risk-adequate and risk-adjusted premiums. Furthermore, a key action in the 2013 EU Adaptation Strategy was to set member states the task of raising awareness of voluntary private insurance. However, insurance is neither a substitute for prevention or adaptation measures.

- *Regulate by setting minimum performance features for national climate-related disaster financial management schemes.*

1

The private sector must act first. Only when the market does not find a solution it is up to the EU to act. There is no one size fits all solution for natural catastrophe cover due to the different exposures to perils in member states. To have a meaningful effect, this should be considered in the long run.

- *Create a European climate-related disaster risk transfer mechanism.*

- **2**

○ *Other, please specify.*

N/A

Question 101: *Specifically with regards to the* ***insurability of climate-related risks****, do you see a role for the EU in this area?* • *Yes/No/Do not know/No opinion*

- **Yes**

• *If yes, which actions you would consider to be useful? In particular, is there scope for EU action to improve the offer of products and services for climate-related disaster risk reduction, enhance insurers' potential to promote increased resilience of their policyholders beyond a mere compensatory role?* ○ *Yes/No/Do not know/No opinion.* ○ *If yes, please explain which actions and the expected impact (high, medium, low).* ○ *If no, please explain.*

- **Yes**

The EC could:

- Subsidise the insurance premiums of certain products and services with a low penetration rate with regard to resilience and prevention measures (eg crop insurance can already be subsidised by the EU).
- Facilitate private public partnerships in cases where there is a lack of insurability through the private sector alone: eg caused by an absence of diversification and resulting pricing issues.
- Develop a clear framework for identifying and classifying activities that enhance policyholder resilience (as a reference of underwriting decisions).
- Anchor climate resilience in planning standards and building regulations to improve policyholders' resilience to natural hazards beyond a mere financial compensation function. This would not only have a climate protection and climate adaptation effect, but would also improve insurability, since both the probability of loss occurrence and the development of the loss amount would be positively influenced.

Question 102: *In your view, should investors and / or credit institutions, when they provide financing, be required to carry out an* ***assessment of the potential long-term environmental and climate risks*** *on the project, economic activity, or other assets?* • *Yes / No / Do not know.*

N/A