Position Paper

Response to the EC consultation on the third Ecolabel criteria for retail financial products

Our reference:	GEN-SUS-20-121		
Referring to:	EC consultation on the third Ecolabel criteria for retail financial products		
Contact person:	Thomas Gelin, Policy Advisor, General Insurance	E-mail:	Gelin@insuranceeurope.eu
Pages:	5	Transparency Register ID no.:	33213703459-54

A. A further consultation is necessary for insurance products relying on general account

- Insurance Europe welcomes the Commission's work to develop an EU Ecolabel for financial products, and in particular the decision to extend the scope of the current criteria to include all investment-based insurance products (IBIPs). The insurance sector can be an even more important partner in making the economy more sustainable and achieving the goal of climate neutrality. Life insurers' investment capacity is largely built on IBIPs. An EU Ecolabel for these products could therefore be an important tool for consumers who want to purchase sustainable products and an important pillar of the green transition. Products that rely wholly or partially on a long-term collective investment such as hybrid, multi-option and with-profit insurance products are particularly suitable for this purpose.

- However, this extension in scope should have come with an adaptation in the consultation process given its ramifications.
  - Insurers that mainly offer with profits, hybrids/MOPs, which in some markets are a vast majority, are included in the consultation process for the first time.
  - A whole new range of products are now within the scope of the revised criteria, which therefore need to be thoroughly reviewed in light of these products' specificities. That could not be done in the allocated six weeks and the comments that will follow do not amount to a comprehensive and final assessment of the third Ecolabel criteria for insurance products.
  - Furthermore, the insurance companies offering these products now in scope find themselves at a disadvantage compared to funds in particular, since they will have less time to take the steps needed for their products to be eligible for the Ecolabel.

- Such an important process should certainly not be rushed. Insurers will need more time to make a substantial and meaningful contribution to the development of Ecolabel criteria achieving the highest standard possible within the confines of the highly regulated general account model. Insurance Europe therefore urges the Commission and the JRC to conduct a further consultation of the criteria, to ensure ecolabelled insurance products become reality for consumers.

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

- Since the aim of the EU ecolabel is to highlight 10-20% of particularly green products, it is of utmost importance that this label is made equally accessible to IBIPs, funds and other investment products. This means a thorough consultation and comprehensive testing of the methodologies with the entities which are to offer these ecolabelled products. The Commission tested the application of the draft EU Ecolabel Criteria on UCITS equity funds. We would expect a similar study for with-profit, hybrid / multi-option IBIPs.
    - Insurance Europe would welcome a confirmation by the Commission that if an IBIP offers an annuity to consumers at the end of the recommended holding period, then the EU Ecolabel only applies to the accumulation phase of an IBIP. A primary aim of the annuity is protection against longevity risk and not an investment. This will also enable consumers to compare different PRIIPs, in particular those with and without accumulation phase.

- Insurance Europe therefore looks forward to further engaging with the Commission on this topic and discuss the revised criteria and extended scope in more detail.

B. The proposed criteria effectively amount to ring-fencing and an exclusion of insurers from the EU Ecolabel

- Insurance Europe is very concerned by what appears to amount to a ring-fencing requirement for hybrid insurance products, profit participation insurance products and multi-option products – through an obligation to segregate assets. The requirements should be workable for insurers in practice and do not impede the risk-sharing principle of insurance.

- Unfortunately, this is not the case here: the criteria require assets relating to the ecolabelled product to (1) be separated on the balance sheet to restrict transferability, (2) be traceable and (3) correspond with the money invested by the customers. In practice, it is impossible to earmark these assets in the proposed way without effectively setting up a (possibly virtual) new separate general fund, with serious implications on risk diversification and the possibility to offer commercially viable and regulatory-compliant products to consumers.

- A fragmentation of the pool in which risks cannot be shared between different consumer groups would contradict the core idea of the collective investment pool and hinder the risk mitigation. An EU Ecolabel should, therefore, not undermine the insurance principle.

- This *de facto* ring-fencing requirement will also hinder the performance of these ecolabeled products, because of the small investment pool and lack of diversification. The fact a product has the Ecolabel should not be its only selling point: insurers should be able to devise an ecolabelled product that still offers competitive return, even compared to non-ecolabelled products. The proposed investment criteria make this impossible, thus ultimately compromising the objectives of the Ecolabel.

C. Criteria

1- Investment in environmentally sustainable economic activities, indicating the minimum proportion of the assets under management of the retail financial product to be invested or loaned to environmentally sustainable economic activities and corresponding verification/assessment processes (includes unit-linked, profit participation, multi-option and hybrid insurance products).
2- Investment in companies investing in transition and green growth.

- Insurance Europe welcomes the Commission's effort for coherence with the ongoing work on the EU Taxonomy for environmentally sustainable economic activities in this third criteria proposal. However, criteria 1 and (now) 2 have changed significantly since the second proposal: they are now somewhat stricter, more focused on green transition and, in many respects, still incompatible with the specificities of the insurance products they relate to.

- Criteria 1 and 2 have not been adapted to the specificities of the general fund, something insurers had explicitly requested when inviting the Commission to extend the Ecolabel's scope to insurance beyond unit-linked products. Indeed, when reviewing the various categories of funds detailed in criterion 1, it becomes apparent that none actually corresponds to a general fund (account) in insurance products. Indeed, the general fund has numerous specificities for which the proposed criterion 1 is inadequate:
    - The volume of investments of a general fund is much more important than a UCITS fund. The volume of the general fund represents around 3,5 times the volume of unit-linked funds.
    - The general fund is made up of various types of underlying assets: direct investments, investments in open UCITS, investments in dedicated funds, investments in ELTIFs and real estate funds, etc.
    - The general fund of insurers is subject to long-term asset and liability management constraints. Through the general fund, insurers must ensure they can meet their underwriting liabilities vis-a-vis their policyholders. The maturities of future claims in life insurance often significantly exceed the maturities of instruments available in the market. Therefore, the duration is far longer than for UCITS and assets are generally held to maturity. The turnover of assets is necessarily less important than for UCITS or AIF funds.
    - Moreover, the invested life insurance savings are usually guaranteed to some extent. Diversification is thus key and necessary to ensure the risk/return and the liquidity necessary to match with underwriting liabilities towards policyholders. This explains why sovereign bonds are very heavy in some general accounts of insurers. It will be impossible for an insurer to invest in an important part of green assets or green companies, especially at the current stage of development of the European Taxonomy which is limited to a very small part of economic activities, without creating sectoral biases and therefore taking huge risks that do not fit with insurers obligations towards policyholders through the general fund.
    - Finally, even if there were sufficient green assets on the market, the size of the green pool corresponding to the ecolabelled products would be very small and still not enable proper diversification.

- On unit-linked insurance products, the possibility to simply rely on the fact an underlying unit fund is ecolabeled is welcome.

- Insurance Europe generally welcomes the approach taken that only a proportion of the assets held in the general fund should be earmarked towards the EU Ecolabel license. It should be clarified that for products that use the general fund, criteria 1-8 do apply only to the respective part that corresponds to the ecolabelled products.

- For all these reasons, Insurance Europe believes the JRC should consider proposing more suitable criteria for the general fund. The methodologies need to be thoroughly consulted and tested with the insurers, as it has been done for the design of UCITS and AIF funds' criteria. Therefore, we urge the JRC and the European Commission to consider a fourth report before adopting the EU Ecolabel for financial products. Based on the current proposal, insurers will not be able to meet the criteria and they will not be able neither to ecolabel their general fund, not even an earmarked part of it. Given the volume of investments and the size of the market, it will be a missed opportunity for European consumers and the transformation of the financial market.

3- Exclusions based on environmental aspects.

- Insurance Europe would welcome a clarification from the Commission that criteria 3 to 8 apply to the green part of the general account only, rather than the entire portfolio of insurers.

- Insurance Europe welcomes the Commission's effort to better align the Ecolabel's exclusion criterion with the EU Taxonomy and the EU Green Bond Standard. However, the third proposal still goes beyond the environmental exclusion of the taxonomy regulation. Insurers therefore find themselves having to manage different exclusions lists depending on whether the product is ecolabelled or not.

- Moreover, the criterion excluding an issuer that has not published a credible CO2 reduction trajectory compatible with a 2 degrees scenario should be reworded to remove the "credible" qualification. It is not clear who is able to assess the credibility of the CO2 reduction trajectory. The exclusion criteria should exclude only sovereign issuers that have not published CO2 reduction trajectory.

4- Exclusions based on social and governance aspects.

- Insurance Europe supports a holistic approach to sustainability, inclusive of all ESG factors. However, for the purpose of the Ecolabel, exclusions based on social and ethical aspects should be consistent with those that will be retained in the taxonomy regulation.
- It is important not to create confusion between the EU Ecolabel, promoting environmentally sustainable investments, and an ESG or SRI label, promoting not only environmental but also social and governance aspects. In case these exclusions are maintained, they should only apply to the direct investments for the general fund.

- Insurers support the development of a social taxonomy in the future, but this should be done through its dedicated workstream for the best results, not partially through a distinct initiative such as the EU Ecolabel. Such a laudable objective should not end up compromising the achievement of a successful EU Ecolabel certification scheme.

5- Engagement.

- Sustainability is at the heart of the insurance business model, and sustainable investment strategies are nothing new for insurers. We note this criterion has been thoroughly restructured and rewritten. We would like clarification that sub-criterion 5.1 is indeed the only one directly relevant to insurance products. Insurance Europe would support this approach with an engagement policy that will apply for the direct investments of the general fund.

6- Measures taken to enhance investor impact.

- Insurance Europe believes this new criterion is particularly burdensome, adding new reporting obligations where they are already many for insurers. The Ecolabel is meant as a simple way for consumers to identify sustainable products: a clear logo rather than an additional notice in writing. This new criterion may therefore undermine the more successful aspects of the Ecolabel scheme. Moreover, as the 7th criterion adds a compulsory disclaimer ("shall clearly state that the EU Ecolabel does not evaluate the environmental and social impacts of the fund"), it is not consistent to provide an impact report.

7- Retail investor information.

- Obtaining an Ecolabel for a product already involves an intensive certification process. It is therefore essential to ensure the information requirements do not result in duplication, or information overload for the consumer. A significant amount of information must already be disclosed under the SFDR and this will apply to Ecolabel products. This criterion is therefore not necessary.

- In this respect, Insurance Europe welcomes the readjustment of the criteria in relation to the Key Information document (KID). As explained earlier, the Ecolabel is meant as a simple marker of sustainability on a product: it should not increase the amount of information provided on the product. The logo itself should be sufficient, combined with the requirements already found in the 'disclosures' regulations (Regulation (EU) 2019/2088).

8- Information appearing on the Ecolabel.

- No comment.