

Response to ESAs survey on templates for Environmental and/or Social financial products under SFDR

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

Insurance Europe supports the EU's goal of improving the participation of consumers in the green transition by ensuring that they are provided trustworthy information on Environmental Social and Governance (ESG) investment products. In this respect, it is important that disclosures are designed to provide maximum value for consumers and are therefore developed with the end-user experience in mind.

Unfortunately, the European Supervisory Authorities' (ESAs) proposed templates are neither consumer-friendly nor digital friendly. In particular, the templates are difficult to understand, are too long and even risk duplicating information that is already contained in other documentation that is provided to consumers. This will result in an unnecessary information overload and will in fact undermine consumer understanding. In addition, the prescriptiveness of the templates does not allow manufacturers to adapt the information to account for different product features and existing national practices. This will result in poor comparability across single product types, and even worse comparability across multiple product types.

The industry, therefore, encourages the ESAs to carefully revise the product disclosures proposed in the draft regulatory technical standards (RTS) of the Sustainable Finance Disclosure Regulation (SFDR) so that they are workable, do not confuse consumers and do not result in consumers receiving an increasing number of documents and information. For these reasons, Insurance Europe recommends that the ESAs:

- Focus on disclosure content that is really meaningful to consumers, rather than on the format and presentation of the disclosures. Any prescribed templates should be optional.

The industry notes that the ESAs are considering mandatory templates, despite the fact that the Level 1 text of the SFDR does not contain a strict mandate to develop templates. For pan-European Personal Pension Products (PEPP), the SFDR foresees the integration of ESG information into the PEPP key information document (KID), and for Alternative Investment Funds (AIF) into the prospectus. Therefore, the proposed one-size-fits-all mandatory templates do not seem coherent with the Level 1 provisions.

Standardisation is already achieved by the Level 2 provisions with regard to content, structure and titles of required disclosures. Should the ESAs pursue the introduction of templates, their use should be

optional so that financial market participants have the possibility to deliver clear and reliable information to consumers.

Duplication of information must also be avoided. As per Arts.22, 32 and 52 of the draft RTS, the industry understands that the templates are not applicable at product level but only at investment option level and supports this approach. It should be specified that the information provided to consumers for these products should take the form of links to the websites where the ESG information of each chosen investment option is already available.

■ Make use of more comprehensive testing of end-users' needs and preferences before proposing new customers' disclosures

More consideration should be given to consumers' real needs and to the quantity of documents that they already receive based on other legislation, including national applications of the Insurance Distribution Directive (IDD) and Solvency II. This applies not only to Insurance-Based Investment Products (IBIPs), but also to pension products where the information requirements are predominantly stipulated by national legislation.

The industry is also concerned that the ESAs are under significant time pressure to deliver the RTS and did not have sufficient time to consider the concerns already raised by market participants in the public consultation on the proposed RTS, which ended on 1 September 2020. Therefore, the industry invites the ESAs to first analyse these concerns and then incorporate the outcomes of the ongoing consumer testing exercise into the proposed templates in the current consultation package.

Gathering stakeholders' feedback on mock-ups for a single, fictitious fund with sustainability characteristics (and without comparison with mock-ups for products with sustainable objectives), will not allow for a proper assessment of the effectiveness of the proposed templates.

■ Provide clarity on how to address current implementation challenges

The ESAs will not finalise their proposals for templates, as well as the overall SFDR Level 2 provisions, before the end of January 2021, little over a month from the current deadline for implementation of the SFDR (10 March 2021). This would leave no time for implementation, especially for a standardised layout and graphical representations, which require considerable time and effort (IT, business processes, etc). The introduction of a mandatory template in March 2021 is therefore unfeasible.

Clarity on how to address this implementation challenges is urgently needed, both in terms of deadlines and contents of the new Level 2 measures for sustainability-related products. For example, the ESAs are focusing on the presentation of information before the distinction between products promoting sustainability characteristics and products with sustainable objectives is fully clarified. This makes it more difficult to distinguish the features of the two product categories.

Most importantly, clarity is needed about supervisory expectations regarding the implementation of the Level 1 measures at product level, as well as for entity level disclosures. In this respect, Insurance Europe asks the ESAs to adopt a phased in approach as described in its [response to the public consultation on the draft RTS](#). Any obligations beyond what is strictly required by the Level 1 text should apply as non-binding guidelines for an adequate transitional period. This would hold true for mandatory templates.

Questions

Q1. How useful is the highly standardised presentation of the information in this format? Please explain.

Useless / Fairly useless / Neither useless nor useful / Fairly useful / Very useful

■ Fairly useless

Insurance Europe supports the EU's goal of improving the participation of consumers in the green transition by ensuring trustworthy information on Environmental Social and Governance (ESG) investment products. In this respect, it is imperative that disclosures are developed around the end-user experience and designed in order to be of the maximum value for consumers. Unfortunately, the ESAs' proposed templates have not found the right balance and a more flexible approach should be taken to better align disclosures with consumers' real needs.

The templates do not deliver the level of comparability the ESAs are looking for at the level of single types of products, and even less across product types. This means that the highly standardised presentation of the information is not useful. The format is unnecessarily prescriptive and unworkable for firms. It will be impossible to properly represent the features of all different products in scope.

Insurance Europe understands that the Level 1 requirements present a significant challenge for the ESAs, but this needs to be solved through maximum flexibility for companies to include the necessary information in already existing documents, rather than prescriptive templates. The only flexibility left to companies seems to be the choice of colours and fonts.

The mock-ups may be suitable for disclosures in periodic reporting or prospectuses (as required for funds), but the disclosure formats required for other products are consumer facing. The level of detail and the choice of language is not appropriate for these formats (PEPP-Key Information Document (KID), Solvency II disclosures).

Insurance Europe also notes that inadequate testing has been carried out. The mock-ups for Art.8 products are based on a fictitious, simple ETF, while no mock-up for Art.9 products has been included. The ESAs have not had sufficient time to analyse the concerns already raised by market participants in the public consultation (ended on 1 September) and to incorporate in their proposals the outcomes of the consumer testing exercise which is still ongoing.

The proposed presentation is not suitable because:

- The templates are not comprehensible to the average consumer.
- The templates are far too long (six pages for a single, simple fund): quality should prevail over quantity.
- The definitions that are used are overly complex.
- It is not clear which wording is compulsory and which is only included in the template as an example. Overall, the language used is far too complicated.
- The ESG information overshadows the financial information when both should be equally important in making an investment decision.
- The template duplicates information already provided in other documents that are also provided to the consumer at the point of sale (eg in the Investment Strategy provided in the PRIIPs KID). This results in unnecessary information overload and will inhibit consumer understanding.
- The template leads to duplicate information inside the mock-up itself between different sections (eg explanations on the TRXI World 5% Issuer Capped ESG Index in 6 sections).

The purchaser of a life insurance product already receives several documents based on information requirements in other legislation, including national applications of the Insurance Distribution Directive (IDD) and Solvency II. The same applies to pension products, the information requirements for which are stipulated predominantly by national legislation.

For these reasons, and considering that the Level 1 Regulation does not contain a strict mandate to develop templates, Insurance Europe recommends that instead of the mandatory and standardized templates, the RTS indicates:

- The minimum requirements desired on pre-contractual and periodic disclosures.
- The minimum materiality threshold to determine the depth and rate of coverage of the information to be produced, or allow for an optional use of the templates.

Notwithstanding the above, should the ESAs feel obliged to produce mandatory templates, Insurance Europe appreciates that the standardisation envisaged by the draft templates does not include the wording of the information itself, but is mainly restricted to the headings and elements of the layout. Experience with the cost and risk information in the PRIIPs KID has shown that provisions on mandatory wording lead to a multitude of problems, especially in a cross-sectoral context. Against this background Insurance Europe suggests refraining from mandatory text elements wherever possible. This would include the explanatory notes and any detailed text accompanying the check boxes. The market participants should be able to adapt the information to the relevant product.

Where standardised wording is considered essential, the wording should be consistent with the relevant provisions on Level 1 and Level 2. Terms such as 'ESG objective' in the check boxes on page 1 should be replaced by the relevant wording used in Arts. 8 and 9 of the SFDR.

Q2. More specifically, how useful is the presentation of the information with the use of icons as visual aids (in mock-up 1 and 3)? Please explain.
Useless / Fairly useless / Neither useless nor useful / Fairly useful / Very useful

■ **Fairly useless**

The use of icons/questions is welcome as it can potentially increase accessibility. For example, the UN development goals icons are a good example of icons that have become widely used because they are easy to understand and integrate in companies' own designs. On the contrary, in the proposed templates, the questions (and accompanying icons) are not sufficiently clear.

Any mandatory requirements regarding layout or graphical representations (graphs or icons) further complicate the implementation by the financial market participants. An adequate implementation period is, therefore, indispensable.

Should the ESA decide to include mandatory icons in the templates, these should not use more space than necessary. Currently the icons occupy an entire column of the draft templates which is otherwise empty, and which further increases the length of the documents.

Insurance Europe welcomes the statement that providers should be able to adapt the font and colours to match the sectoral consumer information. Insurance Europe suggests a clarification that this flexibility also applies with regard to other elements including the font size, style and the colour of the graphs and icons.

Q3. More specifically, how useful is the presentation of the information with the use of graphs as visual aids? Please explain.

Useless / Fairly useless / Neither useless nor useful / Fairly useful / Very useful

■ **Fairly useless**

The presentation of the information with the use of graphs as visual aids duplicates the information contained in the narratives.

The differentiation between environmental and social characteristics in the graphical representation should be reconsidered. The subdivision complicates the chart without apparent added value for the consumer. The document describes in some length the sustainability related characteristics of the product. A classification into the categories environmental or social is not necessary. Often the classification may not even be possible as many activities serve both environmental and social purposes.

Graphic representations are also easily misinterpreted by consumers as they imply a level of comparability which they cannot provide, since they apply the same methodology to very different products. Moreover, it is not clear which kind of methodologies, definitions and data need to be used for the presentation of graphs. This will further hinder comparability between products, while the similar graphics suggest such a comparison can be made.

Insurance Europe also notes that the structure of the templates deviates from the structure of the disclosures required. For example, for an Art.8 product, under Art.14 of the draft Level 2 text, the asset allocation graphic should form part of the description of the ESG characteristics promoted by the financial product (see Art. 15) whereas in the template this is displayed as a component relevant to describing the investment strategy of the product. Insurance Europe appreciates that the deviations in the templates may reflect coming changes in the final text of the draft Level 2, however, if not – it urges the ESAs to ensure inconsistencies in the templates are corrected.

Q4. More specifically, how useful is the presentation of the information with the use of explanatory notes, in the column at the right side of the document, which are presented on a grey background)? Please explain.

Useless / Fairly useless / Neither useless nor useful / Fairly useful / Very useful

■ **Useless**

The need to supply explanatory notes implies that the information is not sufficiently easy to understand. Insurance Europe believes it should be the responsibility of each company to phrase and shape the information in a way that fits the company's customers.

The language of the 'explanatory notes' is too complicated (eg 'remuneration', 'liquidity') and it is not clear if the 'explanatory notes' are fixed or can be adapted. They add a second level of reading that contributes to the complexity of the document, but does not provide any useful clarity to consumers.

Experience has shown that mandatory provisions on the precise wording of product disclosures at a cross-sectoral level are a source of inaccuracies and potential misunderstanding. The explanatory note proposed for the section 'binding elements' is an example of this problem. Commitments can be amended during the life of the product if the amendment is in line with the respective sectoral regulatory requirements. Otherwise institutional investors would not be able to take account of any unforeseeable changes which may arise in the future. The wording of any explanatory notes should, in Insurance Europe's view, be adaptable with regard to the particular product concerned.

Dedicating an entire column for the explanatory notes would take up considerable space. Alternatively, a separate glossary on the market participant's website could be envisaged, the link to which would be provided in the pre-contractual or periodic information.

Q5. Are there any presentational aspects that might make it hard to understand the sustainability-aspects of products? For example, with regards the distinction between the sub-categories of investments, namely between #1A and #1B? Please explain.

Yes / No / Other

■ Yes

The industry notes that the ESAs are focusing on the presentation of information before having solved overarching issues such as the distinction between Art.8 product promoting sustainability characteristics and Art.9 products with sustainable objectives. In the absence of a clear definition, it is difficult to assess the presentation of information and distinguish the features of the two categories.

That said, the mock-up templates show that the information requirements envisaged in the draft RTS are too detailed. Even for the simple index fund chosen by the ESAs for the mock-ups the pre-contractual information amounts to six pages and for the periodic information to four pages. The information for more sophisticated collective investments, such as the collective pool of life insurers, would be far more extensive. Insurance Europe suggested that the ESAs reconsider the depth of the information required by the draft RTS. It should be pointed out that the pre-contractual sustainability information will be part of and add to the extensive product information required by the Solvency II Directive, the IDD and the Packaged Retail and Insurance based Investment Products (PRIIPs) Regulation plus any respective national legislation. For example, the mandatory pre-contractual information already provided for a German endowment life insurance amounts to up to 100 pages, including important information on features, risks and costs of the product. Care should be taken that excessive detail does not discourage the consumer from taking any note of the information at all.

In order to avoid overburdening the pre-contractual and the periodic information, the use of links to websites with the relevant information should be allowed wherever possible. It should be clarified that the link may also lead to the website of an external service provider, such as an investment company.

There are also several specific elements of the template that inhibit consumer understanding. The first statement is not easily understood: "this product promotes environmental or social characteristics but does not have as its objective a sustainable investment". Insurance Europe understands that this description comes directly from the legal text of the SFDR but would point out that the difference between Art.8 and 9 products is still not clear to legal experts. Insurance Europe would question how much this introduction can help consumer understanding. Also, the "tick-the-box" option should refer to whether the product has a sustainable investment objective (rather than ESG objective) or ESG characteristics, to align the templates with the requirements and definitions as applied in the SFDR Level 1 and Level 2 text.

Furthermore, in the case of an Art.9 investment option, the market participant would tick the box "has an ESG objective" but then, it is possible to report only a small part of the product as sustainable investments contributing to an objective and the large outstanding part as "remainder". This will not assist consumers in understanding the product.

The distinction between the sub-categories of investments is confusing (eg sub-categories #1A and #1B).

There is no need to have two separate sections for "a description of the environmental or social characteristics promoted by the financial product" and "investment strategy", since the investment strategy by necessity will reflect the environmental and social characteristics that the financial product aims to promote.

The insurance industry does not see the added value on a separate section on derivatives. Regarding the numerous information to disclose, a focus on derivatives is not necessary and seems excessive and complex for end-investors. The use of derivatives should be covered in the financial market participant's investment and risk policy instead.

In the periodic disclosures, there is no clear benefit for consumer to receive a long list with the top 25 investments of the product and their sectorial split. It would be preferable to focus on the top 10 investments in order to provide more appropriate and helpful information to consumer.

Furthermore, Insurance Europe would like to point out that the publication of information on the top investments of some insurers' products may be problematic with regard to the protection of trade secrets. Insurance undertakings are competitors in the area of asset management. Publishing the 25 top investments may have the effect of providers copying from the investment strategy of their competitors.

The information on the amount of potential investments excluded is, in Insurance Europe's view, dispensable. It is not significant for the average consumer. Furthermore, it is not clear if the sentence relating to the answer "yes" is mandatory or whether it can be altered, where a proportion of potential investments more or less than 50% is excluded.

Q6. Do you have any other suggestions or comments to improve the presentation of these disclosure documents?

■ Make their use optional

To improve the presentation of the disclosure documents, the use of prescribed templates should be optional. A minimum level of standardisation is already achieved by the Level 2 provisions with regard to content, order and titles of the information. The optional use of templates (provided all required information is clearly provided) would allow companies to adapt the information to different product features and existing national practices. The Level 1 Regulation does not contain a strict mandate to develop templates. For PEPPs products, the Level 1 Regulation foresees the integration of the ESG information into the PEPP KID, and for Alternative Investment Funds (AIF) such as European Long-Term Investment Funds (ELTIF) into the prospectus. Therefore, the proposed one-size-fits-all mandatory templates do not seem coherent with the Level 1 provisions.

■ Challenging implementation timeline

At present, the SFDR is still intended to apply from March 2021. However, the implementation of the Level 2 details is expected to take place at a later stage.

It would be impossible for financial market participants to put new rules into practice within the timeframe envisaged by the current legal texts. The compilation of the information and the technical implementation of a standardised layout and graphical representations takes considerable time. It is not an option to simply stop promoting products as having sustainable characteristics until compliance can be achieved. In the absence of specifications on Level 2, any transparency on sustainability-related investment policies may have to be viewed as "promoting" within the meaning of Art.8 SFDR. Financial market participants, however, cannot withhold relevant information on the principles governing their investments.

Clarity on how to address the implementation challenges is urgently needed, both in terms of deadlines and contents of the Level 2 measures. This is equally true for the disclosures at entity level where Insurance Europe asks the ESAs to adopt a phased in approach. Any obligations which go beyond what is strictly required by the Level 1 text should apply as non-binding guidelines for an adequate transitional period. This would include any mandatory templates. Financial market participants would have an intrinsic motivation to conform to the RTS as soon as practically possible in order to avoid having to implement different processes. It is, however, essential to allow for a step-by-step implementation.

- Application of templates to MOPs

As per Articles 22, 32 and 52 of the draft RTS, we understand that the templates are not applicable at product level but only at investment option level and support this approach.

- Focus on relevant investment options

Many unit-linked products offer a wide variety of funds. A choice of 200 different funds or more is not unusual. Clarification is needed to ensure that the consumer is not confronted with hundreds of pages of information, the vast majority of which is not relevant. Art. 22 and 32 should make clear that the consumer is to be provided with information only on the investment options chosen or for which they have expressed a preference. The information provided to the client should take the form of links to the websites where the ESG information of each chosen investment option is already available. The consumer would still receive an overview of the available investment options with sustainability characteristics by way of the summary list stipulated by Art. 22(a) and 32(a) of the draft RTS. The summary list could be amended to contain links to the websites where the detailed information on the other options can be found.

- The objective should be to simplify the information for the client, for instance through an ESG label

Insurance Europe believes the required ESG information are far too complex for clients. An ESG label could be more efficient because it is clearer and simpler. The underlying requested information would, in that case, serve internally to justify the label and eventually be provided to the client on request.

Q7. When the templates are presented via digital media, can you foresee any particular challenges? Can you suggest how these particular challenges could be overcome while retaining the core aspects of the standardised template format?

Unfortunately, the accessibility of the mock-ups via digital tools is far from optimal, given their length (six pages for a single, simple fund). The use of a table with different columns makes it difficult to read all the information on a smartphone or tablet. Consumers need to easily find the most important information they are looking for regardless of the device they use to access the document, but the mock-ups provided do not achieve this (even in a pdf format). The templates need to be usable on all operating systems such as Android, IOS, etc and market participants should be able to choose the most appropriate digital solutions.

Data shows that the presentation of product information on smartphones or tablets is key. A report based on Google data ([link](#)) shows that the use of mobile devices in insurance searches increased dramatically since 2008 (+156% for life insurance between 2008 and 2014). The same report highlights that 67% of consumers who access the internet through a smartphone or tablet are more likely to take action – buy a product, complete a form or download an app etc – on a website that is optimized for mobile devices.

The precontractual information is already very heavy. Providing the required ESG information for each investment option of a MOP that qualifies as an Art.8 or Art.9 product under the SFDR would lead to the need to deliver hundreds of pages to the client and will have a negative environmental impact, while not addressing the objective of transparency for the client. Thus, the presentation via digital media is of utmost importance.

The use of links to pre-existing and available information, if already reported elsewhere, should be the appropriate way to provide the required information to the client.

For periodic reporting, the insurance sector asks the ESAs to allow flexibility in terms of delivery to consumers: each financial market participant should be free to deliver this periodic reporting to its customers in the way that is most suited (by mail, e-mail, website or any other electronic means). Digital presentation is particularly important for MOPs, where the information required is already very lengthy. Providing data for each investment option that qualifies under Art.8 or 9 would lead to a substantial amount of information being provided to the client. Digital provision can assist them in navigating this, but the current templates will not allow for this.