

Current EU sustainability-related requirements for (re)insurers

1. Sustainability considerations in insurance product distribution rules

From August 2022, the **Insurance Distribution Directive** (IDD) requires:

- Mandatory assessment and consideration of a customer's sustainability preferences when providing advice on insurance-based investment products (IBIPs) (suitability assessment).
- Integration of sustainability risks in the product oversight and governance (POG) rules, which require the regular evaluation of products to ensure that they offer value for customers.

2. Sustainability-related disclosures

From 2025, the **Corporate Sustainability Reporting Directive** (CSRD) requires all large and listed insurance companies to report on the risks and impacts of ESG factors on their financial statements, as well as the risks and impacts of their activities on ESG factors (double materiality approach) using EU sustainability reporting standards (ESRS). This requires the preparation of up to 1000+ datapoints to be reported, with additional sector-specific datapoints expected in the coming years.

From 2024, the **Taxonomy Regulation** requires insurers to assess and report whether their investments and underwriting activities are aligned with a number of technical criteria established in the EU Taxonomy. In particular, they must prepare and disclose:

- An Investment KPI: The proportion of the investments of (re)insurance undertakings associated with taxonomy-aligned economic activities in relation to their investments
- An Underwriting KPI: The proportion of the non-life gross premiums written corresponding to taxonomy-aligned insurance activities in relation to total non-life gross premiums written

From 2021, the **Sustainable Finance Disclosure Regulation** (SFDR) requires insurers to provide:

- **Entity-level disclosures** (website): policies on the integration of sustainability risks into investment decisions (including remuneration policies) and consideration of principal adverse sustainability impacts
- **Product-level disclosures** (pre-contractual, website and periodic) for sustainable products, using specific templates
 - This comes on top of other EU legislative requirements: eg, for a sustainable IBIP sold online, EU rules require insurers to provide consumers with 339 pieces of pre-contractual disclosure.

In addition, from Q4 2023, EIOPA has introduced the following climate-related reporting into the **Solvency II QRTs** (quantitative reporting templates):

- S.06.04 – Climate change-related (transition and physical) risks to investments (KPIs)
- S.14.02 – Non-life obligations analysis
 - Proportion (measured by gross written premiums) covering climate-related perils
 - If the product covers climate-related perils, does the product design make allowance for risk-prevention measures?

3. Sustainability risks in management processes

From August 2022, under **Solvency II**, (re)insurers are required to integrate sustainability risks into their management processes. The changes already introduced include:

- Specific mention of sustainability risks in risk management, underwriting/reserving, ORSA, actuarial function and remuneration
- Prudent person principle: not only sustainability risks, but also long-term impacts on sustainability factors
- Underwriting: impact underwriting, pricing of risks, etc.

4. Other diversity & inclusion requirements

The **EU Directive on gender balance in corporate boards**, requires large, listed EU companies to have transparent board appointment procedures by June 2026 and to have:

- 40% of the under-represented sex among non-executive directors on the board, or
- 33% of the under-represented sex among all directors on the board

The **Directive on pay transparency**, still to be published in the Official Journal of the EU, aims to close the gender pay gap. Key elements include:

- Employees' right to request information on the average pay levels broken down by sex
- Employers with at least 100 employees to publish information on the pay gap between female and male workers
- Where there is an unjustified gender pay gap of at least 5%, employers to carry out a pay assessment
- Penalties for infringements and compensation for workers who have suffered gender pay discrimination

Future EU sustainability-related requirements for (re) insurers

The **Corporate Sustainability Due Diligence Directive (CSDDD)**, currently being discussed by the co-legislators, introduces human rights and environmental due diligence requirements (identify, prevent, mitigate and bring to an end adverse impacts), as well as the adoption of a transition plan in line with the Paris Agreement objectives.

Still under discussion in the **Solvency II Review** are the EC's two proposed mandates for EIOPA:

- To regularly review the scope/calibration of parameters of the standard formula pertaining to natural catastrophe risk
- To investigate by June 2023 whether a dedicated prudential treatment for green/brown assets is justified

In addition, the EC included a requirement for (re)insurers to include climate stress-testing in their ORSA.