

## Response to EIOPA consultation on technical advice on the integration of sustainability risks and factors in the Delegated Acts under Solvency II and IDD

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Contact person:	Ecofin department Arthur Hilliard, conduct of business department	E-mail:	ecofin@insuranceeurope.eu hilliard@insuranceeurope.eu
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### General comments

With respect to the **amendments to the Solvency II** Delegated Acts proposed in the EIOPA consultation paper, the insurance industry appreciates that:

- The European insurance industry supports the sustainability initiatives aimed at facilitating the transition to a more sustainable economy. The sector is committed to integrate sustainability in its business model and it already does it in a number of ways, eg prevention and adaptation, loss protection/compensation and long-term financing for the economy by increasingly investing in sustainable assets.
- The insurance industry highlights that the current Solvency II framework does not represent an obstacle to the integration of sustainability risks. In fact, financial material sustainability risks can be taken into account in risk management, ORSA and decision processes of AMSB. In this context, the explicit references to sustainability proposed by EIOPA in its consultation paper will help strengthen the integration of sustainability risks in the Solvency II framework in a consistent and efficient manner. This is appreciated especially in consideration of the importance of this subject and its relevance in the years to come.

With respect to the amendments to the Solvency II proposed in the EIOPA consultation paper, the insurance industry appreciates that:

- EIOPA recognises that sustainability risks are considered within the existing Solvency II requirements and that flexibility is left to insurers on how to deal with sustainability risks within the undertaking's organisational requirements and governance.
- The proposed amendments refer to sustainability risks under the tasks of the risk management function and of the actuarial function.
- Sustainability risks are:
  - considered within the existing prudent person principle at the same level of other risks
  - referenced in the underwriting and reserving risk management policy

- The consideration of the effect of sustainability risks are included in the overall solvency needs assessment (ORSA) of the undertakings. In this respect, the industry stresses that the proposed revisions should refer to these financially material risks of the undertaking.

However, Insurance Europe notes the following improvement suggestions regarding EIOPA's proposal to ensure that:

- With respect to the meaning of key concepts like "sustainability risks" and "sustainability factors", insurers need enough flexibility to decide themselves what constitutes a sustainable risk. If specified:
  - Sustainability risks should be defined as "financially material risks that affect the risk profile of the undertaking"
- Proportionality is duly considered in the proposed requirements
- The prudent person principle should be clarified. Specifically:
  - Pending a clear definition of "sustainability factors", the article needs to be carefully drafted to avoid implicit investment restrictions and limitations, which would conflict with the freedom of investments in Article 133 of the Solvency II Directive.
  - ESG preferences of policyholders should be taken into account under IDD instead of Solvency II. This will prevent potential inconsistencies with the Solvency II objective of policyholders' protection.

With respect to the **amendments to the IDD** proposed in the EIOPA consultation paper, the insurance industry appreciates that:

- EIOPA recognises that the integration of sustainability risks within the IDD requirements is better done through a high-level principle-based approach, and that detailed prescription could result in regulatory errors given that there are still several ongoing legislative proposals in this area.
- EIOPA recognises that insurance undertakings are not required to consider ESG factors in the product approval process of any insurance product, but only if the insurance product is supposed to have an ESG profile, ie ESG preferences have to be considered only where they are relevant for the product design. In this respect, the industry welcomes the clarification in the proposed wording by introducing the caveat "where relevant".

However, the insurance industry would also like to stress that:

- The IDD (and its delegated regulation) already establishes appropriate criteria for determining different types of conflicts of interest. Any conflicts of interest that may arise from taking into account the ESG objectives of customers would be captured by these criteria, with the result that they would be handled in the same way as any other conflicts of interest under the IDD.
- Proper timing for all the measures resulting from the European Commission's action plan on sustainable finance is needed. The action plan emphasizes the importance and urgency of developing an EU taxonomy to provide unified definitions and enable reliable and comparable information on sustainable investments. The legislative proposals should adhere to this assessment. For example, certain elements, such as a customer's ESG preferences, would require the taxonomy to be developed in order to provide more clarity. Care should therefore be taken when introducing obligations on disclosure and advice before the underlying regulation on a common taxonomy is finalised, as it could result in providers having to develop processes and criteria to comply with the obligations twice within a relatively short time. This would not be proportionate.

*1. What would you estimate as the costs and benefits of the possible changes to the delegated acts under Solvency II outlined in this Consultation?.*

Insurance Europe welcomes the EIOPA proposals to integrate sustainability risks in the insurers' prudential framework. The insurance sector appreciates EIOPA's approach to balance between the need for consistency in the requirements for sustainability risks in the Solvency II Delegated Regulation, and the commitment to explicitly integrate sustainability risks in certain aspects of the regulation. In this respect, the insurance industry notes that some insurers have already started to consider sustainability issues in their business model, including the system of governance, the risk management and the investment decisions.

Regarding the whole set of proposed changes, Insurance Europe would like to raise the following points:

- **Sustainability risks should refer to financially material risks that might affect the risk profile of the undertaking.** Given the lack of a commonly accepted definition of sustainability risks and the fact that the legislation on sustainable finance is under development (eg sustainability taxonomy and disclosures), the definition of sustainability risks should be flexible and should provide insurers with sufficient methodological freedom to deal with these risks, in line with their risk appetite.
- **Sustainability risks should be considered in relation to the undertaking's risk profile.** As Solvency II has been designed as a risk-based framework with the objective of protecting policyholders, any proposal to change the framework should ensure that it remains risk-based.
- The inclusion of sustainability risks, where relevant, should be integrated in the already **existing Solvency II requirements** and not exceed them. Indeed, Solvency II already provides requirements on governance, risk management and investment decisions and those requirements apply to all risks. In addition, sufficient **flexibility** is key to allow insurers to integrate sustainability risks in their business model in a feasible manner.
- **Proportionality in the Solvency II framework is key.** When including sustainability risks in the Delegated Regulation, explicit references with regard to proportionality considerations should be reflected in EIOPA's proposals.
- **EIOPA should recognise the current sparseness of data which represents an obstacle to monitor sustainability exposures.** Information and related data would need to be available and transparent across the whole financial sector and various markets players.

*As far as possible, please link the costs and benefits you identify to the possible changes that would drive these. In relation to that, please provide, where possible, stating the assumptions underlying your calculations:*

*a) estimates of one-off and ongoing quantitative costs of change, in euros and relative to your turnover as relevant;*

Most costs are linked to:

- working with specialists (eg internal recruitment, external services),
- the access to sustainability data
- IT systems.

At fund level, costs would also arise from the additional reporting requirements to demonstrate ESG compliance. These are expected to raise the cost of the funds to the customer.

In general, the industry would require more time to estimate the costs and benefits of the possible changes and to gradually implement the related changes.

Furthermore, the sector notes that a robust taxonomy would facilitate a smooth transition to a sustainable economy. This will limit costs following the sustainability requirements and ensure these requirements are efficient.

*Estimation of costs from changes to delegated acts under IDD proposed in EIOPA's draft technical advice*

	<i>One-off cost (in euro)</i>	<i>On-going costs (in euro)</i>	<i>One-off costs (in %)</i>	<i>On-going costs (in %)</i>	<i>Comments</i>
<i>Research costs</i>					
<i>IT costs</i>					
<i>Training</i>					
<i>Other</i>					

*b) evidence on potential qualitative costs of change, please consider both the short and longer term;*

See point a)

*c) evidence on potential benefits of the possible changes, please consider both the short and longer term.*

Potential benefits can be found in the promotion of sound risk management in the extent that amendments:

- maintain the policyholder's protection and the risk-based framework
- do not put excessive focus on sustainability risks at the expenses of other risks.

The sector notes that climate change has an impact on the frequency and severity of natural catastrophes across Europe and this trend is likely to intensify in the coming decades. Therefore, enhancing public resilience and placing focus on the implementation of adaptation measures through effective prevention planning would also represent a benefit to tackle the consequences of climate change. Be it at government, regional, corporate, company or individual level, thinking in insurance terms fosters a sound attitude to risk management.

*2. What would you estimate as the costs and benefits of the possible changes to the delegated acts under IDD outlined in this Consultation?*

The exact costs of the possible changes are difficult to estimate without more information and time. However, the implementation costs for insurance undertakings may be high. This will mainly be the case for insurers that have not yet started making ESG considerations. As such, a proportionate approach would be appreciated, allowing time for insurers to, in good faith, develop their approach in reasonable time.

Unnecessary cost drivers should be avoided. For example, certain elements, such as a customer's ESG preferences, would require the taxonomy to be developed in order to provide more clarity. Care should therefore be taken when introducing obligations on disclosure and advice before the underlying regulation on a common taxonomy is finalised, as it could result in providers having to develop processes and criteria to comply with the obligations twice within a relatively short time. This would not be proportionate.

## Questions related to Solvency II Directive

### 3. Do you agree with the proposed reference on the tasks of the risk management function?

Yes, being supportive of the sustainability objectives, Insurance Europe recognises that **the proposed explicit references should help integrate sustainability risks consistently and more efficiently in the risk management function**. This is appreciated especially in consideration of the importance of this subject and its relevance in the years to come.

Insurance Europe points out **that already now financial material sustainability risks are able to be taken into account in risk management, ORSA and decision processes of AMSB**. EIOPA itself noted in its consultation paper (eg paragraphs 33, 54 and others) that the current Solvency II framework does not represent an obstacle to the integration of sustainability risks.

In order to ensure that the focus of Solvency II on policyholder's protection is maintained, the insurance sector suggests the following specification:

*"(e) identifying and assessing emerging risks and sustainability risks **affecting the undertaking's risk profile**".*

It is essential that the assessment of sustainability risks considers materiality and allows sufficient flexibility for undertakings to deal with the risks that affect their risk profile within their organisational structure. In this respect, Insurance Europe supports the statements in paragraph 17 of the consultation paper (ie *"sustainability risks, in the same way as legal or emerging risks, tend to materialize through existing risk categories such as credit risk or property risk"* and *"EIOPA does not consider sustainability risks to be a sub-category of emerging risks"*) and notes that sustainability risk should be considered at the same level as other risks.

### 4. Would you propose any other amendment to the organisational requirements in the Solvency II Delegated Regulation to ensure the effectiveness and adequacy of sustainability risk integration?

No, no other amendment to the organisational requirements in the Solvency II Delegated Regulation is necessary to ensure the effectiveness and adequacy of sustainability risk integration.

Regarding the fitness requirements and the content of the remuneration policy, the insurance industry agrees with EIOPA's view that they do not need to be adapted in Level 2 as the delegated acts do not contain any specific organisational provisions for specific risk areas.

While Insurance Europe acknowledges EIOPA's reference to guidelines (paragraphs 38, 42 44 and 45 of the consultation paper) as the proper instrument to further develop the organisational requirements on sustainability risks, it does not see a need for further, additional, guidelines on these topics.

In addition to EIOPA's proposed changes to the delegated acts under Solvency II and IDD, more clarity and transparency would be beneficial in terms of the harmonisation and standardisation of published information on sustainability, eg at fund level and at debt/equity issuance. EIOPA should recognise the current sparseness of data which represents an obstacle to monitor sustainability exposures. Information and related data would need to be available and transparent across the whole financial sector and various markets players. This would also facilitate and improve the integration of sustainability risks in the insurers' investment processes.

Equally important, Insurance Europe emphasises the need for proportionality with respect to information requirements associated with the integration of sustainability risks. Excessive additional burden on small

insurers with respect to any new information requirements should be avoided. This could be achieved by introducing thresholds to exclude small insurers from the most costly/burdensome requirements. For example, obtaining specific sustainability-related information in order to comply with mandatory requirements could end up being unreasonably demanding for small insurers, especially when having to obtain this information from third party providers, eg rating agencies or asset managers.

5. Do you agree with the proposed new article for the integration of sustainability risks into the prudent person principle?

The insurance industry agrees with the rationale for including sustainable risk in the prudent person principle, but it believes that article 275bis should be improved to ensure consistency and feasibility. As Solvency II is designed for the policyholder's protection, considerations on the policyholder's preferences should not be introduced within this article.

#### **Regarding Art. 275bis (1)**

The prudent person principle allows for adequate integration of ESG risks as noted in paragraph 54 of the consultation paper. Insurers are under the obligation to properly identify, measure, monitor, manage, control and report all types of risks that could have a potential material impact on investments, including sustainability risks. In this respect, Insurance Europe agrees with EIOPA that sustainability risks should be recognised within the existing prudent person principle and not as another criterion alongside security, liquidity, profitability and quality.

This implies that sustainability risks should be treated as other risks. Therefore, an explicit reference to sustainability risks in Section 1 of the new Art. 275bis should:

- not over-emphasise sustainability risks at the expense of other risks
- refer to "all financially relevant risks"

In order to ensure this, the following amendment is proposed for Art. 275bis (1):

*"1. Within the prudent person principle, insurance and reinsurance undertakings shall take into account **all financially relevant risks the undertaking is or could be exposed to, including sustainability risks**, when assessing the security, quality, liquidity, and profitability of the portfolio as a whole."*

This would avoid an imbalance in regulatory requirements caused by highlighting only particular risks in an area which is still under development. In addition, the clarification would help insurers implement a more proportionate investment strategy in the interest of policyholders and shareholders.

#### **Regarding Art. 275bis (2)**

The sector acknowledges EIOPA's objective to promote engagement strategies and stewardship activities by (re)insurers so that undertakings are encouraged to consider the potential impact of investment decisions on the environment, human rights, corruption and other sustainability factors. However, the meaning of Article 275bis (2) is not entirely clear and risks distorting the Solvency II framework in its current wording.

Furthermore, it is essential to clarify that the requirement "to take into account the potential long-term impact of investment decisions on sustainability factors" does not imply investment restrictions and/or limitations, which would contradict the principle of freedom of investment in Article 133 of the Solvency II Directive.

The industry considers that assessing the impact of investments on sustainability factors is desirable. However, feasibility and proportionality considerations should not be neglected. At this stage, the financial sector does not have a commonly accepted approach on how to capture the effects of investments on sustainability factors. In addition, some financial players do not have the resources to adequately build up the necessary tools.

Insurance Europe notes that:

- The insurers' measurement of the impact of investments on sustainability would be facilitated if the investees would first measure the impact of their activities on sustainability.
- Asking insurers to capture the impact of their investments on sustainability is generally very difficult in terms of available information, data and measurement methods. In some cases this assessment might only be qualitative.

In order to allow and even promote engagement strategies and stewardship activities by (re)insurers, Insurance Europe highlights that the second paragraph of the new Art. 275bis should be amended to:

- recognise the existing difficulties in terms of feasibility and proportionality.
- acknowledge that engagement (in direct as well as indirect investments via funds) can be very costly and that its effectiveness can be questionable depending on the portfolio types (eg equity versus bond) and the size of the investing undertaking (eg small versus large).
- not contradict the principle of freedom of investment.

#### **Regarding ESG preferences of policyholders (new recital and Article 275bis (2))**

With respect to preferences of policyholders, the insurance sector believes that the prudential framework is not the proper area to deal with the reflection of ESG policyholders' preferences. On the contrary, the current wording could harm the risk-based framework and its objective of policyholder's protection.

Therefore, the sentence in Article 275bis (2) (ie "where relevant, reflect the environmental, social and governance preferences of policyholders and beneficiaries") should be deleted.

Insurance Europe also suggests EIOPA to avoid including the new recital in the prudential framework. If the new recital would be maintained, the insurance industry proposes to amend the new recital in the Solvency II Delegated Regulation as follows:

*"(xx) Insurance undertakings should reflect the environmental, social and governance preferences of policyholders and beneficiaries in their investment portfolio where these preferences are relevant for the product oversight and governance arrangements according to Directive 2016/97 and Commission Delegated Regulation 2017/2358."*

As EIOPA itself acknowledges in paragraph 64 of the consultation paper, reflecting ESG preferences of policyholders in the investment decision processes is not always feasible.

The wording of the recital proposed by the insurance sector also ensures that the link between Solvency II and IDD with regard to policyholders' preferences (see paragraph 66 of the consultation paper) is clarified and that ESG preferences are dealt with in the IDD. This also avoids potential negative effects on policyholder protection and on the risk-based framework that can arise from introducing policyholders' preferences in the prudent person principle.

#### **6. Do you agree with the proposed amendment of the article for the actuarial function?**

Yes, Insurance Europe agrees with the inclusion of sustainability risks in the list of other risks such as inflation, legal risk, etc. In doing so sustainability risks do not prevail on other risks and vice versa.

The tasks of the key functions in relation to ESG investment risks should be the same as those regarding any other risk.

Insurance Europe highlights that risks that are relevant to the risk return profile, including sustainability risks, need to be considered by the undertaking already under the existing regulatory provisions. The tasks of the key functions in relation to ESG investment risks should be the same as those regarding any other risk.

The insurance sector notes that the models to calculate the best estimate are depending on long time data, therefore, undertakings are already able to deal with changes and trends if there are any. This may lead to changes in prices, products or contracts if necessary, which is easy to do especially with contracts with a one-year term.

7. Do you agree with the proposed reference to sustainability risks under the investment as well as the underwriting and reserving risk management policy?

**Regarding changes to Art 260 (1)(a)(i)**

Insurance Europe recognises that, on the liability side, inadequate pricing and provisioning assumptions can be the result of an inadequate assessment of a wide range of risks – including sustainability risks – due to internal or external factors. To clarify this, Insurance Europe suggests the following addition to the amendment: "(...) due to internal or external factors, including sustainability risks **where appropriate**".

The need for this specification is even more relevant for the liabilities of non-life insurers, with the effects of climate change possibly becoming more evident over time. Therefore, if time-series trends in the technical provisions show an increase in the claims expectations, insurers will normally react by means of premium adjustments – possible because of the short-term nature of insurance contracts - or by means of adjusting their reinsurance programs.

**Regarding Art 260, new paragraph 1(c)(vi)**

Given the inclusion of sustainability risks in the prudent person principle (Article 275bis (1)), Insurance Europe deems this new paragraph redundant. Paragraph 1(c)(i) already requires the investment risk management policy to include "actions to be taken by the insurance or reinsurance undertaking to ensure that the undertaking's investments comply with the prudent person principle". Therefore, sustainability risks are already considered.

If EIOPA would decide to include this paragraph, Insurance Europe highlights that the responsibility of assessing sustainability risks should fall first with the investee who should identify, manage and assess its own exposure to sustainability risks (see answer to question 5 in relation to Art. 275bis (2)). For coherence, Insurance Europe suggests that the insurance undertaking should identify, assess and manage sustainability risk only when these risks can have material financial impacts on the insurance undertaking.

8. Do you agree that other risk management policies may include reference to sustainability risks?

Yes, provided sustainability risks are financially relevant and material. Therefore, Insurance Europe welcomes the inclusion of "where appropriate" in Article 260, new paragraph 1.a. This allows to consider sustainability risks without putting excessive focus on it at the expense of other risks.

9. Do you agree with the proposed requirement to include consideration of the effect of sustainability risks in the overall solvency needs assessment of the undertakings' ORSA?

The insurance industry believes that the consideration of the effect of sustainability risks should be included in the overall solvency needs assessment of the undertakings (ORSA) as long as these risks are financially relevant and material for the undertaking. This is because the sector believes that sustainability risks should get the same treatment as other risk types

The link between sustainability risks and the ORSA is critical, but the analysis of sustainability risks is dependent on the company-specific strategy and risk assessment. Therefore, the measurement and quantification of the effects of sustainability risks is necessary only when these effects are financially material for the undertaking's ORSA.

## Questions related to IDD Directive

*10. Do you agree that conflicts of interest may also arise with regard to the ESG objectives of customers of insurance undertakings and insurance intermediaries. Please give reasons for your answer.*

The IDD (and delegated regulation) already establishes appropriate criteria for determining different types of potential conflicts of interest given the financial and also non-financial objectives of the customer. Any potential conflicts of interest that may arise with regard to ESG objectives will be captured by these criteria and handled in the same way as any other conflict of interest under the IDD. It is unlikely that the inclusion of sustainability factors would introduce any specific conflicts of interest that cannot be addressed within the existing IDD framework.

Insurance Europe agrees with EIOPA that a reference only to ESG considerations could over-emphasise and unbalance the legal drafting. The insurance sector supports a high-level principle-based approach, as suggested by EIOPA in paragraph 92 of its draft technical advice. The insurance sector would therefore prefer policy option 7.1, introducing a reference to ESG considerations in a recital of the Delegated Regulation only. As EIOPA points out (on page 42-43), this recital could provide guidance on the application of the conflict of interest rules.

The insurance sector would also like to draw attention to the fact that neither the IDD nor the delegated acts require insurance undertakings to offer insurance products with ESG considerations. Insurance undertakings and insurance intermediaries should therefore not be expected to include ESG considerations in their conflicts of interest policy in general, but only where relevant. The insurance sector would suggest adjusting the proposed recital slightly by introducing the words "where relevant". This would also be consistent with other parts of the draft technical advice.

It is perhaps also worth noting that the more demand there is for products contributing to sustainable investment, the more insurance intermediaries will engage in distributing such products.

*11. Do you agree that conflicts of interest with the ESG objectives of customers may arise, particularly in regards to the investment strategy for the customers' assets and the shareholder rights in companies in which the customers' assets with ESG preferences are invested?*

The insurance sector does not see any potential conflicts of interest with regard to customers' assets and shareholders' rights that would be particular to ESG preferences. However, conflicts of interest can arise between different policyholders in pooled investments. There are often existing processes for managing these however. Ultimately, it will be for the insurer's management board to decide to what degree it reflects ESG considerations in their investment strategy. Customers can then decide to purchase products or not knowing these considerations.

Moreover, the IDD delegated regulation already establishes appropriate criteria for determining different types of conflicts of interest. Any conflicts of interest that may arise from taking into account the ESG objectives of customers would be captured by these criteria, with the result that they would be handled in the same way as any other conflicts of interest under the IDD.

*12. What other situations do you envisage might give rise to conflicts of interest between the interest of customers in attaining their ESG objectives and an interest of another party?*

The IDD states that there should be no incentive to recommend a given product other than in the best interests of the customer (Article 17(3) IDD, Recital 46). MiFID II sets similar requirements (Recital 56 and

Article 23(1)). The proposal for a regulation on disclosures on sustainable investments and sustainability risks aims to contribute to long-term sustainable growth in general and encourages market participants to act accordingly (Recital 5). Article 4 (1) (c) and (2) (c) of the EC's draft sets out disclosure obligations on how remuneration policies are consistent with the sustainable investment target of the product in question. Conflicts of interest might therefore arise if remuneration policies are required to be set up in such way as to meet certain sustainability targets, such that employees would be incentivised to recommend a particular product to a customer. This would potentially conflict with the customer's demands and needs, and the requirement to act in his or her best interests.

*13. What measures, if any, should be taken to address conflicts of interest arising specifically between the customer's interest in attaining his ESG objectives and the interest of another party?*

Insurance Europe believes that the steps to be taken should be the same as for conflicts of interest which may arise in relation to any other objectives of the customer. Any potential conflicts of interest that may arise will therefore be addressed in the same way as any other conflict of interest under the IDD. Thus, the newly implemented provisions of the IDD and its delegated acts are sufficient to support the customer's demands for products that contribute to sustainable investment objectives, while remaining consistent with his or her demands and needs.

*14. What current market standards or "labels" are you going to take into account or already taking into account for the consideration of ESG factors? Do you see any issues when relying on current market standards or "labels"? Please describe.*

There is still a lack of comprehensive market standards that capture all relevant ESG factors in a suitable way. Currently there is a wide range of different "labels" like UNPRI, Dow Jones Sustainability Index (DJSI), ESG-Scorings by ESG-rating agencies like MSCI, Sustainalytics or ISS oekom. Most companies use a metric, eg scoring from MSCI at a fund level, to define ESG profiles of funds; however, there is not a market consensus on these scores (in that different ESG data providers give different answers). As such, different companies can rate the same fund differently.

Moreover, for investments that are not listed and not traded, like infrastructure projects, they might need internal audit processes. This fragmentation makes it difficult for customers to compare different products. For insurance undertakings and insurance intermediaries, it could lead to legal uncertainty and liability risks, inter alia, in the advice process caused by different understandings of what is a sustainable investment.

*15. Do you agree with the proposed amendments, in particular whether the ESG preferences of the customers should be considered in the assessment of the target market?*

Insurance Europe is supportive of EIOPA's approach that insurance undertakings shall not be required to consider ESG factors in the product approval process of all insurance products, but only if the insurance product is to be advised or sold to customers with ESG preferences – ie ESG preferences of customers should be considered in the assessment of the target market only with regard to "ESG products".

However, we see challenges with including ESG factors in the product approval process, and at this stage we are not sure how this will work in practice.

Tailoring products to meet ESG preferences is appropriate for custom portfolios of High net worth policyholders, however for the mass market and default pension schemes, it is not viable to have a vast number of ESG versions of default funds and for pooled investments it is only possible to have a single ESG approach. A section or statement on a consensus view for ESG default funds would be helpful, with recommendations for self-investment choices to be available outside of the default with varying ESG characteristics.

The objective of the POG rules is to make sure that a product is compatible with the needs, characteristics and objectives of the customers belonging to the target market. If the product is advised or sold to customers whose specific requirements with regard to the product contains ESG preferences, these preferences are part of the targeted customers' objectives and demands and needs. They should therefore be included in the assessment of the target market for this particular product. The determinations made in relation to the target market are subsequently applied in the testing, distribution and monitoring of the product. While the numerous additions to Articles 4 to 11 proposed by EIOPA reflect this, a clarifying recital on this point would in our view be sufficient.

*16. Do you agree that the identification of the target market should specify whether an insurance product is compatible being distributed to customers with ESG objectives or not?*

Insurance Europe believes that ESG objectives, like any other features, should be considered in the description of the target market only if the product is designed for customers with these preferences.

*17. Do you agree that the testing of the insurance product during the approval process as well as the monitoring and reviewing of the insurance product during its lifetime should comprise the ESG factors?*

See response to Q.15. The insurance sector would also highlight that any factor-based analysis should be reviewed periodically to take into account evolving released data and better factors, with the product evolving as required.

In addition, we believe that all factors that can have a relevant influence on the compatibility of a product with the demands and needs of the customer should be taken in to account when testing, monitoring and reviewing a product. This principle is already laid down in the IDD and its delegated acts, so there is no need for any further requirements to be introduced.

Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of more than €1 200bn, directly employ over 950 000 people and invest over €10 100bn in the economy.