

## Key industry points on EIOPA advice on Taxonomy KPIs

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### Key areas of concern

#### A. GENERAL COMMENTS

Insurance Europe agrees with the European Insurance and Occupational Pensions Authority (EIOPA) that, for insurers' key performance indicators under article 8 of the Taxonomy Regulation, the alignment with taxonomy-aligned activities should be assessed based on non-life gross premiums and the assessment of funding taxonomy-aligned economic activities should be based on the investments. However, insurers have a number of important concerns about the technical details of the advice and proposals for improvements and clarifications which would ensure the indicators work in practice and achieve their objectives.

#### 1. Implementation timeline and required data

- **The European Commission should clarify that the first application date of 1 January 2022 means that data collection starts from this date and that the first reporting takes place in 2023 referring to the year 2022. Similarly, for the other environmental objectives (article 9 from c to f of the Taxonomy Regulation) the application starting date is 1 January 2023, so that the first reporting disclosure should be in 2024 referred to the year 2023. This will allow enough time for collecting data in line with the finalised taxonomy screening criteria.**
- **It should be made clear that insurers are allowed to use the latest available data for these key performance indicators (KPIs), and that in practice this will typically be the prior year's taxonomy reporting data.**

While the industry recognises the need for urgency to start reporting sustainability related disclosures, insurers have long highlighted that the timing and the sequencing of the legislation must be consistent and achievable. The requests above are necessary because:

- **The taxonomy screening criteria have not yet been finalised** – The Delegated Acts on the taxonomy objectives are still under development and are only expected by mid-2021 at the earliest. If reporting were to be required from 1 January 2022 insurers would already have had to gather all

the required data in 2021. This is not possible: insurers cannot be expected to have gathered the necessary data before it has been specified what that data is.

- It will take time to gather new taxonomy-related data as that is currently not available:
  - For the sustainable investment KPI, information about investee companies (ie turnover, capital and operational expenditures) is needed. However, there is a lack of consistent and accessible environmental, social and governance (ESG) information on investee companies and this will only be resolved to a significant degree when it is provided via the Non-Financial Reporting Directive (NFRD). Mandatory reporting under the NFRD will not take place before 2024. In the meantime, insurers will need enough time to find other sources of data and to comply on a reasonable effort basis.
  - For the “do no significant harm” criterion, the underwriting KPI will require a screening of the full customer portfolio to identify customers whose primary activity is related to the extraction, storage, transport or manufacture of fossil fuels. Such information may not be available publicly for all (eg smaller) companies and would require tailored customer surveys. For example, the only way for insurers to know if a corporate customer active in transportation is focused on oil or coal transportation would be to undertake specific research or gather information through a policyholder survey.
- Companies need time to set up their operations in terms of required IT systems, taxonomy assessments, validation, quality assurance and staff training. The EC should recognise that the normal implementation period after adoption of the final regulatory technical standards (RTS) should be at least twelve months.

## 2. Consistency across financial sectors

- **There should be a basic principle that, where relevant, measures and definitions must be consistent across the financial sector. Unjustified discrepancies will lead to confusion, lack of comparability and an un-level playing field.**

This is particularly relevant for the investment KPI, where there are a number of unjustified discrepancies between EIOPA’s advice and that from the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) as described below.

Moreover, the draft RTS of the ESAs regarding taxonomy-related sustainability disclosures also risks introducing discrepancies. It is of the utmost important that methodologies to disclose the investments aligned with Taxonomy are coherent at entity and product level.

## B. KPI FOR SUSTAINABLE INVESTMENT ACTIVITIES

### 3. Treatment of sovereign bonds and funds where customer makes the investment choice

- **The main investment KPI should be based on Taxonomy eligible total investments where the insurer controls the investment decision, because this gives the best indication of how the actions the insurer can take are affecting its investment profile. Therefore:**
  - **In line with the recommendations from the EBA, investments which are not covered by the Taxonomy, such as sovereign bonds, should be excluded from the KPI.**
  - **Investments where the customer makes the investment choice should also be excluded from the main KPI. These should be reported separately.**

**Total investments including those which are not eligible under the taxonomy and those chosen by customers could still be reported separately under a secondary KPI as a way to provide a more transparent picture of the activities of the financial market participants for users of ESG information.**

The sector disagrees with the EIOPA advice that all investments should be included in the “investments” ratio. **Only Taxonomy eligible investments should be considered rather than taking all investments into account.** EIOPA mentions that insurers should use “expert judgement and approximations” to be used until the Taxonomy criteria can be applied to such investments, but this will result in confusion, lack of comparability and inconsistencies with the approach recommended by other supervisors. Insurance Europe highlights that EBA’s and ESMA’s opinions to the EC clearly recognise that certain exposures, such as those to government and central banks, cannot be included at this stage.

Referring to “Taxonomy eligible investments” instead of “total investment” is more meaningful also considering that the pool of Taxonomy eligible assets will evolve over time as the EU Taxonomy will cover an increasing number of investments.

EU insurers hold a significant proportion of their total investments in government bonds (~33%, on average, but this figure can be much higher in some companies). Insurers hold these assets based on risk considerations, asset liability matching and investment returns. However, this means, right from the outset that nearly over 30% of the EU insurers assets are not eligible for the EU Taxonomy and undermine the meaningfulness of the proposed KPI. As noted by the EBA, “investments in sovereign exposures are not considered eligible at this stage, due to the lack of an applicable taxonomy and standard disclosure obligations.” In addition, EIOPA’s proposed KPI would also result in undesired negative effects:

- Unlevel playing field for (life) insurers with other financial sectors competing for retail investors’ savings, as insurers are forced to disclose a “weaker” KPI due to methodological flaws.
- Undue divestment pressure on non-eligible assets (government bonds) without justification from a risk perspective in order to achieve a better KPI.

Investments where the customer makes the investment choice (on their own risk and account) should be excluded from the main indicator ratio. While this can typically be within unit-linked and index-linked types of funds, it is not the only case. Insurers can identify the assets where customers make the investment decision. EIOPA’s assessment that policyholders have limited influence on actual investment allocation in unit-linked products is not correct.

Insurers agree that funds where customers make the choice can also play an important role to fund the transition to a more sustainable economy. In line with this understanding, insurers are taking steps to offer customers investment options which include ESG considerations (and in the future this will include funds with EU Taxonomy-eligible investments). **Therefore, a secondary investment KPI which includes all investments should also be considered.** As well as providing transparency on which investments are not covered by the Taxonomy, by highlighting the funds where customers make the investment choice this may help highlight customer responsibilities and encourage more of take up of taxonomy eligible options provided to them.

#### 4. Turnover and CapEx as a basis of Taxonomy alignment

- **EIOPA’s advice that CapEx and OpEx “where relevant, should be applied” is unclear and instead ESMA’s advice that “additional calculations for CapEx and OpEx may also be provided, but are not required” should be applied to insurers as well.**
- **It should be clearly stated that insurance companies are allowed to publish the expenditures on prevention and protection measures as envisaged by EIOPA, but also additional measures related to, for instance, climate friendly claims handling as well as climate risk modelling.**

EIOPA states in chapter 5.1 of its advice “that the assessment of taxonomy alignment of the investment shall be based on the information regarding “turnover” as well as taking into consideration, where relevant to depict the characteristic of the asset or financial instrument, the “CapEx” and “OpEx” of the investee company”. It is not at all clear how “where relevant should be applied” and it is inconsistent with other ESAs’ advice. The insurance sector notes that ESMA, in annex 1 B.1 of its advice, recommends that the “weighted average of the value of investments should be based on the share of Taxonomy-aligned activities of the investee

companies measured by turnover. Additional calculations for CapEx and OpEx may also be provided but are not required". To be consistent with the advice by ESMA, it should be possible to also base our calculation on CapEX which is a better measure of new, incremental green investments and very important forward looking KPI.

The choice between one of the three types of calculation basis (CapEx, OpEx, turnover) for all non-financial undertaking investee companies is not straightforward. A common approach should not be imposed, and financial market participants should be able to consider the most suitable KPI for each activity/investment. Otherwise, it might be difficult for financial market participants to report on all activities of underlying investee companies, while using only one measurement.

More clarity is needed on what method (turnover, CapEx, OpEx) financial market participants are expected to use. If they are to report on all activities, a combined measure of the three KPIs should be disclosed or flexibility should be left to the financial market participants to report the most suited KPI separately. Given the current lack of ESG data and the ongoing developments of the taxonomy screening criteria, the best course of action would be to allow Financial Market Participants (FMP) to use the most relevant indicator (for transitional activities for instance capex can be a better measure of the company's investment).

## **C. KPI FOR SUSTAINABLE UNDERWRITING ACTIVITIES**

### **5. Taxonomy assessment must be at product level**

- **It should be made clear that insurers can assess underwriting activities at product level (EIOPA's advice does not prevent this but is not clear enough that a product level approach is appropriate).**

The KPI for sustainable underwriting activities should therefore be based:

- On the numerator, only on the premiums from products that comply with the technical screening criteria for non-life insurance and reinsurance defined in the delegated act related to the objective of adaptation to climate change.
- On the denominator, on the premiums for the eligible non-life insurance lines of business (LOBs) defined in the same technical screening criteria for non-life insurance.

#### **This is in accordance with the Taxonomy Regulation**

With regard to sustainable underwriting activities, the technical screening criteria are specified in Annex 2, 10.1 Non-life insurance: underwriting of climate-related perils (page 281) and 10.2. Reinsurance (page 284). These technical screening criteria only relate to the insurance product, and not to the customers of the insurer (except for the DNSH criteria which excludes insurance/cession of insurance of the extraction, storage, transport or manufacture of fossil fuels or insurance of vehicles, property or other assets dedicated to such purposes). Therefore, it is clear that the assessment of non-life insurers should only be made at product level.

#### **A requirement to report premiums at customer level would not be feasible**

It would mean that insurers would need to verify whether their client's activities are aligned or not with the Taxonomy. This is not feasible because most insurance policies are contracted by individuals or micro and small businesses that do not fall under the scope of the Taxonomy regulation and therefore are not required to disclose the 'green share' of their turnover. The same applies to non-EEA-based clients of insurers and reinsurers. Moreover, a customer level approach would only reflect the alignment of the market with the Taxonomy and not insurers' effort towards green transition.

Although EIOPA allows for the use of proxy in case the underlying portfolio of insurance contracts is too complex to decipher, it is not clear how those proxies should be defined for small business, personal insurance or insurance of non-EEA-based companies. For all insurers to develop proxies for the thousands or even millions of such customers would be prohibitively expensive (and the costs passed on to customers) and



different insurers would adopt different approaches which will make a fair comparison of the KPI between insurers impossible.