

Insurance Europe key recommendations for the upcoming SFDR review

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General comments on the upcoming SFDR review

Insurance Europe welcomes the European Commission's initiative to review the Sustainable Finance Disclosure Regulation (SFDR). This review presents an important opportunity to refine the framework, ensuring it better supports the EU's competitiveness agenda while remaining consistent with the broader sustainable finance architecture.

The review should **prioritise simplification** and **ensure consistency** across the sustainable finance regulatory architecture, including the SFDR, the Corporate Sustainability Reporting Directive (CSRD), the European Sustainability Reporting Standards (ESRS), the Insurance Distribution Directive (IDD), and the EU Taxonomy.

For product level information, Principal Adverse Indicators (PAI) requirements should focus on **material, investor-relevant information** and **be applied proportionately** to relevant asset classes. Insurers support a reduction of the list of the current product level disclosures to keep only the most relevant and largely applicable ones.

For **entity level information**, the large majority of European insurers believe that PAI disclosures should be covered by the CSRD and removed from SFDR to avoid duplication. In any case, the number of indicators significantly reduced to focus only on the most relevant information. If entity-level PAIs are covered by the CSRD entirely, the Commission should consider how this requirement articulates with other pieces of the sustainable finance framework to avoid any data gaps and assess the potential impacts on related requirements, such as distribution rules under IDD/MiFID. If certain entity-level disclosures are retained in the SFDR, they should be based on materiality assessments and, where appropriate, reported at consolidated level, provided this does not compromise investor understanding.

Estimates must be applied consistently across SFDR and CSRD, with an emphasis on accuracy and reliability rather than broad coverage. Their use should be limited to cases where they genuinely enhance understanding of a company's activities, while low-quality estimates, even if covering all indicators, should be avoided to prevent misaligned incentives.

It is also **essential that the SFDR framework accommodates highly diversified portfolios**, including insurers' general accounts, multi-asset funds, and Multi Options Products (MOPs). All investment instruments, including government bonds, should be reflected in the system's metrics to ensure comprehensive coverage and meaningful reporting.

Building on these general remarks, the following section outlines specific recommendations regarding product categorisation, should one be adopted, and key insurance-specific considerations. In particular, **structured products**, which are complex but increasingly significant investment instruments, should be explicitly included

in the SFDR framework. **Multi-Option Products (MOPs) and insurance products** should be appropriately considered, with adaptations reflecting their multi-asset and diversified nature. Likewise, **sovereign bonds**, which play a stabilising role in insurance and pension portfolios, should be appropriately recognised, as they are often used by (re)insurers to achieve portfolio diversification, ensure asset-liability matching, and deliver sound returns to customers. However, under the current SFDR framework, sustainable investments in sovereign bonds are largely neglected due to the absence of clear methodologies for integrating sustainability factors.

Product categorisation

If a categorisation system is introduced, it should follow a **balanced structure** and draw on lessons from existing frameworks—such as the UK system—when defining categories, requirements, and related provisions. It would also be essential to conduct industry and consumer testing before establishing product categories, ensuring understandability and workability for both users and preparers. We would support the introduction of three categories – sustainable, transition, and “other ESG” – informed by market analysis and leveraging existing CSRD data.

- **Harmonised definitions** of “sustainable” and related terms are essential to reduce complexity and increase usability for end users. The transition category must be clearly defined, and a situation where most products fall into “other ESG” – as it happened with Article 8 products - should be avoided.
- **Criteria for categories:** The EU Taxonomy should be considered as one of the criteria for the sustainable and transition categories, as it is currently the only common European reference for identifying sustainable economic activities. However, it should not be used as the sole criterion, particularly for environmental matters, and especially in the transition category, where greater recognition of transition strategies based on credible climate transition plans is needed.
- **Flexible and hybrid approach:** The “Transition” and “Other ESG” categories should be based on a combination of closed lists –i.e. a predefined set of eligible strategies or criteria that ensure consistency and comparability across products—with open lists, which allow for additional strategies or criteria to be included at the discretion of providers. This hybrid structure would ensure comparability for widely used approaches, while maintaining flexibility for innovative or emerging market practices.
- **ESG components:**
 - Clearly define “other ESG” to avoid negative perceptions and reflect market diversity.
 - The “S” component of ESG must be strengthened. Social characteristics should be explicitly integrated into the definition of the sustainable and transition categories, and the definition of sustainable investments should explicitly cover both environmental and social sustainability. This will ensure that products with a social focus are properly recognised.
 - If used, exclusion lists should only be applied where practical and implementable (e.g., some CTB exclusions are not feasible).
- **Indicators:** Predefined indicators are acceptable for the sustainable category, provided they are broad, flexible, and can be supplemented by additional KPIs. For the transition category, indicators should primarily be linked to credible, science-based climate pathways, while also allowing for the inclusion of other relevant environmental and social transition strategies.
- **Impact investing:** A dedicated category should not be created without a clear and commonly accepted definition, as this would risk confusion and complexity.

If new categories are introduced, the **transition from Articles 8 and 9 must be carefully managed**. A clear and proportionate grandfathering period should be established to avoid disruption for products already on the market.

It is equally important that **categorisation systems accommodate highly diversified portfolios**, including general accounts, multi-asset funds, and multi-option products (MOPs). All investment instruments, including government bonds, should be captured by the relevant metrics.

Finally, any categorisation system must remain **adaptable and consistent across the regulatory landscape**. Indicators should be designed to evolve in line with the **EU Taxonomy**, given its partial coverage and ongoing development, and their finalisation should align with the omnibus package. Categories must also respect the prudent person principle under **Solvency II** and apply to the full range of insurance products, including MOPs

and sovereign bond holdings. Integration into the **IDD framework** is crucial to ensure clear visibility of categories and to replace the current two-step selection process with a single, coherent classification for sustainability preferences. At the same time, the ESMA fund naming guidelines should be adjusted to ensure that they are fully aligned with the product categories developed.

Insurance-specific considerations

Multi-Option Products (MOPs) and insurance Products

MOPs and insurance products should be explicitly recognised as eligible products under the SFDR product classification framework, with adaptations reflecting their multi-asset and diversified nature:

- **Classification:** MOPs **should not be pre-classified at the product level; instead, classification should be applied to each individual investment option.** Assigning “sustainability level” based on the client’s selection of underlying options is impracticable in certain markets (e.g., Sweden). For practical disclosures, ranges or percentages of underlying options by category are preferred. In some markets, however, the wide variety of available options makes product-level classification unreliable, potentially misleading, and operationally unmanageable. Accordingly, the fund provider must take responsibility for ensuring that each underlying option is individually classified.
- **Disclosure:** For MOPs, it should be possible to cross-reference the existing SFDR disclosures prepared by the fund providers in the pre-contractual information, thereby simplifying reporting requirements.
- **Scope:** Insurance-based products should be recognised as eligible products in the SFDR product classification framework and treated in a manner reflecting their multi-asset and diversified nature. They should have access to all categories with realistic thresholds and appropriate treatment of sovereign bonds.
- **Transparency:** Disclosures should focus on objectives, exclusions, and transition plans, with emphasis on strategy over rigid numerical thresholds.
- **National specificities:** Differences in national saving products must be accounted for and should fit within a categorisation system. This is currently a challenge for saving products with numerous underlying investment options covering a wide range of assets classes and products.
- **Proportionality:** Distinguish between options offered under insurance/pension structures and those under UCITS or similar frameworks, as the current framework is more tailored to the latter. This is essential to avoid disproportionate requirements and to reflect the specific features of insurance-based investment products.

Sovereign bonds

Sovereign bonds play a stabilising role in insurance and pension portfolios, yet they are not addressed under the current SFDR framework, despite being widely used by (re)insurers to diversify portfolios, generate returns for policyholders, and ensure effective asset-liability matching. We recognise that their **inclusion in the SFDR framework raises several challenges** that need to be carefully assessed:

- **Diversity of sovereigns:** Sovereigns are highly heterogeneous and resist uniform criteria. Developed and emerging markets may need to be assessed against different benchmarks.
- **Political sensitivities:** Labelling some sovereigns as “sustainable” while excluding others could raise political issues and undermine acceptance of the concept.
- **Regulatory spillovers:** Any criteria for sovereigns may have implications for their treatment under other EU frameworks, such as the Taxonomy Regulation or CSRD/ESRS. These impacts must be evaluated before criteria are introduced.

In light of these challenges some members expect that including sovereigns in the SFDR is too complex and politically sensitive and therefore suggest their general exclusion from the framework.

Nevertheless, some Insurance Europe members see **possible ways to bring sovereigns into the SFDR framework:**

- **Treatment:** Assess sovereigns using metrics tailored to their sustainability contributions, distinct from corporate criteria, to avoid penalising portfolios.
- **Assessment criteria:** Consider factors such as ratification of the Paris Agreement, adoption of national climate laws, or other DNSH metrics, and social indicators.
- **Methodologies:** Approaches could include:
 - Counting environmental or social labelled bonds. However, methodologies should not be limited to labelled bonds, as this would exclude other relevant sustainable investments. Regarding EU Green Bonds, any assessment should consider forthcoming revisions under the Taxonomy Regulation, and an appropriate grandfathering period should be applied to Green Bonds already in the market.
 - Consider the possible use of scoring frameworks that assess sovereign sustainability performance across emissions, climate policy, and adaptation. For example, external initiatives such as ASCOR could provide inspiration, without necessarily prescribing their use.
 - Using governance/policy indicators (e.g., Paris Agreement compliance, Transparency International scores).
- **Alignment:** Combine qualitative and quantitative criteria. Quantitative metrics, such as GHG data already available through PAI for sovereign bonds, can be used to ensure consistency and comparability, while qualitative factors capture broader sustainability considerations. This approach should remain consistent with other EU frameworks (e.g., CSRD) to maintain credibility and avoid penalising insurance portfolios.

Structured products

Structured products are complex but increasingly important investment instruments. They should be explicitly included in the SFDR framework, with adapted criteria:

- **Legal clarity:** Amend the SFDR legal definitions to explicitly include structured products and recognise their contribution to sustainable investment objectives.
- **Derivatives:** Provide guidance on how net long and short positions should be treated when calculating sustainable investments, Taxonomy alignment, and PAIs.
- **Methodologies:** Develop clear methodologies for assessing ESG performance, including clear descriptions of underlying components and their contributions to the product's sustainability objectives.
- **International consistency:** Align SFDR with comparable frameworks (e.g. SEC Fund Names Rule, UK SDR) to reduce market fragmentation.

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