

## Insurance Europe preliminary considerations on the EU Taxonomy Underwriting KPI

Insurance Europe welcomes the opportunity to contribute to EIOPA's advice to the EC on the EU Taxonomy reporting requirements, including the Underwriting (UW) KPI. The insurance industry supports the objectives of the EU sustainable finance framework and recognises the importance of providing transparent, comparable and decision-useful information to supervisors, investors and other stakeholders. However, the current design of the Taxonomy framework does not adequately reflect the nature of insurance activities, and targeted refinements are necessary to ensure that the framework, and in particular the UW KPI, functions as intended.

This review fits within the wider EU efforts to simplify and streamline sustainability reporting rules under the Omnibus initiatives, making it timely to address the practical shortcomings of the current KPI.

### Key shortcomings of the current UW KPI

The current UW KPI, defined as the share of Taxonomy-aligned premiums over total non-life premiums, does not meaningfully reflect insurers' contribution to climate adaptation and broader transition objectives. Internal industry estimates suggest average alignment ratios of around 3.12% for figures reported in 2025, illustrating that the KPI is structurally constrained by design rather than by insurers' actual contribution.

Several structural limitations explain this outcome:

- **Misalignment with the insurance business model:** The KPI is based on premiums associated with the coverage of specific risk. Its numerator captures only a narrow subset of premiums associated with sustainability objectives, while the denominator includes all premiums. This leads to structurally low alignment ratios that do not reflect the sustainability profile.
- **Artificial 'split premium' approach:** The requirement to divide premiums into climate-related and non-climate-related components contradicts core insurance **principles of diversification and risk pooling**. In practice, climate-related components represent only a small share of total premiums (typically 2–10%). When this small fraction is measured against the full gross written premium base, the resulting alignment ratios are mechanically very low.
- **Incomplete recognition of insurers' role:** The Taxonomy focuses narrowly on underwriting specific climate-related perils. As a result, it does not capture insurers' broader role in managing climate risks, including prevention, resilience-building measures, modelling, risk transfer, and claims management. Nor does it assess whether policyholders implement adaptation measures. These limitations are inherent to the current design of the UW KPI which shouldn't be interpreted as an assessment of insurers' overall contribution to climate adaptation.
- **Inconsistent treatment of risks and lines of business:** While there is broad convergence across the market on the identification of the main non-life lines of business in scope, different interpretations of climate-related perils within those lines (e.g. direct vs indirect coverage) and divergent approaches to premium splitting have resulted in inconsistent and non-comparable outcomes across the market.

As a result of these combined factors, **UW Taxonomy alignment ratios for insurers are structurally capped at low levels** and cannot, even theoretically, reach 100%, unlike in other sectors.

### Recommendations for a pragmatic way forward

While the shortcomings of the current UW KPI are well recognised, the issues stem largely from methodological design choices rather than from the objectives of the Taxonomy itself. **A proportionate and targeted adjustment of the current KPI** can therefore address these practical challenges **without altering the overall structure of the framework**.

In this context, Insurance Europe proposes a focused set of refinements that would make the UW KPI more meaningful, operational and aligned with insurers' business models:

1. **Define the perimeter:** Identify the share of total gross written premiums corresponding to relevant non-life lines of business.

$$\text{Perimeter share} = \frac{\text{GWP\_relevantLOBs}}{\text{GWP\_total}}$$

2. **Assess eligibility:** Determine which premiums within this perimeter relate to climate-related risks.
3. **Calculate alignment:** Assess alignment within this defined perimeter, reflecting compliance with TSC, Do No Significant Harm (DNSH) and Minimum Safeguards (MS).

$$\text{UW KPI} = \frac{\text{GWP\_aligned}}{\text{GWP\_relevantLOBs}}$$

This approach would significantly improve the interpretability of the KPI by isolating meaningful segments of business, while remaining consistent with the insurance business model, including risk pooling and risk transfer. It would also avoid creating new data requirements that insurers cannot realistically meet and could be implemented without significant additional cost. This methodological approach is consistent with the logic applied to the investment KPI, where Taxonomy alignment is assessed within a clearly defined eligible perimeter, ensuring consistency between numerator and denominator.

In addition, a **targeted voluntary opt-out mechanism**, without any specific limitations, should be introduced where the KPI is not meaningful. This would prevent the disclosure of misleading figures and reduce unnecessary reporting burdens.

### Position on a Green Underwriting Ratio (GUR)

Insurance Europe **does not support the introduction of a Green Underwriting Ratio (GUR)**, either as a complement to or replacement for the existing UW KPI.

A GUR would significantly increase complexity by introducing overlapping indicators and reducing clarity for users. It would also represent a fundamental conceptual shift, focusing on insurers as 'enablers' of economic activity rather than on their core function of managing, pooling and transferring risk.

From an operational standpoint, a GUR is not workable. Its calculation would potentially require granular sustainability data at the level of insured assets or clients (including SMEs and households), data that insurers neither have nor can obtain in the short term. The approach also raises unresolved methodological questions regarding which lines of business or risk types (e.g. health, liability, property) should be included, which would further undermine consistency. Large portions of the underwriting portfolio, such as non-EU exposures or business written outside the scope of corporate reporting requirements, would remain impossible to assess, resulting in inconsistent figures. In addition, the GUR would create a methodology whereby, even where data could be obtained, outcomes would largely reflect the composition of insurers' customer portfolios and their regional concentration, rather than underwriting practices or product design.

Finally, a GUR could create perverse incentives. Because it is constructed as a "green share" metric, insurers might appear encouraged to decline certain risks or client segments in order to improve their ratio, an outcome that would run counter to the social and economic purpose of insurance. Similarly, the GUR could create incentives to adjust pricing structures, for example by increasing premiums for "green" insureds or assets, which could affect the ratio and give rise to unintended pricing distortions, with implications for the perceived neutrality of underwriting practices. In several Member States (e.g. Sweden and Norway), insurers are legally required to provide coverage and cannot refuse clients or risks. This means that not only would such incentives be undesirable, but they would also be impossible to act upon in practice, leading to structural distortions and inequities across jurisdictions.



Implementing a GUR would therefore entail significant costs, system changes and operational burdens, **without any guarantee of improved usefulness or coverage**. It risks excluding economically meaningful exposures, such as retail or third-country risks, and would not lead to a more accurate or actionable KPI for supervisors, investors or insurers.

### **Conclusion**

Insurance Europe calls on EIOPA and the European Commission to **prioritise a pragmatic refinement of the existing UW KPI, rather than introducing new metrics or pursuing a structural redesign**. Given the significant investments already made by insurers in implementing the current framework, addressing its shortcomings should take precedence, particularly in the context of ongoing simplification efforts.

A targeted refinement based on the proposed approach, combined with a voluntary opt-out mechanism, would enhance the KPI's relevance, usability and proportionality. **More fundamental changes or extensions to new activities should only be considered at a later stage**, once the existing framework has been stabilised and demonstrated to function effectively.