

Report on climate-related disclosures by the Technical Expert Group on Sustainable Finance

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1. Do you have any comments on [Chapter 2 “Disclosures under the Directive: Principles and Rationale for Non-Financial Reporting”](#) of the report?

Insurance Europe welcomes that the report is designed to assist companies in developing high quality climate related disclosures that comply with the NFRD and the recommendations of the TCFD while remaining principle based. We support the underlying objectives of ensuring that companies appropriately assess and disclose climate risks and providing information to investors to support informed decisions. It is important that companies retain optionality in their choice of reporting standard and frameworks, methodologies and disclosures and therefore the non-binding nature of the proposed reporting is key. But NFRD guidance can help them make these choices in such a way as to enhance comparability of disclosures in an appropriate and proportionate way.

The insurance sector continues to support a principle-based approach for the updated NBGs to ensure that entities will be able to disclose climate-related information in the way they consider most appropriate and relevant, based on proportionality and materiality.

We note that on paragraph 2.3, the impact of climate change on a company’s business and the company’s impact on climate change are both covered by the NFRD, but the TCFD recommendations only cover financial materiality of the climate’s effect on companies. We believe that the overlap between both frameworks needs to be better described to understand the consequences on the nature of information to be disclosed - clarity is needed on this aspect to streamline the application of the guidance.

In paragraph 2.2, Insurance Europe would like to point out that companies subject to NFRD reporting requirements vary in their risk profile and capabilities to address climate-related issues. The update of the non-binding guidelines (NBD) should reflect this diversity and not put undue constraints on entities – especially those with less experience in implementing TCFD recommendations. They should also take into consideration that the methodologies and KPIs will evolve over time. The updated NBGs should remain a source of relevant and accessible guidance for all companies to promote the improvement of Climate Related Disclosures (CRD) over time. In this regard, we believe that the NBGs should continue to be principle based with a limited number of examples. Furthermore, we do not consider that it would be appropriate to differentiate CRDs in the updated guidelines as it is proposed in the CRD climate report (type 1, type 2, type 3), as it is not clear that this level of prescription adds sufficient value.

Section 2.6 identifies the usefulness of scenario analysis and highlights the different time horizons of companies. However, in order for disclosures to be comparable we note that these would need to be based on the same “Climate Change” assumptions, which may be challenging.

2. Do you have any comments on [Chapter 3 “Alignment of NFRD and TCFD”](#) of the report?

The NFRD framework mentions that the non-financial statement should be included in the management report and we disagree with this. This risks an automatic audit requirement for the non-financial statements and therefore the NBG should avoid using this language and instead make clear that companies can choose where to publish their non-financial statements.

3. Do you have any comments on [Chapter 4.1 “Business Model”](#) of the report?

4. Do you have any comments on [Chapter 4.2 “Policies and Due Diligence Processes”](#) of the report?

5. Do you have any comments on [Chapter 4.3 “Outcomes”](#) of the report?

6. Do you have any comments on [Chapter 4.4 “Principal Risks and Their Management”](#) of the report?

The reports states that [undertakings] may also disclose mitigating actions, such as, hedging strategies and policies put in place to reduce climate-related risks.”. We have concerns about the notion of “hedging strategies” in relation with Climate-risks. Although mitigation actions seem relevant, hedging such a risk seems premature.

7. Do you have any comments on [Chapter 4.5.1 “General and Supplementary KPIs”](#) of the report?

The disclosures in tables 9 and 10 could be made more insightful to stakeholders by aligning the metrics and targets. For example, the energy targets are efficiency and % renewable, however there is no efficiency measure and the renewable non- renewable split is shown differently.

For GHG emissions a combination of total emissions and GHG per turnover provide insightful information not obtainable from either in isolation.

8. Do you have any comments on [Chapter 4.5.2 “Sectoral and Company-specific KPIs: Non-financial Companies”](#) of the report?

9. Do you have any comments on [Chapter 5 “Sector specific Guidance: Banks and Insurance Undertakings”](#) of the report?

Existing NBGs do not include detailed guidance for banks and insurance companies. We note that the CRD report includes only supplemental guidance for banks and insurance. Insurance Europe considers that the NBGs should be kept principles based, include only some specific examples and no detailed guidance for specific sectors which might be considered minimum expectations. We do not believe that the scope of the NFRD warrants the inclusion of specific guidance for banks and insurance companies in the NBGs. We suggest instead that the NBGs include references to other guidance for specialised sectors, such as included in the TCFD.

On tables 15 and 17: insurance undertakings may also engage in investment activities on behalf of their policyholders for example in unit-linked business. The CRD report does not address specifically this type of business. Further work should be done to tailor the disclosures to be provided for such activities and to appropriately reflect the various types of relationship that may exist between the insurance undertaking and policyholders.

Moreover, we continue to be critical to the ongoing grouping of detailed requirements and examples for banks and insurances undertakings. Both business fields are subject to different supervisory regimes due to the particular business models and risks inherent in both banks and insurance undertakings. Consequently, the CRD report should reconsider the decision to group requirements and examples of both business fields in such a high degree of details.

Asset Managers invest money on behalf of Insurance clients and consequently should be included in the disclosure requirements, for example the per mandate disclosures in 5.4 originate from Asset Managers.

In addition, for investors to gain value from disclosures in Tables 15-19 these need to be consistent between companies e.g. the same scenario needs to be used.

10. Do you have any additional comments on the report as a whole?

Insurance Europe believes that the link made on page 5 (table 1) with prudential oversight which mentions that CRD have potential benefits regarding the « evidence of risk control for prudential regulators (stress testing) and control over amount of technical provisions that could be affected by climate-related risk » should be reconsidered. We consider that - prudential concerns should be addressed primarily by the prudential framework – we note that EIOPA’s consultation on Solvency II in this context - rather than through non-financial disclosures.

Furthermore, climate-related disclosures should not pressure insurers to reveal business-sensitive information, as this could compromise competitiveness. Where insurers use scenarios in underwriting weather-related risks, having to disclose too detailed information could potentially undermine the competitive advantage of insurers, stemming from — for example — superior underwriting methodologies and risk pricing. For example, we believe that two KPIs included in table 18 (Total amount of monetary losses attributable to insurance payouts from (1) modelled natural catastrophes and (2) non-modelled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance) and % of life products incorporating climate-considerations in the modelling of biometric risks (Life)) provide business sensitive information. We also propose generally that disclosures have high enough granularities of categories to mitigate the risk of revealing business-sensitive information.

We note that there is much inconsistency of data currently. Addressing this will depend on the completion of the EU work on taxonomy.

The insurance industry also has concerns on the potential overcrowding of annual reports resulting from additional climate related disclosures. The primary objective of companies’ annual reports is to inform their shareholders and other suppliers of capital. We do not consider that annual reports should be used to inform other stakeholders, for example NGOs whose interests are societal rather than company specific. While we express general support for climate related disclosures to be produced by companies on a voluntary basis, these information needs can be satisfied through publication on companies’ web sites, separately from their annual reports. Ultimately, any specific reporting requirement should satisfy a cost/benefit test, considering data availability, resource cost and risk calculations.

It remains important that discretionary reporting will not be subject to audit requirements since non-financial information is often not defined and prepared in the same way as financial data and this will increase costs and pressure companies to produce much more limited set of information.

Finally, it would be helpful to clarify how the report’s recommendations are supposed to interact with various other climate-related disclosure initiatives by the European Commission.