



Insurance Europe Guide to the new EU regulation on Disclosures Relating to Sustainable Investments and Sustainability Risks

Referring to: [Regulation of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector](#)

This document gives a simple summary of the upcoming regulatory requirements for insurers related to the application of the EU regulation on disclosures for sustainable investments and sustainability risks (based on Insurance Europe analysis).

Background - The Regulation on sustainability-related disclosures

On 8 March 2018, the European Commission published its *Action Plan On Financing Sustainable Growth*, containing a wide range of actions that the Commission intends to implement to achieve the EU objectives on sustainable finance. An area of particular relevance for the insurance industry is the work on sustainability-related disclosures. This work was developed under the **regulation on disclosures relating to sustainable investments and sustainability risks**, which was provisionally agreed at political level on 7 March 2019.

The final text of the regulation is expected to be published in the Official Journal of the EU in **December 2019** and it will apply to insurers in 15-month time (March 2021). In parallel, the European Supervisory Authorities (ESAs) are preparing detailed measures (Level 2) to support the requirements in the Regulation (see next steps below).

Overview of key requirements in the Regulation

Who is in scope of the regulation?

The regulation introduces transparency requirements on:

- Insurance undertakings offering IBIPs
- IORPs, manufacturers of pension products, PEPP providers
- Insurance undertakings/intermediaries providing insurance advice with respect to IBIPs
- Other financial market participants

What is in the scope of the regulation?

- IBIPs, including investment products for professional investors
- Pension products, pension schemes, PEPP
- Other investment-related products

What is the regulation about?

The regulation introduces transparency requirements on:

- Integration of **sustainability risks** (SRs)
- Consideration of **adverse sustainability impacts** (ASIs)
- Provision of **specific disclosures** (sustainability-related information) for products with environmental/social characteristics and/or sustainable objectives

There are transparency requirements at entity level, product level (see table below). Specific disclosures are in place for products with environmental/social characteristics and/or sustainability objectives ("sustainable products").

<i>Disclosures:</i>	<i>Entity level</i>	<i>Product level</i>	<i>Sustainable products</i>
<i>on SRs</i>	Yes	Yes	Yes
<i>on ASIs</i>	Yes	Yes	Yes
<i>specific disclosures</i>	-	-	Yes

Some definitions

- What are "sustainability risks"?
 - A sustainability risk (SR) is an environmental, social or governance event or condition that, if it occurs, could cause **a material negative impact on the value of the investment**
- What are principal "adverse sustainability impacts (ASIs)" on sustainability factors?
 - An adverse sustainability impact (ASI) is the impact of investment decisions and advice that result in **a negative effect on environmental, social or governance matters, respect for human rights, anti-corruption and anti-bribery matters.**

What are the requirements at entity level (website publication)?

Insurers need to publish on their websites the following pieces of information on:

- their **policies on the integration of SRs** in the investment decision-making process
- the **consideration of ASIs** in the investment decision
- the **consistency of their remuneration policies** with the integration of SRs

What does it mean consideration of ASIs at entity level?

Insurers need to state whether they consider ASIs of their investment decisions:

- If they do not consider them, they need to provide clear reasons for not doing so.
 - If they do consider them, they need to publish a **statement on due diligence policies on ASIs** indicating the arrangements taken to consider them (policies on identification, prioritisation, indicators, ASIs description and related planned actions), their engagement policies and adopted international standards for due diligence and reporting, if any.
- NB: In 18 months (June 2021), the consideration of **adverse sustainability impacts** will be mandatory for all insurers with over 500 employees on average (or parent companies of groups above this threshold), while for other insurers the consideration of ASIs will remain based on a “comply or explain” approach.
- The European Supervisory Authorities (ESAs) are currently developing detailed measures on content, methodologies and presentation of these requirements (**Level 2 measures**)

What are the requirements at product level (pre-contractual disclosures)?

Insurers need to include in pre-contractual disclosures information on:

- the **integration of SRs** in the investment decisions
- the **consideration of ASIs** in the investment decisions

What does it mean integration of SRs for an investment product under scope?

Insurers will have to describe:

- how sustainability risks are integrated in the investment decisions, and
- the likely impacts of sustainability risks on the returns (based on the results of their assessment)

In case sustainability risks are considered not relevant by an insurer, an explanation should also be provided on why this is the case.

What does it mean consideration of ASIs?

Insurers considering ASIs at entity level will have to:

- explain if a financial product considers ASIs and, if so, how.
- provide a statement that information on the ASIs is available in their reporting to customers.

Insurers not considering ASIs at entity level need to provide a statement that ASIs are not considered and explain why this is the case.

- NB: In 36 months (December 2022), this requirement will apply to all insurers who consider ASIs at entity level. This includes all insurers with over 500 employees on average (or parent companies of these groups). For other insurers the consideration of ASIs will remain based on a “comply or explain” approach.

Is there any specific disclosure for sustainable products?

Yes, there will be additional pre-contractual disclosures for products under scope which have:

- environmental/social characteristics
- sustainability objectives

What are the new requirements for products with environmental/social characteristics?

For products promoting an environmental or social objective, insurers need to disclose:

- how those characteristics are met
 - if an index has been designated as a reference benchmark, whether and how this index is consistent with those characteristics
- The European Supervisory Authorities (ESAs) are currently developing detailed measures on content, methodologies and presentation of these requirements (**Level 2 measures**)

What are the new requirements for products with sustainability objectives?

For financial product with the objective of sustainable investments, insurers will need to disclose:

- For those products with an index as a reference benchmark
 - how this index is aligned with that objective
 - why and how the index aligned with that objective differs from a broad market index
 - For those products without index
 - an explanation on how that target is reached
 - For those products aiming to reduce carbon emissions
 - how this objective is achieved
- The European Supervisory Authorities (ESAs) are currently developing detailed measures on content, methodologies and presentation of these requirements (**Level 2 measures**)

What are the transparency requirements for sustainable products on periodic reports?

The information that insurers have to disclose in periodic reports is the following:

- for products with environmental or social characteristics
 - the extent to which those characteristics are met
 - for products with sustainability objectives
 - the sustainability-related impact of the product (via sustainability indicators)
 - in case an index has been designated as a reference benchmark, a comparison between the impact of the product with the designated index and a broad market index
- The European Supervisory Authorities (ESAs) are currently developing detailed measures on content, methodologies and presentation of these requirements (**Level 2 measures**)

What are the transparency requirements for sustainable products on websites?

For products with environmental or social characteristics and/or sustainability objectives, insurers have to provide the information on:

- the description of the sustainability characteristics/objectives
 - the methodologies used, data sources, screening criteria for the underlying assets and the sustainability indicators used
 - the specific information in the pre-contractual disclosures and in the periodic reports for these products
- The European Supervisory Authorities (ESAs) are currently developing detailed measures on content, methodologies and presentation of these requirements (**Level 2 measures**)

What are the requirements on marketing communications?

The regulation requires that marketing communications are be in line with the abovementioned disclosures.

Next steps

As described above, there are transparency requirements at entity and product levels as well as specific disclosures for sustainable products, ie having environmental/social characteristics and/or sustainability objectives. In this respect, the European Supervisory Authorities (ESAs) are currently developing detail measures on content, methodologies and presentation of these requirements (Level 2 measures) for the areas highlighted in the table below.

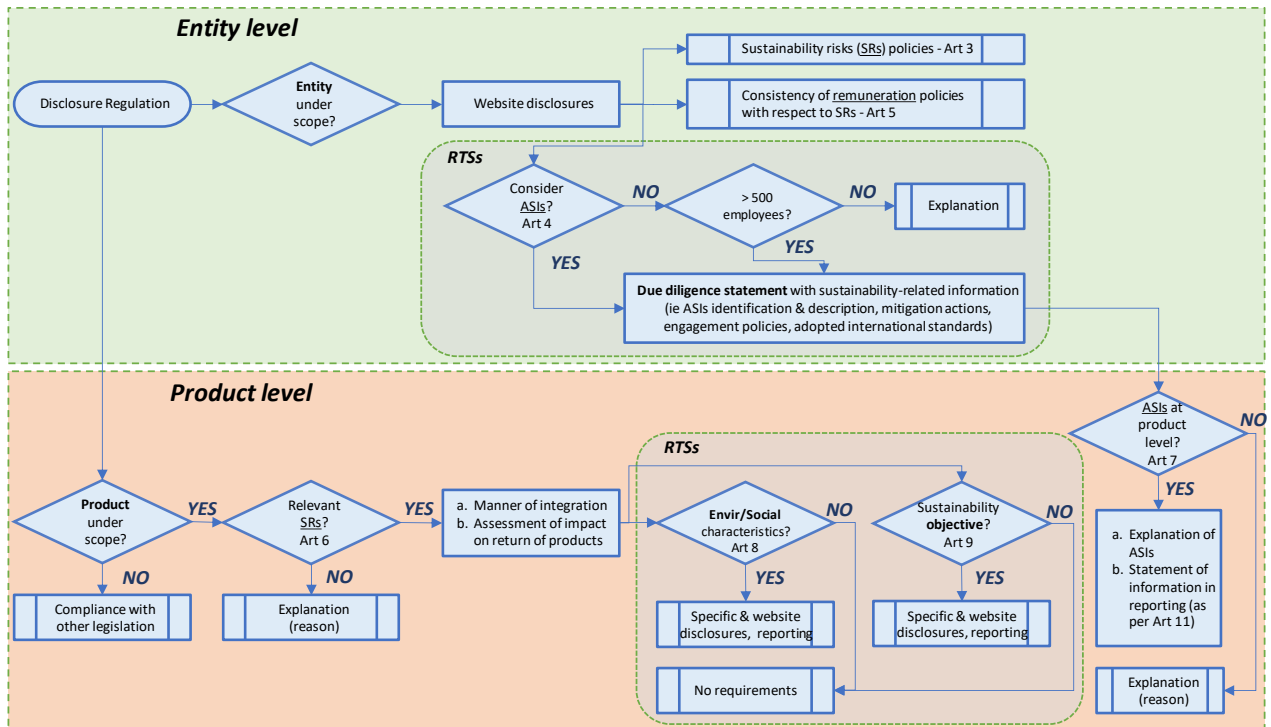
<i>Disclosures:</i>	<i>Entity level</i>	<i>Product level</i>	<i>Sustainable products</i>
<i>on SRs</i>	Yes	Yes	Yes
<i>on ASIs</i>	Yes	Yes	Yes
<i>specific disclosures</i>	-	-	Yes

The ESAs will prepare Level 2 measures for:

- Disclosures at entity level on websites regarding adverse sustainability impacts (ASIs) on:
 - Climate and environment-related matters
 - Social and employee matters, respect of human rights, anti-corruption and anti-bribery matters
- Disclosures for products:
 - with environmental/social characteristics
 - with sustainability objectives

These include pre-contractual disclosures and disclosures in websites and periodic reports.

Annex – Visual Overview of key requirements in the SFDR



This is based on Insurance Europe analysis