12.01.2021

AMICE Response to EIOPA Consultation on its draft advice regarding Article 8 of the Taxonomy Regulation

We believe that the KPIs suggested by EIOPA, together with the adaptations proposed in our response, adequately reflect how an insurance company supports the transition towards a low-carbon economy and the resilience of the society to climate change effects. Therefore, regarding their relevance, we consider that they are able to strike a balance between the need to provide for information that are significant and the feasibility to collect and examine that kind of information.

However, when looking at their usability, we envisage some challenges in their implementation. In light of the legislative framework that has been developed following the publication of the EU Action Plan on Sustainable Finance, and in particular the Sustainable Finance Disclosure Regulation (SFDR - Regulation (EU) 2019/2088) which becomes applicable as of 10th March 2021, we expect indeed consistent efforts to be made by all actors in the “ESG information chain” - such as companies, investors, analysts - to provide for raw and structured information. At the same time, there is also the ongoing review of the NFRD (Directive 2014/95/EU), which will be amended to improve reliability, comparability and relevance of non-financial information.

Hence, we are confident that, after a transitory, initial phase, solid and homogeneous information will be available at all levels.

Question 1: Do you agree that the extent to which insurance or reinsurance undertakings’ ‘assets’ – in relation to ‘total assets’ - are directed at funding, or are associated with, economic activities that qualify as environmentally sustainable is an appropriate ratio?

In principle, all insurers’ assets (both the investments to cover the insurance underwriting liabilities and the assets held for own use) could potentially fund economic activities which qualify as environmentally sustainable under the Taxonomy Regulation. Both types of assets would then be considered to determine to what extent the insurer’s assets are directed at funding economic activities identified as environmentally sustainable under the EU Taxonomy Regulation.

Nevertheless, it is important to consider carefully the assets which should be included in the numerator and the denominator of the proposed ratio. EIOPA should engage further with the industry to determine the eligible investments.

Regarding the denominator, the EU Taxonomy only concerns economic activities. To avoid bias and provide a fair and representative ratio that is properly adapted to the insurance sector we consider that the ratio would be more relevant if the denominator is only composed of:

(a) asset classes eligible to the EU Taxonomy, i.e. equity and corporate bonds, infrastructures and real estate investments;

(b) held on the general account (for further details, see our response to question 2).

Regarding the numerator, several options are possible for counting the investments in taxonomy-aligned activities, as explained by ESMA in its consultation paper on its proposed advice to the Commission regarding Article 8 of the Taxonomy Regulation. In this regard, EIOPA should provide further guidance on how “taxonomy-aligned investments” are defined. Moreover, there should be coherence between EIOPA's recommendations and those of ESMA and EBA as this would foster comparability of disclosures for investment activities by different financial market participants.

Other asset classes such as sovereign, supranational and agency (SSA) bonds should be excluded from the KPI (on both numerator and denominator) as they are not Taxonomy-eligible. Nevertheless, given the significance of SSA bonds in insurers' portfolio, please see our proposal under question 3.

EIOPA should also consider the lack of data availability when proposing the methodology. While companies subject to the Non-Financial Reporting Directive (NFRD) will publish their turnover, CAPEX and OPEX that are aligned with the EU Taxonomy, non-NFRD companies (such as SMEs, non-listed companies and non-EU companies) will not report the necessary data. This will have an impact on the final ratio depending on the methodological choice (considering no data means no alignment or excluding these investments of the ratio or applying a proxy). Therefore, we suggest excluding from the ratio calculation assets invested in companies that are not subject to the NFRD requirements: non-EU companies, financial companies that do not fall under the NFRD scope, companies under the thresholds of the NFRD.

In relation to assets where the information is not available (e.g. information on turnover aligned with the EU taxonomy non disclosed by the company or the asset manager), EIOPA should clarify the methodology to apply: exclusion or application of a proxy.

In order to be able to carry out a calculation over the widest possible scope, we reiterate the importance of developing of a centralized ESG data register that would facilitate building of ESG disclosures and the access to relevant and reliable data at the EU level in an open-source format.

All financial market participants and companies should disclose publicly the coverage rate of their respective KPI.

The KPI should reflect the assets under management at the end of the civil year.

We propose to report a single global ratio that includes all the six environmental objectives defined in the Taxonomy Regulation.

To conclude, in our view the following ratio is the most relevant for the KPI on investments:

$$\frac{\text{Assets invested in Taxonomy aligned activities}}{\text{Total eligible assets held in the general account}}$$

Question 2: If not, would you agree to use the insurance or reinsurance undertaking's 'investments' that are directed at funding economic activities that qualify as environmentally sustainable? Would you differentiate investments held for unit-linked or index-linked contracts?

We believe that a distinction should be made between the assets held on the general account and the investments held for unit-linked contracts.

On one hand, we consider the ratio of investments associated with economic activities that qualify as environmentally sustainable on the general account reflects better the insurer's policy and efforts towards "green" investments. It is the insurer that decides the allocation.

On the other hand, the amount of "taxonomy-aligned" investments in unit-linked accounts rests with policyholders who choose their own allocation and not with insurance companies. For this reason, we consider this ratio is less relevant.

Question 3: Would you propose any additional key performance indicators for insurance and reinsurance undertakings to measure the extent to which the undertaking makes an effort in engaging more in environmentally sustainable activities?

We propose an additional optional KPI based on green sovereign bonds (green SSA bonds/total SSA assets).

Regarding the non-life KPI, see our proposal under question 5.

Question 4: Do you agree to measure the insurers' and reinsurers' insurance activities corresponding to those identified as environmentally sustainable in the EU taxonomy by the proportion of the non-life 'gross premiums written' or - depending on the accounting framework - non-life 'revenue from insurance contracts issued' or 'total insurance revenue'?

Although "gross premiums" may represent a suitable "translation" of the turnover indicator for financial institutions under Article 8(2) of the Taxonomy Regulation, they are not able to adequately reflect the efforts made by insurance companies to combat climate change and consequently, they do not entirely allow to understand to what extent the insurer's activities are directed at covering the risks stemming from climate-related perils and at mitigating the relevant negative effects.

Therefore, as suggested by the European Commission in its Call for Advice and alternatively proposed by EIOPA in its consultation document, we believe that it is appropriate to relate the 'turnover' ratio to non-life insurance and reinsurance underwriting exposure associated with taxonomy activities and to exclude life insurance written premiums.

Non-life insurance and reinsurance have been defined as enabling activities contributing to the objective of climate change adaptation under the draft Taxonomy delegated act. Thus, we believe the indicators required under the NFRD (Article 8 of the Taxonomy Regulation) should be aligned with the technical screening criteria that qualify the alignment of non-life insurance activities under the Taxonomy.

Question 5: Do you see merits in further exploring an alternative ratio that depicts the extent to which non-life insurance or reinsurance liabilities are associated with taxonomy activities?

We suggest including an additional optional KPI which would also take into account the (re)insurers' expenditures on prevention or protection measures. Such an indicator could illustrate the significant contribution of insurance to the environmental objective of climate change adaptation as defined in the Taxonomy Regulation. Climate risk prevention/protection measures, directly related or not to the individual contracts, contribute indeed to the policyholder's adaptation to climate change.

Prevention expenditures could include all expenditures made by the insurer linked to implement prevention or protection measures, for instance modelling/forecasting, expenditures linked to the on-site visit of a prevention engineer, sending of weather alert SMS, prevention campaigns etc.

Moreover, we see merits in further exploring a supplementary ratio, which would allow to better depict the contribution made by motor insurance activities to mitigate the negative consequences of climate related events and/or reduce the gas emissions which exacerbate climate change. Such a ratio could be represented by the proportion of the insured vehicles that integrate distinctive socio-economic characteristics (e.g. vehicle with telematics boxes that help to enhance security, to combat fraud and to promote sustainable behaviours through mileage-based rates; hybrid and electric vehicles that help to reduce CO2 emissions) with the total amount of vehicles insured by the company.

Question 6: Do you agree that when assessing the insurance activities that correspond to environmentally sustainable economic activities insurers and reinsurers may have to apply judgement to determine a reasonable split?

Expert judgment is useful to tackle specific situations and circumstances in a justifiable way, however only when rule-based indicators are unable to capture economic reality and best-in-class transition strategy at the relevant level of granularity.

Question 7: Do you agree that when applying judgement, insurers and reinsurers shall provide a narrative on the split, together with information on the accounting policies used?

As EIOPA pointed out in the consultation document (on page 8), identifying insurance activities that are environmentally sustainable is not always a straightforward exercise. On the contrary, it is a complex and rigorous activity that, especially in its initial phase, requires flexibility and time to build the necessary experience.

Hence, we agree with EIOPA that (re)insurers should be allowed to provide a short narrative on their environmentally sustainable economic activities. This can be of help to illustrate the approaches applied, especially where the underlying portfolio of insurance contracts is too complex to decipher. At the same time, we would suggest avoiding stringent disclosure requirements which could risk to make the narrative explanation excessively burdensome and onerous.

Question 8: Can you provide insights into the prevalence of ancillary services to insurance activities, such as consultancy services, that enable taxonomy-relevant activities and how they are accounted for (e.g. as part of insurance or other revenue)?

Such ancillary services are not that common and probably not significant in this context. Nevertheless, we believe that an additional KPI could explore the expenditures and services of prevention provided by insurers.

Question 9: Do you agree that it is not necessary to distinguish different types of key performance indicators of insurance and reinsurance undertakings or by insurance or reinsurance activities?

We agree that there is no need to differentiate between KPIs of insurance and reinsurance undertakings or by insurance and reinsurance activities.

Question 10: Do you agree that a distinction between non-life and life exposures is necessary?

Yes, we believe it is necessary to have different KPIs for non-life and life exposures to taxonomy compliant economic activities.

Question 11: Do you agree that the retrospective application of the disclosure requirements should be possible, but not required?

We support the possibility to apply the disclosure requirements retrospectively as long as it is not mandatory. At this stage, companies are using different indicators (see our answer under question 12) based on their internal processes on non-financial reporting and their business and sustainability strategies. Therefore, time and flexibility are key for the industry to be compliant with the requirements as set out under Article 8(2) of the Taxonomy Regulation.

Question 12: Can you share your insights into the relevance and usability of the recommended key performance indicators? Which key performance indicators are you currently disclosing or are you using for internal performance monitoring?

We believe that the KPIs suggested by EIOPA, together with the adaptations proposed in our response, adequately reflect how an insurance company supports the transition towards a low-carbon economy and the resilience of the society to climate change effects. Therefore, regarding their relevance, we consider that they are able to strike a balance between the need to provide for information that are significant and the feasibility to collect and examine that kind of information.

However, when looking at their usability, we envisage some challenges in their implementation. In light of the legislative framework that has been developed following the publication of the EU Action Plan on Sustainable Finance, and in particular the Sustainable Finance Disclosure Regulation (SFDR - Regulation (EU) 2019/2088) which becomes applicable as of 10th March 2021, we expect indeed consistent efforts to be made by all actors in the "ESG information chain" - such as companies, investors, analysts - to provide for raw and structured information. At the same time, there is also the ongoing review of the NFRD (Directive 2014/95/EU), which will be amended to improve reliability, comparability and relevance of non-financial information.

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Question 13: Do you have any feedback on the costs of implementing the recommended key performance indicators? To which extent will you be able to use existing processes and data sources?

Regarding the costs of implementing the recommended KPIs, if the non-life KPI is limited to the scope defined in the delegated act on the technical screening criteria for non-life insurance, insurers will be able to implement this reporting at reasonable costs using existing data sources. However, if the non-life KPI is broader and requires an assessment of the policyholders' compliance with the Taxonomy, it will be extremely burdensome.

We envisage that a company will have at least to sustain the following costs:

- Costs for a consultancy service aimed at providing support to identify the correct insurance guaranties to be considered when identifying the insurance activities as taxonomy-compliant;
- Costs for a data providing service aimed at measuring carbon-related assets included in the Corporate portfolio;
- Costs related to the implementation of IT updates and developments mainly with respect to the subscription, claim and asset management software.

Regarding the data sources, although financial and non-financial companies have the same timeline to comply with the Taxonomy Regulation, financial institutions will not have access to the investee companies' data on the first year of reporting. The narrative and the flexibility given to insurers to use proxies or previous years' data is even more important in that context.

Regarding the application timeline, we suggest that 1st January 2022 is the start of the reference period meaning the first reporting on the KPI will be in 2023. This would be in line with the SFDR Regulation and would give insurers sufficient time to develop reporting processes.