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Response to the EIOPA consultation on the draft advice to the European Commission under Article 8 of the Taxonomy Regulation

11 January 2021

INTRODUCTION / SUMMARY

Disclosures under Article 8 of the Taxonomy Regulation will serve as a basis for developing the Taxonomy related disclosures by financial market participants. Their appropriate calibration is important to ensure that the EU Taxonomy Regulation delivers on its objectives.

We suggest to harmonise corporate disclosures deriving from Art. 8 of the Taxonomy Regulation to the farthest extent possible. This would contribute to the enhanced consistency and comparability of information for investors and other information users. Reporting companies would also benefit from clarity on how to prepare the disclosures.

Overall, we are of the opinion that the approach followed by EIOPA reflects well the specificities of insurance and reinsurance undertakings' business models. We also understand the reasoning followed, aiming for the best equivalents of the mandatory ratios of non-financial undertakings, as set out by Art. 8 of the Taxonomy Regulation, being turnover from the EU Taxonomy aligned activities and CAPEX and OPEX linked to the EU Taxonomy aligned activities. However, we are **concerned that the approach taken would result in metrics which are not sufficiently comparable with those proposed by ESMA for the asset management industry**.

While in both cases one of the metrics is intended to reflect assets invested in the EU Taxonomy aligned activities, the underlying components seem to differ (e.g., regarding the inclusion of assets for own use). Moreover, in case of EIOPA, the metric is seen as the CAPEX / OPEX equivalent, while in case of ESMA, the metric is seen as the equivalent of turnover in case of non-financial undertakings. This could result in comparing apples with oranges which could eventually result in misleading fund disclosures on their alignment with the EU Taxonomy economic activities.

In terms of process, we regret that EBA has not launched a fully-fledged public consultation on the Art.8 Taxonomy-related KPIs for credit institutions. Running the respective consultations in parallel by the European Supervisory Authorities would have been helpful to better inform our thinking and ensure a consistent approach.

RESPONSES TO SPECIFIC QUESTIONS

Q1: 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?

We agree in principle with the suggested approach focused on a proportion of insurance or reinsurance undertakings' assets which are directed at funding, or are associated with, economic activities that qualify as environmentally sustainable.

However, we believe there is a need for consistency in the approach taken with respect to asset managers and banks. In its consultation paper ESMA followed a very different approach towards CAPEX / OPEX. We understand that in line with ESMA's proposals, CAPEX / OPEX would rather be a sum of the underlying investee companies' respective CAPEX / OPEX disclosures.

We understand the rationale behind EIOPA's suggestion to include in the ratio intangible assets and assets held for own use, such as office buildings. However, we would like to flag that ESMA suggested not to include investments in intangible assets and assets held for own use seen as not sufficiently significant. We believe that it would be useful to adopt a consistent approach.

To sum up, we agree that a proportion of insurance and re-insurance undertakings' assets directed at funding, or associated with economic activities that qualify as environmentally sustainable, in relation to 'total assets' would be an appropriate ratio. At the same time, we are calling on EIOPA, ESMA and the EBA to adopt a consistent approach with regards to the KPI for asset managers and banks and other credit institutions to the largest extent possible.

Q2: 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?

Please see our response to question 1, where we support the approach suggested by EIOPA to consider all assets as a basis for the KPI. Furthermore, we agree that there is no need to differentiate between unit-linked or index-linked contracts.

Q3: 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?

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Q4: 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'?

In principle, we agree with EIOPA's suggestion to measure 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'. Such approach seems to well reflect the specificities of insurers' and re-insurers' business models. However, this should be restricted only to those non-life insurance products insuring economic activities which qualify as sustainable under the EU Taxonomy regulation as a way to mitigate climate change. Examples of such products are, for example, renewable energy insurance or Photovoltaic (PV) warranty insurance.

At the same time, we are concerned about the insufficient consistency with the approach followed by ESMA.

In its Consultation Paper on Article 8 Taxonomy-related disclosures, ESMA suggested a proportion of asset managers' investments in collective portfolio management as the main KPI. Meanwhile, regarding CAPEX and OPEX, ESMA suggests that asset managers combine CAPEX and, if relevant OPEX, of the underlying investee companies. While ESMA has considered KPIs based on revenue, or return on investment (e.g. a ratio of fees from Taxonomy-aligned investments over the total fees accrued by the asset managers) as an alternative, it concluded that a share of investments or assets under management ('AuM') based approach would provide investors with more meaningful information.

We understand the underlying reasons for both approaches and we also understand that the business models are not the same. However, we believe that more consistency is needed especially for activities which are relatively comparable (e.g. investments / assets management). A more consistent approach is also needed with regard to CAPEX and OPEX equivalent metrics.

Q5: 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?

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Q6: 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?

We agree with the suggested approach. As pointed out by EIOPA, a split of the premiums that can be allocated to Taxonomy-relevant activities and those that are not can be quite complex in reinsurance contracts where the underlying contracts may not be known.

However, we would advise caution regarding allowing using a proxy in case the underlying portfolio of insurance contracts is deemed too complex. We are concerned it could open the possibility for greenwashing. From its onset, the EU Taxonomy has been intended to be a tool to measure the environmental sustainability of economic activities and therefore of financial instruments.

Allowing to use a proxy or a coefficient (as suggested in the draft ESMA's advice) would be in contradiction to this objective. In our response to the ESMA's consultation on Art.8 Taxonomy-related disclosures, we strongly advocated against a use of an industry coefficient arguing that two companies from the same sector can have a very different Taxonomy-alignment.

Q7: 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?

Yes, we agree with the suggested approach. To be meaningful, quantitative indicators often need accompanying information, especially in case of a novel and rather complex tool as the EU Taxonomy. We understand that especially in the initial years, companies are likely to be using different methodologies. In particular, the mandatory ratios should be accompanied by relevant disclosure about the accounting policies applied, Therefore, additional explanations will be useful to investors to understand what is behind the figures.

Q8: 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)?

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Q9: 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 with the proposed approach given that the main business activities of insurers and reinsurers tend to be the same, both providing cover against risks and maintaining investments to fund claims.

Q10: Do you agree that a distinction between non-life and life exposures is necessary?

We agree with the proposed approach.

Q11: Do you agree that the retrospective application of the disclosure requirements should be possible, but not required?

Yes, we agree with the EIOPA's suggestion. Indeed, requiring retrospective application of the disclosures seems disproportionately burdensome and would be difficult to produce for the reporting companies. Normally companies first need to set up their IT and reporting system and gather the data throughout the reporting year to produce reliable disclosures. However, we agree that **voluntary retrospective application should be allowed**.

Q12: 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?

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Q13: 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?

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