PAN EUROPEAN INSURANCE FORUM
PEIF

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Cc: Ms. Mairead, McGuinness, Commissioner-designated for Financial Services, Financial Stability and Capital Markets Union.
Mr. Raffaele Mauro Petriccione, Director-General, DG CLIMA
Mr. John Berrigan, Director-General, DG FISMA
Mr. Gabriel Bernardino, Chairman of the EIOPA
Mr. Diederik Samsom, Head of Cabinet of EVP Frans Timmermans
Mr. Michael Hager, Head of Cabinet of EVP Valdis Dombrovskis

21 September 2020

PEIF's views on the European Commission's Renewed Sustainable Finance Strategy

Dear Executive Vice-President Timmermans, Dear Executive Vice-President Dombrovskis,

As the Pan-European Insurance Forum (PEIF), we appreciate that the European Commission has made the European Green Deal its growth strategy and now a key driver of the EU recovery plan from the Covid-19 crisis. These unprecedented times present a major opportunity for the EU to be at the forefront of long-term sustainable and climate-resilient growth.

Against this backdrop, the PEIF welcomes both the increase in pace and ambition of the EU sustainability agenda as well as the move from the Action Plan on Financing Sustainable Growth to the Renewed Sustainable Finance Strategy. The PEIF deems the EU's objective to achieve a broad transition and transformation of the economy towards a sustainable, low-carbon future as essential.

As CEOs of the major European (re)insurers, we recognize that our companies play a vital role in financing the transition and supporting societal resilience to climate change. Welcoming the possibility of providing feedback to the European Commission's Renewed Sustainable Finance Strategy, we take this opportunity to share with you our considerations on the following key aspects: data, measurement, effectiveness, investment opportunities, risk assessment and the prudential framework.

1. **Data**

We appreciate the efforts of creating appropriate tools to enhance the financing of sustainable investments. In particular, we support the establishment of a public, centrally accessible, cost-free database for sustainability data. This would significantly improve the flow of information between reporting entities and users along with the comparability and consistency of company data.

A database of this nature should provide the data source for investors and companies to fulfil the upcoming disclosure requirements under the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR) and the (future) Non-Financial Reporting Directive (NFRD).

In addition, it should also include information regarding the factual use of proceeds collected through green, social and sustainability bonds to increase the transparency about financed projects and the effectiveness of investments.

2. **Measurement**

In order to steer sustainable investments successfully and to achieve a broad low-carbon transition of the economy, we believe that non-financial company disclosure should also cover straightforward climate-related KPIs which provide information on core business transformation activities. This should include forward-looking statements and targets as well as sector-specific KPIs. Doing so would greatly facilitate engagement activities between investors and companies.

We further believe that there is an urgent need to align the above-mentioned different pieces of disclosure legislations and their corresponding timelines to avoid liability risks for financial service providers, and confusion for investors. The revision of the NFRD provides an excellent opportunity to align and improve the availability, quality and comparability of non-financial information. In this context, we welcome the establishment of an EFRAG task-force mandated to develop non-financial reporting standards. The standards application by 2023 at the earliest is, however, likely to slow down the take-off of the Green Deal. Moreover, while we appreciate the EU initiatives in this regard, a high degree of data comparability can only be achieved via international standardization. The EU should hence focus on a maximum degree of international alignment regarding non-financial reporting and encourage engagement by the IFRS foundation accordingly.

3. **Effectiveness**

A broad and effective transformation can only be achieved if politics, the real economy, the financial sector and civil society work closely together. More precisely, we believe that while transition goals should be measurable, comparable, clear, well communicated, and ambitious, they should also be achievable and fair. The Nationally Determined Contributions (NDCs) are key instruments to scale up the transformation; ideally, they would specify clear sustainable transition pathways with associated time-bound metrics, including for specific industries/sectors.

Furthermore, we encourage policymakers to enact legislation requiring markets to price externalities correctly, such as through a realistic CO2 price for emissions. Ultimately, this will be essential to stimulate the transition in the real economy. In parallel, the explicit and implicit subsidies for fossil fuels should be diminished gradually. The financial sector needs clarity on the regulatory, tax and investment strategies for the next 10, 20 and 30 years to minimize transition risks.

4. **Investment opportunities**

We appreciate the EU intended involvement of private investors and the plan to leverage EU guarantee schemes for sustainable investments. However, we believe the current lack of relevant projects is a key issue which is largely driven by national barriers such as onerous planning requirements, slow approval processes, as well as challenging regulatory and legal environments in many emerging and frontier markets. Moreover, the current approach to classify "sustainability" (via Taxonomy Regulation, Ecolabel for financial products, etc.) seems to focus on a deep green niche only. This extremely limits the eligibility of projects and investments. Given the lack of suitable sustainable investment opportunities, the right incentives are needed to stimulate a sustainable transformation of the economy and thus lead to increases in the supply of sustainable projects. In that context, we welcome the European Commission's work on the development of an EU Green Bond Standard particularly to ensure proper deployment of proceeds. This would indeed further enhance transparency, enable investors to measure the real deployment of their investments in sustainable projects and limit "greenwashing" behaviour. We also hope that Member States and sub-national entities would also make use of the standard to greatly increase the volume and frequency of green bond issuances.

5. **Risk assessment**

Risk analysis and the necessary changes to reduce and manage climate and environmental risks are areas where we as insurers can help with our expertise. However, public authorities are also critical stakeholders. A clear framework to identify activities that enhance policyholder resilience is needed as a reference for underwriting decisions. In this context, it is important to understand the loss projections to assess whether additional private initiatives or public policies are needed to reduce the risks. We believe the EU should first focus on an enhanced availability, usability and comparability of climate-related loss and physical risk data, notably for long term horizons, across the EU and beyond. Access to standardized and robust data will enable a better understanding of risks, facilitate the risk transfer with appropriate product offerings or public/private partnerships and hence contribute to resilience.

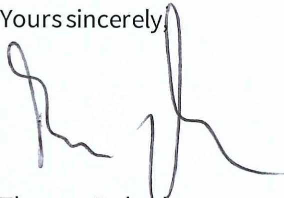
6. **Prudential framework**

As regards financial stability, we appreciate that the Solvency II review takes into account the new economic environment and the objectives of the European Green Deal. Solvency II includes the obligation to consider all relevant risks, including emerging risks from climate change in the risk management process. As such, this approach echoes proposed amendments to the Solvency II Delegated Regulation regarding the integration of sustainability risks in the governance of (re)insurance undertakings. Under Solvency II principles, capital requirements must reflect the financial risk of underlying exposures. We believe that introducing lower/higher capital requirements for "green"/"brown" assets could lead to unintended consequences (e.g. bubbles in "green" investments as investors rush to pursue the limited number of qualifying green assets). We therefore do not support the introduction of "green supporting" or "brown penalizing" factors to specific asset investments as an appropriate mechanism to support the transition pathway and alternatives should be considered. In this context it remains important that the overall Solvency II framework is conducive to and reflects the long-term nature of insurance products and investments, including appropriate long-term guarantee measures to address artificial balance-sheet volatility, which facilitate European sustainable growth and investment in the real economy.

To conclude, most of the PEIF companies contributed to the consultation on the Renewed Sustainable Finance Strategy either on a stand-alone basis or through associations as we are all deeply committed to the

transition towards a more sustainable future. We obviously stand ready to provide our expertise and to meet you and your staff to further discuss topics around sustainable finance.

Yours sincerely,



Thomas Buberl
Chairman of the Pan-European Insurance Forum

About the Pan-European Insurance Forum (PEIF)
PEIF is an informal forum for the CEOs of major European insurers (Aegon, Allianz, AVIVA, AXA, Generali, MAPFRE, Munich Re, RSA, Swiss Re, UNIQA, and Zurich) to exchange and present views on policy and regulatory issues amongst themselves and with others. PEIF companies represent around two-thirds of the STOXX® Europe Insurance.

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