ACTUARIAL ASSOCIATION OF EUROPE

Sustainable finance – update on the recent delelopments

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Sustainable finance – overview

- EU is strongly supporting the transition to a low-carbon, more resource-efficient and sustainable economy. EU has also been at the forefront of efforts to build a financial system that supports sustainable growth. The main landmarks:
  - UN 2030 agenda and sustainable development goals
  - Paris climate agreement → 40% cut in greenhouse gas emissions, investment gap €180 billion per a year.
  - European Green Deal → Europe the first first climate neutral continent by 2050
    - the European Green Deal Investment Plan (Jan 2020) which will mobilise at least €1 trillion of sustainable investments over the next decade. It will enable a framework to facilitate public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy.
- Sustainability related reporting reguirements are developing fast track in EU and the insurance sector has been bit worried on the speed and unawareness. Delegated regulation on regulatory technical standards (RTS) being drafted including a wide set of new demands. Also methodologies for EU climate benchmarks and disclosures for benchmarks are being developed.
- HLEG has been active and a stakeholder (virtual) dialoque (presentation slides) was held on 12th March with 16 000 participants. **Taxonomy** and the **green bond standard** where the main topics.

Sustainable finance – what are the different work streams and where we are right now?

	May 2019	June 2019	July 2019	Aug 2019	Sep 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020
Taxonomy – new directive		First TEG proposals for climate-related criteria 18 June 2019		Finland seeks agreement during its presidency				TEG 2nd report on taxonomy criteria and guidance on its use					
Benchmarks regulation review (EU)2016/1011					TEG final report 30 Sep 2019	Published in the EU Official Journal. Implementation 30 Apr 2020->			Work on Level 2 standards				
Disclosure requirements – new directive						Published in the EU Official Journal. 15- month implementation period begins							
UCITS/AIFMD - Level 2													
IDD - Level 2									UCITS/AIFMD, IDD and MiFID II Level 2 standards consultation expected in April-May 2020.				
MiFID II - Level 2													
EU Green Bond Standard proposal		TEG final report 18 Jun 2019											
NFRD* - review		Commission guidelines on reporting climate-related information 18 June 2019									NFRD review in 2020		

*Non-financial Reporting Directive

taxonomy

- A lot of development has been made on taxonomy documentation, excel tools etc.
- Agreed in EU in Dec 2019 but final EU parliament approval still pending – implementation scheduled for 12/2021
- For insurers having the ability to report how its investments meets the taxonomy criteria is a question mark.
- Insurers need a lot of information from the variety of asset it has been investing and this is not there yet
- Requires new skills for insurers or anyone responsible for providing the taxonomy based reporting information
- The update (taxonomy 2.0) plan considering also circular economy, waste protection, usage of water etc. – criteria 12/2021 and implementation 12/2022

AT A GLANCE

The EU Taxonomy is a tool to help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy.

The Taxonomy sets performance thresholds (referred to as 'technical screening criteria') for economic activities which:

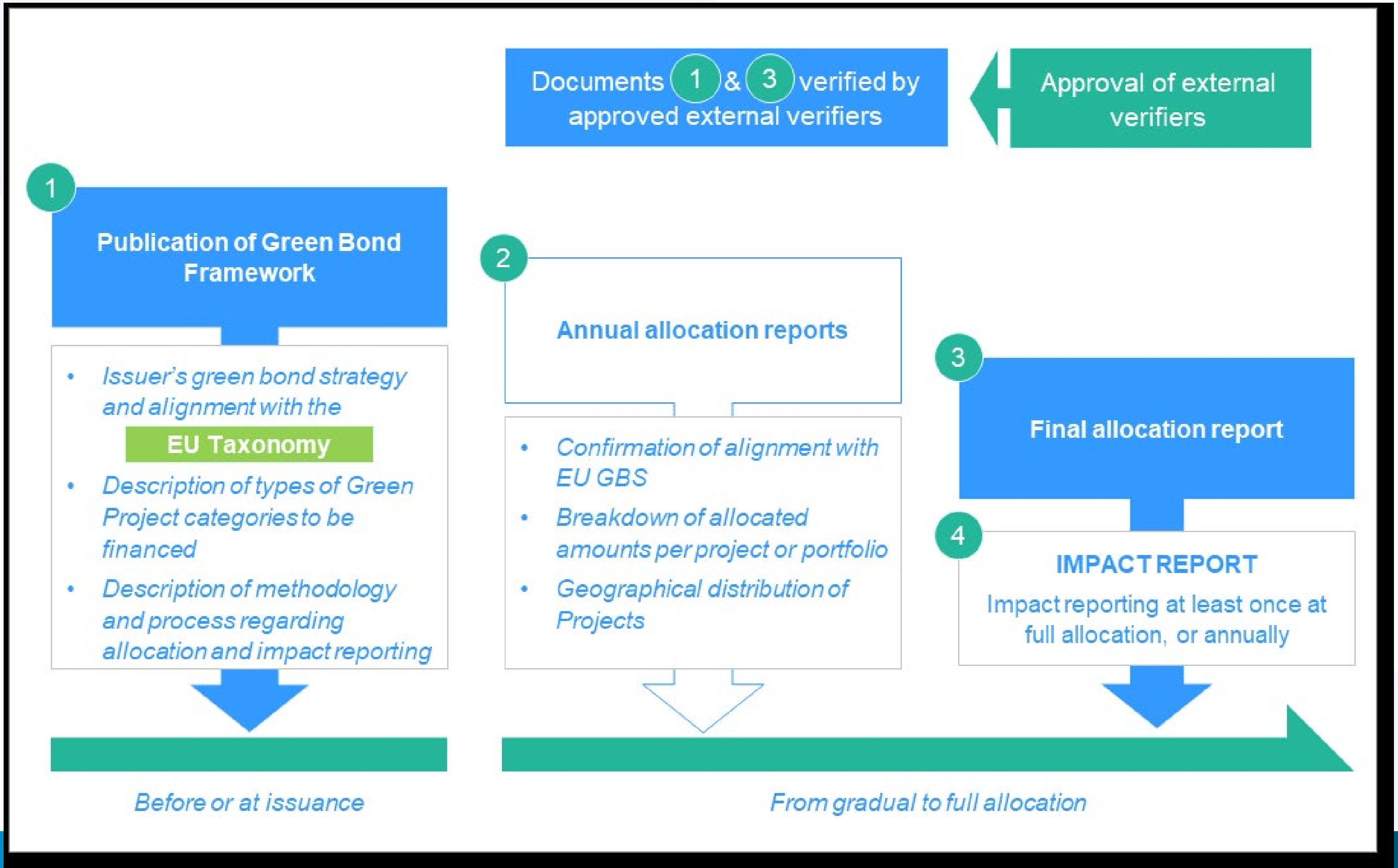
- make a substantive contribution to one of six environmental objectives (Figure 1);
- do no significant harm (DNSH) to the other five, where relevant;
- meet minimum safeguards (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).

The performance thresholds will help companies, project promoters and issuers access green financing to improve their environmental performance, as well as helping to identify which activities are already environmentally friendly. In doing so, it will help to grow low-carbon sectors and decarbonise high-carbon ones.

The EU Taxonomy is one of the most significant developments in sustainable finance and will have wide ranging implications for investors and issuers working in the EU, and beyond.

Green bond standard (GBS) – the proposed model which is planned to start on voluntary basis

- The alignment of the use-of-proceeds with the EU Taxonomy;
- The content of a Green Bond Framework to be produced by the issuer;
- The required Allocation and Impact Reporting; and
- The requirements for external verification by an approved verifier



Sustainable finance – Why this is of IC's interest?

- The investment side has a lot of developments going on the EU side – to have an understanding of this help to be on track when sustainability related reports and business practises flows widely to insurers
- Actuaries might be closely related on the different reports insurers provide – also purely sustainable finance related issues (Asset reports, non-financial reporting) might require the attention from actuaries working in the insurance company.
- In Solvency II only soft requirement was brought in on sustainability at the first stage – but even bringing this to ORSA might be a major work. Also stress tests are assumed to start including in future also the sustainability related scenario
- When any updates on requirements relating to information provided for insurance customers (PRIIPS, IDD) are put in place then also new and holistic understanding on this subjects will be needed
- The assumption is that sustainability will be more and more part of all of the insurance business. Therefore the general understanding is needed for all employees and deep understanding from many of the experts
- The ways actuaries analyse and bring awareness of risks is of key with sustainability – this understanding will be needed across the insurance business – pricing, reserving, ALM, Risk management etc.

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