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Responses and feedback to: Consultation Paper on EIOPA's advice regarding Article 8 of the Taxonomy Regulation

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Actuarial Association of Europe

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- ○ yes
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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?

NO. The insurance or reinsurance undertakings' total assets include assets which don't represent business or funding activities as such and, thus don't fully determine an adequate basis for the undertaking's potential contribution to environmental objectives. This includes receivables from policyholders and intermediaries, cash receivables, immaterial assets (e.g. self-developed software) as well as accruals amongst others which don't have an environmental footprint. Therefore, such assets should be excluded.
Instead of using 'total assets' we suggest using the 'investments' as this determines a more appropriate basis.
With regard to funding activities, at least three asset ratios should be computed depending on insurance activities they relate to: life unit-linked, life non unit-linked and non-life.

Question 2

If you do not agree with the use of 'assets', 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?

YES. The ‘investments’ of an insurer determine an adequate basis. Index-linked and unit-linked assets should be differentiated.
Unit-linked and index-linked investments should be disclosed in separate KPIs.

In UL-products, the policyholders bear investment risk and will select investment funds depending on their risk appetite and ESG preferences.
In non UL-products, the insurance undertaking bears the investment risk. The assets will be managed by the insurance undertaking with priority given to the interest guarantee.

Even if the policyholders select investment funds depending on their risk appetite and ESG preference, the ESG criteria will be secondary and will not be able to put the interest guarantee at risk.

We suggest to disclose KPIs based on total investments and on investments excluding index-linked and unit-linked assets. This might be disclosed as “thereof position”, i.e. ‘thereof excl. unit-linked and index-linked assets’).
Motivation for disclosing both ratios is that companies may at least to some extent contribute to environmental objectives with their pre-selection of funds / assets when making these available to policyholders. A full exclusion of unit-linked assets does not seem to be reasonable since in addition, companies may exercise indirect control over unit-linked assets by specifically promoting taxonomy-aligned assets and hence increase the ratio based on unit-linked or index-linked assets.
Furthermore, a company with ‘green’ assets may be considered more sustainable than another company with ‘brown’ assets even though these are unit-linked or index-linked assets.
Also, the fee income for unit-linked products typically depends directly on the performance of the underlying funds and thus the insurance company is indeed exposed to the risk that the underlying funds include non-sustainable assets. These might perform inferior to sustainable assets and would thus have an impact on the fee-income.

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?

YES. In a first stage, we support a focus on key indicators. A more direct measure – which better reflects the actual effort of an insurer with regards to its investment assets in a certain period –for non-life as well as life business may be the ratio of new investments/reinvestments in sustainable taxonomy compliant investments to total new investments/reinvestments. “New investments” is an established term in asset management.

This ratio of environmentally sustainable new investments could also be considered as suitable proxy to the environmentally sustainable turnover for life insurance (see also answer to Q12, Q14 below).

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’?

YES. This approach seems to be appropriate. However, we strongly recommend adjusting the criteria regarding environmentally sustainable insurance activities. (see also answer to Q12, Q14 below).

In a first step, indicators on insurance activities should not be recommended. It should be possible to gradually ensure the transformation of insurance products by measuring the impact on the future un-insurability of certain risks.
Before moving forward, there is a need for a clear taxonomy on social and governance aspects together with a thorough impact assessment, In a clear regulatory context including the related S2 framework, it will then be possible to design new products that meet ESG criteria globally.
It then makes sense to develop indicators on insurance activities next to investment activities. Life and health insurance coverage should also be captured next to non-life insurance activities.
Pure premiums give the best representation. However, details on acquisition costs, commissions and management fees are not available at a sufficient granular level. So gross premiums are an acceptable proxy.

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?

NO. Gross premiums are appropriately representing the business activities of non-life insurers.

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?

YES. Judgment should be disclosed in a transparent way. In terms of coverage, Nat Cat is apparently the most obvious one but sustainability criteria can be included in pricing of other coverages by appropriate incentives (e.g. energy efficient property, sustainable mobility, sustainable investments as underlying items for savings,…). Although judgment is inevitable, the usage should be minimised. “Due effort” should be demanded to achieve this goal.

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?

YES. Without a narrative the applied judgments would not be comparable. The description of an approach taken and forward looking perspectives should also be disclosed in an appropriate and proportionate way (facilitating a simple, understandable and efficient communication).

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)?

We note the existence of ancillary services but they are not subject to a separate pricing and no data is available at this stage. The relevance might differ across countries, depending on national regulations. E.g. the German Insurance Supervision Act (VAG) prohibits providing and receiving money for non-insurance services. Hence such services - if existent - are always closely connected to insurance business and such business is not material for German 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?

YES. Life and non-life key performance indicators comprise the relevant business activities of reinsurers as well.

Question 10

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

YES. Non-life exposures can be sustainable or not. In contrast, life exposures are always related to human life. See also answers to Q1 and Q4.

Question 11

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

NO. There should not be any retrospective disclosures since the criteria were not in place and this would result in a disproportionate cost with no added value.
Thus, comparability of disclosed data between undertakings is not given.

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?

Most indicators are still under implementation. Regulators and governments should foster the development of a worldwide applicable standard which is comparable and consistent to the EU Taxonomy particularly to increase data availability and quality.

Insurers might also use KPIs related to the Sustainable Finance Disclosure Regulation (SFDR, “Transparency Regulation”, EU 2019/2088), e.g. to report on the portion of sustainable products (article 8 and 9 of SFDR). Such a portion could be expressed as portion in relation to the premium amount and would determine a KPI regarding turnover for a life insurance undertaking. When using this KPI it needs to be understood that the definition for an environmentally “sustainable investment” according to the SFDR (art. 2) deviates from the definition in the taxonomy regulation (art. 2).

KPIs currently used refer to the GRI (Global Reporting Initiative). In the future KPIs suggested by the PSI (Principles for sustainable insurance) might be used as well
However, the mentioned KPIs lack an important aspect:

They are applied individually (or by a limited group of undertakings) and are not availably consistently throughout the entire insurance landscape – which is a clear advantage of the EU taxonomy regulation.
(see also answers to Q14)

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?

As actuarial association we cannot assess this impact reliably.
The indicators are relatively straightforward but the classification depends on the final RTS on taxonomy and need further testing and impact assessment on existing business. Those KPIs can result in major impacts on strategy and reputation for undertakings. This requires an appropriate transition for some business activities and partners of the insurance industry.
The implementation costs can be significant and will result in higher premiums for policyholders, which should be assessed together with the risk of providing too much and irrelevant information.
Next to impact at undertaking level, impact at sector level should be assessed together with insurability gap and policies evolution. This is where the Environmental & Social objectives would interplay.

Please provide any further comments and feedback:

General remark on turnover/revenue/premium in the context of insurance and the contribution of economic activities through premiums:

Insurance premiums are contributing to different economic activities, whereof two are most important: (a) risk coverage, (b) investments. Depending on the type of insurance, the two activities have varying relevance:
- Life savings and pension products (unit-linked or not) are focusing on investments,
- Pure risk life insurance is focusing on risk coverage, but has a certain investment activity through the actuarial reserve fund as well
- Nat Cat insurance is mostly focusing on risk coverage (short tail)
- Liability insurance has both, risk coverage and investments (long tail)

As a summary, one could simplify that life insurance has a material focus on investments and non-life insurance has a material focus on risk coverage. Consequently, the turnover KPI could be simplified to be based on the respective economic activity depending on the type of insurance business. In fact, this is what the consultation paper is proposing for non-life insurance.

For life insurance, a turnover KPI is missing. We acknowledge that disclosing a turnover KPI for life insurance based on insurance premiums which refer to taxonomy-compliant investment activities is too burdensome for life insurers, we propose disclosing the 'new investments KPI' as mentioned in our answer to Q3.

Remark on environmentally sustainable portion of revenue/premium in non-life insurance:
We acknowledge the proposed framework given through the current draft of the technical screening criteria including annex I and II (EC 20 Nov. 2020). However, we are afraid that a turnover KPI in non-life insurance based on the current draft Delegated Regulation would not foster the development of environmentally sustainable insurance products – due to the following reasons:
- We understand that (in the current draft) basically all premiums related to Nat Cat risk coverage will be considered environmentally sustainable ("enabling climate change adaption"). In principle, all other premiums are not considered as environmentally sustainable.
- As a consequence, the economic activity of providing liability insurance coverage for wind or solar power plants or the motor third party liability (MTPL) or motor own damage (MOD) insurance for electric Cars is not sustainable. However, the activity of providing Nat Cat insurance coverage for a fossil fuel driven vehicle is considered sustainable (as long as the vehicle is not used for the extraction, storage, transport or manufacture of fossil fuels).
- The currently proposed turnover KPI for non-life insurance will therefore be rather constant throughout the upcoming years – except for a slow increase as Nat Cat risks increase through climate change. It will be hard to communicate that insurance undertakings are unable to ever reach near 100% sustainable turnover. The ability for non-life insurers to take action and to increase the taxonomy-aligned turnover is limited and would require extraordinary actions which are not intended (e.g. not selling liability insurance anymore). This may lead to several non-sustainable and thus not intended consequences:
- Investors might tend to avoid investing in insurance undertakings as they do not increase their sustainability portion of their turnover (this might remain on a lower level).
- Insurance undertakings might be tempted to try to increase Nat Cat coverage, even for insured objects such as buildings that are not exposed to emerging Nat Cat risks (e.g. river flood zones etc.) – which would be contradictory to climate change adaption.
- Insurance undertakings are not engaged to enable environmentally sustainable economic activities (such as operating wind or solar power plants or developing and providing innovative products fostering the transition to a carbon neutral economy) through offering liability insurance– as this does not improve their sustainable turnover KPI.
- To be more specific: Whether an undertaking is granting liability insurance to a fossil power plant or a wind power plant would not have an impact on the proposed sustainable turnover KPI.

Contact

Contact Form