French Insurance Federation

POSITION PAPER

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COMMENTS OF THE FRENCH INSURANCE FEDERATION (FFA) ON THE EUROPEAN COMMISSION CONSULTATION ON RENEWED SUSTAINABLE FINANCE STRATEGY

The European Commission's consultation on the renewed sustainable finance strategy highlights issues of great interest to the insurance industry regarding the sustainability and financial resilience of the economy, companies and citizens. With over 2600 billion of assets under management in France, insurers have a great potential to contribute to the green and sustainable transition. Insurers have a key interest in long-term sustainable investment to back liabilities towards their clients. Insurers investment strategies aiming at matching long-term liabilities with investments that generate long-term returns. The long-term time horizon strongly benefits to sustainable investments.

The insurance industry agrees that significant investments are crucial to enable a just transition at the national and European level. It believes the following key topics can help to speed up the shift in the finance sector as well as mainstreaming sustainability.

Increasing the supply of long-term sustainable assets

1) Favoring long term investment

The prudential framework governing insurers has built mechanisms making difficult for insurers to hold long term assets.

Regarding capital requirements, the FFA underlines this framework should remain risk based. Capital requirements should reflect the actual risk associated. Hence, capital requirements on green and sustainable investment products should also reflect the actual risk. It should not be set artificially lower to promote such products with no justified difference in the underlying risks.

2) Developing instruments fitting institutional investors' needs through public incentives and risk mitigating measures

Besides the strong interest and willingness of insurers to invest in long-term and sustainably assets, there is a lack of suitable long-term projects in a format that fit institutional investor's needs. Appropriate incentives must be implemented to stimulate the transformation to a more sustainable economy. This would increase the volume of green and sustainable investments. For instance, public sector incentives and risk mitigating measures such as public guarantees or co-financing would be effective for institutional investors.

3) Providing the right political incentives

The FFA believes future regulatory developments uncertainty generate further inhibits long-termism. Long-termism requires a stable and reliable regulatory set-up. Achieving the Paris Agreement objectives cannot solely rely on financial actors' divestments such as coal-intensive sectors. The energy mix of the future economy should be clearly decided at the most appropriate political level to deal with. Furthermore, appropriate strategies and cohesive transition plans should also accompany social impacts and other risks, such as stranded assets or green bubbles.

Reaching the mainstreaming of sustainability in the financial sector in an affordable, simple and streamlined way

One of the main challenges for the financial sector is to reach the mainstreaming sustainability objectives in an affordable, simple and streamlined way.

1) The prudential framework already enables insurers to integrate sustainability risks

The **Solvency II framework already provides tools to integrate sustainability risks in the management of insurance companies** through the Own Risk and Solvency Assessment (ORSA). The delegated Regulation amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings, by introducing explicit references to sustainability, will help to strengthen the integration of sustainability risks into the Solvency II framework in a consistent and efficient manner.

2) The Taxonomy and Disclosures Regulation are welcomed as they establish a common framework, but their implementation will require massive human and IT resources

The FFA supports the **need to establish a common framework to facilitate sustainable investment**. To that end, the FFA welcomes the European consultation on green bonds and fully supports the establishment of a European standards as well as the EU regulation on Taxonomy and on Disclosures. While the industry is supporting the overall approach, **the FFA would like to highlight the need of a massive expertise in human and IT resources to screen portfolios** with a broader scope to assess the technical screening criteria, the Do Not Significant Harm "DNSH" principles and the principal adverse impacts on sustainability.

3) Resolving the ESG data issue will help to effectively implement the sustainable finance regulation

To implement these encouraging new regulations, the FFA urges the European Commission **to resolve the issue of accessibility to ensure a publicly accessible, free-of-cost, reliable and comparable ESG data. ESG data should be standardised and based on the materiality principle.** The **review of the Non-financial reporting Directive (NFRD)** is very welcomed to that end: a meaningful, consistent and comparable ESG reporting from companies will help investors to consider impacts on sustainability and to allocate capital efficiently towards the EU sustainability objectives when making investment decisions. However meaningful information means also material information. Materiality of disclosures is one of the fundamental principles that should be distinctly stated in the future directive revision.

The FFA supports the **establishment of a centralised and digital EU register for ESG data.** Such tool could help to resolve ESG data issues only if existing reporting channels and requests (from the European Union, national authorities and ESG rating agencies and data providers) are streamlined. The insurance industry also supports **the establishment of a centralised and digital EU register for Environmental, Social and Governance (ESG) data**. Allowing an affordable centralised access to reliable, comparable and standardised ESG information, in line with ESG requirements under the NFRD, the Taxonomy and Disclosures regulations, is essential to conduct proper ESG analysis and to identify potential adverse impacts while limiting costs. It should help to achieve better comparability, increased transparency, lower costs, as well as helping data preparers by eliminating multiple requests for information. This would generate an efficient and unified playing field and improve data quality and availability while limiting costs as much as possible.

However, such centralized database has only interest if:

(i) it eliminates the current number of different requests for information,

(ii) it guarantees an efficient and unified non-financial level playing field,

(iii) it improves quality while limiting costs as much as possible and

(iv) the data sharing does not harm companies' competitiveness by requiring a disclosure on confidential or sensitive data.

Ensuring that listed and non-listed companies are required to submit public information through a single reporting channel is of utmost importance to reduce the administrative burden for companies. That would require streamlining existing multiple reporting channels. On this point, the FFA believes digitalization and tagging are key drivers.

The implementation could be on a limited number of indicators on a first step to assess the relevance, the efficiency and costs of such a tool. The FFA supports the inclusion of the NFRD disclosures on the first stage of this register focusing on disclosures necessary for investors' reporting under the Regulation (EU) 2019/2088 on sustainability-related and the Regulation (EU) 2020/852 on Taxonomy.

The FFA also believes such common, public, free-of-cost ESG database could help to improve issues regarding ESG rating agencies. Above the fact that it is crucial to counterbalance the US agencies overweigh of ESG ratings and data providers which do not always reflect the European approach to sustainability, eg regarding the "ESG double materiality" concept, this will facilitate data exchange and interoperability between stakeholders. Consequently, it will strengthen ESG ratings quality and relevance regarding investment decisions.

4) A brown taxonomy could lead to cutting off the financing for activities that may actually need financing to transform

Regarding the so-called "brown taxonomy", the French insurance industry main concern is to ensure that it will not unnecessarily restrict the investment universe as well as not accelerating existing sustainability risks, such as those for stranded assets, green bubbles and transition risks. Therefore, the FFA believes that the development of a brown taxonomy could lead to cut off investments towards activities that need financing to transform their business model. Thus, it presents the risk to do not serve transition's objective. Moreover, penalising investments in environmentally harmful activities may be detrimental to companies that are on a transition path but carry on activities, which are, by definition, still brown today. This may have adverse consequences on a social level, while not be efficient in reducing brown activities as the latter may still find other sources of funding (self-funding; third-country investors).

The FFA suggests to the EU to carry on its positive approach by encouraging all sectors participation to the sustainability transition: the green taxonomy already excludes certain sectors and the DNSH principle would also exclude certain activities from being defined as green. The FFA believes the EU should be focus on the green taxonomy implementation

5) **Fostering finance professionals training and education concerning the sustainable finance**

Finally, integrating sustainable finance literacy in the training requirements of finance professionals is decisive to reach the mainstreaming of sustainability.

Mobilising retail investors towards sustainability

1) **Increasing the offer of sustainable products**

French insurers are fully mobilized to develop the offer of sustainable products as well as including broadly ESG factors in their investment strategies.

However, the industry would like to highlight the lack of clarity when defining “sustainable products” under the Disclosure Regulation (article 8 and 9), especially to apply those definition to multi-options products. The FFA believes the development of labels will increase clarity for clients (see section 3 below).

The suggestion of a sustainability default option has to be cautiously taken. This would be on the client interest only if it fits three prerequisite conditions:

(v) the product must meet suitability test of the client,

(vi) it should be available at a comparable cost, and

(vii) the distributor should have such product available.

Regarding this third condition, given the lack of clarity concerning the sustainable product definition, the market depth should be carefully analysed before requiring such a default option.

2) **Ensuring a balanced level of ESG information**

Inflation of client reporting does not serve the objective of clarity and significantly increase management costs, which is not in the client interest. In the coming years, standardized information and client reporting will have to be rationalized to deliver the most accurate transparency level that answers clients’ needs regarding their ESG preferences. The FFA urges the European Commission and the European Supervisory Authorities (ESAs) to assess the usefulness of the ESG information delivered to clients at financial products level in regards of the burden that requires to financial market participants. The FFA believes that ESG financial disclosures should draw inspiration from what is done with general consumer products. Consumers can rely on labels regarding responsible consumption and very simple information with no details on technical underlying analysis. A similar approach with a simple communication should be implemented for financial products. The European Commission should keep the objective of clarity for end-investors in mind in the coming months.

On that topic, the idea to disclose a temperature portfolio could appear as a very attractive option to express in a simple way the portfolio alignment for retail clients. The French insurers are working on this metric, but the industry believes such a requirement would be premature. Indeed, methodologies are still at their infancy and there are serious uncertainty concerning whether portfolio performance can be summarised into a single temperature metric (e.g. 2°C, 3°C) in a technically robust way that avoids producing misleading results. Nowadays, existing methodologies only cover a small part of insurer’s portfolios. Due to improvement and changes, methodologies can vary significantly from one provider to another as well as from one year to another. The industry believes such information is not mature enough to be communicated to retail investors. However, the FFA welcomes the support of the EU to help developing methodologies for investors and credit institutions to that end.

3) To develop labels and certifications schemes

The European level is the most appropriate to safeguard transparency and comparability for sustainable financial assets and financial products. The FFA encourages the European Commission to broader ESG labels, to cover the variety of sustainable issues and of client's ESG preferences, beyond the EU ecolabel that only covers environmental issues. However, too numerous labels could not serve the interest of clarity for end-investors. A broad and unique label able to cover a range of thematic issues could be very useful. This label should apply to both professional and retail investors at the European level. Indeed, the European level is more cost effective and it would be easier to implement it in all Members States rather than seeking to obtain various national labels. This is also consistent with the CMU objectives.

4) To increase financial and sustainability literacy

The mobilisation of retail savings towards sustainability must be proceeded together with an increase of financial and sustainability literacy of EU citizens. Policymakers should stimulate cooperation between Member States to integrate sustainable finance as part of existing school programmes. This can be part of a wider effort to raise awareness about climate action and sustainability could support this objective.

In conclusion, the FFA welcomes the consultation and supports the Commission's work to further engage with stakeholders through the European green Deal in order to "finance the green". The need of European legislation on this subject is real, however the FFA raises concerns about keeping clarity and an intelligible articulation between all the sustainable finance EU legislations.

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