Additional comments on the EC consultation on the renewed sustainable finance strategy

Belgian insurance companies actively support the European Green Deal and Europe's objective to promote investments into sustainable projects and activities. The sector is ready to contribute to the financing of sustainable projects and has placed a key focus on this since several years. However, the Belgian insurance sector is also concerned about the role insurers can play in contributing to the development of a green economy. Insurance is an important aspect of the economy as it provides financial protection for unforeseen events. As such, individuals and businesses are less exposed to risk, which results in an increase of economic and social activity. The importance of insurance for developing a green economy is likely to increase in a future that faces negative outcomes caused by global warming.

Insurance follows a risk-based approach for developing underwriting and investment activities. In relation to the financing of sustainable activities, it is sometimes challenging to provide clear and reliable answers to questions without knowing the specific risks. Often more concrete data and information are needed to allow for a correct evaluation of the underlying risks. Therefore, the European Commission is asked to continue working proactively with real and concrete data and scenarios. Reference is made to the chosen approach for Better Regulation, as mentioned in the doc 2015/2089(INI): *"Improving Single Market regulation is delivering a competitive regulatory environment. A Single Market which does not over-burden or frustrate production, innovation and commerce. It is a shared responsibility to adhere to the guiding principle of subsidiarity when deciding whether to act; to decide how best to act if regulation is needed; and ultimately to ensure that the measures and obligations devised are simple and applied effectively and efficiently in order to achieve the agreed policy aims."*

The Belgian insurance sector fully supports the proposed strategy for sustainable finance and believes that effective work is now needed across the entire policy cycle of sustainable finance in order to avoid inconsistencies, overlaps, duplication and legal uncertainty. The urgency of the situation is recognised and progress should be made. However, expertise work on sustainable finance challenges is often highly technical and requires time and expertise to master. Therefore, key regulatory changes should be properly assessed to avoid undesired negative consequences of well-intentioned measures.

The Belgian insurance sector firmly supports a step by step approach because the key for a successful green transition is to keep the measures comprehensible for all stakeholders. For the economy and society to properly act, a clear long-term pathway towards a green economy should be clearly identifiable and quantifiable.

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This also holds true for insurance companies which need to be able to properly assess the risks and return of investments and insurance cover provided to support the transition to a green economy. These principles should be reflected in the sustainable finance regulation's agenda and implementation timeline.

Annex

As additional comments cannot always be provided, or in a limited frame, some key concerns regarding this consultation are highlighted below.

Especially, the attention is drawn to question 7 which relates to specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making.
For Belgian insurance companies, regulatory obstacles currently hindering the further development of sustainable finance relate to:

1. Prudential regulation/ Solvency II:
   Currently, the excessive capital requirements for investments in long-term bonds, loans and equity significantly limit insurers' possibilities to invest in sustainable projects and activities. Indeed, for the coming years, it is expected that an important part of the financing of the projects will be developed under the form of equity, corporate bonds and loans. Therefore, adaptations to the prudential requirements are needed in the context of the 2020 Solvency II review in order to allow insurance companies to contribute meaningfully to the financing of sustainable projects and SME's.

   Capital requirements for equity, long-term bonds and loans should however not be adapted in a way that disproportionally advantage green/sustainable projects without considering the related risks, while penalising other, less sustainable projects. Capital requirements related to sustainable projects and activities should reflect a risk-based approach and consider the actual risks associated with the investments. If the risks related to sustainable investment projects are significantly lower (or higher), the capital requirements should reflect this in a fair and transparent way.

2. IFRS 9 financial reporting requirements:
   Difficulties arise for insurers in the accounting treatment under IFRS 9 of equity instruments which are not held for short-term profit extraction such as trading activities. Equity investments in sustainable projects and activities are a good example because these investments are usually held on a long-term horizon and not for trading. Under IFRS 9, such investments

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should not be valued according to the (default) fair value through profit and loss method but according to the fair value through other comprehensive income (FVOCI) method. Through FVOCI, IFRS 9 provides a mechanism to avoid price volatility from distorting the P&L account - by keeping the short-term volatility within the OCI part of the accounts. Using FVOCI is a very important mechanism but, under the current IFRS 9, if insurers use FVOCI, they will not be allowed to recognise any of the realised gains from equity investments in the P&L. This 'recycling' prohibition creates a significant barrier to long-term equity investments, such as in sustainable projects.

Just as for bonds, a removal of the 'recycling' prohibition is also needed for equity under IFRS 9 in order to allow insurers to show their capital gains upon the sale of the equity instruments. Only then the IFRS results will show the true financial performance. If the realised results of long-term equity investments cannot be fully shown in the P&L, insurers will not invest in these assets (sustainable or not).

3. Possible introduction of a Financial transaction tax (FTT):
If European decision-makers would decide to introduce a financial transaction tax for investments in equity, this would significantly impact Belgian insurers' interest and possibilities to increase their equity investments in sustainable projects and activities. The FTT would create an important barrier for insurers to invest via equity in the real economy, a barrier to further broaden the CMU and a real barrier for insurers to contribute to the financing of the transition towards a sustainable economy. It is therefore proposed that, if the FTT would be introduced at the European level, all equity investments covering pension obligations of insurance companies would be exempted from this tax.

Furthermore, concerning question 10 on the disclosure of temperature scenarios in relevant portfolios, Belgian insurance companies actively support the European Green Deal and Europe's objective to promote investments into sustainable projects and activities. The Belgian insurance sector supports the idea of disclosing temperature scenarios for future investments and new insurance products.

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