Response of the Association of German Public Insurers[1] to the

"Call for feedback on TEG report on EU Taxonomy"

of the European Commission's Technical Expert Group on Sustainable Finance

The Association of German Public Insurers (VöV hereafter, Verband öffentlicher Versicherer) welcomes the consultation on the TEG report on EU Taxonomy[2]. As Germany's **second largest primary insurance provider** with a strong regional presence, the group is committed to constructive dialogue in the interests of all market participants and of a stable European and global insurance sector.

General remarks on Sustainable Finance

The VöV strongly supports **voluntary and market driven approaches to even further incorporate sustainability** into the business models of insurers. German public insurers already offer a range of sustainable insurance products, disclose their sustainability aspects and align their investment with respect to environmental, social and governance (ESG) criteria. The VöV notes that voluntary, market driven developments are key to build a more sustainable financial sector. Best practices and facultative guidance on a holistic treatment of ESG factors are therefore welcome, whereas mandatory and inflexible rules would potentially be significant obstacles to strengthen sustainability in the insurance sector, in particular for small and medium-sized companies. The VöV supports an open approach that allows for **sufficient flexibility in strengthening ESG considerations** on a voluntary basis. This openness is essential to help insurers of all sizes to succeed in this endeavour. Rigid rules would be a significant burden and **proportionality will be a key factor.**

[1] The Association of German Public Insurers (VöV) is the umbrella organisation of the German public insurance companies and a corporation established under public law. Founded in 1911, it represents 11 primary insurers across Germany that are deeply embedded in their regions. The group is the second-largest primary insurance provider in the German market, with more than EUR 140 billion of investments under management, thereby making a significant contribution to the European economy. The group is committed by law to support the public good. It has 52 million insurance contracts and pays out EUR 18 billion each year to its clients.
The public insurers employ 30,000 people. Through 17,500 own branches and offices of their partners, they offer advice and protection across most insurance sectors (health, life, pension, motor, indemnity, fire, etc.) for retail clients of all income groups and for professional clients, with a specific focus on small and medium-sized companies.
The Association of German Public Insurers represents the interests of its members at the national and the European level through its head offices in Düsseldorf and Berlin and its liaison office in Brussels.

[2] https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en#190618

Strictly align capital requirements with the risk of investments

The introduction of a "**green supporting factor**", in effect lowering the capital requirements for environmentally sustainable investments, has been suggested repeatedly in the course of the debate on sustainable finance and in the Action Plan of 8 March 2018. The VöV explicitly reject this proposal in this form. Capital requirements serve to strengthen financial stability and are based on the risks of an investment. Classifying an investment as environmentally sustainable gives no indication as to the risks of a project. Lowering capital requirements for environmentally sustainable investments without precisely analysing the associated risks is dangerous from a financial stability perspective and not appropriate.

German Public Insurers are also categorically **opposed to increasing capital requirements** for economic activities that are classified as not being environmentally sustainable ("**brown penalizing factor**"). While disadvantaging other types of investment, this approach would not even foster green investment. It would also influence other policy areas that the European Union has identified as priority areas and would conflict with the objectives of these policy areas. Furthermore, European companies would be put at a clear disadvantage in global competition.

Ensure proportionality and do not overburden insurers

The VöV sees the taxonomy as helpful tool and important **common language for financial products marketed as sustainable**. It will help to avoid greenwashing and potentially create a global standard for sustainable financial products. The scope of the taxonomy is therefore quite clear. After a transition period with non-binding guidelines, it should be mandatory for all products made available as sustainable. Providers of general financial products should be able to use it on a voluntary basis. For this reason, **insurers that do not offer financial products marketed as sustainable must by no means be required to disclose according to the taxonomy**. The disclosure regulation already sets out extensive disclosure requirements and the scope should not be extended. Further obligations would be a bureaucratic and unproportional duplication, in particular for small and medium-sized companies.

The VöV advocates **a grandfathering clause** for all financial products that were marketed as sustainable before the applicability of the taxonomy. Whereas new products should follow the taxonomy, it would be unproportional to change existing ones that were classified as sustainable with respect to other sustainable criteria and metrics that existed before the taxonomy.

Specific remarks on the TEG consultation[3]

Part 3. Usability of the taxonomy

Q1. *Do you expect to use the Taxonomy in your business activities in the short term (1-3 years) or long term (4 years or more)? If yes, please indicate when (short term or long term) and specify the activities for which you will use the Taxonomy.*

The VöV expects that insurers will use the taxonomy in the **medium to long term**, **once market practices are established**. It is essential that issuers of bonds, stocks and other assets provide sufficient, standardised and easily available information to enable insurers to use the taxonomy. If compiling sustainability data of assets remains burdensome, markets will not use the taxonomy on a voluntary basis. Issuers of assets should therefore have standardized ways to disclose their sustainability characteristics with respect to the taxonomy. The burden should not lie on the insurer to gather information that might not even be publicly available. Furthermore, issuers must be liable for the taxonomy data they provide.

Q2. *Can the Taxonomy be made more useful for disclosures related to your specific financial product? This question covers only financial products where disclosure obligations are foreseen by the Taxonomy proposal. If yes, which specific financial product(s) did you have in mind? How could the Taxonomy be made more useful for Insurance-based Investment Products?*

Insurance-based investment products (IBIPs) are usually based on the general capital stock of the insurer. Solvency II and other legal requirements set a specific regulatory framework for investment strategies and eligible investments. Insurers are therefore obliged to hold low-risk assets, in particular sovereign bonds, agencies, supranationals and other issuers under public law - often with long maturities. However, the taxonomy does not include these issuers, who are major contributors to CO_2-reduction, climate change mitigation and adaption. Given the comparatively large share of these assets hold by insurers, IBIPs suffer from a comparatively disadvantage vis à vis other investment products based on different asset classes. The VöV therefore suggest **excluding not considered sectors from taxonomy calculations**. Given the low interest environment and the favourable financing conditions of the public sector, the emissions of green sovereign bonds will not increase sufficiently to meet the demand. The market of green sovereign bonds will therefore remain limited and the offered maturities do often not fulfil the requirements of the insurance companies to cover their liabilities. Furthermore, existing sovereign bonds with a long maturity are typically hold until the end for regulatory reasons, so a quick exchange for green bonds is not possible.
The same arguments apply to covered bonds that are frequent on the German market and play an important role in insurers‘ balance sheets.

***Q3**. Can the Taxonomy be made more useful for your investment decisions in different asset classes? How could the Taxonomy be made more useful for other assets?*

See the answer to the previous question.

[3] The VöV focuses on the use and the future of the taxonomy and gives no feedback on the sectoral sustainability screening criteria in part 1 and 2 of the consultation.

***Q4**. Is it sufficiently clear when the entire activities of a company or other entity should be considered as Taxonomy eligible (revenues or turnover) and when only expenditures by companies or other entities should be considered Taxonomy eligible? If no, it is not sufficiently clear, please specify how this could be made clearer.*

The VöV suggests that **companies that issue assets have to disclose this information**, as they have the best access to the data necessary. For the asset management of an insurer it would be too burdensome to compile this information and it is not efficient to go ahead this way because it does not guarantee comparable assessments. For a successful and widely used taxonomy, it is therefore essential that application is straightforward, that data of assets are easily available and that liability questions of classifying assets are solved. These arguments hold in particular for small and medium-sized companies. At least for European companies, the VöV suggests to establish an EU-wide open register in which the investee companies could enter their taxonomy-related data. This would enable a uniform disclosure, which is easy to use for investors and at the same time prevents that investors depend on ESG research or rating companies. However, this would only be a first step, as the register only covers companies and the EU and therefore a fraction of the investment universe.

***Q5**. What practical tools or measures could be developed to facilitate the implementation of the taxonomy by financial actors? Please specify what these tools would be used for and provide sufficient explanation on how they can help to implement the taxonomy.*

For the start of the taxonomy, the VöV suggest to have **non-binding guidelines for a limited time** to help **create market practices**. During that period, it is likely that concrete best practices will evolve in the course of time.. In this first phase without established standards, regulators should not hold providers of financial products in the scope of the taxonomy to be liable for potential misclassifications. It is therefore essential, that there are consistent standards for the provision of taxonomy-related data by investee companies once the taxonomy is fully applicable.

***Q6**. What practical tools or measures could be developed to help non-financial companies assess what share of their economic activities is taxonomy-eligible?*

Not applicable.

We are looking forward to continuing the fruitful exchange on sustainable finance and we remain at your disposal for further questions.

Contact details

Dr Christian Schwirten
Head of Department Political Affairs
E-Mail: christian.schwirten@voevers.de
Phone: +49 30 22 605 49-22

Berlin office
Friedrichstraße 83
10117 Berlin
Phone: +49 30 22 605 49-15

Dr Wolfgang Eichert
Head of EU Representative Office
E-Mail: wolfgang.eichert@voevers.de
Phone: +32 2 736 97 34

Brussels office
Avenue des Nerviens 9-31
1040 Brüssel, Belgien
Phone: +32 2 736 97 34