

Position on the European Commission's Inception Impact Assessment

“Sustainable finance – obligation for certain companies to publish non-financial information”

8 September 2020

The Association of German Public Insurers¹ welcomes the consultation on the delegated act required under Article 8 of the Taxonomy Regulation (EU 2019/2088). 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 Comments

Sustainability is of utmost importance for all public insurers. They have signed up to the “Principles for Responsible Investment” and take environmental, social and ethical principles into account when making investment decisions. Market-driven approaches play an important role when it comes to supporting the transition to a more sustainable economy. As major investors, public insurers create an enabling framework for sustainable investments. Nevertheless, decisions to carry out sustainable projects are taken by the real economy. In this light, expectations on the contribution of financial market participants should be realistic. Moreover, to increase sustainable investments of the real economy, a significant CO₂-price with a clear development path would be an efficient instrument. All attempts to foster sustainable finance by increasing transparency should go hand in hand with measures to strengthen sustainable projects of the real economy.

¹ The Association of German Public Insurers (Verband öffentlicher Versicherer, VöV, www.voev.de) is the umbrella organisation of the German public insurance companies and a corporation established under public law. Founded in 1911, it represents 10 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 144 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 18.4 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 Berlin and Düsseldorf and its liaison office in Brussels.

Comments on reporting of non-financial undertakings

German public insurers fully support the approach to use the Non-Financial Reporting Directive (NFRD) to compile the real economy data necessary for sustainability reporting. Standardized, high quality data is particularly important for the reporting obligations of the Sustainable Finance Disclosure Regulation (SFDR). The delegated act of the Taxonomy Regulation should require investee undertakings under the scope of the NFRD to disclose all the data needed in terms of the SFDR. The data of investee objects for all mandatory indicators of the SFDR should be available in a standardized public database. In addition, the reporting needs to be done in an electronic way and directly feed into this database. This is also the best way to ensure the quality and comparability of the data. An individual, direct collection of data from the invested companies by each financial market participant is neither appropriate nor efficient. Furthermore, the timelines for the application of the delegated act and the reporting requirements of the SFDR must be aligned. Financial undertakings under the scope of the SFDR highly depend on standardized high quality data provided within the scope of the NFRD. An application of the SFDR reporting obligations before the delivery of data of investee objects puts the quality of disclosure and comparability for consumers at risk.

Comments on reporting of financial undertakings

Reporting requirements should be based on existing best practices (such as disclosure according to the “Principles for Responsible Investment”). They should be proportionate and easy to comply with for companies of all sizes. Furthermore, consistency of all Sustainable Finance disclosures is the key for their credibility and acceptance by investors, in particular retail investors. Different data sets would be confusing and put the success of these important endeavours at risk. Given the comprehensive disclosure obligations for insurers according to the SFDR and Solvency II, the required data of Article 8 of the Taxonomy Regulation is already available, for both life and non-life insurance.

For life insurance, the SFDR already guarantees full transparency of financial undertakings and additional disclosure creates no value added. If there were needs by investors for further information, these requirements would have been considered directly in the SFDR. Therefore, introducing new obligations for financial market participants under the scope of the SFDR by means of Article 8 of the Taxonomy Regulation would contradict the SFDR. Article 8 defines the reporting requirement as “*information on how and to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of this Regulation*”. As investing the customers’ premium payments is an essential part life insurance, the requirements of Article 8 of the Taxonomy Regulation are already fulfilled with the SFDR disclosure. Additional data are therefore neither necessary nor useful.

For non-life insurance, the final report of the European Commission’s Technical Expert Group states on page 572 of the technical annex: “*Such insurance represents an important element for climate change adaptation since it does not only support risk sharing but is also working throughout the risk management cycle (identify, analyse, plan, implement and evaluate) and*

the disaster management cycle (prevent and protect, prepare, respond and recover)". Non-life insurance, and in particular residential building insurance, contributes significantly to climate change adoption. The Technical Expert Group thus identifies a number of non-life insurance lines of business that are Taxonomy-eligible. Furthermore, public insurers provide innovative loss prevention techniques such as disaster warning systems for the public. In light of the recommendations of the Technical Expert Group, data on the aggregated share of eligible lines of business are sufficient to comply with Article 8 of the Taxonomy Regulation. These data, which are readily published in annual reports of insurers according to the Solvency II framework, provide a full view "*on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable*". Additional disclosure is therefore not needed.

Concluding Comments

Proportionality as key principle plays an important role for Sustainable Finance. Article 8 of the Taxonomy Regulation and the corresponding reporting obligations refer to the scope of the NFRD and thus apply for companies with more than 500 employees. This threshold has proven to be adequate to ensure proportionality and public insurers suggest to maintain it in the upcoming review of the NFRD. A potential change of the threshold in the future would contradict the intention of the Taxonomy Regulation, which considered proportionality and set the requirements for companies with more than 500 employees.

We are looking forward to continuing the fruitful exchange on Sustainable Finance.

Contact details

Dr Wolfgang Eichert
Head of EU Representative Office
e-mail: wolfgang.eichert@voevers.de
Phone: +32 476 83 09 71

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

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

Berlin office
Friedrichstraße 55
10117 Berlin
Phone: +49 30 22 605 49-15