GDV – German Insurance Association

Further information and comments: Online survey to consultation on the renewed sustainable finance strategy

General comments

The new strategy for financing sustainable growth should define realistic expectations for the financial sector as a key, but ultimately only accompanying actor in providing the necessary investments of over 260 billion euros annually. Providing pensions and covering private and entrepreneurial risks remain the essential tasks of the insurance industry. Sustainability goals are supported by the insurance companies, but are given second place as a supplement. The focus must remain on financial stability and the fulfilment of the promise of benefits to policyholders, without jeopardising this through non-risk-based capital regulations (Green Supporting or Brown Penalizing Factor).

All players must work together to implement the strategy for financing sustainable growth. This applies equally to the financial and real economy, because a sufficient supply of sustainable investment opportunities is a prerequisite for sustainable investment. A steerable CO_2 price is therefore a key approach. A significant CO_2 price, with appropriate lead time and a reliable development path, would create strong investment incentives in the real economy. Public risk sharing for sustainable projects via development banks and other incentives can further increase the supply. It is also essential to further promote the provision of adequate, comparable and standardised sustainability data on the real economy via a central, EU-wide, publicly accessible and electronic data register that is free of charge.

The EU Commission has an important role to play in ensuring that the implementation is practical and proportionate for SMEs. The scope and frequency of sustainability reporting must be adapted to company size, business model and risk profile. The synchronisation of sustainability reporting in terms of content, format, timing and frequency of disclosure obligations should be further strengthened. Duplication or inconsistencies between global standards and European regulations as well as national solo efforts in sustainability reporting must be avoided. Before the European measures are applicable and evaluated, national legislators and supervisors should be careful with their own plans.

The risk management of insurers should take into account environmental, social and governance (ESG) factors with existing instruments, which may need to be expanded - additional tools are not required. Interventions in underwriting for reasons of non-risk ESG considerations would lead to duplication of risk management tools. Underwriting takes place in a two-stage process with premium calculation on the basis of economic risks on the one hand and a reputation-oriented ESG assessment, taking into account the insurer's individual sustainability strategy on the other. These two steps are subject to different motives and must be strictly separated.

Please see following comments

- **to questions for which no provision is made for a reply in text form**
- **or further comments on questions / information / links to studies**

	Question	Answer in Online Survey	Additional comments to answer in response form
4	Would you consider it useful if corporates and financial institutions were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?	Yes, both	What other steps should be taken: Instruments established on the market should be further strengthened. Under no circumstances should regulations prevent companies from making their own voluntary efforts to achieve climate targets. Moreover, the contribution of companies to the Paris targets would increase significantly if the CO2 price were to be increased. Overly rigid standardisation of climate reporting does not do justice to the many and varied sustainability strategies of companies.
10	Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?	No	To date, no sufficiently robust methodology is available. The UN-convened Net-Zero Asset Owner Alliance is working on an approach to this, in liasion with the TCFD. An EU-wide methodology should draw on this and other multi-stakeholder approaches. Eventually, a temperature methodology might be useful to monitor, steer and compare assets and portfolios if fundamental methodology questions can be solved (e.g. aportioning of carbon budget to regions/sectors etc.) However, it should be borne in mind that not only large, but also medium-sized and smaller insurers will be able to meet the potential requirements. The principle of proportionality should be respected. It should be taken into account that costs involved place a disproportionate burden on small and medium-sized insurers.
15	According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation?	Yes	As this is a company-specific question we are - as an association - not in the position to answer. However, we would like to take note that insurers as providers of insurance against climate related hazards carry out economic activities that substantially contribute to the environmental objective “climate adaptation”. This insurance against climate related hazards is recommended by the TEG as a taxonomy-compliant activity (see TEG report financial and insurance activities).
16	Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which	No	We agree that financial reporting (FR) requirements can have a direct impact on the way in which investment decisions are made and, therefore, recognize the general importance of reviewing whether current FR requirements may have unintended consequences in this regard. Still, while the fact pattern for and formulation of Question 16 implicitly suggest that

	may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?		respondents are concerned about the current FR requirements in light of sustainable investments and sustainability-related risks, we would not generally agree. As to the ongoing debate about IFRS 9 and as also outlined in our feedback to EFRAG's Request for Feedback, while we do not consider the recycling ban for FVOCI equity instruments appropriate to depict the business model and financial performance of long-term investors and believe that it may create disincentives for them with respect to equity instruments, our concern does not generally by its nature relate to the discouraging of sustainable and/or long-term investments. As to the consideration of sustainability-related risks, in our view, companies need to ensure that their financial statements accurately report their performance by incorporating material information about such risks. Given the scope and mandatory nature of the IFRS framework, it is crucial that their adequate reflection be ensured under this framework. While we welcome additional respective guidance (such as the In Brief 'IFRS Standards and climate-related disclosures' from 11/2019), we believe that this is already the case and do, thus, not see a need to adopt current IFRS FR requirements in this regard. Also, in any case, we deem it crucial to maintain worldwide, globally consistent and truly international FR requirements. In contrast, we believe that a consistent global mandatory non-financial reporting framework would be beneficial to increase the transparency and comparability with respect to companies' exposure to sustainability-related risks as well as their own impact on sustainability.
28	In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a minimum standard for sustainably denominated investment funds (commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at retail investors. What actions	No regulatory intervention is needed	Specifications or standardization are generally useful. However, the diversity of products must always be taken into account - especially in the case of insurance investment products. In this respect, it would make sense to start out with a low intervention threshold (i.e. guidance) This does not rule out voluntary labels.

	would you consider necessary to standardise investment funds that have broader sustainability denominations?		
32	Several initiatives are currently ongoing in relation to energy-efficient mortgages and green loans more broadly. Should the EU develop standards or labels for these types of products?	No	Overloading mortgage lending (especially to retail customers) could bring this already difficult segment to a standstill. One could, at best, think of standards, only if public subsidies are linked to the mortgages or loans.
35	Do you think the existing capital market infrastructure sufficiently supports the issuance and liquidity of sustainable securities?	Neutral	We believe that • the number and availability of suitable infrastructure and sustainable assets for private investors should be increased and support private investments could be supported with appropriate measures such as credit enhancements from supranational development institutions. • insurers investment potential could be maximized by fixing how Solvency II deals with long-term business. Actions in the area of Solvency II could significantly support the objectives of fostering long-term investments into the European economy. For this purpose, it is crucial to keep the current extrapolation of interest rates unchanged and to increase the level of the volatility adjustment. • cross-border investment could be promoted and facilitated by harmonizing insolvency and enforcement laws in the EU. Efforts to harmonise the relevant insolvency rules should be intensified in the next CMU. As a first step this should include benchmarking of different loan enforcement and insolvency regimes in the European Union. This benchmarking should review the different administrative and court conducts of existing laws in Member States. • adequate protection of creditors' rights should be ensured. Legal certainty and confidence in the validity of legal and political decisions once taken is essential. Burdens caused by retroactive changes in investment conditions through amendments to laws and tax regulations destroy investors' confidence and should be avoided by all means. Processes / institutions should be set up to protect investors' rights at the EU level.
40	In your view, should there be	No	We fully agree that companies should integrate the long term interests of their stakeholders

	a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?		in their decision-making processes. We also believe that the remuneration policies may constitute an adequate tool to align these interests with the companies' business strategy. However, current regulation of insurance companies – which not only applies to undertakings subject to the Shareholders Rights Directive – effectively ensures a balanced approach by empowering competent authorities to address remuneration principles in the supervisory review process. In particular, Article 275 (2) (d) of the Delegated Regulation (EU) 2015/35 requires insurance undertakings to take account of both financial and non-financial criteria when assessing an individual's performance with regard to variable remuneration components. This applies not only to directors but also to individuals below the executive level such as key function holders and categories of staff whose professional activities have a material impact on the undertakings' risk profile. Therefore, competent authorities will ensure that non-financial criteria are not neglected and have a substantial impact on performance assessments. The EIOPA-Opinion on the supervision of remuneration principles in the insurance and reinsurance sector explicitly names Environmental, Social and Governance criteria as a benchmark for the qualitative performance assessment. It should be mentioned that EIOPA just recently provided technical advice to the European Commission to add sustainability aspects to Article 275 of the Delegated Regulation. This would – if implemented – constitute a solid legal foundation for incorporating sustainability targets in the remuneration policies of insurance undertakings. We do not think that mandatory shares are helpful in this regard. In contrast, they would deprive both insurers and supervisors of engaging in a dialogue about targeted solutions in line with the business strategy and goals of individual insurers. A one-size-fits-it-all-approach would deny the different exposure to sustainability risks and factors due to the variety of business models. Moreover, they would not contribute to enhanced stakeholder's engagement about the recognition of their interests as the legislator would assume the competence to decide what is an adequate proportion between financial and non-financial criteria and what is not. Should any provisions on a mandatory share be envisaged despite the above, these should apply to all sectors and not only to financial undertakings.
41	Do you think that a defined set of EU companies should	No	We do not consider a mandatory link between variable remuneration and carbon emission reductions applicable to a defined set of EU companies as helpful for multiple reasons:

	be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors' variable remuneration?		• From a legal perspective, it would be a tremendous challenge to determine the set of obliged entities in line with the principle of equal treatment. Any criterion or any threshold to define the scope is likely to be vulnerable to the objection of arbitrariness. • Increased requirements on only a number of undertakings may encourage other ones to neglect their own efforts to contribute to reduced carbon emissions. • A special regulation on carbon emission reductions would create the impression that other environmental, social and governance aspects are less important. A widespread obligation for all undertakings to include carbon emission reductions as a factor for granting variable remuneration would be inappropriate as the different exposure and leverage to carbon risks is not taken into account.
46, 47	Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change. Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law? Do you think that an EU framework for supply chain	Yes, a more holistic approach should favour the maximisation of social, environ-mental, as well as economic/ financial performance. No	We agree that companies regardless of the sector should take suitable and adequate steps in order to prevent their business activities from enabling or facilitating violations of fundamental social or environmental values. This said we would like to point to the manifold existing voluntary initiatives which pursue this objective (e. g. PRI, PSI, UN Global Compact). Already today, various insurance companies representing a sizeable part of the German market actively participate in these initiatives and their number is growing continuously. Transparency on this issue will be further enhanced by the forthcoming provisions of the SFDR and the Taxonomy Regulation. Mandatory rules on the other hand could, depending on their content and scope, entail significant liability risks which would be difficult to anticipate. Because of the abstract nature of any rules on due diligence, the precise obligations in a specific business situation would remain opaque. The details of the obligations would therefore have to be determined by the jurisprudence over a long period of time. Insurance companies would be particularly exposed. As the study cited in the consultation paper points out (with regard to the costs of mandatory due diligence, p. 428), financial companies would be affected to a much larger extent than other undertakings. This is due to the fact that as investors they deal with just about any other sector of the economy. For insurance companies this holds true for their investments as well as with regard to their underwriting business. In our view, reliance on voluntary initiatives would therefore be preferable.

	due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?		
50	Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?	No	According to the IDD, advice consists of a personalised recommendation to the customer as to which (one) particular product would best meet his demands and needs (Article 2 paragraph 2 No. 15 IDD and Article 20 paragraph 1 subparagraph 2 IDD). This concept is, in our view, incompatible with the provision of default options. Moreover, there is no need for the requirement suggested in the question. If sustainability is part of the particular customer's investment objectives, only products which meet this criterion can pass the suitability test. As indicated by the European Commission in the consultation paper, the inquiry of the customer's sustainability preferences will become a compulsory part of the advisory process with regard to insurance-based investment products.
55	Do the existing EU securitisation market and regulatory frameworks, including prudential treatment, create any barriers for securitising 'green assets' and increasing growth in their secondary market?	No	Securitisations of green and other assets are treated on the same basis in Solvency II. As long as there is no quantitative evidence of a statistically significant difference in risk profiles, there should not be a differential treatment of green securitisations. Accordingly, there should also be no green supporting factor in Solvency II, which would promote sustainable projects without proof of risk. The risk-based regulatory system of Solvency II must not be diluted.
56	Do you see the need for a dedicated regulatory and prudential framework for 'green securitisation'?	No	See Answer to Q 55. Securitisations of green and other assets are treated on the same basis in Solvency II. As long as there is no quantitative evidence of a statistically significant difference in risk profiles, there should not be a differential treatment of green securitisations.
64	In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?	No	In case this category is included for transitioning purposes, these expenditures could be counted as the Capex or Opex of reporting companies (depending on their activity). These expenditures would only be reported temporarily and would avoid further complexity in reporting in line with the EU Taxonomy.
67	In your view, to what extent	Neutral	Risk mitigation mechanisms such as guarantees and mixed financing instruments at EU

	would potential public incentives for issuers and lenders boost the market for sustainable investments?		level could be helpful.
84	Please specify, if necessary, what are these physical risks Pease provide links to quantitative analysis when available	Yes	Firstly, we do **support the following definition of sustainability risks**: sustainability risks are environmental, social or governance events or conditions, which if they occur have or may potentially have significant negative impacts on the assets, financial and earnings situation, or reputation of a supervised entity (source: BaFin). As sustainability risks are triggered by ESG risk factors, these risks are split into physical risks and transition risks in the area of environment, e.g. climate change. Very often, also climate liability risks (litigation-related climate risk) is viewed as an additional and own category. German insurance industry has initiated **several research projects** on possible loss developments in Germany in the light of climate change, leading to varous scientific publications -Hattermann, F. F. et al: Modelling flood damages under climate change conditions – a case study for Germany. -Held, H. et al.: Projections of global warming-induced impacts on winter storm losses in the German private household sector. - Feasibility study on the risk of torrential rain. - Research Project heavy rain. Under a broader European scope the following **scientific studies** look into hazard-related trend observations of severe convective storms (hail, thunderstorm gusts), temperature extremes (heat), and drought in the sense of soil moisture deficit (agricultural drought) in a climate change context. Part of the literature is also the chapter on economics of IPCC's Fifth Assessment Report, WG II, Ch. 10, where section 10.7.3 gives a discussion on some literature on past observations and future projections. IPCC, Fifth Assessment Report, WG II: Climate Change 2014 – Impacts, Adaptation, and Vulnerability, Part A: Global and Sectoral Aspects, Chapter 10: Key economic sectors and services, 10.7 Insurance and Financial Services, 10.7.3 Observed and projected insured losses from weather hazards, p.680-683. IPCC, 2019: Climate Change and Land. Special Report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes

			in terrestrial ecosystems. Selected recent individual studies on the hazard side: Rädler, A. T., Groenemeijer, P., Faust, E., & Sausen, R. (2018). Detecting Severe Weather Trends Using an Additive Regressive Convective Hazard Model (AR-CHaMo). *Journal of Applied Meteorology and Climatology*, *57*(3), 569–587. https://doi.org/10.1175/JAMC-D-17-0132.1 Christidis, N. and P.A. Stott, 2016: Attribution analyses of temperature extremes using a set of 16 indices. Weather and Climate Extremes, DOI:10.1016/j.wace.2016.10.003 Stagge, J.H., D.G. Kingston, L.M. Tallaksen, D.M. Hannah, 2017: Observed drought indices show increasing divergence across Europe. Scientific Reports, 7: 14045, DOI:10.1038/s41598-017-14283-2 Future hazard projections, e.g. on severe convective storm hazards (hail, thunderstorm gusts), heat and drought conditions, can be found here: Rädler, A. T., Groenemeijer, P. H., Faust, E., Sausen, R., & Púčik, T. (2019). Frequency of severe thunderstorms across Europe expected to increase in the 21st century due to rising instability. *Npj Climate and Atmospheric Science*, *2*(1), 30. https://doi.org/10.1038/s41612-019-0083-7 Samaniego et al., 2018: Anthropogenic warming exacerbates European soil moisture droughts. Nature Climate Change, 8, 421-426. https://doi.org/10.1038/s41558-018-0138-5 Naumann et al., 2019: Global changes in drought conditions under different levels of warming. Geophysical Research Letters, 45, 3285-3296. DOI : 10.1002/2017GL076521 IPCC, 2019: Special Report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems.
86	Following the financial crisis, the EU has developed several macro-prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you	Rather sufficient	Currently Solvency II is under review, including new macro-prudential elements such as the consideration of climate related risks in insurers own risk and solvency assessment (ORSA) report to supervisors, which should facilitate macro-prudential supervision in the insurance sector. Content-wise Solvency II already includes the obligation of the risk management function to consider all relevant risks, including from climate change in the risk management process.

	consider the current macro-prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?		
100	Financial support to the development of more accurate climate physical risk models	3	Scientific projects are already under way and funded. There are other areas where the need for improvement is more urgent.
	Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage.	1	These questions must first be clarified at the national level
	Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events.	1	The private sector must act first. Only when the market does not find a solution it is on the EU to act.
	Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks	1	The private sector must act first. Only when the market does not find a solution it is on the EU to act.
	Regulate by setting minimum performance features for national climate-related disaster financial management schemes	1	The private sector must act first. Only when the market does not find a solution it is on the EU to act. And: There is no one size fits all solution for natcat cover due to the different perils in the member states
	Create a European climate-related disaster risk transfer	1	This suggestion is too vague. Which sectors should be included? Which perils should the mechanism include? Who should benefit from it?

	mechanism.		