

Insurance Europe contribution to the EC's assessment of the Sustainable Finance Disclosure Regulation



SFDR main role should remain product transparency

Europe's insurers support the Sustainable Finance Disclosure Regulation's (SFDR) objective to serve as a tool to raise awareness, inform about sustainable investments in the financial services sector and ultimately enable retail investors to reliably base their investment decisions on sustainability considerations.

The SFDR's main goal should remain product transparency. One of the main reasons for today's dysfunction is the misinterpretation of the goals of the SFDR as a categorisation system. It is vital that the SFDR sets out clear and harmonised disclosure requirements that will enable final customers to understand the sustainability features of products and compare different products.

The information must be delivered in a form that is adapted to the target audience. This is not the case under the current regime. Insurers are convinced that the information that is provided to retail investors pre-contractually or annually needs to be substantially simplified and reduced. Inspiration could be drawn from the dashboard proposed by the European Supervisory Authorities (ESAs) in this year's consultation on SFDR Level 2.

Further clarification and guidance on the interpretation and application of SFDR-related definitions (eg, definition of sustainable investment) is important to support consistent and comparable disclosures for consumers and avoid legal and reputational risks for preparers, in particular in the context of competing definitions under the various pieces of the EU sustainable finance regulatory framework. The improvement of the regulation should also focus on reducing the number of disclosure requirements and Principal Adverse Impact (PAI) indicators set out in Level 2 legislation, which are excessive and not only constitute a significant burden for insurers and other market participants, but also hamper investors' ability to understand the sustainability features both at product and entity level.

European insurers suggest coordinating the review of SFDR Level 1 (through this assessment) **and Level 2** (through the review of the SFDR social PAIs). The SFDR and its Delegated Regulation would benefit from coordination of both the topics and the timing of the two ongoing review processes.

The coherence between the SFDR, the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) is extremely important. As of today, the final version of the delegated act introducing the ESRS states that SFDR data points shall be included in the new sustainability reporting by applying a materiality filter. The same does not apply to the SFDR, where most of the PAI indicators are mandatory.

Cost is a significant concern for insurers implementing the SFDR. The European Commission should always consider the balance between costs and benefits when developing or amending the SFDR.



Interaction with other sustainable finance legislation to be improved

Overlaps, contradictions and superfluous bureaucracy could discourage the development and distribution of sustainable products.

Before making any change to the EU disclosure requirements, it is essential to conduct thorough consumer-testing that covers both proposed and existing disclosures to ensure that the proposals benefit consumers and match their actual information needs.

As product manufacturers, Europe's insurers highlight that **SFDR templates are difficult to understand for consumers**. Adding environmental, social and governance (ESG) information to the Packaged Retail and Insurance based Investment Products (PRIIPs) Key Information Document (KID) would increase the information overload on consumers and would not bring tangible benefits, as disclosure templates are already prescribed under the SFDR.

Ultimately, **the increased disclosure requirements have increased the burden on product manufacturers** with no significant increase in consumer protection.



Entity level disclosures to be covered by CSRD instead of SFDR, PAIs to be revised

A more effective and coherent EU sustainable finance legislative framework could be attained by **having entity-level disclosures covered** in the ESRS **under the CSRD**, while **product-level disclosures should be covered by the SFDR**.

European insurers consider that the principal adverse impact indicators should only be made mandatory if they assess two fundamental criteria:

- Relevance to steer investment portfolios. Beyond the transparency exercise, the indicators should also help entities to identify the adverse impact of their investment decisions and ultimately help them steer their investment portfolios.
- Data availability. Consistency between the SFDR and CSRD is essential, as investors need the ESG data collected through the CSRD to comply with the SFDR.

Given the above, the **mandatory list of PAI should be revised to only keep the most relevant and consistent indicators**. As for the current list of optional PAI indicators, European insurers support the possibility that they are subject to a materiality assessment by the financial market participant. This will prevent the disclosure of indicators that are not relevant or for which data is not yet available.

Piling up information is not a solution. Consumers need to receive easy-to-read, understandable and simple information focusing on the essential aspects of the product. The key information provided in the templates under Articles 8, 9 and 11 of the SFDR should be consistent with the priorities set by the delegated regulations under the Insurance Distribution Directive (IDD) and Markets in Financial Instruments Directive (MiFID) II.

The concern that the current SFDR product disclosures are not suitable for retail investors, because they are too complicated and too detailed, is legitimate. However, this can be solved by radically simplifying the precontractual and periodic disclosures (Articles 8, 9 and 11 SFDR) while making more detailed information available on the website for customers who wish to know more (Article 10 SFDR).

It is of utmost importance that a potential common format is consistent across all EU legislation (European Single Access Point (ESAP), ESRS, etc.). The European ESG Template (EET) can be used as a basis for improving the quality and alignment of the data exchanged between market participants.

European insurers advocate flexibility in the disclosure requirements of multi-option products (MOPs). The underlying investment options are numerous in MOPs and this needs to be taken into account in the legislative framework. For products that offer different underlying investment options, the approach chosen by the ESAs in the current RTS which is to disclose at the level of the investment options, has proven to be transparent and practicable.

In general, it is important to promote a digital-by-default approach to disclosures in the sectoral legislation, with the possibility for consumers to ask for a paper copy on request. For example, this is not the case in the current IDD, which requires the provision of information to consumers on paper by default.



Priority to be given to strengthening and harmonising transparency requirements

Before considering other changes, priority should be given to strengthening and harmonising the transparency requirements. Financial market participants are increasingly developing methodologies and best practices for the definition and implementation of Art. 8 and Art. 9 features, included an increasing ability to disclose PAIs; it would be inefficient to put aside this system and create new categories from scratch.

It is important that Art. 6 products are considered as legitimate options and not labelled as harmful options for investment under the SFDR. With regard to taxonomy alignment, the current investable universe is too small for reasonable thresholds.

Furthermore, it may be more important to invest more in the transition and not in activities, which are already transitioned. Therefore, in the absence of a transition taxonomy, Insurance Europe has doubts regarding taxonomy thresholds.

European insurers seek **further guidance on the framework of the concept of sustainable investments rather than a strict definition.** Different financial products imply different challenges of interpretation and application, hence a general concept is more useful.

It is essential that the SFDR is maintained as a transparency regime for every kind of sustainability-related commitment. The fact that a financial market participant communicates a sustainability-related commitment with respect to a product should be sufficient to trigger the information requirements.

Retail investors who are interested in sustainability characteristics of financial products should be able to rely on standardised information which allows for the comparison of different products.

In line with the objective of the SFDR, which is to help retail investors who wish to base their investment decisions on sustainability aspects the information requirements should be triggered by commitments made by the financial market participant on future considerations of sustainability. Both the EU's institutions and national competent authorities (NCAs) are already working to address greenwashing risks. This work must also be kept in mind to avoid any overlaps between potential initiatives at both the European and national level.

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.