

Follow-up comments on the third draft Ecolabel criteria for retail financial products

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Summary

Insurance Europe welcomes the opportunity to provide additional feedback on the European Commission's proposed Ecolabel criteria for retail financial products. Insurance Europe also welcomes the updated timeline. However, it is regrettable that the new timeline does not allow for the methodologies to be tested with insurers, the way they were for the design of the UCITS and alternative investment funds' criteria.

Once again, Insurance Europe would welcome confirmation by the Commission that, if an insurance-based investment product (IBIP) offers an annuity to consumers at the end of the recommended holding period, then the EU Ecolabel only applies to the accumulation phase of the IBIP. A primary aim of the annuity is protection against longevity risk and not an investment. This will also enable consumers to compare different packaged retail insurance-based investment products (PRIIPs), in particular those with and without accumulation phase.

Criteria 1 & 2 — Investment in environmentally sustainable activities and companies investing in transition and green growth

- The proposed criteria 1 and 2 are **incompatible with the general fund**, which does not operate in the way of a mixed-fund UCITS.
 - As currently proposed, these criteria go against the risk-sharing principle of insurance: a fragmentation of the pool in which risks cannot be shared between different policyholders in the pool contradicts the core idea of the collective investment pool.
 - The suggestion for insurers to create a sub-fund in the general fund, with green assets only, makes diversification impossible, especially given the need to include bonds (including government bonds) to achieve certain investment goals. The current low interest rate

environment also complicates guaranteeing a return in such restricted sub-funds. Indeed, the invested life insurance savings are usually guaranteed to some extent.

- Based on the EU Ecolabel’s stated objective to highlight 10-20% of particularly green products, the following **alternative proposal** could be considered for the Ecolabel to be workable in practice for insurers:
 - The criteria should apply to the global general fund, with a global threshold applicable to the whole portfolio of the general fund and not per asset class.
 - The scheme should include a commitment by the insurer of the transformation of its portfolio, under precise conditions to avoid any risk of greenwashing:
 - This would apply to insurers who commit to an increasing trajectory of green investments, over a specific period of time and for that time (eg between 5 and 10 years).
 - The trajectory would be agreed with and monitored by the national competent authority for the Ecolabel.
 - Transition bonds should also be made eligible for the Ecolabel.

Criterion 3 — Exclusions based on environmental aspects

- Insurance Europe maintains that this criterion cannot realistically be applied to the entire portfolio of insurers, if any insurance product is to qualify for the Ecolabel.
- To ensure an objective assessment, the criterion excluding an issuer that has not published a credible CO₂ reduction trajectory compatible with a “2 degrees” scenario should be reworded to remove the **“credible”** qualification. It is not clear who is able to assess the credibility of the CO₂ reduction trajectory and only sovereign issuers that have not published a CO₂ reduction trajectory should be excluded.
- This criterion should then **only apply to unit-linked funds**.
- There should be an **alternative proposal for the general fund**:
 - The list of excluded economic activities should be based on a company’s commitment to transition.
 - For sovereign and sub-sovereign bonds, a threshold limit could be considered for these exclusions rather than a strict exclusion criterion for ratification of other international environmental agreements which would lead to the exclusion of US bonds (even in light of the ongoing process to rejoin the Paris Agreement) — an untenable position for the general fund.
 - Should the two strict exclusions above be maintained, they should be limited to the direct investments of the insurer in the general fund.

Criterion 4 — Exclusions based on social and governance aspects

- Insurance Europe maintains that the Ecolabel’s ESG exclusions should not go further than the taxonomy regulation. Should these exclusions be maintained, they should **only apply to the direct investments of the general fund**.

Criterion 5 — Engagement

- While sub-criterion 5.1 is the only one directly relevant to insurers in practice, it has now been confirmed that the other sub-criteria also apply to insurers in theory. However, it should be made clear that these other sub-criteria **only apply to the direct investments of the general fund**.

Criterion 6 – Measures taken to enhance investor impact

- Insurance Europe maintains that this new criterion:
 - is unnecessarily burdensome in that it adds reporting obligations;
 - goes against the spirit of the Ecolabel as a simple marker of sustainability; and,
 - is inconsistent with the disclaimer required under criterion 7.

Criterion 7 – Retail investor information

- This criterion is unnecessary given the intensive certification process involved in the Ecolabel process and the existing obligations under the Sustainable Finance Disclosures Regulation. As for criterion 6, the Ecolabel logo itself should be sufficient to confirm the product's sustainability.

Based on the current proposal, virtually no insurer will be able to meet the criteria and obtain the Ecolabel for any product. The proposal is not an accurate or fair reflection of the active roles played by insurers in terms of sustainability and transformation of the economy through their investment policies. An EU Ecolabel for insurance products (IBIPs in particular) could be an important tool for consumers who want to purchase sustainable products and an important pillar of the green transition. It is therefore crucial to ensure the Ecolabel criteria for retail financial products actually makes it possible to highlight the 1020% of particularly green insurance products.

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.

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