

Response to EC call for feedback on the Platform on Sustainable Finance's draft proposal for an extended taxonomy to support economic transition

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General comments

The European insurance industry is fully committed to supporting the ambitious objectives of the European Green Deal. The sector supports the EU's objectives of cutting GHG emissions by at least 55% by 2030 and making the EU economy net-zero in greenhouse gas (GHG) emissions by 2050.

As the EU's largest institutional investor, the industry can play a key role in the transition to sustainability, as insurers have significant potential to help fund the required investments. However, to reach these targets, policy action is needed to drive the transition and provide the right incentives to encourage participation in the transition across economic sectors and jurisdictions. This includes improvements to Solvency II under the current review to remove the current barriers for long-term investment.

The EU taxonomy has a key role to play in promoting transition finance. Insurance Europe not only has long been calling for the creation of an EU taxonomy to establish a common sustainability classification system, but it also has long appreciated the taxonomy's potential to support all economic sectors in their path towards the transition.

Insurance Europe notes that the timing of this consultation (length and that it is held over summer vacation period) means that the views expressed must be considered preliminary and may be updated/refined.

The European insurance sector, therefore, welcomes the EC's efforts to improve clarity in financial markets regarding different levels of environmental performance and to ask the Platform of Sustainable Finance (PSF) to develop taxonomy extension options.

While insurers are generally supportive of extension proposals in the future, **further work is required to ensure that the extensions are efficient for investors and achieve consistency** with other ongoing work related to sustainable finance. To this end, Insurance Europe has the following remarks.

With respect to the **significantly harmful (SH) taxonomy**:

- While defining a SH taxonomy could be useful, **the priority should be on finalising the current "green" taxonomy for significant environmental contribution and on mobilising capital to support the transition** of activities that can improve their sustainability performance beyond significant harm.
- The introduction of a SH taxonomy beyond the do no significant harm (DNSH) category should rely on information about the implementation of the current framework, which is currently not available. As per the Taxonomy Regulation, **any taxonomy extension should be accompanied by a realistic impact assessment** that duly considers the actual progress in implementing the Taxonomy Regulation, especially on the technical screening criteria for activities that are already environmentally sustainable. The industry is concerned that the development of a SH taxonomy comes with a risk of:
 - **Complexity that could impair the taxonomy's usability and slow down its uptake** — The introduction of excessive reporting requirements and of too many SH subcategories should be avoided. A clear interlinkage between SH and DNSH could also help reduce such complexity.
 - **Increasing transition risks and make them materialise quicker** — The EC should adequately evaluate the potential consequences of the SH taxonomy on the stability and liquidity of the financial markets, eg risks of stranded assets, green bubbles and other distortions.
 - **Harming the transition of the economy rather than promoting it, above all at the international level** — Even if it is not the EC's intention, there is a risk that investments in companies which are moving away from SH are unduly penalised. The SH designation risks restricting funding to some activities that could still transform their business models, for example thanks to new technologies. Unintended consequences on the objective of a **just transition** should not be ignored.
- The industry supports a **positive approach towards the green transformation**. Pressure on financial institutions should not be the means to achieve this outcome since this would be both inefficient and ineffective. SH activities should instead be directly addressed by introducing specific regulations regarding these activities. Similarly, investors' risk management and allocation decisions should remain risk-based and not be distorted via any artificial factors or political objectives.

With respect to the **no significant impact (NSI) taxonomy**, the sector considers it important that:

- **The taxonomy framework recognises intermediate performance levels of economic activities in the future, but tries to avoid introducing further administrative burdens and layers of complexity** (as for the SH taxonomy, a thorough impact assessment would be needed). While not the main priority, defining such intermediate performance can help better recognise transition efforts of all sectors and encourage activities to move towards substantial contributions.
- **The NSI extensions allows transition plans to duly consider intermediate performance** for activities that could make a substantial contribution. Transition tools are key to reach the environmental performance envisaged under the European Green Deal. However, they require common methodologies to better evaluate intermediate transitions over time, as well as not to do significant harm, even as such requirements are tightened in the future.

In terms of the **transparency** of environmental performance levels of activities, the sector notes that a mandatory solution would be a most effective way forward if the taxonomy framework is extended. In this case, it is important that investee companies are required to make this information available through disclosures under the CSRD.

Merits and concerns

Q1. Which environmental performance levels should the taxonomy distinguish, with a view to help the environmental transition?

Please select all of those that you would prioritise:

Please select as many answers as you like

<input checked="" type="checkbox"/>	Substantial contribution
<input checked="" type="checkbox"/>	Intermediate performance
<input checked="" type="checkbox"/>	Significantly harmful - but can improve to sustainability
<input checked="" type="checkbox"/>	Significantly harmful - but can improve not to do significant harm
	Significantly harmful - but cannot improve sufficiently to avoid doing no significant harm
	No significant impact

Q2. How could policies ensure that recognising the transition from significantly harmful to intermediate performance will not slow down the transition to green activities (that evidence shows we need to accelerate)?

Please select all that you agree with:

Please select as many answers as you like

	Not relevant
<input checked="" type="checkbox"/>	Distinguish different levels of environmental performance clearly throughout the taxonomy and in other instruments
	Recognise only improvements from and to a well-defined level of environmental performance, rather than recognising activities sitting in a given level of performance below substantial contribution
<input checked="" type="checkbox"/>	Require continued improvement beyond the relevant investment plan
<input checked="" type="checkbox"/>	Require associated entity level transition strategy to understand the credibility of the intermediate transition
<input checked="" type="checkbox"/>	Recognise multiple ways of transition depending on type of Technical Screening Criteria
	Other safeguards would be needed

Q3. Do you consider that recognising/naming the significant harm performance level would be important?

<input checked="" type="checkbox"/>	Yes
	No
	Don't know / no opinion / not applicable

Q3.1 Please select the answer you agree with:

	voluntary disclosures and guidance are sufficient
	voluntary reporting is not effective, the mandatory solution is needed urgently
<input checked="" type="checkbox"/>	agree with the staged approach in the report to first work with voluntary disclosures/ guidance and in a later stage introduce mandatory reporting
	Don't know / no opinion / not applicable

'Significantly harmful' taxonomy

Q4. In your view what would be the advantages and disadvantages of a 'significantly harmful' taxonomy as designed by the Platform (i.e. accompanied by an assessment of the existing and needed EU policy and legislative initiatives aimed at incentivising finance for urgent transition away from significantly harmful activities, for building climate-resilience and to support greening of the whole economy)?

Advantages – a 'significantly harmful' taxonomy would:

Please select as many answers as you like

<input checked="" type="checkbox"/>	increase the transparency of environmental performance levels of activities
<input checked="" type="checkbox"/>	improve the communication of transitions and transition plans on activity level
<input checked="" type="checkbox"/>	help companies to develop strategies and investment plans for moving away from significantly harmful performance levels and meeting environmental objectives
<input checked="" type="checkbox"/>	help markets define and develop instruments for financing the transition
<input checked="" type="checkbox"/>	enhance risk management frameworks
<input checked="" type="checkbox"/>	help policymakers to provide subsidies for decommissioning
<input type="checkbox"/>	other

Please elaborate on your answer on the advantages of a 'significantly harmful' taxonomy. Could advantages be further enhanced? If so how?

- While the SH taxonomy would have some clear advantages, its main objective should be to support the transition. For this, the framework should help both public actions and targeted investments to easily identify economic activities in their transition towards low-carbon models. This will encourage businesses engaged in these activities to transform their business models and have their transition efforts recognised. In practice, this also helps public authorities, supervisors and investors to share a common view on environmental risks. It will help insurers to design financial products that contribute towards taxonomy objectives.
- This considered, while strengthening the taxonomy is useful, the focus should be on developing and completing the taxonomy for significant contribution. Introducing a SH taxonomy beyond the DNSH would rely on implementation information about the current framework, which is currently not available. Before any expansion, a realistic impact assessment is needed to evaluate the implementation progress of the Taxonomy Regulation, especially with regard to the technical screening criteria for environmentally sustainable activities as also reported in the Regulation (Article 26).
- In terms of transparency of environmental performance, if the taxonomy framework is extended to SH activities, investee companies should be required to make this information available through disclosures under the Corporate Sustainability Reporting Directive (CSRD). This is also key to enable efficient reporting by financial market participants (FMPs) on their portfolios.

Disadvantages – a 'significantly harmful' taxonomy would:

Please select as many answers as you like

<input checked="" type="checkbox"/>	be a departure from the positive spirit of the green taxonomy
<input checked="" type="checkbox"/>	negatively impact the ability of companies to raise finance for transition
<input checked="" type="checkbox"/>	accelerate transition risks and risks creating "stranded asset by legislation"
<input type="checkbox"/>	negatively impact banks with high shares of lending to certain companies both among retail customers and on the wholesale markets
<input checked="" type="checkbox"/>	disadvantage EU companies vs non-EU jurisdiction
<input checked="" type="checkbox"/>	increase complexity, reporting burden and affect usability of the taxonomy
<input checked="" type="checkbox"/>	other

Please elaborate on your answer on the disadvantages of a 'significantly harmful' taxonomy. How could they be addressed?

- The development of a SH taxonomy comes with a risk of:
 - **Impeding the usability of the taxonomy due to severe complexity** — As noted above, the decision to develop a SH taxonomy should be based on a thorough cost-benefit analysis, which also considers complexity.
 - **Increasing transition risks and make them materialise quicker** — The consequences of an SH taxonomy on the stability and liquidity of the financial market — for example, the risk of stranded assets, green bubbles and other distortions — should be assessed.
 - **Harming the transition of the economy rather than promoting it, above all at the international level** — To avoid jeopardising the **transition's objective**, the SH extension should be done to show the way to improve performance. Even if it is not the intention, there is a risk that investments in companies moving away from SH are unduly penalised. This should be avoided.
 - For instance, a company could be on a transition path (eg having 20% SH activities, 50% NSH activities and 30% SC activities), but still have a portion of its activities with performance at significant-harm level, even if it might be trying to improve performance, eg via an R&D solution. It is important that such a company is not penalised when accessing funds to finance its transition, eg bonds or equity. While investing in such companies should reflect environmental risks, investors should not be penalised or punished unreasonably.*
 - **Repercussion on social and governance factors should also not be ignored.**
- The industry supports the **green transformation**. However, SH activities should be directly addressed by introducing specific regulations regarding these activities. Similarly, investors' risk management and allocation decisions should remain risk-based and not be distorted via any artificial factors or political objectives.
 - *The European legislator should not primarily try to achieve a green transformation by putting pressure on financial institutions since this would be both inefficient and ineffective. The task of financial institutions is to provide the financial services (loans, insurance) as requested by their customers. In addition, adverse consequences on a social level need to be considered, as well as other sources of funding for SH activities (eg self-funding; third-country investors).*

Two types of significantly harmful activities

The report distinguishes two types of significantly harmful activities:

- those that are 'always significantly harmful' (no technical option to transition to an environmental performance not causing significant harm)
- and those that can transition out of causing significant harm

Q5. Do you agree with the following statements? Please check all boxes that you agree with:
 Please select as many answers as you like

X	Always significantly harmful activities should be distinguished from those activities that have a potential to transition out of significant harm
	Criteria should be added under the green taxonomy to recognise as green the closure / decommissioning for such always significantly harmful activities
X	Mandatory reporting on turnover from and capex/opex related to always significantly harmful activities should be introduced

Q6. Do you consider recognising/naming the intermediate performance level useful to encourage mitigating significant harm?

X	Yes
	No
	Don't know / no opinion / not applicable

Please explain your answer to Q6:

- Strengthening the taxonomy framework by recognising intermediate performance level is essential. The binary dimension of the current Taxonomy is not a long-term solution and the framework should account for a broader spectrum of sustainability performance. In this respect, the EC should aim to maintain a positive approach that encourages all sectors to participate in the transition to sustainability. Defining an intermediate performance level can facilitate such positive participation as it better recognises transition effort and encourages transitioning activities to improve their performance towards substantial contribution.

Q7. For activities that are in the intermediate performance space (in between significant harm and substantial contribution):

a) should all turnover from such activities be recognised as intermediate turnover, and all opex as intermediate opex?

X	Yes
	No
	Don't know / no opinion / not applicable

Please explain your answer to Q7. a):

- Given the duration of the consultation, the industry is not able to provide an in-depth analysis at this stage. However, it notes that the taxonomy is already very complicated and is still not fully clear how it will work in practice. Therefore, it is advisable that the framework should remain as simple as possible. This will also facilitate its application in other jurisdictions.

Q7. b) should all capex be recognised as 'intermediate capex' irrespective of whether or not it improves environmental performance of the activity and by how much?

X	Yes
	No
	Don't know / no opinion / not applicable

Please explain your answer to Q7. b):

- Given the duration of the consultation, the industry is not able to provide an in-depth analysis at this stage. However, it notes that the taxonomy is already very complicated and is still not fully clear how it will work in practice. Therefore, the framework should remain as simple as possible. This will also facilitate its application in other jurisdictions.

Intermediate transition

Q8. What do you think are the essential conditions for recognising such intermediate transitions for activities that can make a substantial contribution to the given environmental objective:
Please select as many answers as you like

<input checked="" type="checkbox"/>	A. that the activity reaches the intermediate performance level, in other words does not do significant harm to that particular environmental objective
<input checked="" type="checkbox"/>	B. in addition, that the activity continues to improve its environmental performance in order to stay in that intermediate performance level and not to do significant harm even if in the future the criteria are tightened
	C. in addition, that the activity continues to improve its environmental performance in order to reach substantial contribution (green) in the future
<input checked="" type="checkbox"/>	D. in addition, that the activity does no significant harm to other environmental objectives
	E. in addition, that the activity does no significant harm to any of the other environmental objectives, with the exception of adaptation (because failing to meet the do no significant harm criteria to adaptation means only a harm on the activity itself)

You selected option b) in Q8.

The criteria for ensuring that the activity will improve to reach substantial contribution should include to:

Please select as many answers as you like

<input checked="" type="checkbox"/>	have a transition plan in place
<input checked="" type="checkbox"/>	set a deadline for the transition
<input checked="" type="checkbox"/>	have the transition plan validated by the Board
<input checked="" type="checkbox"/>	publish the transition plan
<input checked="" type="checkbox"/>	audit the transition plan
<input checked="" type="checkbox"/>	disclose how the intermediate transition fits within the entity level transition strategy
	other

Please specify to what else should the criteria include, in relation with option B in Q8.:

- Transition plans would be core tools to enable companies and the overall economy to reach the environmental performance required by the European Green Deal. However, as alluded to in the EC's Renewed Sustainable Finance Strategy, it is necessary to precisely define a common methodology for such transition plans in order to better evaluate intermediate transitions. Stakeholders should know the requirements to maintain an intermediate performance level over time, as well as not to do SH, even as such requirements are tightened in the future.
 - For instance, it is essential to clearly define the timeframes: eg to decide the intermediate transitions timing for the analyses (five, 10, 15 years). In addition, the taxonomy extension to recognise transition efforts should require better governance and transparency of these transition plans (including clear oversight, independent technical review, verification, control etc) to avoid greenwashing.

Q9. Do you have other suggestions for extending the taxonomy framework for significantly harmful activities, intermediate performance, intermediate transition?

- The sector would like to highlight the need for consistency between all EU initiatives concerning sustainable finance. The extension of the taxonomy should take into account the upcoming legislation

on social taxonomy, sustainable corporate governance and CSRD, but also the existing Sustainable Finance Disclosure Regulation (SFDR) as well as the environmental taxonomy (its development, reporting etc).

- In terms of disclosures, it is key that FMPs will not be required to disclose extended taxonomy-related indicators about their investment portfolios until investee companies are required to make this information available through disclosures under the CSRD.

Disadvantages – a ‘no significant environmental impact’ taxonomy would:

Please select as many answers as you like

<input checked="" type="checkbox"/>	be too complex to manage, as a framework
<input checked="" type="checkbox"/>	imply burdensome reporting obligations
<input checked="" type="checkbox"/>	risk disadvantaging ‘no significant impact activities’ vis-à-vis intermediate contribution activities that are likely to be more polluting
<input type="checkbox"/>	other

Please elaborate on your answer on the disadvantages of a ‘no significant (environmental) impact’ taxonomy. How could they be addressed?

- It is important that this extension does not mean further administrative burdens and layers of complexity. The priority should be enabling the transition. In order to avoid unnecessary complexity, the decision to extend the current taxonomy should be based on a thorough cost-benefit analysis. Too much complexity would not only negatively impact the NSI taxonomy, but also the usability and acceptance of the taxonomy as a whole.
- The NSI taxonomy would be particularly relevant for small- and medium-sized entities. Therefore, it is important to properly account for the principle of proportionality so that companies are not overburdened with compulsory provisions.

‘No significant (environmental) impact’ taxonomy

Q10. In your view what would be the advantages and disadvantages of a ‘no significant (environmental) impact’ taxonomy? Check all that apply and add anything you think is missing:

Advantages – a ‘no significant environmental impact’ taxonomy would:

Please select as many answers as you like

<input checked="" type="checkbox"/>	help the ESG analysis
<input checked="" type="checkbox"/>	be beneficial for SME’s to access finance
<input checked="" type="checkbox"/>	be beneficial for SME’s to access green finance (if it can allow for / incentivise greening even within the NSI space, where there is such possibility)
<input checked="" type="checkbox"/>	ensure banks can report green lending to SMEs and continue to develop these markets
<input checked="" type="checkbox"/>	allow easier access to finance for larger companies in these sectors
<input checked="" type="checkbox"/>	other

Please elaborate on your answer on the advantages of a ‘no significant (environmental) impact’ taxonomy. Could advantages be further enhanced? If so how?

- There are some advantages of a NSI taxonomy. However, an NSI extension of the taxonomy should have a lower priority compared to the full completion of the current environmental taxonomy and, to some extent, also of the development of an SH taxonomy for activities that can improve their sustainability performance beyond SH.

- This kind of extension would help diversify investors' portfolios with better information about sustainability risks. It would especially help SMEs to access finance, as they represent the majority of these economic activities. One of the risks with the current taxonomy is that investors might tend to focus on already taxonomy-aligned investments (substantially contributing activities), and less on investing to enable the transition.

Q11. Can you give examples of activities which you think would be considered as NSI?

- As is well detailed in the report, some activities from services sectors can be considered as NSI such as care services, libraries, museums, or advisory services. SMEs represent the majority of these economic activities.

Q12. If there was to be an extension of the taxonomy to address NSI activities, should it be a requirement for companies or investors wishing to report activities under the NSI taxonomy to first participate in an environmental labelling or certification scheme (such as EMAS) to validate minimum levels of environmental performance?

	Yes, reporting of activities should stay voluntary but conditional upon such a certification/labelling
X	No, reporting of activities should stay voluntary but there should not be any certification/labelling as a condition
	Don't know / no opinion / not applicable

Please explain your answer to question 12:

- As mentioned above, many NSI activities are performed by SMEs which do not necessarily have the resources to undergo burdensome certification processes. Therefore, conditionality upon labelling might be detrimental for SMEs. This question should be investigated also in the context of the Article 8 Delegated Act (DA) on taxonomy reporting under the CSRD, as already required in the draft DA.

Q13. Do you consider it would be helpful if the Platform prepared non-binding guidance on NSI activities which could be published by the Commission for voluntary use by taxonomy users?

	Yes
X	No
X	Don't know / no opinion / not applicable

Q13.1 If you consider it would be helpful, what should be the scope of such guidance, for instance in relation to minimum standards of environmental performance?

- The guidance should provide general principles to identify NSI, but it should grant flexibility to taxonomy users to make their own judgement regarding environmental risks (as they already do in due diligence processes). Guidance should also be proportionate to take into account the fact that many NSI activities are offered by SMEs.

Please explain your answer to question 13:

- To better identify what a NSI economic activity would be.

Q14. Are you in favour of a phased approach where NSI could be recognised as a generic category (through guidance) without L1 change?

	Yes, it is a priority
X	Yes, but it should be done in future only
	No
	Don't know / no opinion / not applicable

Please explain your answer to question 14:

- There is merit in developing guidance about NSI, but the current priority must be to make the green taxonomy fully operational and reduce complexity.

Q15. Prior to any L1 change (if at all), do you consider that the Platform should recommend to include some NSI activities in the taxonomy by e.g. creating a generic category for 'green' service providers under the adaptation or other objectives?

	Yes
X	No
X	Don't know / no opinion / not applicable

Please explain your answer to question 15:

- Even if there is merit in developing a NSI taxonomy, at this stage, the EU should rather focus on making the current environmental taxonomy fully operational and to reduce complexity.
- More effort should be put in the usability of the current taxonomy framework and in its use/application, especially with respect to access to businesses databases and IT systems, eg via a European Single Access Point (ESAP). Initiatives, such as the Taxonomy Compass, are a good starting point to make the EU Taxonomy easier to access for all users, facilitating implementation and consistent use.

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 almost €1 000bn annually — or €2.7bn a day — in claims, directly employ nearly 950 000 people and invest over €10.4trn in the economy.