Insurance Europe statement following the publication of the European Commission Frequently Asked Questions on Taxonomy Article 8 Reporting

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Contact person:	Philippe Angelis	E-mail:	Angelis@insuranceeurope.eu
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European (re)insurers are committed to supporting the transition to a more sustainable economy, tackling climate change as a matter of high priority and helping to meet the objectives of the European Green Deal. European (re)insurers support the Taxonomy Regulation's (EU Taxonomy) objective to create a common classification system for sustainable economic activities because an appropriate taxonomy plays a key part in the EU's sustainable finance framework for directing investments towards sustainable projects and activities.

The insurance sector has two areas of concern in relation to the current taxonomy key performance indicators (KPIs) for insurance. The first area of concern is whether the KPIs as currently defined will provide a meaningful assessment of the proportion of an insurer's underwriting or investment activities that can be considered environmentally sustainable. The second area of concern is about the **operational challenges for insurers to comply with the requirements set in the EC FAQs published on 21 December 2023**. This statement focuses on the second area of concern.

From November 2022 Insurance Europe informed the European Commission (EC) of its views on certain key aspects of the insurance Taxonomy KPIs. It has also highlighted the importance for FAQs to be provided in good time given the need for each insurance company to plan and implement the necessary data and reporting processes. Insurance Europe therefore regrets that the publication of the FAQs in December 2023, 10 days before the first mandatory reporting exercise in 2024, **came too late for adapting year-end reporting processes**.

Insurance Europe will be discussing with the EC a number of areas (see annex) where the **FAQs appear to go beyond the EU Taxonomy delegated acts** and where they appear to conflict/pre-empt other EU legislation.

European (re)insurers therefore highlight the **need to manage stakeholder's expectations** because it will not be operationally possible for all the EC FAQs to be applied for 2023 reporting. Insurers are implementing on a best-efforts basis and will need to consider, taking into account further discussion with the EC, national supervisors and auditors where appropriate, how to deal with areas where the FAQs may go beyond EC regulatory requirements or conflict with other EC regulations.

Insurance Europe aisbl • rue Champ de Mars,23 B-1050 Brussels
Tel: +32 2 894 30 00 • E-mail: info@insuranceeurope.eu
www.insuranceeurope.eu

Annex: Areas where EC Draft Taxonomy FAQs appear to go beyond EC legal taxonomy requirements or to conflict with other EC regulation

FAQ #	Topic	Explanation for concern
7 & 11	Introduction of aggregated KPI to be reported at group level	The Disclosures Delegated Act of the Taxonomy makes no reference for parent undertakings to submit an aggregated group level KPI which combines the Investment KPI and Underwriting KPI. However, the FAQs introduces a new combined measure which will not provide meaningful or valuable information to investors.
4	KPI to be used by financial undertaking to assess its exposure to another financial undertaking that reports KPIs.	Exposures to insurance and reinsurance undertakings The answer provided goes beyond the requirement of the Disclosures Delegated Act. Indeed, the last point of Annex XI states that disclosure of quantitative KPIs shall be accompanied by the following qualitative information: additional or complementary information in support of the financial undertaking's strategies and the weight of the financing of Taxonomy-aligned economic activities in their overall activity. Hence, it does not require the publication of a complementary quantitative KPI. Companies should report the weight of financing taxonomy-aligned economic activities, but the underwriting KPI is not related to financing of activities and is not covered by this provision. Creating a new KPI that combines insurers' investment and underwriting KPI is not meaningful because the two KPIs have different rationales: ■ the investment KPI aims at showing the portion of investments that is allocated towards taxonomy-aligned economic activities. It shows how the insurer contributes to shifting capital towards more sustainable activities. ■ the underwriting KPI aims at showing to what extent the insurer contributes to adaptation objectives through its non-life activities. A more suitable approach would be, where a KPI should be used by a financial undertaking to assess its exposure to an insurance group that reports KPIs, that the KPI should consist of: ■ investment KPI to cover the Capital Expenditure. ■ underwriting KPI to cover the revenues. Exposures to asset managers Investors should be able to rely on the Taxonomy KPI reported for the respective Undertakings for the collective investment in transferable securities (UCITS) or Alternative investment fund (AIF). Instead, the current wording indicates that the turnover-based and CapEx-based KPIs of the asset manager managing that UCITS or AIF are relevant to compute their own KPIs. However, investing in or lending to an UCITS or AIF does not mean to invest in the asset manager, but in the respective fund. Furthermore, Annex IX to the Delegated Regulation 2021/2178 defines investments, among others, as investments in collective investment undertakings.
8 & 13	Reporting for parent undertaking with multiple subsidiaries in relation to Articles 19a or 29a of the Accounting Directive	According to Corporate Sustainability Reporting Directive (CSRD) Delegated Acts, only material information should be considered at the group level. This principle should also apply to Taxonomy disclosures. Hence, financial market participants (FMPs) should only consider material information from subsidiaries not subject to articles 19a or 29a of the Accounting Directive. Non-financial statements should follow the same rationale and principles of financial statements.

		Insurance Europe highlights that the Disclosures Delegated Act of the Taxonomy makes no reference to requirement that consolidated sustainability reporting should also provide subsidiary-level Taxonomy KPIs in the contextual information. Moreover, the requirement for parent undertakings to provide subsidiary level information is contrary to the CSRD. It is clear from the recitals of the CSRD (recital 25) that all subsidiary undertakings are exempted from the obligation to report non-financial information where such undertakings and their subsidiary undertakings are included in the consolidated management report of their parent undertaking. Disclosing every single KPI of each subsidiary undertaking in a consolidated report would overload reports.
9 & 12	KPIs to be reported by parent undertaking with different types of subsidiaries	The FAQs appear to create a requirement to report, in contextual disclosures, details of segments/activities, but the Disclosures Delegated Act makes no reference to such requirement.
2 & 7	For financial undertakings that own other financial undertakings, regulatory or accounting level of group consolidation	The consolidation scope of Taxonomy disclosures should be the same as the one adopted by parent undertakings for their CSRD disclosures, while the FAQs indicate that only the prudential consolidation scope should apply. Indeed, it is key to keep consistency across related legislation to avoid unnecessary inconsistencies and costs. In fact, ultimately Taxonomy disclosures will be released within CSRD reporting.
38	Application of compliance with minimum safeguards at policyholders' level	The FAQs refer to the requirement of carrying out due diligence processes at policyholder level, but this requirement would be very costly and goes beyond EU and international requirements/guidelines.
29	Applicable KPIs of undertakings subject to providing templates in Annex XII DDA	The FAQs state that the annex IX is required for the Underwriting KPI, "*where applicable*". However, it is not clear where this would be applicable. This is important because it could require insurers having to fill in 5 complex templates on exposure to nuclear energy generation and fossil gas activities. The additional reporting on fossil gas and nuclear energy generation activities should only apply to the Investment KPI and so generally not be applicable for the Underwriting KPI. While it may be understandable that disclosures on such exposure could be relevant from a general sustainability reporting view, disclosures on such exposure are explicitly not part of the Underwriting KPI given its calculation and purpose under EU Taxonomy. Moreover, publishing such information would be operationally very challenging for insurers, as it would require an analysis at contract level that goes beyond the one required for the Underwriting KPI which is at product level.
43	For asset under management KPI, assessment of Taxonomy alignment of UCITS or AIF	The answer to FAQ 4 indicates that the insurer who has exposure to investments via an asset manager should use the Taxonomy KPIs from the asset manager to assess Taxonomy alignment. The answer to FAQ 43 indicates that this is only the case where the asset manager has selected the investments; if the insurer has selected the investments, the insurer must assess the Taxonomy alignment and the asset manager has no responsibility. If the two answers are read separately and not in conjunction, users may conclude that there is an internal contradiction in the FAQs: to prevent any confusion and misunderstanding, the FAQs should clarify in both FAQ 4 and FAQ 43 the correct and full manner for addressing this matter, i.e. reading the two answers in conjunction.