Revision of EU rules on sustainable finance disclosure

Annex I: Detailed response by Insurance Europe to the call for evidence for an impact assessment

Insurance Europe welcomes the European Commission's initiative to improve the Sustainable Finance Disclosure Regulation (SFDR) as part of its broader efforts to streamline sustainability reporting. While insurers support the SFDR's overarching objectives, aspects of the framework require clarification and simplification to ensure it delivers practical, meaningful outcomes.

To improve clarity, reduce duplication, and focus reporting on material, decision-useful information, the overall volume and complexity of disclosure requirements must be substantially reduced. This is especially important to ease the compliance burden on smaller companies.

Originally designed as a disclosure regime, the SFDR now functions as a de facto labelling system, as acknowledged by the Commission in its 2023 consultation. While this evolution should not necessarily lead to formalised product labels, it highlights the urgent need for clearer definitions and a more coherent structure. A central issue is the lack of legal clarity, particularly around core concepts such as "sustainable investment" under Article 2(17), which remains overly broad and inconsistently applied, increasing the risk of both greenwashing and greenhushing. The regulation also fails to sufficiently capture 'transition' investments, which are critical to supporting the EU's climate goals.

Certain disclosure requirements lack relevance or usability. Product-level templates are overly complex for retail investors and are poorly aligned with the suitability requirements under the Insurance Distribution Directive (IDD). Persistent data gaps further exacerbate implementation challenges and create disproportionate costs for smaller firms.

At the entity level, Principal Adverse Impact (PAI) disclosures often duplicate information required under the Corporate Sustainability Reporting Directive (CSRD), creating unnecessary administrative burdens. Additional overlaps with other legislation such as the EU Taxonomy, MiFID II, and Solvency II further complicate compliance. In particular, the Taxonomy's limited economic coverage weakens its usefulness in SFDR-aligned metrics. This challenge is exacerbated the proposed expansion of the Taxonomy's scope in the Omnibus package, which must be carefully considered—especially in view of a possible link between sustainable product classifications and Taxonomy-based metrics.

These overlaps and inconsistencies highlight the need for greater alignment across sustainability-related frameworks. In this context, Insurance Europe strongly supports aligning the SFDR review with the Omnibus Package and broader efforts to streamline sustainability reporting. In the ongoing review of the ESRS, data points derived from other EU legislation, as listed in Appendix B of ESRS 2, should be directly incorporated into CSRD reporting requirements, including a targeted and relevant selection of the 16 PAI indicators required under the SFDR. We would recommend requesting a reduction in certain key PAIs, such as CO_2 emissions and carbon footprint, depending on the asset class. These indicators should also be included in the voluntary SME standard (VSME) to ensure broader and more consistent data coverage. Interdependencies between the SFDR and CSRD must be carefully managed, particularly in relation to data availability. Any revision of the SFDR's PAI indicators should be preceded by corresponding updates to the ESRS to maintain coherence.

It is important that the Commission clearly affirms the SFDR's primary purpose as supporting informed investment decisions by end-investors. While some aspects of the SFDR may also serve supervisory purposes, the regulation's core objective should remain centred on consumers. Insurance Europe therefore calls for a proportionate and user-friendly framework that prioritises the delivery of clear and meaningful information.

The review should also consider the impact of SFDR on competitiveness and the inclusivity of sustainability goals. Sustainable financial products must remain competitive with comparable non-sustainable alternatives, particularly for EU market participants active globally. In parallel, disclosures should not focus solely on climate-

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related objectives but must also reflect products targeting broader environmental (E) or social (S) objectives, supporting the full range of sustainability efforts.

Policy Options

European (re)insurers support a review of the SFDR that prioritises improved clarity, usability, and coherence—while preserving its core function as a transparency framework rather than transforming it into a formal labelling regime. Preserving the regulation's original approach safeguards flexibility and avoids rigid product categorisation, which is essential to accommodate the wide range of sustainability strategies in the market.

Given the significant investments (re)insurers have already made to implement the existing framework—particularly the now-established product disclosure regime under Articles 6, 8, and 9— a targeted review would enhance the regulation's effectiveness without undermining progress to date.

To support legal certainty and reduce administrative burden, coordination between the Level 1 and Level 2 reviews is essential. SFDR entity-level disclosures should be aligned with CSRD reporting. In this context, a substantial simplification of entity-level reporting is needed, including a reduction in the number of required indicators—especially in light of the ESRS simplification proposals under the Omnibus package. Once group-level PAI disclosures are made under the CSRD, this should be deemed sufficient to meet Article 4 SFDR obligations.

Should the European Commission decide to introduce such a system, several key conditions must be met to ensure it is workable, inclusive, and aligned with the needs of insurers and investors alike.

First, any categorisation framework should be simple, clearly defined, and thoroughly consumer tested. It must be designed to accommodate the diverse range of insurance-based products—including multi-asset funds and diversified portfolios such as general accounts—that often include a wide array of underlying investment options. These product types may face significant challenges in meeting rigid thresholds. An overreliance on Taxonomy-based metrics could reduce flexibility, distort competition, and exclude essential 'transition' finance. Metrics used for categorisation should reflect the broad range of instruments typically held in insurance portfolios (e.g., government bonds, retail and non-retail products) and avoid creating unintended barriers for alternative or non-standard products. A well-designed product categorisation system, meeting these criteria, could ultimately help retail investors better understand the sustainability-related objectives and strategies of financial products, while also supporting the advisory process.

The framework must also avoid penalising vital asset classes such as securitisations or natural catastrophe (NatCat) bonds, which play an important role in enhancing societal and economic resilience to climate risks. As highlighted by EIOPA in a speech by Petra Hielkema at the CRO Forum in March 2024, such instruments are critical for climate adaptation and disaster recovery.

Furthermore, any product categorisation system must include a realistic implementation timeline, with a grandfathering period for existing products and an initial voluntary phase to allow market participants to adapt. Thresholds and eligibility criteria must be defined at the EU level but remain flexible and scalable to accommodate market diversity. The framework should also be fully aligned with related legislation, such as the Insurance Distribution Directive (IDD) and MiFID II, to ensure consistency with investor preference assessments. Compatibility with international standards is essential to avoid regulatory fragmentation. Additionally, it should better integrate sovereign exposures, which are currently penalised under the SFDR despite their importance for portfolio diversification, asset-liability matching, and stable returns.

While Insurance Europe acknowledges the Platform on Sustainable Finance's proposals as a constructive step forward, further refinement and clarification are required before any implementation can take place.