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EU Commission
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Cc: Olivier Guersent, Director General DG FISMA

PEIF's views on the TEG report on EU taxonomy

9 September 2019

Dear Commissioner,

I am writing to you in my capacity as Chairman of the Pan-European Insurance Forum (PEIF), a forum for the CEOs of major European insurers to exchange and present views on policy and regulatory issues amongst themselves and with others.

In light of the Paris Agreement on climate change, PEIF recognizes that the financial services industry has an important role to support the transition to a low-carbon, more resource-efficient and sustainable economy by integrating sustainability considerations into its business activities.
In fact, PEIF members have been at the forefront of sustainable finance by various initiatives including committing to coal divestments and towards climate neutral investment portfolios, provision of climate risk insurance solutions and supporting the UN Principles for Responsible Investment as well as Sustainable Insurance.
Further to this and in order to mainstream sustainability considerations, we believe that a certain level of regulation is necessary. Against this background, PEIF members fundamentally support the European Commission's Action Plan on financing sustainable growth and have been actively engaged in discussions with stakeholders.

In this context, PEIF welcomes recent developments beyond a narrowly defined 'deep green' taxonomy (focus on activities that are already low carbon) and towards a more differentiated 'shades of green' framework expanding the scope to transition and enabling activities. Both types of activities are crucial to support the necessary transformation process of the economy.

Notwithstanding the above, this letter intends to express our significant concern that the well-intended envisaged taxonomy legislation could fail to achieve its goals unless the following considerations are addressed:

- **Impediments with respect to products and investments**
  - Under Solvency II insurers are required to hold highly diversified portfolios that are matched to the characteristics of their liabilities. As part of the resulting investment strategy, insurers hold substantial shares of their portfolios in sovereign bonds and fixed income securities of financial service providers and other corporates – with the former two not being included in the taxonomy. As a result, a mandatory application of the taxonomy for product disclosure would create the risk that insurers are unable to provide environmentally sustainable products thereby creating an unlevel playing field with other financial service providers.
  - The situation above is further aggravated by the limited supply of environmentally sustainable investments. Comparing the current supply of such investments with the total assets of the EU insurance industry illustrates that a short term re-allocation towards sustainable investments could trigger asset bubbles with adverse long-term return implications. This would challenge our obligations towards consumers and shareholders.

- **Lack of practicability**
  - The five step taxonomy process proposed in the latest report of the European Commission's Technical Expert Group (TEG) requires investors to assess individual company activities in combination with a 'do no significant harm' assessment on the basis of single operating sites. In order to conduct such an assessment, investors need ready-to-use data about the company or issuer performance on taxonomy eligible activities. However, due to the current lack of relevant sustainability data and the absence of reliable / mandatory reporting by investee companies, investors would have to carry the burden of the required assessments alone. For financial market participants who invest in hundreds of different assets with thousands of different activities operated at millions of operating sites throughout the world such an approach is hardly feasible. In addition, this would entail material costs which would have to be borne ultimately by consumers thereby adversely impacting the return profile of such investments.

- **Liability concerns**
  - Due to the currently proposed collection and assessment of data by individual investors, the accuracy and consistency of results would be questionable. This raises major liability concerns regarding the ultimate responsibility for the correctness of the assessment vis-à-vis the customer as well as vis-à-vis the investee company. Moreover, differing assessment results counteract the idea of comparability and more transparency which is one of the main objectives of the taxonomy.

Against this background, PEIF supports the **use of the current taxonomy proposal on a voluntary basis only**.

However, PEIF appreciates the need for an effective framework to further the mainstreaming of sustainable finance including the provision of environmentally sustainable products by the financial service industry. This framework needs to be straightforward to apply, based on reliable data and provide legal certainty. At the same time it is indispensable to assess companies holistically and to focus on a forward-looking perspective in the analysis.

Therefore, PEIF suggests developing a complementary approach which puts the emphasis on the pathway of companies (and possibly sovereigns), based on long-term sustainability goals and strategies. In fact, such pathways already exist for the German coal exit as well as for more than 600 companies committing to the Science-Based Target initiative (SBTi). Such targets, pathways and milestones should be made public, thereby becoming market relevant information, which is subject to formal governance requirements. This could be complemented by further external verification processes. The assessment of corporate sustainability targets should be based on public transformation goals in line with scientific consensus. For greenhouse gas emissions, the Paris Agreement (targeting net-zero emissions by 2050) is a good reference. Concrete emission reduction paths can be derived from this agreement and its targets serve as a yardstick for assessing the goals, strategies and performance of companies. This would allow individual companies to develop their own pathways and the financial services industry to commit to a pathway for their portfolio(s).

As outlined above, PEIF believes that a meaningful yet practical framework is required in order to fulfil the ambition and sustainability objectives of the European Union. Such a framework would provide the unique opportunity for Europe to develop a global benchmark for sustainable finance.

We would welcome the opportunity to discuss this topic in further detail with you.

Best regards,

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Thomas Buberl
Chairman of the Pan European Insurance Forum

About the PEIF

The PEIF is a forum for the CEOs of major European headquartered international (re)insurers (Aegon, Allianz, AVIVA, AXA, GENERALI, MAPFRE, Munich Re, RSA, Swiss Re, UNIQA, and Zurich) to exchange and present views on policy and regulatory issues impacting the European insurance sector. PEIF aims to promote a better understanding and recognition of the role of the insurance business model in the European Union and to provide its Members with the opportunity to discuss major policy and strategic issues affecting the insurance business in Europe and worldwide.

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