ShareAction's response to EIOPA consultation on the amendments of supervisory reporting and public disclosure documents for insurance companies (EIOPA-BoS-21/002), 15 October 2021

ShareAction welcomes and supports the three new climate-change-related reporting requirements on assets that EIOPA proposes to introduce as part of its review of the Implementing Technical Standards that have complemented the regulatory framework for the European insurance sector since 2015. In our response to the consultation, we have focused on questions that relate to these sustainability requirements, found under the section 'sustainable investments and climate change-related risks to investments'.

Reporting requirement on sustainable investments

Proportion of the investments, in relation to total of investments that are directed at funding, or associated with economic activities identified as environmentally sustainable in the EU taxonomy

Question 1. Do you consider relevant to introduce a materiality threshold for the reporting requirement on the share of sustainable investments for undertakings not subject to the Non-Financial Reporting Directive (NFRD)? If so, which threshold would you propose?

ShareAction welcomes and supports this reporting requirement on sustainable investments and welcomes the broadening of the scope to all undertakings subject to Solvency II reporting requirements. Such a wider scope will allow supervisors, including national competent authorities, to receive all the data necessary to get a more accurate picture of the insurance industry and its alignment with or transition to sustainability objectives.

The alignment of Solvency II reporting requirements with the methodology and KPIs set out in Art. 8 Taxonomy Regulation Delegated Act will also ensure prompt regulatory coherence across various pieces of EU legislation, thereby also avoiding legal uncertainty and regulatory burden for insurers.

As EIOPA rightly mentions, given that the Corporate Sustainability Reporting Directive (CSRD) (currently under negotiation) is expected to enlarge the scope of undertakings covered by Article 8 of the Taxonomy Regulation, all large undertakings, and all undertakings listed on EU regulated markets (except listed micro-enterprises) will in any case be required to disclose these KPIs as part of the mandatory reporting requirements set out by the Taxonomy Regulation and its Delegated Act. Therefore, using these KPIs for prudential purposes will ensure consistency, with no additional burdens for the industry, which is already preparing for the enlarged scope provided for by CSRD.

However, ShareAction believes that this reporting requirement should be not subject to a materiality assessment, as introducing a materiality threshold will lower the quality of disclosure as whole and deprive supervisors and other users of key information.

Should it be deemed absolutely necessary to mitigate the broadening of the scope to all undertakings under Solvency II by introducing a materiality threshold for undertakings not subject to the NFRD, ShareAction recommends, at the very least, that such threshold should be set in the most cautious way, and as closely aligned with CSRD as possible. The threshold should be set in a way that does not significantly limit the broadening of the scope, as this would defeat the point of proposed amendment (i.e., the threshold should be set in such a way that a significant majority of undertakings not considered 'large undertakings', not-listed on EU regulated markets and/or classified as micro-enterprises would be considered within scope).

Reporting requirement on investments exposed to climate change-related transition risk

- *Full four-digit reporting of NACE codes for investments in economic activities under NACE sections A to N as laid down in Regulation (EC) No 1893/2006 (note: K is already being reported under Solvency II at full code).*
- *Reporting on the share of investments exposed to climate change-related transition risk, as a proportion of total investments.*

Question 2. Do you consider relevant to introduce a materiality threshold for reporting the share of investments exposed to climate change-related transition risk? If so, which threshold would you propose?

ShareAction supports EIOPA in the widening of the detailed NACE codes to be reported. This will ensure alignment with the EU Taxonomy and hence regulatory coherence and legal certainty.

ShareAction also welcomes the reporting requirement related to investments exposed to climate change-related transition risk. As noted by EIOPA, the insurance sector is exposed to climate change-related transition risks as regulations, policies, market actors' and customers' expectations and behaviours change in line with the increasingly urgent need to combat climate change and seek alignment with the objectives of the Paris Agreement, the European Green Deal and the renewed Sustainable Finance Strategy. It is thus very important that supervisors receive information allowing them to assess the extent to which insurers, and the insurance sector, are exposed to transition risks and what measures could be taken to mitigate such risks.

Given that the materialisation of transition risks to investments could be detrimental to policyholders, it is also important, from the perspective of policyholder protection, to allow insurers and supervisors to identify those risks early and to mitigate them.

In addition, we welcome the fact that the proposed reporting requirement is aligned with the latest (October 2021) implementing guidance of the Task Force on Climate-related Financial Disclosures (TCFD), which has been a central standard setter when it comes to the disclosure of climate-related risks, and which recommends that all companies, including insurers, to disclose 'the amount and extent of assets or business activities vulnerable to climate-related transition risks', so as to 'allows users to better understand potential financial exposure regarding such issues as possible impairment or stranding of assets, effects on the value of assets and liabilities, and changes in demand for products or services'.

However, we do not agree with EIOPA's proposal on the reporting of the *share* of investments exposed to climate change-related transition risk, and do not believe that a materiality threshold is appropriate here, because of the systemic nature of climate-related risks, which will always be material given that all companies need to transition to net-zero emissions by 2050, in line with the EU's emissions reduction target set in the European Green Deal. So instead, we encourage EIOPA to require asset-by-asset reporting on physical risk, without any materiality threshold introduced.

Reporting requirement on investments exposed to physical risk

- *Standardised reporting of the physical location of property in standardised manner: latitude & longitude OR country ISO Alpha-2 + postal code + city + streetname + streetnumber*
- *Reporting on the share of investments exposed to physical risk, as a proportion of total investments.*

Question 3. What could be a methodology for standardised reporting of climate change-related physical risk exposure for other investments than property?

We do not have a methodology to propose but ShareAction welcomes EIOPA's proposal to standardise the reporting on the physical location of properties and agrees with the proposed standardisation. We also support EIOPA's suggestion that it will seek to go further than the standard reporting of the geolocation and will look into the inclusion of further parameters in the methodology for standardised reporting, such as building standard, construction date, location of manufacturing or storage, etc.

ShareAction believes that all types of insurers' investments should be covered, not just property investments.

Question 4. Do you consider relevant to introduce a materiality threshold for reporting the share of investments exposed to climate change-related [physical] risk? If so, which threshold would you propose?

ShareAction welcomes the reporting requirement on investments exposed to climate change-related physical risk. This KPI will allow supervisors, including national competent authorities, to assess insurers' exposure to physical risk, which is a key component of insurers' exposure to climate-related risks more broadly, and can have consequences for financial stability.

Given that the materialisation of climate change-related physical risk to investments could be detrimental to policyholders, it is also important, from the perspective of policyholder protection, to allow insurers and supervisors to identify those risks early and to mitigate them.

In addition, we welcome the fact that the proposed reporting requirement is aligned with the latest (October 2021) implementing guidance published by the TCFD, which recommends that all companies, including insurers, to disclose 'the amount or extent of assets or business activities vulnerable to material climate-related physical risks', in view of 'allowing users to better understand potential financial exposure regarding such issues as impairment or stranding of assets, effects on the value of assets and liabilities, and cost of business interruptions'.

However, we do not agree with EIOPA's proposal on the reporting of the *share* of investments exposed to climate change-related physical risk, and do not believe that a materiality threshold is appropriate here, because of the systemic nature of climate related risks, which will always be material in certain geographical zones.

Instead, we encourage EIOPA to require asset-by-asset reporting on physical risk, without any materiality threshold.

Additional comments

- We encourage EIOPA to further align with the TCFD guidelines, in order for the EU to remain at the forefront of global efforts to tackle climate change and transition to a low-carbon economy. We encourage EIOPA to introduce (at least) the following reporting requirements, listed as part of the TCFD cross-industry, climate-related metrics: Disclosure of GHG emissions across the value chain of the organization (including the emissions of investee companies); Proportion of executive management remuneration linked to climate considerations.

- We encourage EIOPA to also require the disclosure of the extent to which insurers' investment and insurance underwriting activities are aligned with a well-below 2°C scenario, and the disclosure of transition plans specifically aligned with the goals of the Paris Agreement (i.e. with limiting warming to 1.5°C above pre-industrial levels) and with the EU's own emissions reduction commitments. Such transition plans should specify the individuals responsible for implementing the transition strategy and should include a remuneration policy incentivising senior managers to implement the company's transition strategy.

- In addition to its current work on asset-side reporting requirements, we support EIOPA's intention to develop reporting requirements on liabilities.