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# Responses and feedback to: Consultation Paper on EIOPA's advice regarding Article 8 of the Taxonomy Regulation

Fields marked with * are mandatory.

* Name of the respondent

PwC International Ltd

* The response should be treated confidentially and should not be published:

- ( ) yes
- (•) no

* Country

- ( ) AT - Austria
- ( ) BE - Belgium
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- ( ) HR - Croatia
- ( ) CY - Cyprus
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- ( ) DK - Denmark
- ( ) EE - Estonia
- ( ) [ID225] - EU-wide organisation
- ( ) FI - Finland
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- ( ) IE - Ireland
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Name of contact person

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*Question 1*

Do you agree that the extent to which insurance or reinsurance undertakings' 'assets' – in relation to 'total assets' - are directed at funding, or are associated with, economic activities that qualify as environmentally sustainable is an appropriate ratio?

As already described in the EIOPA explanatory note under "2.1 Non-financial undertakings' capital expenditure and operating expenditure related to assets and processes in taxonomy-compliant activities," the assets side of insurance undertakings mainly consists of investments that serve to cover obligations to policyholders.

Other items, such as intangible assets, receivables from insurance business (receivables from policyholders, intermediaries, reinsurers), other receivables and any other assets, are comparatively immaterial in terms of size. In our opinion, the assessment of other items for taxonomy compliance is not likely to contribute significantly to the transparency that this requirement is intended to achieve. In particular, there is the question of practicability as well as cost/benefit. In our view, consideration should therefore be given to whether it would not be more appropriate to use a subset of assets (essentially investments) as the basis for a suitable ratio for insurance companies. We further refer to our response to question 2.

*Question 2*

If you do not agree with the use of 'assets', would you agree to use the insurance or reinsurance undertaking's 'investments' that are directed at funding economic activities that qualify as environmentally sustainable? Would you differentiate investments held for unit-linked or index-linked contracts?

We agree that "investments" are an adequate indicator to achieve transparency. As explained in question 1, the asset side of an insurance company consists predominantly of "investments".

In our opinion, the following sub-aspects should be considered at this point:

Valuation: We support the idea of using the relevant accounting principles for financial reporting in the EU to define "Investments" as companies have already implemented the reporting standards. However, the application of IFRS might be rather unfavorable against the background that not all insurance companies (have to) prepare their accounts in accordance with IFRS.

Local GAAP as a valuation benchmark might lead to heterogeneity in terms of valuation within the EU.

In addition, the question is, whether the basis for determining the ratio should be the market value or the book value. In the case of book values, we see the possible disadvantage that a full write-off of items, for example, would eliminate the basis for taxonomy compliance. For example, if a property in the portfolio is valued at book value and fully depreciated, it would not be included in the KPI anymore.

For this reason, and in the interest of a common valuation basis at the EU level, it could be considered whether the market values according to Solvency II, which the insurance companies already determine, could serve as a basis. The Solvency II rules are valid in all EU countries for the majority of insurers, so that comparability, also across borders, is ensured.

However, possible limits to the Solvency II assessment would have to be taken into account: For example, a different scope of consolidation may result due to different consolidation rules between local GAAP and Solvency II. In addition, the deadlines for reporting under Solvency II will generally be later than those for reporting under commercial law. It would have to be investigated whether the availability of Solvency II market values could be critical in the area of investments.

Assets to be included: If Solvency II values are used, the category "Investments (other than assets held for index-linked and unit-linked contracts)" and the items "Property, plant & equipment held for own use" and "Investments held for unit-linked or index-linked contracts" should also be included in the indicator. The possible inclusion of the item "Property, plant & equipment held for own use" would complete the investments. This could provide an incentive to invest in its own building to achieve taxonomy compliance.

Investments held for unit-linked or index-linked contracts: "Investments held for unit-linked or index-linked contracts" can make up a significant portion of a life insurer's assets. In contrast to the traditional life insurance business, the insurance company provides a possible selection of funds for unit-linked or index-linked contracts, but the decision on the actual selection then lies with the policyholder, so that the insurance company cannot influence this. The final choice of fund lies with the policyholder and is beyond the control of the insurance company. Nevertheless, it should be considered to include the "Investments held for unit-linked or index-linked contracts", as otherwise a possibly significant component of the asset side would be neglected. It would make sense, if necessary, to explain what proportion of the figure to be reported is attributable to investments held for unit-linked or index-linked contracts and, thus, in which proportion of investments the final decision is not made by the insurance company. Another approach might be to divide the different kinds of investments held in assets shown in the balance sheet items into different portfolios and to subdivide the investment held for unit-linked or index-linked contracts as well into those with the choice left to the investors (multiple option products) and those where the decision is made by the insurance company.

Scope: We generally recommend that the entire investments and not only the new investments acquired in a financial year, but also the investments held in the investment portfolio, be checked for taxonomy conformity and reported as part of the key figure. Insurance companies have invested the majority of their capital in safer, long-term assets, so that the proportion of new investments is relatively small compared to the total investment portfolio. It might be possible to additionally disclose the new capital invested in a year separately to provide insight into the ambition level of the insurance company.

*Question 3*

Would you propose any additional key performance indicators for insurance and reinsurance undertakings to measure the extent to which the undertaking makes an effort in engaging more in environmentally sustainable activities?

See response to question 2.

*Question 4*

Do you agree to measure the insurers' and reinsurers' insurance activities corresponding to those identified as environmentally sustainable in the EU taxonomy by the proportion of the non-life 'gross premiums written' or - depending on the accounting framework - non-life 'revenue from insurance contracts issued' or 'total insurance revenue'?

We support the idea of using the relevant accounting principles for financial reporting in the EU. Nevertheless, and as already said above (response to question 2) not all insurance companies report in accordance with IFRS. To achieve comparability, the Solvency II regulations could be used and the "gross premiums written" in accordance with QRT S.05.01.01 defined as the basis. The Solvency II regulations must be implemented by most insurance companies and are identical across all EU countries, so that comparability is given.

In our view, it is unclear on which basis the "gross written premiums" should be based:
- Total gross written premiums of a non-life insurance company.
- Only the gross written premium generated from insurance lines that could potentially be taxonomy-compliant.

In general, we assume that the total gross written premium should be taken into account. However, certain business activities cannot meet the criteria at all, as they only partly address taxonomy-relevant objectives. (On 20 November 2020 the European Commission has published the draft delegated act setting out the technical screening criteria and defining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or adaptation. According to this draft delegated act "Non-life insurance" or "Reinsurance" may be taxonomy compliant, provided that - among others - the services are related to the underwriting of climate related perils (as set out in Appendix A of Annex II of the draft delegated act). For casualty business, for example, this means that insurance companies offering the casualty line of business cannot achieve taxonomy-compliance (based on current definition as laid down in Draft Annex II section 10) with this business. Therefore, it should be defined whether the premiums resulting from lines of business which, in principle, cannot be covered by the taxonomy as no screening criteria are defined, but which cannot be dispensed with either, should be included in the key figure or whether, if necessary, a separate disclosure should show that taxonomy conformity cannot be achieved for a certain share of the premium.

*Question 5*

Do you see merits in further exploring an alternative ratio that depicts the extent to which non-life insurance or reinsurance liabilities are associated with taxonomy activities?

We recommend including an additional ratio that shows the taxonomy-compliant premium generated in relation to the potential taxonomy-compliant premium (see response to question 4) to ensure the relevance and comparability of the KPIs.

In our view, the currently proposed ratio does not take into account ceded business when considering the insurance liabilities side, although ceded reinsurance is a relevant business activity. When assessing the premium collected by non-life insurance companies in line with the taxonomy, only the "gross premiums written" are taken into account, but not the reinsurance where the ceded business is located.
Since reinsurance is also part of the business activity, reinsurance should also be included in the KPI / the reporting.

*Question 6*

Do you agree that when assessing the insurance activities that correspond to environmentally sustainable economic activities insurers and reinsurers may have to apply judgement to determine a reasonable split?

We welcome the possibility of judgement as a pragmatic approach in the context of the implementation of the requirements. However, to ensure transparency, judgement should be accompanied by narrative reporting.

*Question 7*

Do you agree that when applying judgement, insurers and reinsurers shall provide a narrative on the split, together with information on the accounting policies used?

We agree that when using judgement, the derivation should be made transparent as well. Otherwise, comparability is only possible to a limited extent. The explanation should be part of the non-financial note.

*Question 8*

Can you provide insights into the prevalence of ancillary services to insurance activities, such as consultancy services, that enable taxonomy-relevant activities and how they are accounted for (e.g. as part of insurance or other revenue)?

No response.

*Question 9*

Do you agree that it is not necessary to distinguish different types of key performance indicators of insurance and reinsurance undertakings or by insurance or reinsurance activities?

See response to question 4.

*Question 10*

Do you agree that a distinction between non-life and life exposures is necessary?

We fully support that there should be a distinction between Life and Non-Life.

*Question 11*

Do you agree that the retrospective application of the disclosure requirements should be possible, but not required?

As already explained in question 2, we consider it necessary to also check the taxonomy alignment of the investments in the portfolio. This is particularly important in view of the long-term nature of the investment. Due to the extensive analysis of the investment portfolio and the data that is probably not yet fully available, we agree that a retrospective application should be possible, but not mandatory.

For the disclosure regarding premiums, the question arises what is meant by "those relevant to the time period as of when the disclosure rules start to apply". Non-life insurers usually have one-year contracts in their portfolio. These renew for one year at a time unless the policyholder cancels. Are the premiums resulting from the contract renewal also recorded as new business, or do "those relevant to the time period as of when the disclosure rules start to apply" only include actual new business. A definition at this point would be helpful.

*Question 12*

Can you share your insights into the relevance and usability of the recommended key performance indicators? Which key performance indicators are you currently disclosing or are you using for internal performance monitoring?

No response.

*Question 13*

Do you have any feedback on the costs of implementing the recommended key performance indicators? To which extent will you be able to use existing processes and data sources?

No response.

Please provide any further comments and feedback:

PwC International Ltd (PwC), on behalf of the PwC network, welcomes the opportunity to submit its views on EIOPA's draft advice to the European Commission specifying the reporting obligation under Art. 8 of the Taxonomy Regulation for insurers and reinsurers.

The disclosure requirements pursuing Art. 8 of the Taxonomy Regulation present both uncertainty and complexity for insurers and reinsurers falling within the scope of the Non-Financial Reporting Directive. We generally support the approach taken by EIOPA to identify relevant ratios for insurance and reinsurance undertakings.

Please see below a summary of our key remarks:
- With respect to the costs and benefits of the required disclosures, a focus on investments rather than total assets should be considered.
- Market values according to Solvency II could serve as a common basis for insurers and reinsurers which eliminates differences between IFRS and local GAAP to ensure comparability.
- We agree that assessing insurance activities that correspond to environmentally sustainable economic activities might require judgement which should be accompanied by narrative reporting.
- We generally recommend that the entire investments and not only the new investments acquired in a financial year, but also the investments held in the investment portfolio, be checked for taxonomy conformity

and reported as part of the key figure. Due to the extensive analysis of the investment portfolio and the data that is probably not yet fully available, we agree that a retrospective application should be possible, but not mandatory.

## Contact

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