

## **Comment**

**of the German Insurance Association (GDV)**

**ID-number 6437280268-55**

**on the**

**“Development of EU Ecolabel criteria for Retail Financial Products, Technical Report 3.0: Draft proposal for the product scope and criteria”**

**Gesamtverband der Deutschen  
Versicherungswirtschaft e. V.**

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## **Executive summary**

### **All IBIPs are rightly included in the scope**

The German insurers welcome the EU Commission's and JRC's plans to introduce an ecolabel for financial products. The insurance industry is an important partner in the transformation of the economy towards more sustainability and to achieving the goal of climate neutrality. German insurers manage assets of 1.75 trillion EUR in 2019<sup>1</sup>. The investment capacity of life insurers is largely built on IBIPs, which are dedicated to fulfilling insurers' long-term promises to their customers. An EU Ecolabel could therefore be an important tool for consumers with sustainability preferences and by this be an important pillar of the green transition. Therefore, the German insurers welcome the inclusion of all IBIPs in the scope of the EU Ecolabel.

### **Insurers need longer than six weeks for an in-depth assessment**

We believe that the overall process should not be rushed: The extension of the scope to all IBIPs was only introduced in the third and last technical report with a consultation period of only six weeks. Against this background, the insurance industry needs more time in order to profoundly contribute to the development of criteria which on the one hand fulfill high quality standards but on the other hand are feasible for the highly regulated general account model. In order to do so, it is essential to obtain feedback from our members and to have a thorough exchange with the Competent Body responsible for the overlooking of risk-sharing in the general account at a national level. Therefore, we urge the Commission and the JRC to conduct a further consultation of the criteria, so that our customers can benefit from ecolabelled insurance products.

### **Ring-fencing of ecolabelled products is not compatible with the core principles of the general account**

However, we believe that the criteria, in particular those for hybrid IBIPs and MOPs included in the last consultation, could exclude the German insurers if they do not appropriately take into account the specificities of the collective investment strategy in the general account of German insurers. This could exclude consumers from benefitting from ecolabelled products and would also be detrimental to the EU goals for a sustainable economy.

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<sup>1</sup> [Key Facts Booklet](#) – Fakten zur Versicherungswirtschaft

The German insurers generally welcome the approach taken that only a proportion of the assets held in the general account should be earmarked towards the EU Ecolabel license. However, the details of the criteria seem to be very restrictive and could in fact mean ring-fencing. If insurers are not able to apply the collective risk-sharing mechanisms which are a core feature of most German insurance products, consumers will not be able to benefit from with-profits, MOPs or hybrids with an EU Ecolabel. Finally, it needs to be ensured that the criteria remain proportionate and thus do not lead to additional costs for consumers.

**Clarification is needed that criteria apply only to accumulation phase of an IBIP with annuity**

Finally, we understand that the EU Ecolabel criteria only apply to the accumulation phase of an IBIP, if such products feature an annuity phase. A respective clarification is necessary. The primary aim of an annuity is the protection against financial losses due to a longevity risk. Additionally, this is the only way to ensure a level playing field with other providers that offer pure investments or products with a non-mandatory annuity.

**1. A further consultation is needed for the development of feasible criteria for the general account**

On 30 October 2020 the European Commission and the Joint Research Council published the third draft technical report on the EU Ecolabel for retail financial products.

The German insurers welcome that the European Commission and the JRC acknowledge insurance industry's role as an important partner in the transformation of the economy towards more sustainability and to achieving the goal of climate neutrality by including all insurance-based investment products in the scope of the EU Ecolabel.

If the scope of the EU Ecolabel is to be identical to that of the PRIIP Regulation, the definitions used in the Annex should be consistent with the terminology and definitions of the PRIIP Regulation. With regard to insurance-based investment products, the scope of the PRIIP Regulation is not only determined by Article 4 (2) but also by the exceptions stipulated in Article 2 (2) PRIIP Regulation. This should be reflected in the Ecolabel's definition of "insurance-based investment product".

The European insurance markets are dominated by products that make use of a collective capital investment pool (general account) in order to smooth the risks for consumers resulting from volatile asset investments. Pure unit-linked products represent only 11%<sup>2</sup> of the life insurance market in Germany. Most of our products are either products with profit participation or hybrid products – both usually with very long durations (up to 30 or more years). We believe that products that wholly or partially rely on a long-term collective investment strategy are particularly suitable for the EU Ecolabel purpose.

Therefore, from early on German insurers have been involved in the discussions on how to design the EU Ecolabel criteria that properly reflect the specificities of insurers' business model. However, the first two drafts published in March 2019 and December 2019 respectively only included funds and unit-linked insurance products. We understood that the first batch of criteria was to apply to purely unit-linked products and the scope would only be widened to other IBIPs once well-functioning criteria are developed and thoroughly consulted and tested with the industry. Therefore, our perception was that hybrid and multi-option IBIPs were supposed to be included at a later stage.

We generally support the inclusion of all insurance-based investment products (IBIPs) in the scope of the EU Ecolabel. However, if the criteria proposed only in the final draft were unsuitable for our business model, it would have long-term negative effects on the ability of insurers to offer ecolabelled products to their customers and would also be detrimental to the EU goals for a sustainable economy.

Against this background, it is very unfortunate that insurers are only given six weeks to analyse how the proposals that comprise ca. 150 pages and include eight different criteria apply to with-profits, MOPs and hybrids. Furthermore, the general account is regulated more strongly at national level than other products. Therefore, time is needed to assess carefully, how the criteria proposed at European level fit in the strongly regulated environment at national level insurers operate in. The German insurers believe that the design of suitable criteria needs more time and requires further thorough consultation with the providers.

Moreover, we believe that the criteria are not properly adapted for the specificities of the general account, as clearly requested in the comments provided by the insurance sector on the JRC's second technical report. The

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<sup>2</sup> Source: GDV (2020). If both accumulation and decumulation phases are taken into account, this number will be much smaller since most unit-linked products use collective pool in the decumulation phase

general account has to comply various regulatory, accounting or risk mitigation requirements in each Member State. It is highly regulated at national level to ensure long-term protection of guarantees and fair treatment of consumers. These circumstances should be carefully analysed to design suitable, valuable criteria for the EU Ecolabel, which thereby accomplishes comprehensible, additional customer value. The German insurers believe that the design of suitable criteria, especially for the general account, should not be rushed.

Since the aim of the ecolabel is to highlight 10-20% of particularly green products, it is of utmost importance that the EU ecolabel is made equally accessible to IBIPs, funds and other investment products. It is important that 10-20% of with-profits, hybrids and MOPs should be able to qualify for the EU Ecolabel. Therefore, it is key that the methodologies are thoroughly consulted and tested with the providers. For example, the European Commission [tested](#) the application of the Draft EU Ecolabel Criteria on UCITS equity funds. An analogous study should be conducted for with-profit, hybrid and multi-option IBIPs.

To sum up, we believe that it is not enough to have only one single consultation on IBIPs with stakeholders.

The German insurers urge the European Commission and the JRC to extend the consultation of the third report and to hold at least one further consultation on the ecolabel in Q1 2021 together with a test of the application of the criteria on IBIPs so the German insurers could provide detailed substantiated support for development of adequate criteria for IBIPs with collective account.

## **2. The traceability criteria should not undermine the core risk-sharing principles of insurers**

All insurers' customers share their investment and biometric risks in one single general account. Consumers, in particular those with low risk tolerance who prefer or whose risk tolerance only allow to invest in the general account in order to benefit from the stability of return and risk reduction, should also be able to purchase ecolabelled products.

Therefore, we welcome that the European Commission and the JRC acknowledge the role of the collective investment strategy of insurers. We also welcome the proposal to consider only some part of the general account that would correspond to the green products. This will ensure the

security, quality, liquidity, profitability and availability of the entire investment portfolio as a whole. It is rightly pointed out that ring-fencing would contradict the idea of the collective investment strategy.

It should be, however, clarified that for products that use the general account, criteria 1-8 do apply only to the respective part that corresponds to the ecolabelled products.

The German insurers welcome that only a proportion of the assets held in the general account should be earmarked towards the EU Ecolabel license.
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Unfortunately, we understand that the European Commission and the JRC impose “some form of accounting practice” that demonstrates that the assets cannot be transferred, and that the traceability should be demonstrated in a balance sheet to the Competent Body (pages 19 and 32, 3<sup>rd</sup> draft report).

We believe that the proposed traceability and separation would not work in the highly regulated environment of insurers since they de facto mean ring-fencing. Thus, the requirements would exclude our customers from the possibility of investing in ecolabelled IBIPs.

As previously mentioned, the purpose of the collective investment strategy is to ensure that the promises can be fulfilled at all times. This is done through collective risk-mitigation and profit sharing between policyholders and over time. Therefore, the assets in the general account belong to all of insurer’s customers and no customer or group possess their “own” assets. They purchase an insurance benefit, which usually includes biometric and investment risk protection. A fragmentation of the general account in which risks cannot be shared between different consumer groups would contradict the core idea of the collective investment strategy and hinder the risk mitigation. An EU Ecolabel should, therefore, not undermine the insurance principle.

It should be noted that for the time being the market of green assets is very small. But, even if there were sufficient green assets on the market, the size of the green pool corresponding to the ecolabelled products would be very small and not enable proper diversification still. Any fragmenting of the general account is extremely unusual and univocally rejected.

Likewise, the German insurers believe that the current proposed thresholds are set unrealistically high. As a result, many products would not be eligible for the EU Ecolabel.

Finally, the methodology to earmark the assets should be proportionate and not too burdensome for the manufacturers. The high implementation costs will be otherwise eventually borne by consumers making ecolabelled products more expensive and thus less attractive for consumers.

The details of the criteria seem to be very restrictive and could factually mean ring-fencing. If insurers are not able to apply the collective risk-sharing, consumers will not be able to benefit from with-profits.

### **3. It should be confirmed that the EU Ecolabel only applies to the accumulation phase of an IBIP**

Many IBIPs are retirement products that offer consumers an annuity once the end of the accumulation phase is reached. The primary purpose of annuities is to offer consumers protection against biometric longevity risks, meaning that they are first and foremost insurance products. Therefore, in the German market the annuity phase is excluded from the PRIIPs key information document (PRIIPs KID).

The criteria for the EU Ecolabel can only apply to the accumulation phase of an IBIP. Thereby a level playing field with other providers that offer pure investments without decumulation phase will be ensured and consumers will be able to compare different products, i.e. with or without decumulation phase. We consider it necessary to clarify that the EU Ecolabel only refers to the accumulation phase of an IBIP.

Berlin, 11.12.2020