

## **Comment**

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

**on the Impact Assessment on the Commission Delegated Regulation on a climate change mitigation and adaption taxonomy**

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Insurance and reinsurance companies are one of the largest institutional investor groups. The German insurance association GDV therefore welcomes the opportunity to comment on the Impact Assessment on the Commission Delegated Regulation on a climate change mitigation and adaptation taxonomy.

- German insurers welcome the aim of the taxonomy regulation to create uniform criteria to determine the environmental sustainability of economic activities.
- Improved transparency on sustainable economic activities is in the interest of Insurance companies. In order for the taxonomy to contribute to this goal, the necessary data must be provided by the real economy to investors in a standardised form ("ready-to-use") and be made available free of charge and barriers. To achieve this goal, we believe it is necessary to set up a central European register with all the relevant data. This register should be filled by the companies of the real economy.
- The distinction between enabling activities and transitioning activities must be transparent from the company data. Otherwise there would be a lack of practicability.
- The universe of taxonomy-compliant activities should be expanded rapidly, especially to include government bonds and those economic activities that have so far been regarded as predominantly environmentally neutral and that are hence not in the focus of the taxonomy regulation.
- We have concerns, that, depending on the actual design, developing criteria for "brown" activities could contradict to the technology neutral approach of the taxonomy. We are also concerned that going forward a brown taxonomy could lead the way to restrict the freedom of investments which is granted in Art. 133 of the Solvency II Directive.

## **1. Introduction**

The taxonomy regulation establishes a framework of uniform criteria to determine the environmental sustainability of an economic activity for the purpose of determining the degree of environmental sustainability of an investment. The Commission Delegated Regulation will define a framework of how to use the criteria and how to disclose the data. On 9 March 2020 the Technical Expert Group on Sustainable Finance (TEG) released its final report on the taxonomy which we expect to form the basis for the Delegated Regulation.

For the insurance industry as one of the largest institutional investor groups, usability of data is of utmost importance. Therefore, this Delegated Regulation is crucial for the usability of the whole taxonomy framework. Furthermore, the universe of taxonomy-compliant activities should be expanded rapidly, especially to include government bonds and those economic activities that have so far been regarded as predominantly environmentally neutral and that are therefore not in the focus of the taxonomy regulation. These investments such as government bonds and other environmentally neutral assets form a large part of the portfolios of the insurance industry.

## **2. Usability of data**

A classification system (taxonomy) is important in order to establish a common basic understanding of sustainable finance in Europe and the German insurance industry supports these efforts. The usability of an established classification system is key for institutional investors. Therefore, ready-to-use data and a central EU-wide register for this data is of utmost importance.

The final report of the TEG proposes, that the disclosure of relevant data of the companies of the real economy should be made in the non financial statement of the NFRD. Investors following a sustainable investment strategy or as financial market participants have to disclose the “greenness” of their investment portfolios would therefore have to scroll the non financial statement of each investee company to find the taxonomy-relevant data.

We are of the opinion, that such an approach would not be practicable and not support the goals of usability and enhanced transparency of the taxonomy. As a consequence such an approach would hinder the acceptance and dissemination of the taxonomy. Thus, we propose a European central register with all relevant data in a standardized ready-to-use

format free of charge and without barriers of entry. In this register data relating to enabling activities and transitioning activities should be clearly distinguishable from the data relating to other taxonomy-relevant data. Otherwise a respective disclosure by investors would not be possible.

### **3. Widening the scope**

Currently, the technical screening criteria focuses on 67 economic activities, which were identified as the most important activities in relation to climate change and climate change adaptation.

Nevertheless the portfolios of insurers are composed of a multitude of investments. These investments are predominantly in government bonds and in titles issued by credit institutions and banks. Many of the constituents of the portfolios are issuers performing economic activities, that have so far been regarded as predominantly environmentally neutral and are therefore not in the focus of the taxonomy regulation.

In consequence the degree of “greenness” of any portfolio will currently be calculated considering only a small extract of possible and investable economic activities. This can lead to misinterpretations by investors, clients and shareholders, especially when the insurance company follows a serious sustainable investment strategy.

Furthermore, insurance companies have to take into account the Prudent Person Principle when investing the funds of their clients. Therefore, investments are wide spread and for instance government bonds and covered bonds are an important and integral part of overall assets under management in order to meet customer obligations.

Thus, a rapidly expansion of the taxonomy on the mentioned assets is crucial for a more truthful and transparent disclosure of the degree of greenness and the acceptance and dissemination of the taxonomy.

### **4. Developing criteria for “brown” economic activities**

The TEG considers in its final technical report to develop criteria for "brown" economic activities, even if the TEG recommends a different word than “brown”. We are concerned that, depending on the actual design, such a classification of brown economic activities might contradict the technology-neutral approach of taxonomy. The technology-neutral approach is suitable for covering all sectors of the economy and for creating an incentive for brown industries to issue sustainable corporate bonds and

to follow a path of transition. By developing criteria for brown economic activities, the desired transition of the economy could be hindered rather than promoted, at least in a transitional period. We would also remind that the development of a brown taxonomy should not restrict the freedom of investments which is granted in Art. 133 of the Solvency II Directive.

Berlin, 20. April 2020