

AMICE Response to the questionnaire by the High Level Expert Group on sustainable finance interim report

AMICE represents mutual and cooperative insurers across Europe. Mutual and cooperative insurers have a market share of more than 30% of the European insurance sector, with more than €420 billion in premiums written and over 410 million policyholders across Europe. At the global level, the sector is represented by ICMIF which is a federation of 290 organisations based in 74 countries, representing 6.8% of the global insurance market (by premium income)¹.

AMICE, together with its global organisation, ICMIF, welcomes the report and congratulates the authors on the analysis. We fully support the conclusions which identify many key issues which could help move the EU towards a truly sustainable financial system.

2. Your opinion

Question 1. From your constituency's point of view, what is the most important issue that needs to be addressed to move towards sustainable finance? (sustainable finance being understood as improving the contribution of finance to long-term sustainable and inclusive growth, as well as strengthening financial stability by considering material environmental, social and governance factors)

For the mutual and cooperative sector, the overarching issue would be the recognition of the importance of the existence of a diversity of business models in the financial sector which ensures stability and helps avoid systemic risk (see The Centre for European Policy Studies (CEPS) research studies of diversity in European banking (CEPS, 2009 and 2010)²). This diversity of business models generally relies upon a balance between public and private ownership, with the private sector comprising external shareholder-owned firms, other private ownership such as private equity, and a range of 'stakeholder ownership' models including co-operative banks/insurers, mutuals and credit unions. Two recent AMICE publications provide good examples of the diversity in the mutual insurance sector: "[Good practices vis-à-vis staff, member-policyholders and society](#)" and "[From past to present: a valuable model](#)"

For the (mutual and cooperative) insurance sector, a second overarching issue would be to ensure that legislation takes into account the long-term focus of insurance which is even more intrinsic to the mutual/cooperative model since there are no external shareholders to remunerate. As stated on page 16 of the interim report, "Many firms and financial institutions that wish to invest in long-term value creation are often subject to short-term market and regulatory pressures...".

Develop a classification system for sustainable assets and financial products

Question 2. What do you think such an EU taxonomy for sustainable assets and financial products should include?

No comment

Establish a European standard and label for green bonds and other sustainable assets

Question 3. What considerations should the EU keep in mind when establishing a European standard and label for green bonds and other sustainable assets? How can the EU ensure high quality standards and labels that avoid misuse/green-washing?

¹ ICMIF Members: Key Statistics 2015, <https://www.icmif.org/icmif-members-key-statistics-2015>

² http://aei.pitt.edu/32647/1/70_Investigating_Diversity_in_the_Banking_Sector_in_Europe.pdf

AMICE supports the need for a more standardised definition with a clear classification system for the assets that can be considered as “sustainable” which would be helpful in particular to avoid misuse of labels and standards and to address concerns such as “green-washing. An EU level standard/label should be inclusive and should not be overly restrictive since insurers have many assets to invest and the number of sustainable funds is likely to be limited. Consideration should be given to making such a standard/label open to other markets.

The Green bond principles are a good framework. Proceeds from green bonds (as well as social bonds) should be earmarked for sustainable projects. Moreover a robust system must be in place that ensures that the issuer of bonds has the capacity to identify what is a green (social) project and what is not. Without this capacity and a robust framework the risk of greenwashing is high. The issuer should report at least on a yearly basis how proceeds from the bond have been used and the outcome of the investments. Some kind of third party verification would be helpful.

Any system must be accessible to SMEs and all business models, not just large organisations, since it could otherwise restrict the development of sustainable investments.

We would discourage the use of brown penalising factors.

Create “Sustainable Infrastructure Europe” to channel finance into sustainable projects

Question 4. What key services do you think an entity like “Sustainable Infrastructure Europe” should provide, more specifically in terms of advisory services and connecting public authorities with private investors?

The EU has a unique opportunity to set the tone for SDG investing. The EU could help by providing policy support and catalytic funding instruments, and to deploy innovative sustainable finance approaches as a fundament for a move towards sustainable finance. A “Sustainable Infrastructure Europe” entity could identify and address actual and perceived regulatory barriers and provide incentives to investments in sustainable infrastructure.

A huge proportion of EU companies are SMEs so assistance/advice to this sector should be a priority, for example a standardised framework for SMEs would be useful. It is important that they can be part of the sustainable solutions without additional reporting and legal burdens.

Such an entity could help SMEs to jointly invest in e.g. infrastructure.

Mismatched time horizons and short-termism versus long-term orientation

Question 5. It is frequently stated that the inherent short-termism in finance, especially financial markets, represents a distraction from, or even obstacle to, a long-term orientation in economic decision-making, including investments that are essential for sustainability. Do you agree with this statement?

Yes

No

Don't know / no opinion / not relevant

Question 5.1. If you agree with this statement, which sectors of the economy and financial system are particularly affected by the 'mismatch of time horizons'? What are possible measures to resolve or attenuate this conflict?

The energy and insurance sectors are particularly affected.

All prudential, e.g. Solvency II, and accounting regulations should be reviewed to ensure they take into account the long-term focus of insurance, as well as the diverse types of business model.

There should be true application of proportionality: companies should not be so overburdened with layers of regulation that they lose their overall focus.

Investing in sustainable growth and considering environmental, social and governance factors – and recognising these as material for the financial sector – demands a long term orientation. Change of

our risk models (and those of regulators) might be needed to resolve the conflict between short term and long term, especially in terms of profit-risk.

Companies with long term and multi-stakeholder orientation rather than short term shareholder orientation are particularly affected. Shareholders with a focus on short term shareholder value hinder or even sabotage the sustainable strategies of those companies.

Governance of the investment and analyst community

Question 6. What key levers do you think the EU could use to best align the investment and analyst community with long-term sustainability considerations in the real economy?

No comment

A strong pipeline of sustainable projects for investment

Question 7. How can the EU best create a strong and visible pipeline of sustainable investment projects ready for investment at scale?

EU countries should issue government bonds that are sustainable. Today, as far as we are aware, only Poland and France have issued green government bonds. There is a big market opportunity here for governments. Moreover if governments issued green bonds these would probably be considered as an attractive investment with low risk by many investors. Many life and non-life insurance companies hold government bonds and would be happy to invest in green/social government bonds. Green bonds issued by states would be a great way for the European countries to finance large infrastructure investments.

Integrating sustainability and long-term perspectives into credit ratings

Question 8. What are some of the most effective ways to encourage credit rating agencies to take into consideration ESG factors and/or long-term risk factors?

Please choose 1 option from the list below

Create a European credit rating agency designed to track long-term sustainability risks

Require all credit rating agencies to disclose whether and how they consider TCFD-related information in their credit ratings

Require all credit rating agencies to include ESG factors as part of their rating

All of the above

Other

Question 8.1 Please specify what other ways you would deem most effective in encouraging credit rating agencies to take into consideration ESG and/or long-term risk factors.

Although AMICE does support the aim of including ESG and/or long-term sustainability factors in an integrated way in country and company ratings, we have already underlined the systemic risk of dependency on a few market players in the credit rating industry with high market entry barriers. The current Solvency II legislation increases the dependency on credit rating agencies and leads to excessive costs for insurance companies. These two issues should not be exacerbated by the addition of ESG factors to ratings. (For more information, please refer to AMICE's proposal under the Solvency II review)

Role of banks

Question 9. What would be the best way to involve banks more strongly on sustainability, particularly through long-term lending and project finance?

No comment

Role of insurers

Question 10. What would be the best way to involve insurers more strongly on sustainability, particularly through long-term investment?

Reducing the regulatory burden would allow mutual insurers to focus more on their core business - protecting policyholders and their assets - rather than on reporting to external stakeholders.

Reducing the short-term focus imposed by regulation, for example in the treatment of equity risk under Solvency II, would enable insurers to invest sustainably. “Investing in listed equities or property is a decisive factor in improving the performance of an insurance company and consistent with asset and liability management studies. Long-term investments are a source of additional returns for insurers which are essential for improving the competitiveness of life and non-life insurance products, participating in the efficiency of the capital and solvency management of insurers and supporting the financing needs of the economy.... Solvency II should therefore not discourage investments in those assets because of a wrong assessment of the true level of risks associated with their holding when managed with a long-term view.” (AMICE letter to European Commission)

There will be many investment opportunities for sustainable investments in the private sector. However, investing in private equity investments, i.e. non liquid assets, is a problem with the current Solvency rules and makes these investments less attractive.

Sustainable assets should be attractive in terms of risk/reward.

As some assets are less ‘liquid’, a secondary market of sustainable assets should be developed.

Social dimensions

Question 11. What do you think should be the priority when mobilising private capital for social dimensions of sustainable development?

No comment

Other

Question 12. Do you have any comments on the policy recommendations or policy areas mentioned in the Interim Report but not mentioned in this survey?

Accounting: AMICE fully supports the need to ensure that IFRS does not create an additional burden for insurers, particularly for SMEs and mutual/cooperative insurers.

See page 28 “ensure that accounting standards (combined, in some cases, with prudential standards) do not present an obstacle to sustainability and long-term investment”

and page 29 “the insurance sector, which due to the long-term nature of many of its liabilities, could well invest more in equities. But it is obliged through IFRS to report the current market value of its equity investments or to consider depending on the accounting classification, the equity as ‘impaired’ in case of a substantial downward movement”

and page 55 “Integrating sustainability into accounting practices more effectively and examining whether some aspects of current accounting frameworks aggravate undue balance sheet volatility of firms focused on the longer term.”

Insurance supervision: encouraging supervisory authorities to take account of ESG factors in carrying out their mandate should not lead to extra reporting for insurance companies, particularly SMEs.

Question 13. In your view, is there any other area that the expert group should cover in their work?

No comment