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Greenwashing: one of the barriers to the transition

The financial sector plays an important role in financing a timely transition to a more sustainable economy. Progress is being made with an increasing number of insurance and pension providers who are now offering products with sustainability features or making net zero commitments. However, in a context where the regulatory framework is yet to be completed and where there is constant evolution there is a risk that insurance and pensions providers make misleading claims about their sustainability credentials – i.e., what colloquially is referred to as greenwashing.

Greenwashing has an important impact as it can erode society's trust in the role played by the financial sector in financing the transition, making consumers less prone to invest their money in a sustainable way (for example in life insurance) or to purchase non-life insurance products from insurance undertakings with substantiated sustainability credentials. Indeed, the emergence of greenwashing cases, albeit none identified by the European Insurance and Occupational Pensions Authority (EIOPA) so far in the European insurance and pension sectors, is already having some possible spill-over effects.

A recent Eurobarometer survey carried out by EIOPA shows that in the European Union (EU) 63% of consumers do not trust sustainability claims made by providers. Further, greenwashing can create reputational and regulatory risks for providers, which for fear of being accused of greenwashing might reduce their sustainable offerings. Given its important impact, EIOPA is committed to tackling greenwashing.

The EU's sustainable finance regulatory framework already provides useful regulatory tools to tackle greenwashing. The Sustainable Finance Disclosure Regulation (SFDR) gives transparency to investors on how providers and products affect the environment or society. The Taxonomy Regulation (TR) gives clarity on what economic activities are environmentally sustainable. The new requirements in the Insurance Distribution Directive introduce sustainability objectives and preferences in the product manufacturing and advice processes. The Corporate Sustainability Reporting Directive (CSRD) will require the disclosure of detailed information on the impacts of entities on sustainability factors thereby substantially increasing the availability of sustainability data, including for the reporting obligations of providers.

However, there are some limitations – also because the EU has been a front runner in this sphere which is rapidly evolving. Both the SFDR and TR, in addition to their interrelation, introduce complex and sometimes unfamiliar concepts, which can be challenging for consumers to navigate and assess, and challenging for the industry to implement.

Further, the SFDR was not intended to create labels but it is being used as a labelling regime, and the first CSRD reporting will only come in 2025 based on 2024 data. Additionally, while insurance providers will have to report a key performance indicator related to their underwriting activities under the Taxonomy Regulation, greenwashing in non-life insurance remains largely unaddressed by the current regulatory framework. These limitations coupled with a lack of clarity around what is and what is not greenwashing, can exacerbate potential greenwashing.

Tackling greenwashing is therefore imperative for restoring and strengthening consumer trust in the ability of providers to allocate resources sustainably and support a timely transition to a sustainable economy. The EU sustainable finance regulatory framework needs to be completed and to include a clear definition of greenwashing. Its implementation by providers and consequential supervision by competent authorities focused on the overall aims of the framework are crucial.

Tackling greenwashing to harness the financial sector's role in financing the transition.

EIOPA continues to take an active role in tackling greenwashing as this is essential to harness the financial sector's role in financing the transition. EIOPA is working with the other European Supervisory Authorities to respond to the EC's Call for Advice on greenwashing, which includes establishing a cross-sectoral understanding of greenwashing. EIOPA is also integrating the monitoring of and mitigating of greenwashing risks across all its supervisory tools and activities. Further, EIOPA took note of the recently proposed Directive by the European Commission (EC) on the substantiation of environmental claims to tackle greenwashing in business to consumer communications in all sectors of society.