

THE EU SUSTAINABLE FINANCE TAXONOMY FROM THE PERSPECTIVE OF THE INSURANCE AND REINSURANCE SECTOR

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ABSTRACT

This article investigates how much investment held by insurers may be eligible to the EU sustainable finance taxonomy. To this aim, Solvency II item-by-item investment data is employed. As part of the Green Deal, the Commission presented the European Green Deal Investment Plan, which will mobilize at least €1 trillion of sustainable investments over the next decade. Our results suggest that currently only a small portion of the insurer's investments are made in economic activities which might be eligible to the EU sustainable finance taxonomy as the insurer's exposures are mainly concentrating toward financial activities. On one hand, this can be interpreted as an indicator of limited exposure to transition risk for the insurance sector but on the other hand also indicates that insurers have the possibility to contribute more significantly to transitioning to a lower carbon society in the future. As major long-term investors, insurers could play a key role in the transition towards more sustainable society. In this respect, the taxonomy can help insurers by providing clarity in identifying sustainable economic activities and avoiding reputational risks.

1. INTRODUCTION

Following the adoption by the EU of the Paris Agreement⁹⁷ on climate change and the UN 2030 Agenda for Sustainable Development⁹⁸, the “European Green Deal” (COM, 2019) seeks to make Europe the first climate neutral continent by 2050. Sustainability and the transition to a low-carbon, more resource-efficient and circular economy are key in ensuring long-term competitiveness of the EU economy. In this regard, the EU sustainable finance taxonomy (hereinafter, the taxonomy) is a tool designed to facilitate the identification of sustainable economic activities with the ultimate goal to reorient capital flows towards sustainable investment. To assess how much investment held by insurers may be eligible to the taxonomy, granular Solvency II investment data reported by the European

⁹⁶ European Insurance and Occupational Pensions Authority (EIOPA), members of the Technical Expert Group on Sustainable Finance.

⁹⁷ http://unfccc.int/paris_agreement/items/9485.php

⁹⁸ <https://sustainabledevelopment.un.org/post2015/transformingourworld>

solo insurers and reinsurers for Q3 2019 have been mapped against the economic activities covered the taxonomy through the relevant NACE⁹⁹ codes. This overview will allow us to obtain a better idea to which extend insurers investments could contribute to the transition towards a low carbon economy.

2. THE EU SUSTAINABLE FINANCE TAXONOMY AND ITS USE BY INSURANCE AND REINSURANCE UNDERTAKINGS

BACKGROUND AND OBJECTIVES

In 2016, the Commission appointed a High-Level Expert Group on sustainable finance with a mandate to recommend financial reforms on which to base the EU strategy on sustainable finance. Beginning of 2018, this expert group published a report (HLEG, 2018) advocating, among other recommendations, for the introduction of a unified EU classification system - or taxonomy – to provide clarity on which activities can be considered ‘sustainable’.

In order to gradually create such a unified classification system, the European Commission prepared a proposal for a regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation) in May 2018¹⁰⁰ and set up a Technical Expert Group (TEG) to develop recommendations on the technical criteria for the identification of sustainable activities. In March 2020, the TEG published its final report on taxonomy (TEG, 2020), which sets out the basis for a future taxonomy in legislation.

The main goal of the taxonomy is to help investors and companies make informed investment decisions on environmentally friendly economic activities. The taxonomy is a classification tool with a list of economic activities with performance criteria for their contribution to six environmental objectives: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy, waste prevention and recycling; pollution prevention and control; and protection of healthy ecosystems.

To be included in the proposed taxonomy, an economic activity must contribute substantially to at least one environmental objective and do no significant harm (DNSH) to the other five, as well as meet minimum social safeguards (e.g. OECD Guidelines on Multinational Enterprises and UN Guiding Principles on Business and Human Rights).

METHODOLOGY

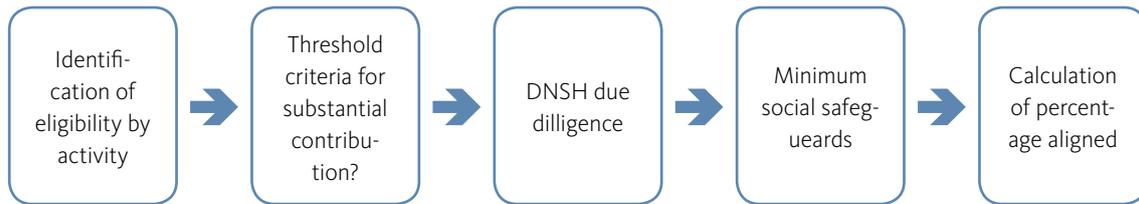
In practice, the taxonomy is a five steps process as shown in Figure 1. In order to use the taxonomy, companies will first need to identify which economy activities could be eligible using the NACE industrial classification system of economic activities. Second, for each identified activity, they need to assess whether the activity meets the relevant

⁹⁹ NACE is the statistical classification of economic activities in the European Community and corresponds to a four-digit classification providing the framework for collecting and presenting a large range of statistical data according to economic activity.

¹⁰⁰ https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en#risks

criteria for a substantial contribution. Third, they will also need to assess if the activity is meeting the DNSH criteria. Fourth, it is also required to verify that the activity do not violate minimum safeguards. Finally, they will for example have to calculate the proportion of turnover aligned with the Taxonomy.

Figure 1: Taxonomy - a 5 steps process.



SECTORS AND ACTIVITIES

The taxonomy will be developed gradually. The TEG report covers activities that make a substantial contribution to climate change mitigation and adaptation. More sectors and activities will be added in the future, including activities that contribute significantly to other environmental objectives. The list of activities will also be reviewed on a continuous basis to cope with the technological developments.

For climate change mitigation, the TEG identified six relevant macro-sectors based on GHG emissions (i.e. Agriculture, forestry and fishing; Manufacturing; Electricity, gas, steam and air conditioning supply; Water, sewerage, waste and remediation; Transportation and storage; Information and Communication Technologies). In addition, Buildings were identified as a critical cross-cutting issue, given their high contribution to CO₂ emissions in the EU; under the NACE-code classification Buildings would mainly correspond to two macro-sectors (Construction and Real estate activities, with application to other sectors where appropriate). For climate change adaptation, the TEG identified also the provision of non-life insurance (corresponding to the macro-sector Financial and insurance activities under the NACE classification) and Engineering activities and related technical consultancy (under NACE macro-sector Professional, scientific and technical activities) dedicated to adaptation to climate change.

For economic activities within those sectors, technical screening criteria were developed in order to identify:

- › activities that are low carbon, already compatible with a net zero carbon economy;
- › activities that could contribute to a transition to a zero net emissions economy but are not currently operating at that level;
- › activities that enable low carbon performance or enable substantial emissions reductions;
- › activities that could contribute to build climate resilience substantially reducing the negative effects of climate change.

The TEG has identified priority activities within each sector (i.e. not all activities within a macro sector are eligible to the taxonomy). Table 1 provides the overview of all NACE macro-sectors indicating whether they include economic activities currently covered by the taxonomy, either contributing to climate change mitigation and/or climate change adaptation.

Table 1: NACE macro-sectors codes covered by the taxonomy.

NACE Macro-sectors	Climate change mitigation	Climate change adaptation
A - Agriculture, forestry and fishing	✓	✓
B - Mining and quarrying		
C - Manufacturing	✓	✓
D - Electricity, gas, steam and air conditioning supply	✓	✓
E - Water supply; sewerage; waste management and remediation activities	✓	✓
F - Construction	✓	✓
G - Wholesale and retail trade; repair of motor vehicles and motorcycles		
H - Transporting and storage	✓	✓
I - Accommodation and food service activities		
J - Information and communication	✓	
K - Financial and insurance activities		✓
L - Real estate activities	✓	
M - Professional, scientific and technical activities		✓
N - Administrative and support service activities		
O - Public administration and defence; compulsory social security		
P - Education		
Q - Human health and social work activities		
R - Arts, entertainment and recreation		
S - Other services activities		
T - Activities of households as employers; undifferentiated goods - and services - producing activities of households for own use		
U - Activities of extraterritorial organisations and bodies		

REACTIONS TO THE TAXONOMY

The need of an EU taxonomy for the effective implementation of the entire EU reforms on sustainable finance has been often highlighted (Siri & Zhu, 2019). However, the establishment of the taxonomy has encountered some critics related to the rigidity of administrative procedures to decide which activities are included in the official classification as well as the lobbying and political pressure that could influence such decisions. Some papers argue that a market-led approach could be more suitable in view of the dynamism in the field of sustainable finance, e.g. (Schoenmaker, 2018). Other critics highlight that the taxonomy follows a binary approach that neither takes into account the 'shades of green' nor the context and consequently, it would not provide the necessary incentives for investors (Caldecott, 2019).

The financial industry has overall welcomed the taxonomy but at the same time raised the practical challenges for its operationalisation, including availability of data and its

quality and reliability, the need for additional expertise and increased costs due to the complexity of the framework. The insurance industry has also warned that a too narrow taxonomy, covering a very small portion of the companies in the investors' portfolio, would have a limited value (Insurance Europe, 2019a&b). It has also been highlighted that the taxonomy is a useful tool for the integration of environmental, social and governance (ESG) factors in investment decisions, however regulatory pressure should be avoided to invest into assets just because they are in scope of the taxonomy (Pensions Europe, 2018).

USE OF THE TAXONOMY BY INSURANCE AND REINSURANCE UNDERTAKINGS

As risk managers, risk carriers and investors, the insurance industry has a vital interest and plays an important role in fostering sustainable economic and social development (UNEP, 2012). The insurance industry is increasingly integrating climate change considerations into their investment strategies and processes as part of the broader sustainability topic (Geneva Association, 2018). The use of the taxonomy will be mandatory for financial market participants offering to the market “sustainable investments products”, including insurance undertakings that provide insurance-based investment products (IBIPs)¹⁰¹; but the taxonomy can help the insurance sector more generally in the integration of sustainability considerations in their investments by providing common definitions and metrics.

In 2019, European insurers had an estimated €11.4trn of assets under management. Considering that insurers are one of Europe's largest institutional investor (in particular taking into account the role of life insurers as long-term investors), the success of the taxonomy in scaling up sustainable investments would necessarily rely on a significant level of take up of sustainable investments by insurance and reinsurance undertakings. Table 2 provides an overview of the main uses of the taxonomy by insurers and reinsurers.

Table 2: Uses of the taxonomy by insurance and reinsurance undertakings.

Use	Scope
Product disclosure	Mandatory: Life insurance undertakings selling IBIPs marketed as “sustainable investment” or pursuing environmental objectives; for other IBIPs, comply or explain.
Company disclosure	Mandatory: - Life insurance undertakings selling IBIPs marketed as “sustainable investment” or pursuing environmental objectives; for other life insurers selling IBIPs comply or explain. - Insurance and reinsurance undertakings with more than 500 employees. Voluntary: all other insurance and reinsurance undertakings.
Investment strategy - Consideration of long-term impact of investments - Supporting stewardship	Voluntary
Risk management - Identification of sustainability risks	Voluntary

101 The Sustainability Disclosures Regulation (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector) provides specific requirements of transparency regarding financial products that pursue the objective of sustainable investment or that have similar characteristics; these requirements will be supplemented by the Taxonomy Regulation. A compromised text was agreed in December 2019 on the text of the Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, known as “Taxonomy Regulation”.

In case of IBIPs which are made available as “environmentally sustainable” or IBIPs that promote environmental characteristics, insurance undertakings will have to disclose which environmental objectives are pursued as well as a description of how and to what extent the investments underlying the insurance product are invested in environmentally sustainable economic activities, as defined by the taxonomy. For other IBIPs, insurance undertakings have the option to complete taxonomy disclosures or include a disclaimer that the investments underlying the financial product “do not take into account the EU criteria for environmentally sustainable investments”.

In addition, insurance undertakings with more than 500 employees shall publish a non-financial statement which is expected to include information on how and to what extent the undertaking's activities are associated with environmentally sustainable activities¹⁰²; those undertakings should consider disclosing, among other indicators, the volume of financial assets funding sustainable economic activities contributing substantially to climate mitigation and/or adaptation (absolute figures and compared to total exposures) according to the taxonomy.¹⁰³

First mandatory disclosures against the taxonomy will be published in the course of 2022. Beyond the mandatory and recommended disclosures foreseen in the EU legal framework, the taxonomy may also be used on a voluntary basis by (re)insurers in general (e.g. non-life insurers) in order to provide public information on their approach towards sustainable investment using a commonly accepted and scientific-based tool.

Furthermore, insurers, irrespective of their size and whether they offer to the market investment products as “environmentally sustainable” or not, are expected to consider the sustainability of their assets (EIOPA, 2014) and to take into account the potential long-term impact of their investment decisions on ESG factors (EIOPA, 2019a)¹⁰⁴. Insurers and reinsurers, based on the economic activities carried out by the companies they are invested in, can use the taxonomy to better understand the potential impact of individual investments on climate change and other EU environmental objectives; they can also use the taxonomy screening criteria to measure the (positive) environmental impact over time. This support can be very helpful since this area goes beyond the traditional expertise available in most of financial companies.

The taxonomy can facilitate the engagement of insurers and reinsurers with invested companies on environmental topics, providing principles and metrics to consider as a reference in the dialogue and the exercise of voting rights to foster a move towards sustainability¹⁰⁵. It can also facilitate the dialogue with asset managers as regards the implementation of the insurer or reinsurer investment strategy.

Finally, the development of the taxonomy is expected to improve the industry's efforts to consider transition as well as physical risks in setting their investment and risk management strategies (EIOPA, 2019b). When assessing the transition risk of their investments (and underwriting) portfolios, insurers and reinsurers could pay special attention

102 See Non-financial Reporting Directive (Directive 2014/95/EU, amending Directive 2013/34/EU); the Commission committed to review the in 2020 as part of the strategy to strengthen the foundations for sustainable investment: adoption of a delegated act by the European Commission is expected by June 2021, in which this obligation should be further specified, including the relevant differences for non-financial and financial companies.

103 See Guidelines on reporting climate related information: [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620\(01\)&from=](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=)

104 With respect to the relevance of sustainability and climate change for insurers' investments, see Grund (2019) and Kaminker & Stewart (2012).

105 With respect to the effective engagement with invested companies, including the consideration of social and environmental factors, see De Jong, A. (2017)

to their exposures in sectors covered by the taxonomy where the underlying companies do not comply with the relevant screening criteria or the DNSH criteria. Consequently, the taxonomy might also provide valuable information for the identification and assessment of sustainability risks, including reputational risk.

3. REVIEW OF PREVIOUS WORK

In this section, we review three studies which have already considered the (re)insurer's investment portfolio in the context of climate relevant sectors and/or the taxonomy.

In its Financial Stability Report in December 2018 (EIOPA, 2018), EIOPA analysed the climate-related asset exposures of the European insurance sector¹⁰⁶. Using Solvency II asset-by-asset data, the insurer's investment were mapped to the Climate Policy Relevant Sectors (CPRS), developed in Battiston et al. (2017). The main CPRS macro-sectors are fossil fuels, utility, energy-intensive activities, buildings and transport. EIOPA estimated that between 10% and 13% of the assets held by insurers can be identified as climate-relevant. This amounts to more than 1 trillion euro in assets and corresponds to almost two-thirds of total own funds in the EEA; however a country-by-country comparison of climate-related exposures showed considerable heterogeneity across the EEA.

The TEG report (TEG, 2019) also provides an overview of the exposures of institutional investors (including insurance corporations) in CPRS in 2018. The TEG report is focused on debt and equity securities issued by non-financial corporations resident in the EU; therefore, compared to the previous EIOPA study, the analysis in the TEG report covers a significant smaller portion of the EEA insurers' portfolio (i.e. it does not cover either the securities issues by financial corporations nor the investments of European insurers outside the EU). The report shows for insurance corporations an aggregate exposure in CPRS sectors through equity holdings of 176 € bn., which is a moderate figure compared to other institutional investors, like investment funds or banks. The aggregate exposure in CPRS sectors through corporate bond holdings in 2018 amounted to 321 € bn. for insurance corporations, being insurance corporations the top holder of bonds in CPRS sectors. Exposures in CPRS sectors would represent 40.9% of the equities and 47.7% of the corporate bonds held by insurance corporations in the EU security market (excluding the securities issued by financial corporations).

Finally, the Joint Research Center (JRC) of the European Commission published a technical report on the financial impact of the taxonomy (Alessi et al. 2019), providing an overview of the equity and bond holdings of institutional sectors into holdings associated with taxonomy covered activities from 2013 to 2018. The JRC paper follows the same approach of the TEG report but it develops the analysis with focus on the specific activities covered by the taxonomy. It should be noted that the total number of activities covered by the taxonomy is much narrower than the list of activities covered by the CPRS classification. Although the CPRS classification is useful to assess the relevance of economic activities with respect to climate change mitigation activities, the taxonomy includes only those activities that can make a substantial contribution to climate change mitigation and adaptation (e.g. activities in CPRS sectors like mining and quarrying are excluded from the taxonomy). Table 3 provides a mapping of the NACE macro-sectors in the taxonomy and the CPRS, which gives an overview of the differences between them.

¹⁰⁶ The analysis considered equity, corporate bonds, property and mortgages and CIU. With respect to government bonds, see (Battiston et al. 2019).

Table 3: Mapping between the NACE macro-sectors in the taxonomy and the CPRS.

NACE macro-sectors (in bold taxonomy covered)	Climate Policy Relevant Sectors
A - Agriculture, forestry and fishing	6. Agriculture
B- Mining and quarrying	1. Fossil fuel
C – Manufacturing	3. Energy-intensive activities
	1. Fossil fuel
	5. Transportation
	9. Other
D - Electricity, gas, steam and air conditioning supply	2. Utility
	1. Fossil fuel
E - Water supply; sewerage; waste management and remediation activities	2. Utility
F – Construction	4. Buildings
	5. Transportation
G- Wholesale and retail trade; repair of motor vehicles and motorcycles	9. Other
H - Transporting and storage	5. Transportation
	1. Fossil fuel
I - Accommodation and food service activities	9. Other
	4. Buildings
J - Information and communication	9. Other
K - Financial and insurance activities	7. Finance
L - Real estate activities	4. Buildings
M - Professional, scientific and technical activities	8. Scientific Research and Development
	9. Other

The JRC analysis shows that for insurance corporations the share of holdings in taxonomy eligible activities related to activities in CPRS sectors in 2018 was around 15% for equities and around 20% for corporate bonds. Within institutional investors, the insurance sector would have the highest amount of bond holdings in taxonomy considered activities.

4. EMPIRICAL ANALYSIS – MAPPING THE TAXONOMY TO (RE)INSURANCE INVESTMENT PORTFOLIO

The main goal of our study is to map current insurer's investment to the taxonomy NACE codes in order to assess how much investment held by insurers may be eligible to the taxonomy. As described in section 2 of this paper (Figure 1), the identification of the activities that could be eligible is the first step in the practical implementation of the

taxonomy. Measuring the level of sustainability would request the four additional steps described in Figure 1; that would require an individual detailed analysis asset-by-asset. Our analysis will give a first indication of the immediate relevance of the taxonomy for the EU insurance sector as well as the potential challenges and limitation in the practical implementation of the taxonomy by (re)insurers.

4.1 DATA

In our analysis, similarly to what was done in the analysis conducted by EIOPA in the financial stability report (EIOPA, 2018) where the insurer's investment were mapped to the CPRS, we will use the Solvency II asset-by-asset data reported by the European solo insurers for Q3 2019. This differs from the perspective used in the impact assessment (TEG, 2019) and JRC (Alessi et al. 2019) analyses where the EU Security market was considered.

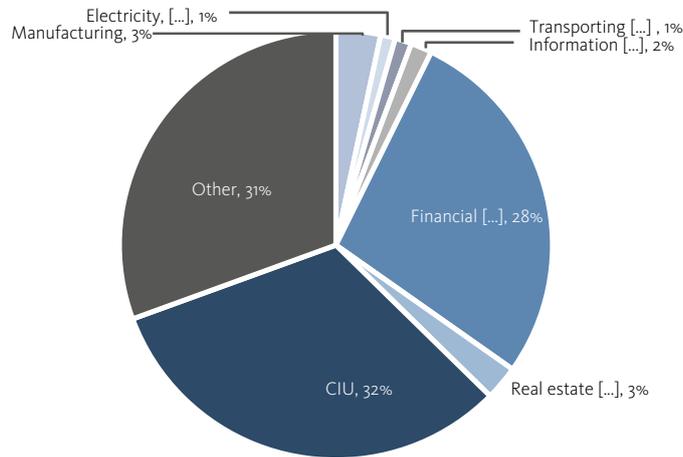
The analysis is based on 213,495 individual assets reported, which have a total value of 11,4 € tn. The investments analysed are allocated as following: ~32% Collective Investment Undertakings, ~24% government bonds, ~20% corporate bonds and ~12% equity. The ISINs of the individual assets are linked to NACE codes using a proprietary database of the European Central Bank (the CSDB database). This ensures a uniform identification of sectors per ISIN, including the full NACE code. In cases where ISIN is not reported or a match cannot be made, we rely on the NACE codes reported by the undertakings. The analysis will focus on the NACE codes (level 4) from the insurer's investment as this is the level required to perform the mapping with the taxonomy. ~71% of the ISIN CSDB NACE codes were available at level 4. The ISIN NACE codes which were not available at level 4 were therefore not considered in this study.

The percentage of the asset value held by insurers per NACE macro sector for (a) all assets, (b) equities and (c) corporate bonds can be seen in Figure 2. Most of the (re)insurers' investments are made into the macro sector "K - Financial and insurance activities"¹⁰⁷ corresponding to 28% of all investments, 54% of equities and 67% of corporate bonds.

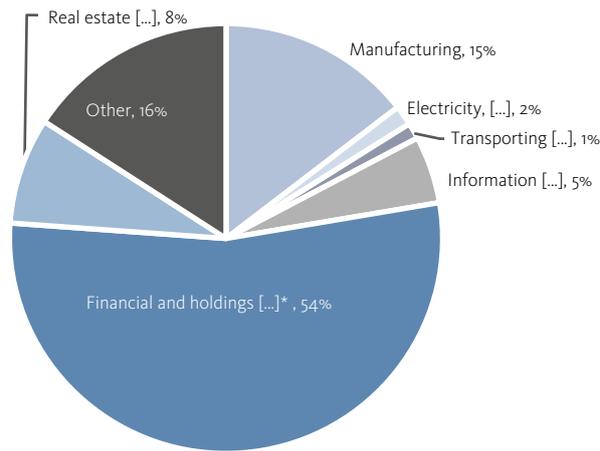
¹⁰⁷ Includes financials, covered bonds and holdings activities.

Figure 2: Percentage of the asset value held by insurers per NACE macro sector for (a) all assets, (b) equities and (c) corporate bonds (data source: Solvency II QRT data).

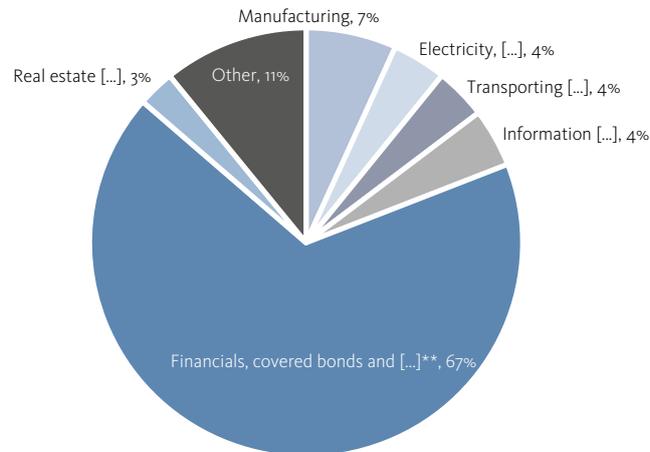
(a) All assets



(b) Equities



(c) Corporate Bonds



Note: Macro-sectors such as A - Agriculture, forestry and fishing, E - Water, sewerage, waste and remediation and F - Construction have been included in the category "Other" (i.e. category of non-relevant macro sectors for the taxonomy) as in comparison with the entire portfolio the investment values were minimal.

*Financials, holding in "activities of holding companies K.64.2" and holding in related insurance undertaking (life K.65.1.1 and non-life K.65.1.2).

**Financials, covered bonds and holdings in "activities of holding companies K.64.2".

The (re)insurers investment NACE codes were then mapped to the taxonomy NACE codes. As described in Part 2, two (climate change mitigation and adaptation) out of the six environmental objectives have been addressed in the current taxonomy. It is important to note that despite a significant overlap, the NACE codes considered for the environmental objective “climate change mitigation” of the taxonomy are slightly different from the NACE codes considered for the environmental objective “climate change adaptation” (see Table 1).

4.2 RESULTS

(i) Overall, ~5% of the total asset value (including Property assets) held by insurers may be eligible to the taxonomy (see Figure 3). The largest majority of the assets eligible to the taxonomy are invested within the EEA¹⁰⁸ (~4%). First, it is important to note that this number might underestimate the total assets held by insurers, which may be eligible to the taxonomy, as further taxonomy-eligible assets could be held in funds in Collective Investment Undertakings (about 32%) for which look-through was not possible. This is the reason why in the following analysis we will focus on direct holdings on corporate bonds and equities as more information about the NACE codes are available for these financial instruments. This relatively low amount of investment eligible to the taxonomy can also be explained by the fact that most of the (re)insurers investments are made into the macro sector “K - Financial and insurance activities”¹⁰⁹ (see Figure 2), which is not eligible for the taxonomy with the only exception of “non-life insurance” with respect to climate change adaptation.

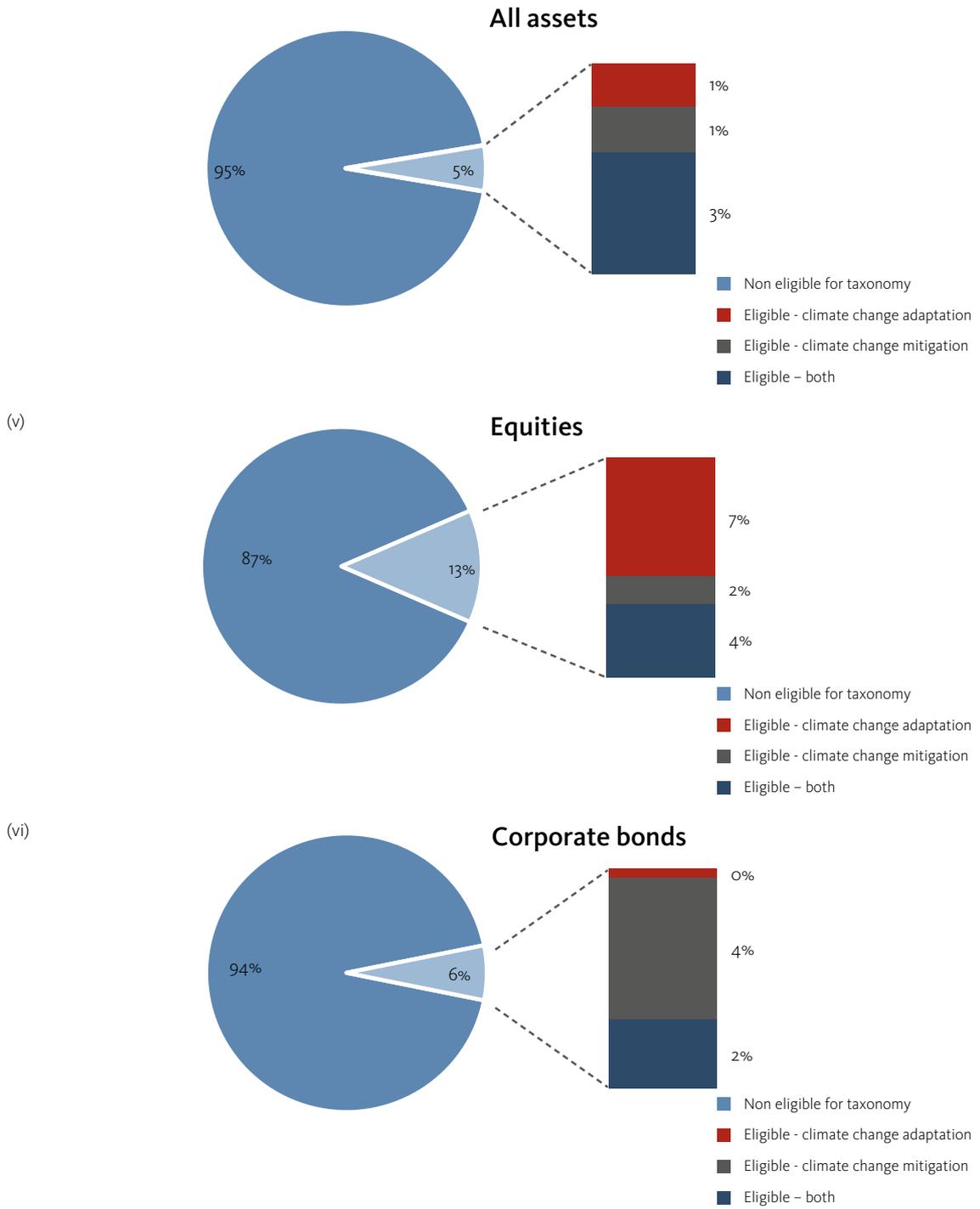
(ii) For equities and corporate bonds, ~13% and ~6% respectively of the asset value held by insurers for each financial instrument may be eligible to the taxonomy (see Figure 3). The higher share for equity investments is mainly explained by the equity holdings in non-life insurance companies (around 7% of total equity investments), which could be eligible with respect to climate change adaptation.¹¹⁰

¹⁰⁸ UK is included as Q3 2019 data are considered.

¹⁰⁹ Includes financials, covered bonds and holdings activities.

¹¹⁰ Non-life insurance eligible for the Taxonomy includes selected LOBs and insurance products and services that provide cover for climate-related hazards to activities and/or assets that are Taxonomy aligned. These criteria are conservative; however, the TEG has recommended a future review to increase coverage and enhance usability.

(iii) Figure 3: Percentage of taxonomy eligible for all assets, equities and corporate bonds (Source: Solvency II QRT data).



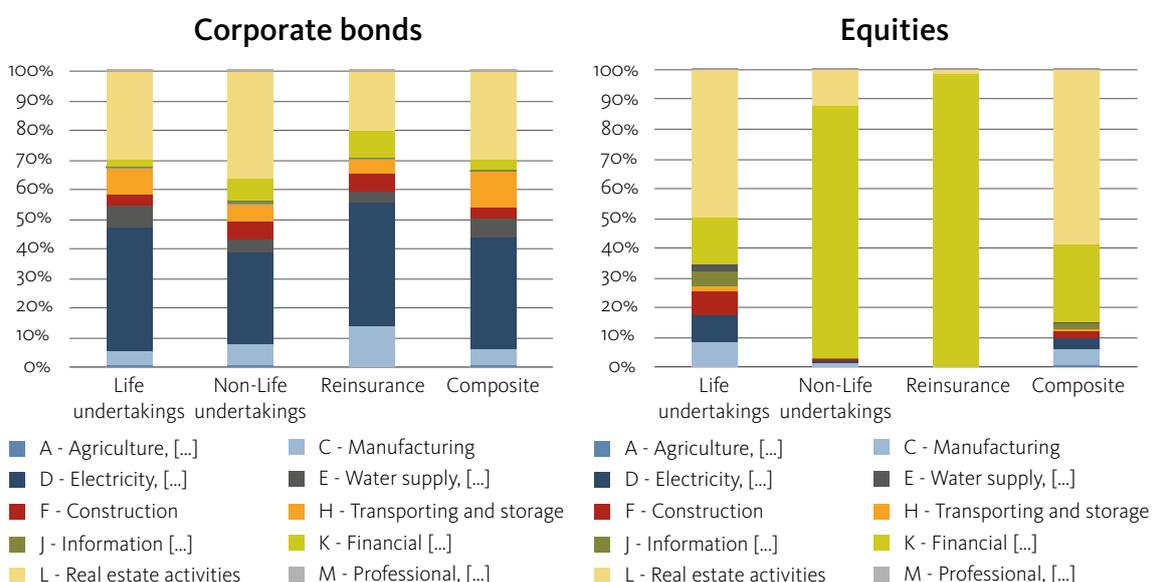
Most of the insurer’s investment are made by life undertakings (see Table 4). For equities, we observe that the percentage of taxonomy eligible investments compared to total investments is higher for non-life undertakings than for life undertakings. For corporate bonds the percentage of taxonomy eligible investments compared to total investments is similar for all types of undertakings.

For corporate bonds, most of the EU eligible assets for each type of undertaking are in electricity and the real estate activities (see Figure 4). We observe that these trends are valid for all type of undertaking (Life, Non-Life, Composite or Reinsurance companies). For equities, most of the EU eligible assets are in financial sector and real estate activities. It is interesting to observe that life undertakings’ investments eligible to the taxonomy seem to be more diversified (present in sectors such as real estate activities, financial sector, manufacturing, electricity, construction) than non-life undertakings and reinsurance where most of the taxonomy eligible investment is made in the financial sector.

Table 4: Insurer’s investments eligible to the taxonomy for corporate bonds and equities per type of undertaking (Source: Solvency II QRT data).

		Life undertakings (€ bn)	Non-Life undertakings (€ bn)	Reinsurance undertakings (€ bn)	Composite (€ bn)	Total (€ bn)
Equities	Total insurer’s investment	674	195	308	290	1,466
	Taxonomy eligible	52 (8%)	49 (25%)	42 (14%)	48 (17%)	192 (13%)
Corporate bonds	Total insurer’s investment	1,210	352	75	721	2,358
	Taxonomy eligible	79 (7%)	18 (5%)	3 (4%)	49 (7%)	149 (6%)

Figure 4: Split between NACE Macro sectors of the taxonomy eligible assets of the insurer’s portfolio per type of undertaking for corporate bonds and equities (Source: Solvency II QRT data).



The investment eligible to the taxonomy for equities are concentrated into two economic sectors, namely “Non-life insurance” and “Renting and operating of own leased real estate” which represent 54% and 28% of all economic activities eligible for equities (Table 5). Corporate bonds show more diversification in the top economic activities eligible to the taxonomy with “Renting and operating of own or leased real estate” representing 28%.

Table 5: Top five economic activities in the insurer’s investments eligible to the taxonomy for corporate bonds and equities (Source: Solvency II QRT data).

	Top five economic activities	Asset values (€ bn)
Corporate bonds	1. Renting and operating of own or leased real estate	41 (28%)
	2. Production of electricity	37 (26%)
	3. Transmission of electricity	15 (10%)
	4. Urban and suburban passenger land transport	9 (6%)
	5. Distribution of electricity	6 (4%)
Equities	1. Non-life insurance	104 (54%)
	2. Renting and operating of own or leased real estate	53 (28%)
	3. Production of electricity	5 (3%)
	4. Manufacture of industrial gases	4 (2%)
	5. Data processing, hosting and related activities	3 (2%)

5. CONCLUSION

Insurers are one of the largest institutional investor. In 2019, European insurers had an estimated €11.4trn of assets under management. As part of the Green Deal, the Commission presented on 14 January 2020 the European Green Deal Investment Plan, which will mobilize at least €1 trillion of sustainable investments over the next decade. It will enable a framework to facilitate public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy. A key deliverable to reorient capital flows towards sustainable investment in order to achieve sustainable growth is the EU sustainable finance taxonomy. The taxonomy, as a classification tool, helps investors to make informed investment decisions on environmentally friendly economic activities. The current insurers’ investment portfolio captures around ~5% of potentially taxonomy eligible economic activities, of which ~4 % are invested in the EEA. This represents a total investment of around ~€450 billion, which could potentially contribute to sustainable investment in Europe.

The provided EIOPA’s analysis is based on Quantitative Reporting Templates (QRT) submitted by insurance and reinsurance undertakings, which only allow to perform the first step of the 5-step process for the implementation of the taxonomy (i.e. identification of eligibility by activity). Already for this step, important data limitations were faced since not all undertakings were able to report the underlying activities for their investments with sufficient granularity. Insurance and reinsurance undertakings will encounter similar data limitations, in particular to perform steps 2 to 5 for each asset: verifying compliance

with the threshold criteria for substantial contribution, due diligence of DNSH criteria, verify the minimum social safeguards, and calculation of percentage aligned. Applying the taxonomy in practice will require a significant amount of data, which are not necessarily available to the regulators and the industry, especially during the first years of implementation. Gathering all the required information will need a significant effort for the industry. A harmonized reporting of the necessary information will therefore define the success of the application of the taxonomy.

Finally, the analysis shown in this article has identified that the insurer's investments are mainly concentrating toward financial and insurance activities. Only a small portion of the investments is allocated in other macro-sectors such as manufacturing or electricity. On one hand, this minimizes the transition risk but on the other hand also indicates that insurers have the possibility to contribute more significantly to transitioning to a lower carbon society in the future. In the opinion on sustainability within Solvency II (EIOPA, 2019b), a number of insurers have announced that they will focus more of their investment to make a positive impact to the society. About 70% of insurance and reinsurance groups and solo undertakings, that responded to the consultation, are including sustainability risks in their investment management or indicated they are planning to do so in the next three years. They would for example, limit investment in non-sustainable activities/companies, introduce ESG criteria in the investment decision and promote stewardship and impact investing. The taxonomy is one tool that can help insurers by providing clarity in identifying sustainable economic activities and avoid reputational risks for undertakings. As major investors, insurers have the possibility to be a key player to transition to a more sustainable society.

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