Navigating the green transition

How European insurers are adapting to the EU Taxonomy regulation

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Introduction

Context

The adoption of the European Union's (EU) Taxonomy regulation marked a significant step forward in the promotion of sustainable investment and the ecological transition.

The Taxonomy provides a harmonised framework for determining which economic activities can be considered environmentally sustainable.

As key players in risk management and the financing of economic activity, insurance and reinsurance companies play a crucial role in the transition to a greener, more resilient economy.

In accordance with the EU Taxonomy regulation, European insurers and reinsurers have been required to publish information concerning relevant investment and underwriting activities since 2022.

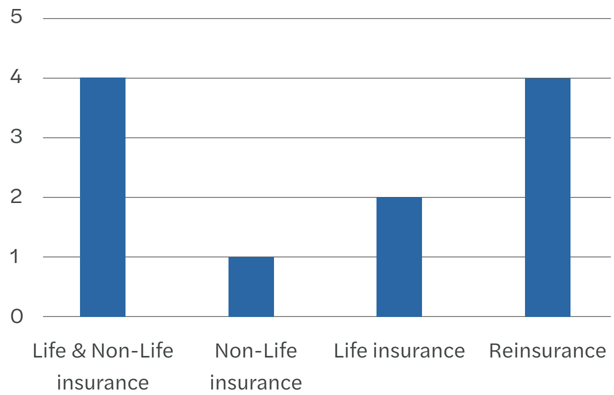
From January 1st 2024, insurers and reinsurers will now be required to report on the alignment of their activities and investments with the EU's environmental objectives of adapting to and mitigating climate change.

Following our 2023 Taxonomy benchmark study, we have again analysed the publications of a sample group of European (re)insurers to outline the main trends and developments for 2024.

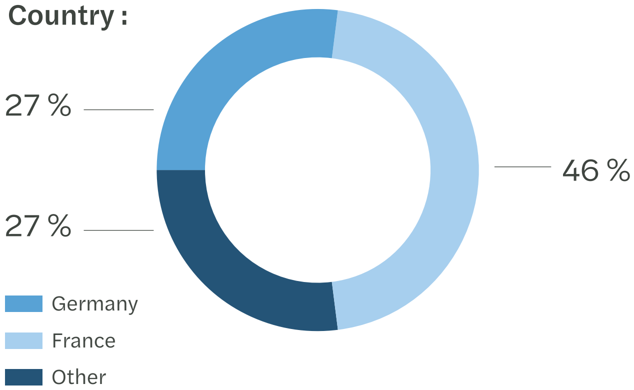
Composition of the sample group

Our sample group is comprised of 11 European (re)insurance companies, with the following characteristics:

Type of activity:



Country :



Underwriting ratio

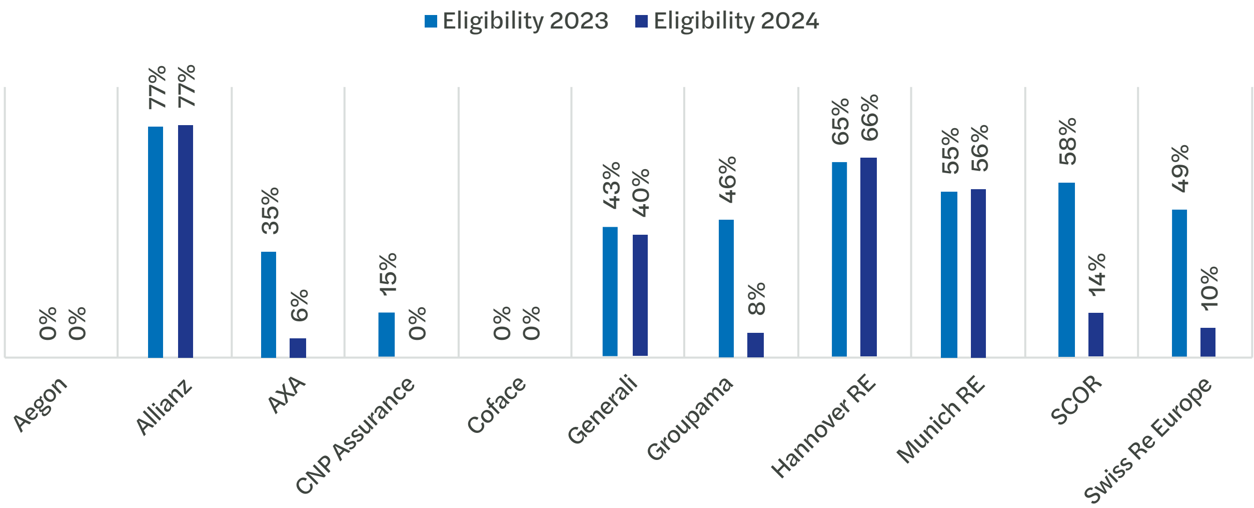
The underwriting ratio measures the proportion of non-life written premiums that are eligible and aligned with the EU's Taxonomy for sustainable activities.

This ratio quantifies the contribution made by non-life (re)insurers to promoting a more sustainable economy. The ratio also encourages (re)insurers to market products that address environmental issues, particularly the risks associated with climate change.

While (re)insurers have published underwriting ratios for their eligible activities since 2022, alignment ratios have been disclosed for the first time in 2024.

Changes in eligibility ratios

(Re)insurers have been required to publish eligibility ratios for three years. The graph below illustrates changes in reported eligibility ratios between 2023 and 2024.



Five of the 11 (re)insurance companies sampled reported a significantly lower eligibility ratio in 2024 compared to 2023. These five companies are French and Swiss (re)insurers that have adopted the market position of considering only the portion of the premium relating to climatic guarantees as eligible.

In contrast, other sampled (re)insurance companies based elsewhere in Europe have continued to calculate eligibility ratios by taking full premiums for contracts that include weather cover.
The (re)insurance companies sampled with revised methodologies have referenced the draft FAQ published by the European Commission (EC) in December 2023, specifically the provided clarifications concerning the basis for calculating alignment rates. For the sake of consistency, these (re)insurers have also chosen to adjust the basis for calculating eligible premiums.

By using a comparable basis for calculation, the approach adopted by the French market enhances the transparency of information regarding the proportion of eligible premiums that may be assessed as sustainable.

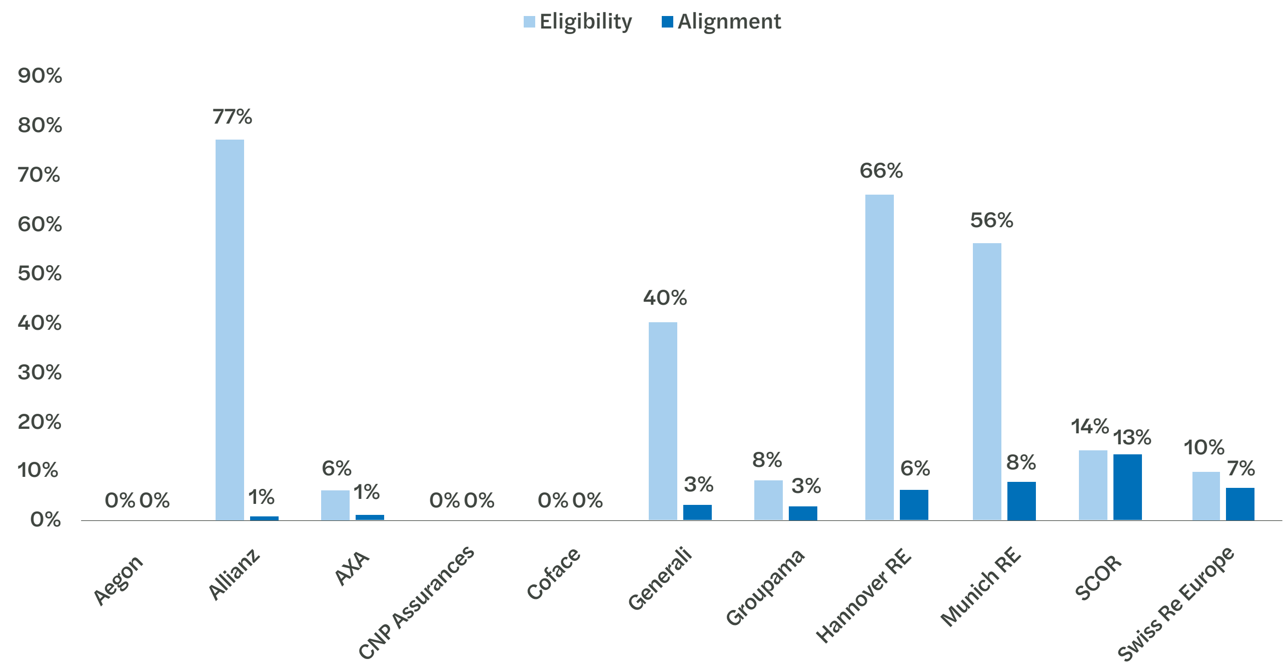
We note that two of the sampled (re)insurers with adjusted calculation methodologies also referred to the restated eligibility rate to provide comparable information. These (re)insurers report, in line with the trend observed, stable eligibility rates between 2023 and 2024.

In addition, we note that three reinsurers included in the sample (SCOR, Munich Re and Hanover Re) have used IFRS 17 (re)insurance revenues as the basis for calculating underwriting ratios rather than premium volume.
In terms of comparability of published information, this methodological difference has fewer visible impacts than that used by the French market.

Underwriting ratio

Eligibility and alignment ratios:

The alignment ratios, published for the first time in 2024, average 4% and range from 0% to 13.3%:



As expected, (re)insurers sampled that opted not to adjust their base for calculating eligible premiums report alignment rates significantly lower than their eligibility rate.

Three insurers, whose eligible activities are either very minimal or non-existent, report an alignment ratio of 0%. These insurers are Coface, CNP Assurances and Aegon.

Conversely, the highest rates of alignment are observed among the reinsurers included in the sample; SCOR, Munich Re, Swiss Re Europe and Hannover Re, with rates of 13%, 8%, 7% and 6% respectively.

Methodological considerations:

The Climate Delegated Act established a list of eligible activities, including non-life (re)insurance activities, linked to the coverage of climatic hazards. Generally, only the following three lines of business explicitly cover climate-related risks:

- Other motor vehicle (re)insurance; Marine, aviation and transport (re)insurance
- Fire and other property damage (re)insurance

The Climate Delegated Act also sets out the list of technical criteria that non-life (re)insurers must meet to demonstrate the contribution of their products to the objective of climate change adaptation.

These criteria include the modelling and pricing of climate-related risks, the design of innovative (re) insurance products, (re)insurance cover solutions for climate-related risks, as well as data sharing and a high level of service in post-disaster situations. These criteria must be fulfilled cumulatively.

Additionally, activities must also comply with the 'DNSH' (Do No Significant Harm) requirement, and respect minimum guarantees in terms of social and good governance for the premium to be considered sustainable.

Underwriting ratio

Although the Climate Delegated Act describes the expected requirements to meet each criterion (and sub-criterion), there is still room for interpretation. This may lead to different analysis results for different stakeholders.

Among the 11 (re)insurance companies sampled, six included a narrative describing the analysis of the above-mentioned technical criteria and how they are applied. At this stage, the information provided remains inconclusive as to whether a harmonised approach has been implemented within the sector.

An analysis of the information published in 2024 reveals the following:

- **Criterion 1 "Leadership in climate risk modelling and pricing":** Based on our sample, (re)insurers generally refer to the use of forward-looking models to take account of climate related risks as part of risk management and pricing.
- **Criterion 2 "Product design incorporating preventive measures":** Two (re)insurers sampled emphasised that meeting the criterion is more straightforward for tailor-made professional contracts than for standardised contracts. Another noted that considering the cost of claims in the pricing implicitly includes an incentive to take preventive measures.
- **Criterion 3 "Innovative (re)insurance cover solutions":** The sample group highlighted efforts to develop innovative solutions for climate-related risks, including one reference to parametric (re)insurance.
- **Criterion 4 "Sharing data with public authorities for research purposes":** (Re)insurers sampled mention sharing data with local authorities to participate in advanced climate change analyses. One French insurer referred to sharing data with the Caisse Centrale de Réassurance (CCR). In addition, two (re)insurers stated intentions to share data with other stakeholders as long as data sharing adhered to General Data Protection regulation (GDPR) standards.
- **Criterion 5 "High level of service in post-disaster situations":** Various sampled (re)insurers detail the policies and processes they have implemented to respond appropriately and swiftly to customers.

Among the sample group, only four (re)insurers explicitly indicated the guarantees or product lines they considered to be aligned to the EU's climate strategy. These guarantees and/or product lines include:

- Natural catastrophe cover for motor and home products;
- Certain commercial property (re)insurance contracts; and
- Agriculture/crop (re)insurance products.

Regarding the DNSH requirement, the regulation stipulates that the activity must not involve the extraction, storage, transport or manufacture of fossil fuels, nor the use of vehicles, property or other assets intended for such purposes. 88% of the (re) insurers sampled stated that this type of activity had been excluded from the numerator of the ratio, where applicable.

To qualify as 'environmentally sustainable', economic activities must also comply with the requirements of minimum safeguards set out in Article 18 of the EU Taxonomy regulation. In France, the (re)insurance industry consensus is that this is covered by the law on Duty of Care, which is also based on the principles and standards set out in Article 18 of the EU Taxonomy regulation.

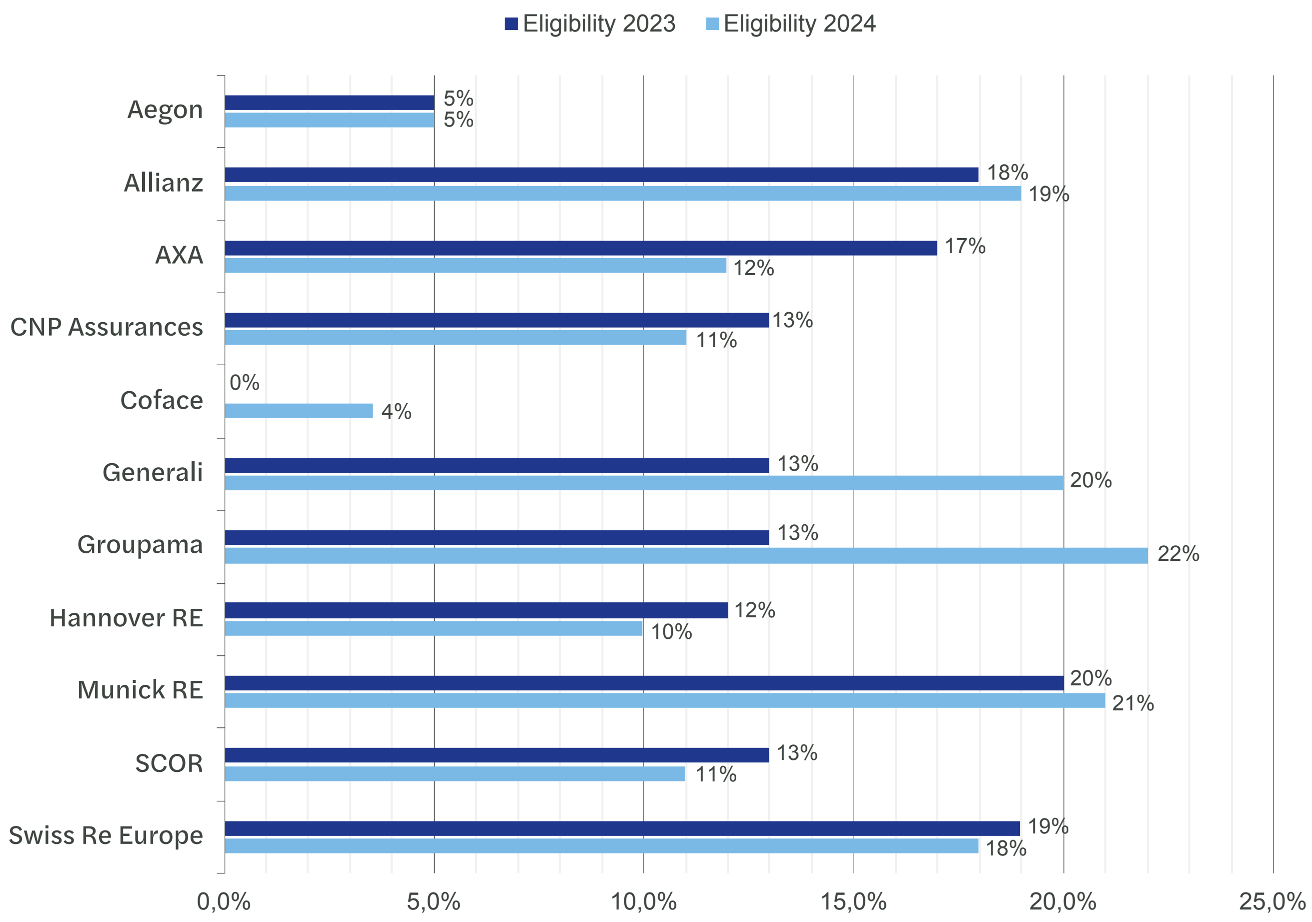
Investment ratio

The Taxonomy regulation requires (re)insurers to publish a ratio measuring the proportion of investments aimed at financing eligible and/or aligned economic activities.

For financial investments, this ratio is determined by weighting the value of each investment by the turnover and capital expenditure (CAPEX) associated with its issuer's sustainable activities. The ratio also includes non-financial assets, such as buildings held directly, or through real estate companies, for which (re)insurers need to screen the technical criteria set out in the EU Taxonomy regulation (look-through approach).

The investment ratio should enable stakeholders to assess the commitment of (re)insurers as institutional investors to sustainability, and the effectiveness of their allocation of financial resources to Taxonomy-compliant activities.

Changes in eligibility ratios (turnover basis)



Investment ratio

In 2024, eligibility ratios remain varied, ranging from 3% to 22% (compared to a range of 0% to 20% in 2023).

On average, the eligibility ratio of the (re)insurers sampled is 13.8%, up from 13% in 2023. The slight increase was driven by Generali and Groupama:

- Groupama: the regulatory ratio increased from 13% to 22% in 2024. This higher value is due to the inclusion of its financial investment portfolio in the eligibility analysis, whereas only real estate investments were considered eligible the previous year.
- Generali: the increase was around 7%, attributed to the expansion of the scope of eligible assets to include indirect investments.

In contrast to market practice and the clarifications provided by the EC in one of its FAQs, Allianz stated that it excluded cash and cash equivalents from the calculation of the ratio in 2023, whereas it had included them and treated them as non-eligible in 2022. Allianz justifies this methodological change by referencing a technical opinion issued by the European Insurance and Occupational Pensions Authority (EIOPA) in 2021.

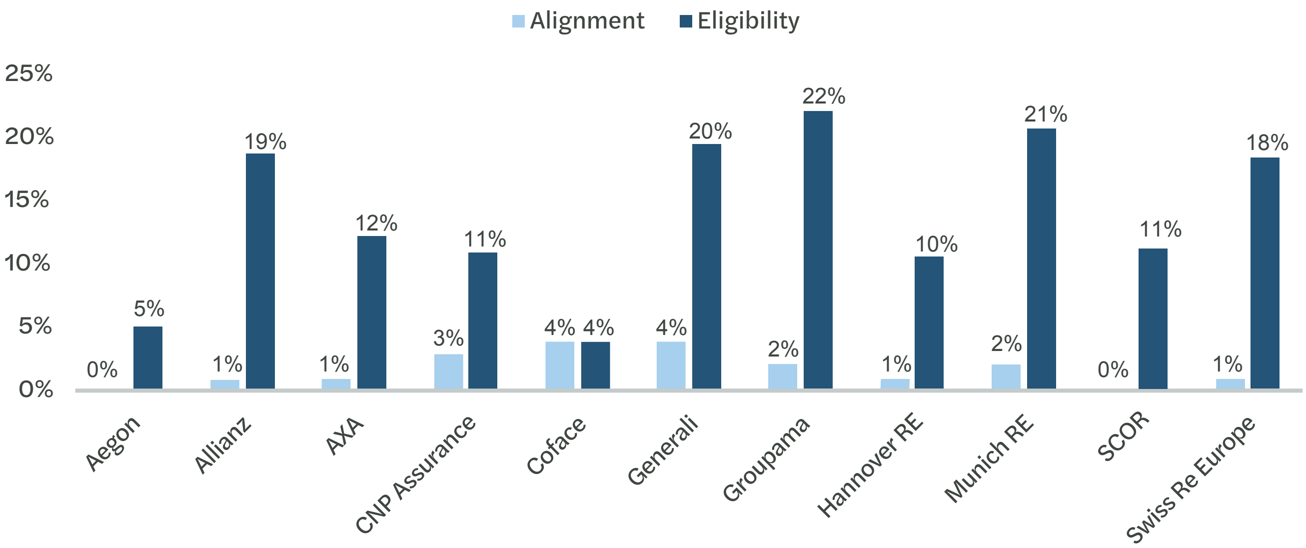
Holdings in financial undertakings

None of the (re)insurers sampled commented on how the eligibility ratio of their holdings in financial undertakings was determined. Specifically, it is not clear whether investment ratios and underwriting ratios were combined to determine the eligible activities of the (re)insurance undertakings to which they are exposed, or if only one of the two ratios was used. On this topic, the draft FAQ of December 2023 reaffirms and clarifies the calculation method mentioned in paragraph (e) of Annex IX of the Delegated regulation 2021/2178 (which involves calculating a ratio that combines the underwriting and investment ratios for this type of exposure).

The draft FAQ also addresses the determination of eligibility and alignment rates for investments held in financial conglomerates or mixed groups. It introduces the requirement to present an aggregate ratio in the taxonomy information, combining the ratios of financial and non-financial activities of these groups. Among our sample, only AXA explicitly referred to this new requirement. However, it does not disclose consolidated ratios and mentions significant operational considerations.

Investment ratio

Eligibility and alignment ratios (turnover basis):



The alignment ratios (based on turnover) of the investments in our sample range from 0% to 4%, significantly lower than the eligibility rates for these same portfolios.

Only Coface reported an investment ratio with close eligibility and alignment rates. This is due to the inclusion of aligned green bonds in the regulatory ratio presented; excluding green bonds, the rate would be around 1%.

Generally, investment ratios are based on information published by companies subject to the EU Taxonomy regulation. In this regard, nine out of 11 companies sampled indicated the use of an external data provider to conduct their analysis.

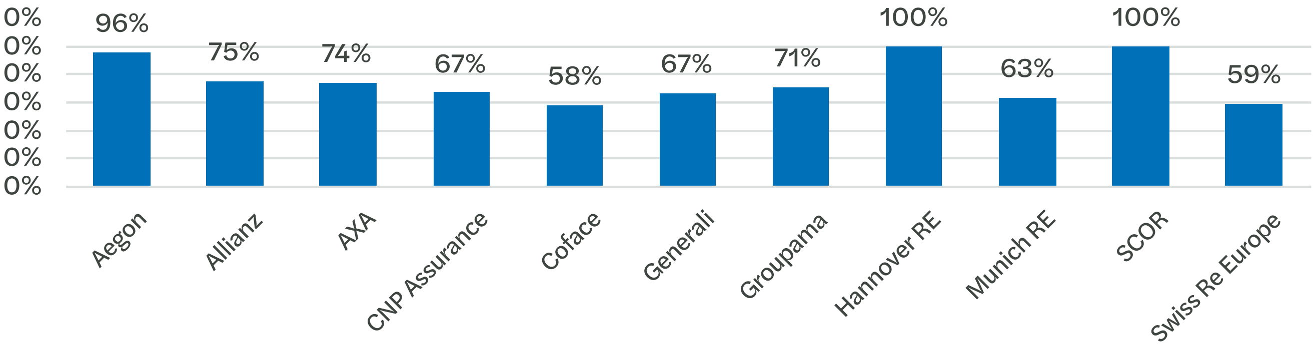
The low alignment rates observed can be attributed to a few factors:

- The information collected does not cover the entire portfolio due to difficulties in conducting in-house analyses or obtaining detailed assessments from external third parties to justify the alignment of property assets held. Some (re) insurers sampled had excluded assets for which analyses had not been finalised, such as unlisted assets and property assets.
- The data is limited to alignment ratios with the first two environmental objectives for non-financial companies.
- The information does not include data on the alignment of financial companies, which was not public in 2023.

Therefore, we can reasonably anticipate higher alignment ratios in 2025.

Investment ratio

Asset coverage rate:

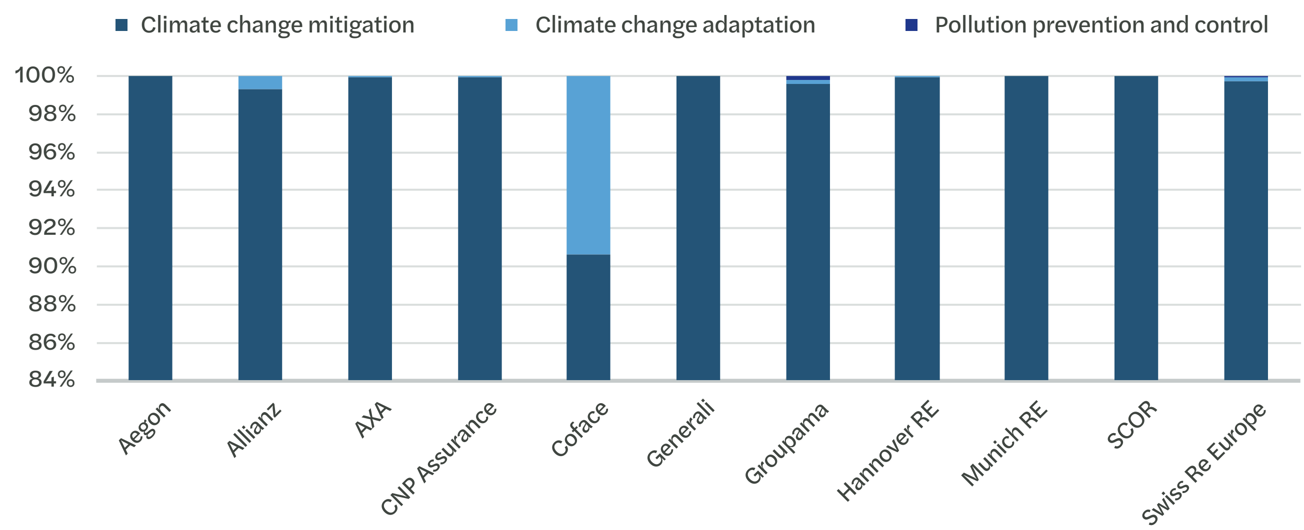


The asset coverage rates published by the sampled (re)insurers range from 58% to 100%. This disparity may be due to:

- The composition of their investment portfolios; or
- Differences in interpretation regarding how this rate should be determined. For instance, two (re)insurers sampled presented a coverage ratio of 100%, likely due to the exclusion of sovereign exposures from the denominator of the coverage rate.

Breakdown of numerator by environmental objective (turnover basis)

Each of the (re)insurers included in our sample group have published a breakdown of the numerator by environmental objective:



As expected, the environmental objectives related to climate change account for 100% of the alignment ratio breakdown for most of the (re)insurers sampled.

This breakdown is likely to change significantly next year, as non-financial companies publish the results of their alignment analysis with the other four environmental objectives in 2024.

For some, the breakdown by environmental objective does not total 100%. This is due to the unavailability of or difficulty in collecting the necessary information.

Investment ratio

Information on nuclear energy and fossil gas

To contribute to the objectives of mitigating and adapting to climate change, the EC has identified certain economic activities in the energy sector that aid in the decarbonisation of the EU's economy.

These activities include the production of electricity and the use of nuclear sources and fossil gases.

Of the 11 (re)insurers sampled, all have published at least the first table required by the delegated acts, and most indicate that they finance, or are exposed to, activities related to nuclear energy or fossil gas.

Template 1		Aegon	Allianz	AXA	CNP	Coface	Generali	Groupama	Hannover Re	Munich Re	SCOR	Swiss Re Europe
Nuclear energy	4,26	Yes	No	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes
	4,27	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes
	4,28	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Gas	4,29	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
	4,30	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes (*)	Yes	Yes
	4,31	Yes	No	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes

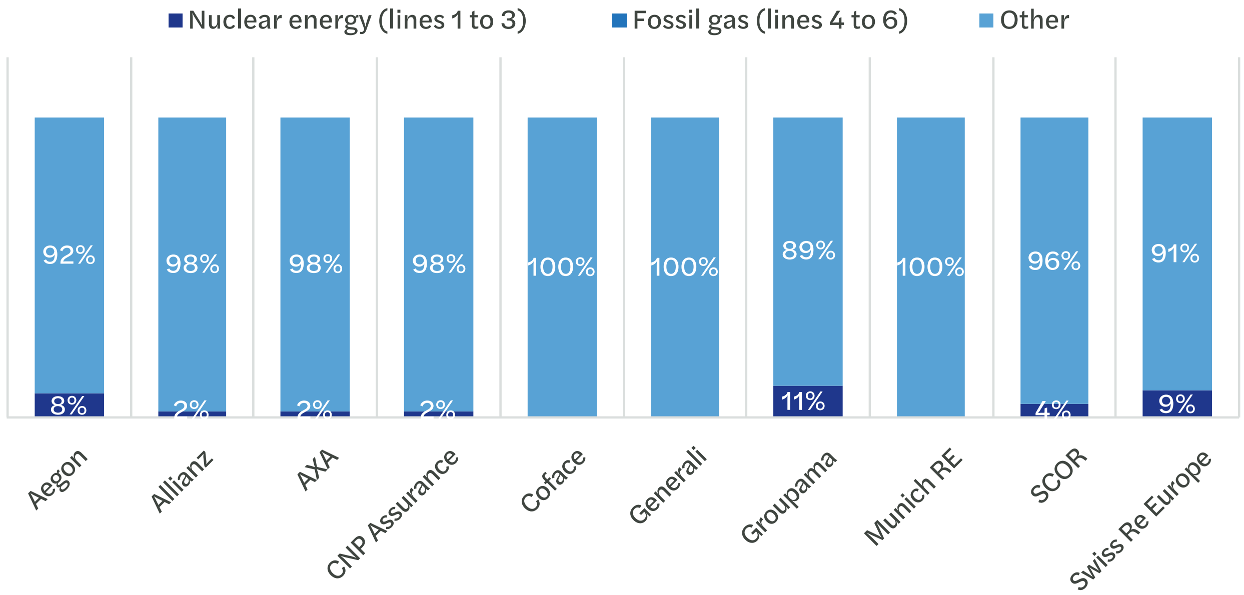
(*) based on turnover only

Of the (re)insurers sampled, seven included all tables required by the delegated acts. Of the remaining four (re) insurers:

- Two gave no explanation for the absence of certain tables;
- One indicated that the lack of data made it impossible to complete all the tables; and
- One indicated that publishing the missing tables would not have provided any additional relevant information.

Investment ratio

Below, we have summarised the quantitative data from the tables published for the breakdown of aligned activities (numerator - turnover basis):



The main findings are as follows:

- Aligned activities related to gas are consistently 0%.
- Aligned activities related to nuclear energy vary between 0% and 11%.
- Aegon, Groupama and Swiss Re Europe stand out, with more significant percentages in nuclear energy (8%, 11% and 9% respectively).

Conclusion

Analysis of the taxonomy information published in 2024 reveals significant progress compared to the previous year's publications. However, notable disparities persist in the communication and application of sustainability criteria. The most striking example is the difference in methodology for calculating the eligible premium.

Next year, (re)insurers will once again face a number of challenges, such as:

- **Adapting to regulatory clarifications:** applying the new interpretations of the EC's FAQ
- **Continuing to align reporting practices:** ensuring optimal comparability and transparency
- **Increasing training and awareness:** educating internal teams on new regulatory requirements and best practices in sustainability
- **Collaborating with stakeholders:** working with regulators, customers and other insurers to develop common standards and share best practices

It is crucial to continue working towards standardising Taxonomy practices to strengthen stakeholder confidence and promote sustainable finance on a European scale.

A continued commitment to innovation and collaboration will be essential to overcoming the challenges ahead and ensuring a smooth transition to more robust and harmonised sustainability practices.

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