POSITION PAPER

Position Paper

of the German Insurance Association (GDV)
ID-number 6437280268-55

on the Omnibus Simplification Package

Introduction

The German insurance industry remains strongly committed to supporting the green transition of the EU economy, both as providers of risk coverage and as major institutional investors. Insurers and reinsurers – perhaps more than any other sector – already deal with the effects of climate change on a day-to-day basis. We are convinced that an effective sustainable finance framework is necessary to accelerate the transition to a sustainable economy.

The volume, the level of granularity and potential overlaps of the individual frameworks developed over the last 5 years, however, are putting the competitiveness of Europe's world-leading insurance industry at risk. By expanding a highly complex system of reporting and disclosure requirements, these frameworks in their current form demand more and more financial and human resources that could otherwise be used to further sustainable activities and innovation in actual business operations.

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Against this background, we propose 5 key adjustments to make the EU's sustainable finance framework fit for purpose:

1. **Accounting Directive – Promoting proportionality and strengthening SMEs:** Introduce insurance-specific size categories or require companies in the financial sector to meet all three relevant criteria for classification as large undertakings. Distinguish between significant and non-significant insurers within the definition of Public Interest Entities.
2. **CSRD – Quick-fix for immediate streamlining of the existing reporting standards:** Reduce the scope of reporting requirements under the existing ESRS by removing, simplifying, and focusing on decision-critical data. Downstream reporting, particularly on insured portfolios, should be voluntary.
3. **CSRD – Evaluation phase and strategic shift at EFRAG:** Postpone the development of sector-specific ESRS until reporting under the sector-agnostic standards has been evaluated after at least two reporting cycles. Mandate EFRAG to provide clear, concise, and practical implementation support on existing requirements.
4. **CSDDD & Solvency 2 – Avoid double regulation on transition plans**: The new requirement for sustainability risk plans according to the amended Solvency II Directive should be removed because it is redundant given the framework's general risk management provisions and the transition plans required under the CSDDD.
5. **Taxonomy & SFDR – Consistency and alignment in sustainable finance:** Focus on essential KPIs to deliver relevant, comparable, and reliable information for investors. Align the different pieces of the sustainable finance framework to provide legal certainty and usability to users.

These points are explained in further detail below. In addition to these key adjustments of the sustainable finance framework, further proposals for simplification can be found here.

Accounting Directive – Promoting proportionality and strengthening SMEs

The Accounting Directive currently uses size categories to define the CSRD scope, classifying companies as "large" if they exceed two of three criteria: turnover > EUR 50 million, balance sheet total > EUR 25 million, or employees > 250. These criteria do not fit SME insurers, that due to their business model typically have higher turnover and balance sheets relative to their employee numbers. Consequently, 99.71% of the German insurance market (by net turnover), including small regional insurers with less than 20 employees, are deemed to be "large undertakings." These small insurers face the same requirements as

international groups in the real economy.

Attempts to address this via the new “small and non-complex undertakings” (SNCU) category in the revised Solvency II Directive have fallen short, benefiting fewer than 10 insurers in Germany. We recommend **developing and introducing insurance-specific size categories** to reflect the industry's unique characteristics. Alternatively, requiring **companies in the financial sector to meet all three criteria** would classify insurers with less than 250 employees as SMEs, providing meaningful relief for small undertakings.

Furthermore, all insurers within the scope of Solvency II are currently classified as Public Interest Entities (PIEs), regardless of size or stock market listing. However, many SME insurers are not of public interest due to their size, activity, or low market share and should be excluded from the PIE category. We recommend **differentiating between significant and non-significant insurers within the PIE definition**. Only significant insurers should be treated as regular PIEs and meet full requirements, while non-significant insurers should face less stringent rules.

As suggested in the Draghi Report, we propose creating a new category for small mid-caps, applying also to the insurance industry, to ease regulatory burdens and enhance proportionality. This includes applying the **simplified CSRD reporting standard for SMEs to small mid-caps** and **reducing the assurance intensity.**

CSRD – Quick-fix for immediate streamlining of the existing reporting standards

The Omnibus Simplification Package should aim to reduce the scope of reporting requirements under the current ESRS (Set 1) by removing, simplifying, and focusing on decision-critical data. This would provide immediate relief to companies and achieve a 25% reduction in bureaucratic burdens. The recently finalised Joint ESG data catalogue for large companies by the BdB, GDV and VÖB provides a practical example on the necessary data for investment decisions and can be taken as a reference for simplification. In the first years, **reporting should focus on climate change-related information vital for the sustainable transformation**, while ensuring the data is both comparable and reliable.

Value chain reporting should focus on areas where companies have direct impact. In downstream reporting, a **clear distinction should be made between areas which insurers can control and areas which can only be impacted by changing customer behaviour.**

CSRD – Evaluation phase and strategic shift at EFRAG

We propose **postponing the development of sector-specific ESRS** until reporting under the sector-agnostic standards has been evaluated after **at least two reporting cycles**. This evaluation should determine which sectors truly require full sector-specific standards and identify any additional standardisation, content, or clarifications needed. The focus should instead be on **clarifying existing requirements in the sector-agnostic ESRS**, as ambiguities can lead to inefficient reporting and weaken sustainability reports. Many companies are already facing significant challenges with implementing ESRS (Set 1). Clear, concise, and practical support through concretisation and practice-oriented interpretations is urgently needed. These clarifications should – unlike previous EFRAG Implementation Guidance – be as clear and concise as possible. To this end, the Commission should **provide EFRAG with a clear mandate to deliver such support**.

CSDDD & Solvency 2 – Avoid double regulation on transition plans

The recently concluded Solvency II review introduces an additional requirement for insurance undertakings to "*develop and monitor the implementation of specific plans, quantifiable targets, and processes to monitor and address the financial risks arising in the short, medium, and long term from sustainability factors, including those arising from the process of adjustment and transition trends towards the relevant Member States and Union regulatory objectives and legal acts in relation to sustainability factors, in particular those set out in Regulation (EU) 2021/1119*". However, Solvency II requires insurance undertakings to conduct comprehensive risk management that already includes ESG risks. As part of the Own Risk and Solvency Assessment (ORSA), for example, the analysis of long-term climate change scenarios is mandatory. The **added value of an additional obligation to draw up plans for dealing with sustainability risks is not clear**. The new requirement will thus produce additional red tape.

When discussions about this new requirement were arising, EIOPA's chair publicly said that from a prudential perspective, **Solvency II already gives supervisors all powers necessary**: "*If we have doubts about the sustainability of business models and the way in which the green transition is considered, we can analyse the company's information, assess the ORSA and enter into a supervisory dialogue with the insurer. We can do that today."* [1]

Furthermore, insurers within the scope of the CSDDD are required to "*adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of*

[1] Petra Hielkema in „InsuranceERM“, 29 June 2023

global warming to 1,5 °C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119" . Thus, the CSDDD goes beyond the requirement of a risk analysis: It requires an alignment of the business model with the EU climate goals. From our understanding, lawmakers introduced the Solvency II requirement because when negotiating the political compromise, it was not completely certain that the CSDDD requirement would actually be adopted. Due to these regulatory overlaps, **the requirement to draw up sustainability risk plans under Solvency II should be removed**.

Taxonomy & SFDR – Consistency and alignment in sustainable finance

Currently, both Taxonomy and SFDR provide a long list of KPIs that often have no benefit for investors and clients. The resulting information overload is counterproductive for investments in economic growth and the green transformation. An example are the reporting requirements for investments in nuclear and fossil gas. In our view, they do not serve practical purposes. Focusing on a **significantly reduced set of essential KPIs in the Taxonomy and in the SFDR** would help investors and clients to receive relevant, comparable, and reliable information they need to make informed investment decisions.

Furthermore, giving investors a **clear definition of sustainable investments** is key. Bringing the definition of sustainable investments in the SFDR Art. 2 para 17 closer to environmentally sustainable economic activities would help to align the different pieces of the sustainable finance framework, giving investors more legal certainty, and preventing greenwashing. Moreover, the **upcoming review of SFDR Level 1** must ensure that any proposal for a categorization system should be fit for purpose for large and diversified portfolios like the insurers' general account.

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