

PRI RESPONSE

DRAFT APPLICATION PAPER ON CLIMATE RISK MARKET CONDUCT ISSUES IN THE INSURANCE SECTOR

February 2024

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To inform this briefing, the following investor group has been consulted: PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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United Nations
Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the IAIS call for feedback on draft application paper on climate risk market conduct issues in the insurance sector.

ABOUT THIS CONSULTATION

The IAIS is seeking comments on the [draft application paper on climate risk market conduct issues in the insurance sector](#). It aims to support supervisors in their efforts to identify instances of potential unfair treatment of consumers that can emerge in relation to natural catastrophe (NatCat) protection products or sustainability-focused products, for example through “greenwashing” or misleading information on the sustainability of an insurer’s operations.

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KEY RECOMMENDATIONS

The PRI welcomes efforts by the IAIS to promote a globally consistent approach to address greenwashing issues in the insurance industry. The risk of disconnect between claims made by insurers and their actual environmental and/or social impact is a concern that needs to be addressed to protect policyholders and boost confidence in the role the insurance sector can play in financing the green transition.

Our focus in this response is on guidance related to tackling greenwashing and our comments are related to investment aspects of the insurance sector. While bearing in mind that IAIS' s Application Papers are intended to provide advice and guidance to supervisors in the respective jurisdictions, the PRI would like to submit the following recommendations.

The PRI's key recommendations for IAIS are set out below:

- In order to address the root causes of greenwashing, supervisory efforts might need to go beyond enhancing transparency. More regulatory efforts are needed in terms of establishing and clarifying supervisory expectations for insurers or financial products adopting various climate-related investment objectives.
- Guide supervisors to adopt a balanced approach to developing a definition of greenwashing and a list of common characteristics of greenwashing to establish a level playing field.
- Clarify general principles in establishing or monitoring the sustainability labels or product categories, namely to: clarify the intended audience of the product categories; avoid hierarchies between the product categories; link product categories to the sustainability preferences of end investors or policyholders; and work to enhance global interoperability of sustainable product categories
- Clarify that the targeted market's sustainability preference can be taken into account and encourage such behaviours.
- Support insurer supervisors to work towards international coherence of investor sustainability reporting frameworks and terminology.
- Support insurer supervisors to clarify guidance as to how the application of anti-greenwashing rules could be monitored as well as the next steps taken where a breach occurs.

DETAILED RESPONSE

The application paper focuses on climate risk market conduct issues in the insurance sector, covering issues arising from both the insurance and investment aspects of the insurance industry. For the sake of clarity, given PRI's specialization in responsible investment, our focus is on **guidance related to tackling greenwashing and our comments are related to investment aspects of the insurance sector.**

QUESTION 1. GENERAL COMMENTS ON THE APPLICATION PAPER ON CLIMATE RISK MARKET CONDUCT ISSUES IN THE INSURANCE SECTOR

The PRI recommends the IAIS support insurer supervisors to tackle the root cause of greenwashing by establishing and clarifying supervisory expectations for insurers pursuing different climate-related objectives at both the entity and product level in respect of (a) the development and implementation of practices, policies, strategies and procedures relating to sustainability-related objectives (including managing sustainability-related risk and achieving sustainability impacts); (b) related disclosure; (c) criteria or guidance to assess the credibility of investment strategies and actions adopted for achieving sustainability objectives.¹

Although in many cases greenwashing is manifested through the channels of product disclosure or marketing, the drivers of greenwashing are usually rooted in the lack of credible governance, strategies, and actions by insurers to obtain sustainability-related objectives. Therefore, in many cases, proving greenwashing would go beyond product or entity-level disclosure and usually entails an assessment of the credibility of their respective strategies, governance, and actions in achieving sustainability-related objectives. An effective assessment entails the establishment of clear and consistent regulatory expectations or criteria for sustainable investment practices in the first place. Setting out the rule book is crucial to provide much-needed clarity and predictability for sustainable finance to thrive.

See PRI's past positions on anti-greenwashing

- [PRI response to the UK Financial Conduct Authority's \(FCA\) guidance on the anti-greenwashing rule](#) (2024)
- [PRI response to the Financial Conduct Authority's consultation on Sustainability Disclosure Requirements \(SDR\) and investment labels](#) (2023)
- [PRI response to European Supervisory Authorities Call for Evidence on Better Understanding Greenwashing](#) (2023)

QUESTION 9. COMMENTS ON SECTION 2.2 CLEAR AND ROBUST SUSTAINABILITY-RELATED DEFINITIONS AND CRITERIA

The PRI welcomes the IAIS's recommendation that supervisors should promote the development of a definition of greenwashing and a list of common characteristics of greenwashing in their jurisdiction.

¹ Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), [A Legal Framework for Impact: Sustainability impact in investor decision-making](#). (LFI report)

The PRI also agrees that supervisors should promote the development of common criteria used to determine if a product has sustainable features and pay particular attention to sustainability labels.

The PRI recommends the IAIS guide supervisors in adopting a balanced approach towards developing a definition of greenwashing and a list of common characteristics of greenwashing to avoid structurally disadvantaging responsible investors or certain sustainable investment strategies. A possible approach could be to provide more clarity around the following definitions:

- Passive greenwashing vs positive greenwashing

The PRI recommends that supervisors adopt a greenwashing definition that is broad enough to cover both positive and passive greenwashing and consider establishing a minimum level of sustainability-related expectations and disclosure requirements for all insurers and all financial products.

Most definitions of greenwashing focus on positive greenwashing involving practices of misrepresenting sustainability-related practices or the sustainability-related features of investment products. However, limited attention has been paid to passive greenwashing where investors by holding back information about sustainability-related risks and impacts of their investment would lead clients to believe that their investments are not exposed to sustainability-related risks or have no principal adverse impacts on the environment and society.

Only emphasizing positive greenwashing may risk structurally disadvantaging investors who publicly set sustainability-related objectives/pledges at the entity or product level and disclose sustainability-related information. That is because most assets are exposed to financially material sustainability-related risks regardless of their objectives, especially investments with long-term horizons. In addition, financial investments drive real-world outcomes whether the impacts are intended or not. Clients and policyholders should have access to material sustainability-related information (including risks and impacts) for them to fully understand the sustainability characteristics of the insurer or the product no matter whether the insurer has actively engaged in promoting the sustainability features of their performance or their products.

While there are legitimate and good reasons to subject positive greenwashing to heightened scrutiny, passive greenwashing should also be subject to a certain level of minimum regulatory and disclosure requirements to strengthen the objective of investor and policyholder protection and to establish a level playing field in the financial industry. Otherwise, it may lead to green hushing which would cause further concerns of investor protection. In addition, it may also discourage insurers from considering climate-related risks and opportunities at all even in cases where they are legally required to do so.²

- Intentional vs. unintentional greenwashing

Some national financial regulators have noted that greenwashing can occur and spread either intentionally or unintentionally.³ The PRI believes that an understanding of the drivers and features of unintentional greenwashing will also be important for supervisors and policymakers in addressing the wider causes of the issue. When applying the definition to enforcement measures (particularly

² PRI and UNEP FI, [Fiduciary Duty in the 21st Century Final Report](#) and PRI, UNEP FI and Generation Foundation, [A Legal Framework for Impact](#) .

³ IOSCO, Supervisory Practices to Address Greenwashing, 13-14.

sanctions), regulatory actions should focus on instances where greenwashing is deliberate and intentional.

Particularly in cases where insurers failed to meet their sustainability-related commitments/targets or where insurance products (with specific climate-related objectives for their investment) failed to obtain sustainability-related objectives,⁴ it is important to differentiate intentional and unintentional greenwashing when it comes to implementation of greenwashing rules. Otherwise, it may discourage insurers from setting ambitious sustainability objectives at the entity or product level for fearing failure to obtain sustainability-related objectives. It may also inadvertently lead insurers to shy away from taking innovative and ambitious strategies to drive real-world green transition through stewardship because such strategies would be more risky (less predictable) in terms of achieving sustainability objectives⁵ than – for instance – greening the portfolio by tilting portfolio composition towards sustainable companies.

Navigating unintentional greenwashing presents a nuanced challenge for insurer supervisors, requiring a delicate balance between safeguarding clients and policyholders while fostering market innovation and promoting the acceleration of the green transition amid uncertainties. Striking this balance is crucial to ensure responsible practices, policyholder protection, and implementing global sustainability goals.

The application paper recommends insurer supervisors pay particular attention to sustainability labels. Financial regulators have crucial roles to play in ensuring that sustainability labels enhance transparency and credibility. **The PRI recommends that the IAIS support insurer supervisors in clarifying general principles in establishing or monitoring the sustainability labels or product categories if this is within their mandates. The following considerations may form the basis for the development of such principles. These are relevant to the investment aspects of insurance products.**

- Clarify the intended audience of the product categories.

It should be clear whether retail or institutional investors are the intended primary audience of the product categories. Whilst the categories could apply to both retail and institutional clients, it is particularly important that the product categories are simple and easy to understand, as retail clients are less likely to grasp the nuance of the corresponding disclosures.

- Avoid hierarchies between the product categories.

Hierarchies based on current levels of sustainability performance could unintentionally discourage investments in sectors that urgently need funding to transition away from harmful levels of performance. Moreover, clarity is needed around how different product categories contribute to the overarching objective of mobilizing capital towards sustainable activities. The FCA's Sustainability Disclosure Requirements and investment labels regime have been designed in a way that does not propose a hierarchical framework. Each type of product is designed to deliver a different profile of

⁴ IOSCO, Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management, Final Report. In the report, the IOSCO has explicitly listed these two types of greenwashing for regulators to consider.

⁵ LFI report, at 29. While the report acknowledged that stewardship and in particular investor collaboration is one of the most effective tools for investors to achieve real-world sustainability impacts, the report also made caveats that relying on investment powers to achieve sustainability impacts may have its limits and need policy intervention to address some of these impediments.

assets, as well as different risk appetites and values to meet different consumer preferences: this approach is welcomed as it supports investor choice.

- Link product categories to the sustainability preferences of end investors or policyholders.

It will be important to link any new product categorisation system with the existing rules for integrating client sustainability preferences. Moreover, the categorisation system should be designed to enhance the advisory process and improve retail investor understanding of the sustainability-related strategies and objectives of financial products.

- Work to enhance global interoperability of sustainable product categories.

Supervisors should continue to engage in global forums to work towards greater interoperability with sustainability-related product categories from other markets. To simplify global distribution and reduce costs for financial market participants, supervisors should work with IAIS to ensure a baseline of disclosures and principles for the cross-border compatibility of sustainability-related product categories.

In order to establish a common terminology system for addressing greenwashing, supervisory efforts might need to go beyond defining greenwashing and product criteria or labels. The PRI recommends that the IAIS support and guide insurance supervisory bodies to consider the following actions.

- Supporting the establishment and implementation of a taxonomy of sustainable economic activities to define activities that contribute to sustainability objectives. It is equally important to integrate the taxonomy into the development of sustainability disclosure at the entity and product levels to ensure consistency in terminology and technical criteria.

A sustainable finance taxonomy can be defined as a classification system to help investors and other stakeholders understand whether an economic activity is environmentally and socially sustainable (or, more precisely, meets the social and environmental criteria defined by the taxonomy). Sustainable finance taxonomies provide a common language for investors, issuers, project promoters and policy makers. They help investors assess whether investments meet robust sustainability standards and align with policy commitments such as the Paris Agreement on Climate Change, the Sustainable Development Goals (SDGs) and national sustainability and climate change goals.⁶

- Supporting the development of common sustainable finance-related terms and definitions to ensure consistency throughout the industry. The PRI, the GSIA, and the CFA Institute have been working on an initiative looking at [Definitions for Responsible Investment Approaches](#). It aims to unify the industry around a set of common definitions so that users and preparers of information can communicate effectively with harmonised, well-understood language. The paper describes the concepts that define each responsible investment approach, rather than criteria for product labelling or categorization. This could form a basis for the IAIS's work in providing further clarity in the application paper.

⁶ For more details about key components and principles of developing a taxonomy for sustainable economic activities, see PRI [Implementation Guide — Taxonomies of Sustainable Economic Activities](#). Also see [PRI's page on the EU taxonomy](#).

QUESTION 10. COMMENTS ON SECTION 2.3 OFFERING PRODUCTS WITH SUSTAINABLE FEATURES THAT MEET CERTAIN POLICYHOLDER REQUIREMENTS

The PRI welcomes IAIS's recommendation that supervisors should review whether there is a risk of greenwashing at any stage of the product design process. The PRI also supports the recommendation that where relevant, supervisors should assess whether insurers take into account the target market's needs, objectives, and characteristics in relation to sustainability factors in the different stages of the product lifecycle.

In the report, *A Legal Framework for Impact*, authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, the United Nations Environment Programme Finance Initiative and the Generation Foundation, the levels of assets committed to sustainability impact investment approaches were found to be lower than what might be expected based on preferences expressed by individual investors in a significant portion of studies.⁷ There may be various reasons for this, including a common difference between what people say and do. However, there is also a possibility that beneficiaries and clients are not prompted to consider in initial conversations with investment managers whether their money could be managed in ways that achieve positive sustainability impacts. There is another possibility – that investment decision-makers are not given adequate information about policyholders' sustainability impact preferences or prompted to consider policyholders' sustainability aspirations when selecting investments.

To support and guide insurance companies to integrate the sustainability preferences of the targeted market into different stages of the product lifecycle, the PRI recommends supervisors may consider clarifying that the targeted market's sustainability preference can be taken into account and encourage such behaviours. For that purpose, supervisors may consider adopting the following measures.

- Clarify that insurance companies may take the targeted market's sustainability preference into account when considering setting sustainability objectives.
- Explore ways to address market impediments, such as any challenges insurance companies may face in establishing the sustainability aspirations of targeted markets.
- Develop guidance to help insurance companies take account of sustainability preferences of the targeted market.
- Clarify the scope of the information to be obtained.
- Develop processes that insurance companies could use to establish targeted market's sustainability preferences.

QUESTION 11. COMMENTS ON SECTION 2.4 INSURERS PROMOTING THEIR OWN SUSTAINABILITY PROFILE TO ATTRACT CLIENTS

As noted in our response on page 4, We recommend IAIS clarify and establish expectations for insurers adopting different climate-related target in respect of (a) the development and implementation of

⁷ For more details, see the section entitled "Why the difference between positive sustainability attitudes and investment practice?" on pages 61-62 of the LFI report.

practices, policies, strategies, and procedures relating to sustainability-related objectives (including managing sustainability related risk and achieving sustainability impacts); (b) related disclosure; (c) criteria or guidance to assess the credibility of investment strategies and actions adopted for achieving sustainability objectives.

For more details, please see the comment on Question 1 on page 4 of this response.

QUESTION 12. COMMENTS ON SECTION 2.5 SUBSTANTIATION OF SUSTAINABILITY REPRESENTATIONS PRESENTED TO POLICYHOLDERS

The PRI strongly supports the recommendation that supervisors should encourage the development of fact-based methodologies, using a common sustainability normative framework for their jurisdiction. Such frameworks may consist of a combination of several key elements, including a classification scheme for sustainable investments, sustainability disclosure requirements for all investment products and financial market participants, as well as requirements for all securities issuers to publish sustainability data on their economic activities.

As noted above, to prove greenwashing cases or substantiate sustainability-related claims, supervisors and insurers need to go beyond disclosure and terminology frameworks. An assessment of whether disclosed practices are credible enough to obtain sustainability-related objectives is indispensable. **For the normative framework to be effective, the PRI recommends the IAIS include the following elements.**

- **Establish and clarify a set of minimum baseline expectations on what sustainable investment practices (including ESG incorporation and stewardship) would be needed to achieve varied sustainability objectives, and**
- **Clarify criteria as to what elements will be considered in assessing the credibility of sustainable investment practices.**

Taking greenwashing issues related to stewardship as an example which has been explicitly mentioned in the application paper. To fully substantiate relevant sustainability representations, insurers need to prove that the stewardship strategies adopted are credible to obtain not only short-term but also long-term sustainability-related objectives. Without a clear standard or criteria in place to specify a common ground understanding of what constitutes a credible stewardship strategy to achieve sustainability-related objectives, both investors' efforts to substantiate their claims and supervisors' assessment of greenwashing may easily get challenged.

QUESTION 21. IS THERE ANY ADDITIONAL WORK THE IAIS SHOULD BE UNDERTAKING IN THE AREA OF CLIMATE RISK MARKET CONDUCT ISSUES IN THE INSURANCE SECTOR?

The PRI recommends IAIS support insurer supervisors to work towards international coherence of investor sustainability reporting frameworks and terminology.

The PRI recently conducted a review of ESG reporting requirements facing our signatories, across nine key jurisdictions. Findings are captured in our report: [Review of trends in ESG reporting requirements for investors](#). We found that many jurisdictions had adopted approaches to tackling greenwashing, albeit differently across what we refer to as “medium- and high-regulation jurisdictions”.

There is a need for improved regulatory coherence globally to reduce the scope of greenwashing. For instance, product-level disclosure requirements tend to vary across jurisdictions on different types of “sustainable products”, meaning investors cannot effectively compare these. There is also a need to harmonise sustainable taxonomies across jurisdictions, including the terminologies, thresholds, and sector classifications upon which these are built.

The PRI recommends that the IAIS clarify guidance as to how the application of anti-greenwashing rules could be monitored as well as the next steps taken where a breach occurs.

A further area of divergence across regulators is the monitoring and enforcement approaches, with some adopting stronger sanctions such as specific infringement notices (Australian Securities and Investments Commission (ASIC) Australia), financial penalties (US Securities and Exchange Commission (SEC)), or orders for business improvements (Financial Services Authority (FSA) Japan).⁸

The application paper has not indicated basic elements for monitoring the application of anti-greenwashing measures or which steps may be taken in the case of a breach. This could reduce the overarching transparency and accountability mechanism of an anti-greenwashing mechanism and destabilise the flow of high-quality decision-useful data across the investment chain.

Without a clear monitoring and review process in place, there is a risk that the principles-based recommendation could fail to adequately prevent greenwashing and lose its credibility.

The Australian Competition & Consumer Commission (ACCC) has similarly adopted a principles-based approach but has complemented it by setting out factors that are considered when determining whether to take enforcement action once a breach is identified.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of IAIS further to enhance the regulatory framework for insurers to address sustainability-related risks and opportunities at the global level.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org

⁸ IOSCO, [Supervisory Practices to Address Greenwashing](#) (2023).