IVASS
ISTITUTO PER LA VIGILANZA SULLE ASSICURAZIONI

Analysis of IBIP policies with ESG characteristics

March 2024

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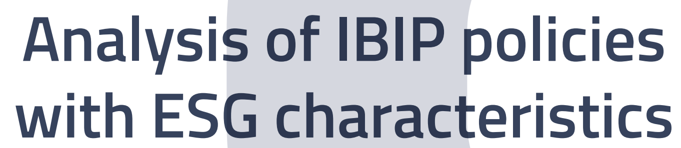

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Edited by: Annamaria Damiani, Annalisa Bellizzi, Francesca Campanella, Maria Cristina Giustiniani, Christiana Labate and Mariagrazia Rositano

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1. Executive summary

In 2023, IVASS conducted a survey on IBIP policies with sustainability-ESG characteristics in order to verify their structure and how they are presented to the public.

The survey involved 18 insurance companies, from which a series of qualitative-quantitative information related to sustainability was acquired, providing an interesting snapshot of how the Italian market is moving as regards the offering of "sustainable" products, while also allowing some aspects worthy of further study to emerge.

It has come out in particular that the supply of sustainable products in the Italian market is quite wide and mainly concerns the so-called hybrid products, the asset allocation of investments is mainly based on external funds (UCITS), and that, in general, companies have integrated sustainability-related issues into their policies on insurance Product Oversight Governance (POG) and in their distribution policies.

The survey also aimed to detect possible cases of greenwashing. In the insurance sector, greenwashing may be defined[1] as a practice whereby sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a policy, or a financial service. This practice may be misleading to consumers, investors, or other market participants.

The analysis conducted took into account the regulatory framework on sustainability[2] – still being updated – and EIOPA's work on the subject.

1 Definition taken from *progress report,* EIOPA-BoS-23/157 of 01 June 2023 "*Advice to The European Commission on Greenwashing*" https://www.eiopa.europa.eu/publications/eiopas-progress-report-greenwashing-advice-european-commission_en

2 In particular: Regulation (EU) 2019/2088 of the European Parliament and of the Council (so-called SFDR); Regulation (EU) 2020/852 of the European Parliament and of the Council (so-called Taxonomy); Commission Delegated Regulation (EU) 2021/1257, amending Delegated Regulations 2017/2358 (RD-POG) and 2017/2359; Commission Delegated Regulation (EU) 2022/1288; *Guidance on the integration of sustainability preferences in the suitability assessment under the Insurance Distribution Directive (IDD)* of 20 July 2022; IVASS Order No. 131 of 10 May 2023 adapting IVASS regulations to European rules on sustainable finance and introducing amendments and additions on sustainable finance to IVASS Regulations; No. 24 of 6 June 2016, laying down provisions on investments and assets representing technical provisions; No. 38 of 3 July 2018, laying down provisions on the system of governance; No. 40 of 2 August 2018, laying down provisions on insurance and reinsurance distribution; No. 45 of 4 August 2020, laying down provisions on insurance product oversight and governance requirements.

1.1 The SFDR Regulation

Regulation (EU) 2019/2088 on sustainability related disclosures in the financial services sector (*Sustainable Finance Disclosure Regulation* - SFDR), is aimed to promote and strengthen sustainable investment practices in the financial services sector.

The SFDR requires financial market participants and financial advisers to provide end investors with specific information on how they integrate sustainability risks in their activities and on the sustainability characteristics and objectives of financial products.

Specifically, the SFDR Regulation identifies "sustainable" financial products (including insurance products) according to an ascending scale of sustainability, made up of three levels:

- **products under Article 6**: integrate sustainability risks in investment decisions;
- **products under Article 8** (**also called** ***"light green"***): promote, among other things, environmental or social characteristics in their investment policies;
- **products under Article 9** (**also called** ***"light green"***): include sustainable investments as an objective of the investment policy.

2. Scope of the analysis

The survey involved **18 insurance companies** (including 2 foreign ones) that, according to the survey conducted, which was mainly based on the trade name of the policies (e.g., presence of the terms "green", "sustainable", "ethical", "responsible" or their equivalent in English or the acronym ESG), offered IBIP policies in Italy as of 15 June 2023 that were advertised as ESG or had investment options with ESG characteristics as underlying assets.

Companies were asked for qualitative-quantitative information, with specific reference to: names and SFDR classification of the policies in the catalogue having sustainability characteristics, implementation of sustainability aspects in the POG policy[3], arrangements for selecting investments, information on contracts, premiums, and instructions to the sales network for promoting and assessing customer sustainability preferences and the suitability of the contract with respect to those preferences.

3 Questions on the POG policy and investment selection concerned only the 16 Italian undertakings, taking into account that POG supervision for foreign undertakings falls within the competence of the Home Supervisor.

The survey revealed that the companies' "sustainable" business is quite significant: **106 policies classified as "sustainable"** were reported, covering more than **1.1 million contracts**, for a **premium income of about 48.8 billion euros** since the beginning of marketing.

3. Results of the analysis

a. Policies

In relation to the catalogue of policies reported by companies, there is **a prevalence of hybrid policies**, which account for 45% of the sample, followed by unit-linked, 29%, and with profit policies, 25%. There are no new specially-created policies, but rather insertions of ESG assets among the underlying investments of policies already on the market; in some cases companies explicitly stated that this was a restyling.

92% of the policies reported are classified as *"light green"*, namely policies that *"promote, among other things, environmental or social characteristics in their investment policies".* **The remaining share relates to policies under Article 6 of SFDR**, i.e. which *"integrate sustainability risks in investment decisions".*

No policies classified as *"dark green"* were reported, i.e. those policies that *"include sustainable investments as an objective of the investment policy".*

b. Underlying assets and investment policies

Companies have revised the asset allocation of policy investments to include ESG-compliant assets, preferring an asset allocation based mainly on external funds (UCITS).

More specifically, the policies are linked to the following assets:

- 3,141 external funds, of which 2,041 classified as "light green" and 197 classified as "dark green";
- 173 internal funds, of which 72 classified as "light green", 1 classified as "dark green", 93 relating to Article 6, and 7 unclassified;
- 26 separately managed accounts, of which 13 classified as "light green", 7 as relating to Article 6 of SFDR, and 6 unclassified. None are reported as classified as "dark green".

In addition, companies often use external providers for the selection of investments with sustainability characteristics, each of which has its own internal ratings

developed to assess assets from an ESG perspective. There is no evidence of a rating constructed according to shared metrics.

Moreover, ESG ratings also vary according to the type of underlying asset being considered from time to time:

- internal funds are in fact rated by means of minimum thresholds of assets, which in turn are classified as "light green" or "dark green", or the selection of issuers is entrusted to an external provider (employing non-homogeneous metrics, thus not comparable with each other);
- policies linked to separately managed accounts are sometimes evaluated through an ESG rating – defined by the company itself or by an external provider – by setting a minimum reference level (for example, one company has indicated a minimum materiality threshold of 70% for the investments of the separately managed account), other times companies rely on exclusion criteria to "discard" investments that cover specific areas contrary to sustainability criteria[4].

c. Integration of sustainability aspects in POG processes

Except in rare cases, companies have integrated sustainability issues into their POG policies and have adapted pre-contractual documentation to the requirements of European regulations.

In some cases, however, policies, although classified as "light green," do not target customers with sustainability preferences nor are they advertised as such on their websites.

d. Distribution

Policies on distribution and supply are also substantially in line with the new regulatory framework; training activities have also been administered in favour of distributors. For five companies, adaptation was still in progress.

Companies distributing policies through the traditional channel have in general provided their sales network with well-structured and comprehensive guidance on regulatory changes in the area of sustainability and the consequent adjustments to their systems and processes related to advisory and sales activities.

Aspects worthy of attention have in some cases emerged when assessing contract adequacy. In particular:

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4 For example, the exclusion of: i) companies producing or involved in the production of controversial weapons; ii) firms deriving most of their turnover from coal mining activities or form power generation from thermal coal; iii) government bonds of countries where serious violations of human rights and serious deficiencies in the management of ESG risks have been established.

- for three companies, it was possible to offer policies to customers, which may not meet, or fully meet, the sustainability preferences expressed by the potential customer[5], without, however, asking the customer to subsequently adjust his or her sustainability preferences[6];

- possible critical aspects have been noted when the sales process is entirely handled in a digital way, without any advisory activities: in this case, the risk is that customers may not properly understand the concept of "sustainability preferences" and their choice as to whether and to what extent a particular product should be integrated into their investments. In one case, for example, the digital sales process provides special graphic evidence for the selection of a "sustainable" product, but, in the absence of advice, it is possible to go forward even if a "non-green" product is selected, without an update of preferences[7].

In some D&N (Demand and Needs) questionnaires, the questions to clients about their sustainability preferences and their request to allocate a minimum share of investments in line with the EU taxonomy or sustainability investments[8] were not sufficiently granular to allow proper customer profiling for the assessment of the policy suitability.

When distribution is entrusted to banking intermediaries[9], instructions are provided directly by the bank distributor to its sales network, albeit within the framework of the distribution agreements in place between the Bank and the Company. Companies provide the distributor with information regarding the target market of the policy, including with reference to customers' sustainability needs. However, in some cases, the questionnaires adopted by the distributing banks do not allow the customer sustainability preferences to be captured[10].

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5 For example, a policy that is not sustainable or has a lower level of sustainability than the demands and needs expressed in the suitability questionnaire.

6 One company in particular has expressly specified that "*the advisor may sell a 'non-green' policy even to a client who has expressed sustainability preferences*". In the instructions to the network it is stated that if there is any inconsistency between the chosen policy and the sustainability preference, the policy can still be underwritten after obtaining explicit confirmation from the policyholder with the relevant reason for the choice or by printing a statement on the questionnaire to be signed by the client.

7 EIOPA - *Guidance on the integration of sustainability preferences in the suitability assessment under the Insurance Distribution Directive (IDD)* of 20 July 2022.

8 The questions are not sufficiently granular as to the definition of the i) share invested in economic activities that can be classified as environmentally sustainable; ii) share of sustainable investments, iii) consideration of the main negative impacts and therefore do not allow to combine the customer sustainability preferences with the sustainability characteristics of the policy offered.

9 In line with Article 25-ter of the TUF (Consolidated Law on Finance), the regulatory and supervisory competence with respect to distributors in the banking channel (and other entities licensed for distribution under sect. D of the RUI) lies with CONSOB in cases of distribution of insurance-based investment products (IBIPS).

10 In some cases it is only one question, and the client is not asked to indicate the minimum share of sustainable investments or the share is indicated as low, medium or high by referring to the bank's website for the methodology of calculating the minimum threshold.

Only in one case has a risk of potential greenwashing emerged due to the tenor of the question posed to the client, who can state that he or she is interested in *"all types of sustainable and responsible investments expressed in any percentage share and scope (environmental/social/responsible management)",* and, as a result, the distributor is allowed to propose to the client any policy in the catalogue.

Furthermore, since the process is entirely managed by the banking distributor, it is not clear how, for the purpose of assessing the suitability of the policy offered, the customer's sustainability preferences are taken into account within the customer profiling algorithm. In particular, no description is provided of the procedure by which the customer profiling algorithm operates in the case where, in the absence of "green" policies in the offer, the customer has expressed preference toward "sustainable" policies.

4. Further points of attention

The analysis did not reveal any clear cases of greenwashing on the product side, on the contrary, some caution was noted on the part of companies in classifying products as "light green" or "dark green", which could also hypothetically lead to the occurrence of a "greenbleaching risk[11]".

Additional points of attention include:

a) the inconsistency in the classification as "light green" of multi-option policies: in fact, some companies classify an IBIP as "light green" when at least one of the underlying investment options is classified as "light green" or "dark green", while other companies do not classify as "light green" IBIPs that offer products having underlying assets with "light green" or "dark green" options.

b) pre-contractual documentation and SFDR disclosure: some policies have particularly thick pre-contractual documentation and no SFDR annexes were found for the insurance policy. This could make it difficult for the customer to understand the policy sustainability features.

11 This is a phenomenon whereby operators prefer not to define a financial product as sustainable probably to reduce reporting requirements and avoid the associated legal risks.