Sustainable Finance Initiative - Distribution of insurance-based investment products

Demanding the inclusion of ESG preferences in **Distribution of insurance-based investment products**, could further contribute to the mainstreaming of sustainable and responsible investment for retail clients. This initiative will certainly increase the level of involvement in sustainability of insurance intermediaries and insurance undertakings, representing an important step in the sustainable finance equation. Being able to link investment objectives and risks with those non-financial aspects, which are so interconnected to the financial ones, is key in moving forward value of ESG as part of sustainable finance. Nevertheless, and in order to maximise the chances to succeed in this mission, there is a need for more clarity around the language used and the meaning of 'ESG preferences[1]' and how these are linked to the ultimate investors' goal and impact. What needs to be avoided at all cost, is the danger that the reference to ESG criteria remains a vague concept with no substantial links to investment returns, which would make it an easy one to dismiss.

In the absence of clear definitions, diverging approaches by retailers could lead to increased confusion among clients and missing out on solutions which would better take into account clients' objectives, including their preferences for impact-related products.

In the draft, t**here is no further indication as to what this means nor entails in practice for the investment and if there will be a link with an impact measurement, in line with the communication on objectives as was originally foreseen for KID under PRIIPs.** The lack of clarity in this respect translates into increased confusion for the retail investor who is not able to see how his/her ESG related preferences and concerns are actually translate in the investment choice and outcome. In order to address this issue, there needs to be a clear reference to the wider understanding of Sustainable and Responsible Investing – SRI- the industry term, used to describe investment strategies that incorporate ESG integration and analysis, at any level. Eurosif's definition of SRI is clear: *'SRI is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies'*. SRI includes a number of investment strategies that investors can choose from to demonstrate their ESG preferences. These are: <u>exclusions of holdings from investment universe, norms-based screening, best-in-class investment selection, sustainability themed investment, ESG integration (one of the strategies per se), engagement and voting on sustainability matters and impact investing.</u> Eurosif has devised these

[1] see **suggested Amendment Article 47 (3) point d**

investment strategies to account for the SRI assets under management invested in Europe since 2003 and since then reports on their evolution every two years in its biennial SRI study. In order to truly enable investors to make a conscious choice and properly express their ESG preferences, the concept of ESG factors needs to be integrated as part of a wider discussion which includes the concept of Sustainable and Responsible Investment – SRI – as a whole. The assessment of preferences regarding ESG considerations should include questions (as part of a standardised questionnaire) about the willingness to invest in entities that do not pursue objectives in line with the investors' preferences and in line with the interest to pursue an ESG objective, by choosing a specific SRI strategy (see list above).