Ania

Associazione Nazionale
fra le Imprese Assicuratrici

2022 Edition

ANIA Exploring SUSTAINABILITY

Focus on Taxonomy Regulation Delegated Acts

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INDEX

1. TR: Introduction to the Climate Delegated Act
2. TR: Technical Screening Criteria at a glance
3. TR: Annex I to the Climate Delegated Act
4. TR: Annex II to the Climate Delegated Act
5. TR: TSC for non-life insurance activities (Part 1)
6. TR: TSC for non-life insurance activities (Part 2)
7. TR: TSC for reinsurance activities
8. TR: Introduction to the Disclosure Delegated Act

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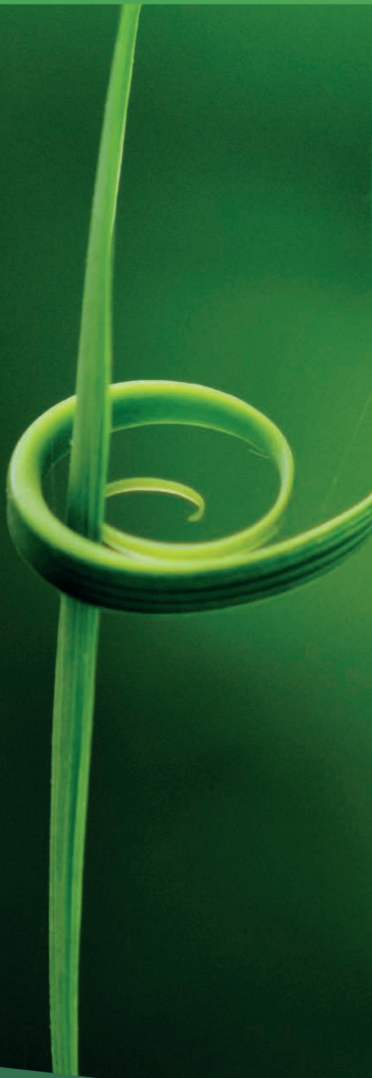
BACK TO THE INDEX



Sustainability is rapidly becoming a key issue for insurance companies, which - both as investors and as providers of protection - play a central role towards a sustainable transformation of the economy and the achievement of the ambitious sustainable goals set at international, European and national level.

Sustainability factors - covering all three ESG dimensions (Environmental, Social and Governance) - need to be integrated in every single process: from corporate governance to reporting and disclosure, and from underwriting policies to investment strategies.

*The regulatory framework is moving fast in this direction, with particular regard to the European legislation, and ANIA decided to launch in 2021 a new series of newsletter: "**ANIA Exploring SUSTAINABILITY**".*

"ANIA Exploring SUSTAINABILITY" aspires to provide useful information about the rapidly evolving regulatory context of sustainability, with a main focus in 2021 edition on the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation.

The 2022 edition will deal with Level 2 regulation, starting from Taxonomy Regulation Delegated Acts.

The newsletters will be issued on a regular basis, in a one-page format, and each issue will focus on specific features of the legislation in question.

The newsletters will be collected in a single volume to form a practical - and easy to use - reference guide.

Angelo Doni
ANIA Co-Director General

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TR: Introduction to the Climate Delegated Act

1 FEBRUARY, 4 2022

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BACK TO THE INDEX

The **Taxonomy Regulation (TR)** entered into force on 12 July 2020 defines the general framework for determining whether an **economic activity** (**EA**) qualifies as **environmentally sustainable** for the purposes of establishing the degree to which an investment is environmentally sustainable. The **TR** tasked the European Commission to establish technical screening criteria (**TSC**) through the adoption of Delegated Acts defining the specific technical conditions that an **EA** shall respect to meet the first two requirements of the **TR**:

- make a substantial contribution to one or more of the six following environmental objectives (**EO**): climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems;
- do not significantly harm any of the six objectives.

After the adoption of a proposed Climate Delegated Regulation by the European Commission, on **4 June 2021**, containing a first set of **TSC** related to the **objectives of climate change mitigation and adaptation**, the European Parliament and Council of the EU took six months to review and approve its contents, till 8 December 2021.

Eventually, on 9 December 2021, **Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852**, also referred to as the "**Climate Delegated Act**" (**CDA**), was published in the Official Journal (along with its Annex I and Annex II) and its provisions came into application on **1 January 2022**. Art. 3, CDA

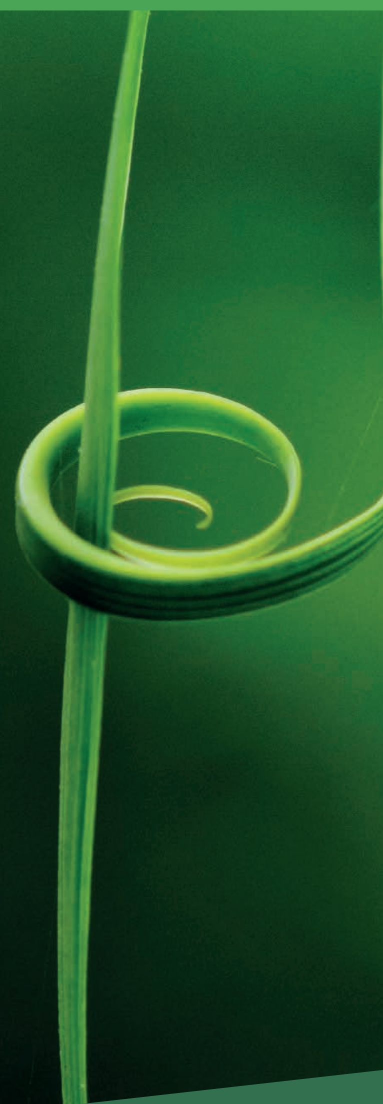
In particular, the **CDA** sets out the **TSC** for determining:

- the conditions under which an **EA** qualifies as "**contributing substantially**" to climate change mitigation or climate change adaptation; and
- whether that EA does no significant harm (**DNSH**) to any of the other environmental objectives. Art. 1, 2 CDA

The **CDA** is a living document and **will continue to evolve over time**, with more activities being added to its scope by means of amendments, **reflecting technological progress** and ensuring that new sectors and activities can be added to the scope over time. This relates, for instance, to the **Complementary Climate Delegated Act** (**CCDA**) presented by the EC on 2 February 2022.

The **CCDA** includes, under strict conditions, **specific nuclear and gas energy activities** in the list of **EAs** covered by the **TR** and the related **TSC**, which are not yet included in the current **CDA**.

While the **CCDA** will be formally adopted, once all languages are available, for the four months (extendable by a further two months) scrutiny period by the European Parliament and the Council, a second **Delegated Act** containing the **TSC** for the **remaining four EOs** should be published by 2022.



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TR: Technical Screening Criteria at a glance

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BACK TO THE INDEX

Article 19 of the **Taxonomy Regulation** (**TR**) establishes several provisions to be met when developing **technical screening criteria** (**TSC**). Within the **Climate Delegated Act** (**CDA**), those provisions find their application in **Annexes I** and **II** that contain the **TSC** for determining the conditions under which a specific economic activity (**EA**) qualifies as contributing substantially to the objectives of climate change mitigation (Annex I) and climate change adaptation (Annex II), without significantly harming any of the other environmental objectives.

To facilitate the identification by undertakings and financial market participants of the relevant **EAs** for which **TSC** are established, **CDA** follows the classification of **EAs** laid down in the NACE Revision 2 classification system established by Regulation (EC) No 1893/2006, thus includes references to NACE codes that can be associated with each type of activity. Those references should be understood as indicative and should not prevail over the specific definition of the activity provided in its description.

As required by the **TR**, the **TSC** consider the nature and the scale of the **EA** and sector to which they refer, and whether the **EA** is an **enabling activity** (i.e. contributes substantially to one or more of the six environmental objectives by directly enabling other activities to make a substantial contribution to one or more of them) or a **transitional activity** (i.e. not replaceable with low-carbon alternative but still substantially contributes to the objective of climate change mitigation).

TSC are alternatively set as:

- **quantitative thresholds** or **minimum requirements**;
- **relative improvements**;
- **set of qualitative performance requirements**;
- **process** or **practice-based requirements**; or
- **precise descriptions** of the **nature** of the **EAs** themselves where those activities by their nature can contribute substantially to climate change mitigation.

To ensure that an **EA** makes a positive impact (or reduces negative impact) on one of the two above-mentioned climate objectives, **TSC** refer to thresholds or performance levels that the **EA** should achieve. Likewise, **TSC** also specify the **minimum requirements** that **EAs** have to meet to not have significant negative environmental impacts and therefore comply with the "do not significant harm" principle.

TSC are built on existing Union law, best practices, standards and methodologies, as well as on well-established standards, practices and methodologies developed by internationally reputed public entities (or private entities when alternatives for a specific policy area are not available).

Eventually, considering that **TSC** for certain activities rely on elements of considerable technical complexity and the assessment whether those criteria have been complied with requires expert knowledge, the **CDA** provides that for such activities the assessment of their alignment with the **TSC** has to be verified by an independent third party.

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TR: Annex I to the Climate Delegated Act

3 MARCH, 4 2022

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BACK TO THE INDEX

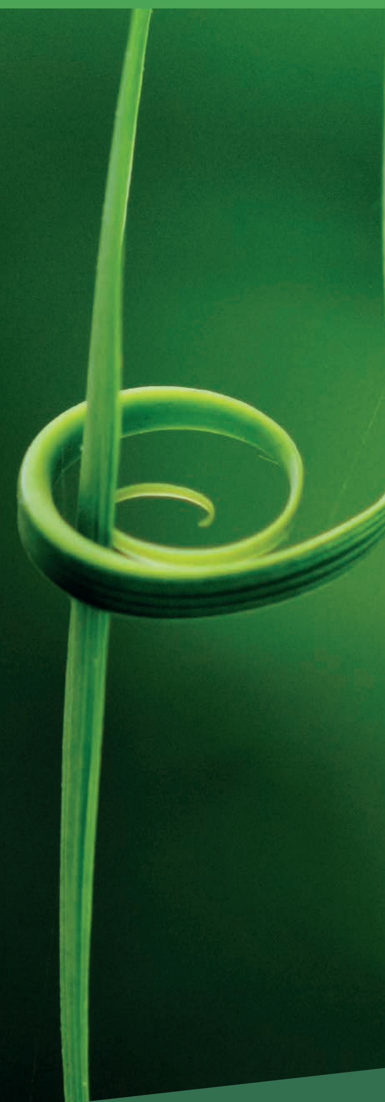
Annex I to the Climate Delegated Act contains the technical screening criteria (**TSC**) for determining under which conditions **88** different **economic activities** (**EAs**) should be considered to make a substantial contribution to **climate change mitigation** as established by **Article 10** of the **Taxonomy Regulation** (**TR**) and therefore considered as "**climate mitigation EAs**".
The **88 EAs** are included within the following **9 sectors**:

- Forestry;
- Environmental protection and restoration activities;
- Manufacturing;
- Energy;
- Water supply, sewerage, waste management and remediation;
- Transport;
- Construction and real estate activities;
- Information and communication; and
- Professional, scientific and technical activities.

The choice of such **EAs** is based on their share of overall greenhouse gas emissions, and on evidence regarding their potential to contribute to avoid (or reduce) producing greenhouse gas emissions or to contribute to greenhouse gas removal, or to enable such avoidance, reduction, removal, or long-term storage for other activities.
Thus, the **TSC** detail how and to what extent the **EAs** can contribute to the **substantial stabilisation of greenhouse gas concentrations by avoiding or reducing emissions or enhancing removals** through, for instance: generating, storing, or using renewable energy or climate-neutral energy, improving energy efficiency, or switching to use of renewable materials.
Considering their features, the **climate mitigation EAs** can be broadly **divided into three categories**:

- **EAs** characterized by very low and zero emissions and carbon sequestration, e.g., Afforestation, Restoration of wetlands, Electricity generation using solar photovoltaic technology;
- **Enabling EAs** that directly enable other **EAs** to make a substantial contribution to climate change mitigation, e.g, Transmission and distribution of electricity, Storage of electricity, thermal energy or hydrogen, Infrastructure for rail transport;
- **Transitional EAs** that are not replaceable with low-carbon alternative but still support the transition to a low carbon economy, e.g., Renovation of existing buildings, Passenger interurban rail transport, Manufacture of iron and steel.

Eventually, the **appendices A to D** to **Annex I** set out generic criteria **for not significantly harming** the **four environmental objectives** of: climate change adaptation, sustainable use and protection of water and marine resources, pollution prevention and control regarding the use and presence of chemicals, protection and restoration of biodiversity and ecosystems. The last Appendix to Annex I (**Appendix E**) includes technical specifications for water appliances.



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TR: Annex II to the Climate Delegated Act

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BACK TO THE INDEX

Annex II to the Climate Delegated Act contains the technical screening criteria (**TSC**) for determining under which conditions **95** different **economic activities** (**EAs**) should be considered to make a substantial contribution to **climate change adaptation** as established by **Article 11** of the **Taxonomy Regulation** (**TR**) and therefore considered as "**climate adaptation EAs**".
The **TSC cover the same sectors as Annex** I with the addition of:

- Financial and insurance activities;
- Education;
- Residential care activities;
- Arts, entertainment and recreation.

With a few exceptions, as for the insurance and reinsurance **EAs**, the **TSC** provide a generic approach applicable to each EA to identify whether it is a **climate adaptation EA**. This approach is based on:

- **a robust climate risk and vulnerability assessment** that:
  - for **EAs** with an expected lifespan of less than 10 years it must be performed at least by using climate projections at the smallest appropriate scale;
  - for all other **EAs**, it must be conducted using state-of-the-art modelling under a range of climate scenario projections of 10 to 30 years.
- the **implementation of physical and non-physical solutions** to reduce the most significant physical climate risks relevant to that activity (identified from those listed in Appendix A to the Annex II), where those solutions:
  - do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of cultural heritage, of assets and of other EAs;
  - favour nature-based solutions or rely on blue or green infrastructure;
  - are consistent with local, sectoral, regional or national adaptation plans and strategies;
  - are monitored and measured against pre-defined indicators and remedial action is considered where those indicators are not met; and
  - if are physical and consist in activities for which **TSC** have been specified, they comply with the DNSH criteria for those activities.

Eventually, to the **Annex II** are attached **four Appendices**:

- **Appendix A**, already mentioned above, that contains an indicative list of most widespread perils that are to be taken into account as a minimum in the climate risk and vulnerability assessment;
- **Appendices B** to **D** that set out generic criteria **for not significantly harming the three environmental objectives** of sustainable use and protection of water and marine resources, pollution prevention and control regarding the use and presence of chemicals, protection and restoration of biodiversity and ecosystems.

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TR: TSC for non-life insurance activities (Part 1)

5 APRIL, 1 2022

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BACK TO THE INDEX

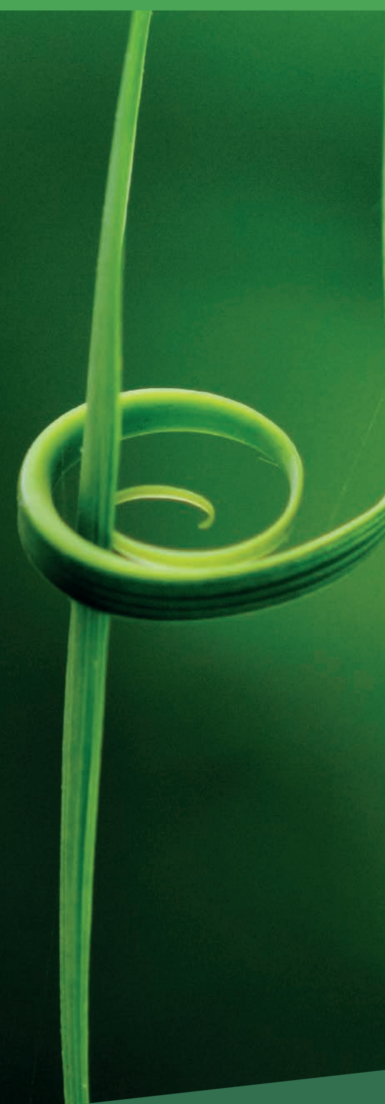
Annex II to the Climate Delegated Act contains the **technical screening criteria** (**TSC**) to be met to qualify a **non-life insurance activity** as an enabling activity, as referred to in **Article 11** of the **Taxonomy Regulation** (**TR**), that substantially contribute to the objective of **climate change adaptation**.
In particular, **non-life insurance consisting in underwriting of climate-related perils** is considered as one of those activities (together with reinsurance, engineering activities and related technical consultancy dedicated to adaptation to climate change, research, development and innovation) that have the **potential to provide adaptation solutions** that **contribute substantially to preventing or reducing the risk** of the adverse impact of the current climate and the expected future climate on people, nature, or assets, without increasing the risk of an adverse impact.
Within **Chapter 10** of the **Annex II** to the **CDA** are specified all the elements that have to be considered to evaluate the taxonomy-alignment of a **non-life insurance activity**:

- the consistency with the detailed **description** of the activity given in accordance with the TR framework;
- **five** detailed **TSC** to be met in order to classify the activity as a **climate adaptation activity** as referred to in **Article 11** of the **TR**;
- the requirements that the **activity** has to meet to **not significantly harm** the objective of **climate change mitigation** while substantially contributing to the **climate change adaptation** objective.

Regarding the description of the activity, **non-life insurance** is defined in **Annex II** as the provision of the following **insurance services** related to the **underwriting of climate related perils** (which **classification** is contained in **Appendix A** to **Annex II**):

- medical expense insurance;
- income protection insurance;
- workers' compensation insurance;
- motor vehicle liability insurance;
- other motor insurance;
- marine, aviation and transport insurance;
- fire and other damage to property insurance;
- assistance.

Those **insurance services** correspond to **8** of the **12 non-life insurance obligations** defined in **Annex I "Lines of business"** of **Commission Delegated Regulation (EU) 2015/35 of 10 October 2014** (i.e., "Solvency II Delegated Act").
Furthermore, **CDA** specifies that **non-life insurance activities** could be also associated with **NACE code K65.12** "Non-life insurance", however this reference should be understood as indicative and not prevail over the specific definition of the activity provided in its description based on Solvency II Delegated Act definition.



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TR: TSC for non-life insurance activities (Part 2)

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BACK TO THE INDEX

Chapter 10 of the **Annex II** to **the Climate Delegated Act** (**CDA**) details the **five technical screening criteria** (**TSC**) and the **do no significant harm** (**DNSH**) **criteria** to be met to qualify a **non-life insurance activity** (**IA**) as an enabling activity, as referred to **Article 11** of the **Taxonomy Regulation** (**TR**), that substantially contribute to the objective of **climate change adaptation**.

The 1st **criteria "Leadership in modelling and pricing of climate risks"** requires the **IA** to use state-of-the-art modelling techniques that properly reflect climate change risks, do not only rely on historical trend and integrate forward-looking scenarios. Furthermore, it requires the company to publicly disclose how the climate change risks are considered in its activity and, except for legal restrictions, to establish under which conditions are providing incentives (i.e., reduced premiums or deductibles) to policyholders who protect an asset or an activity against natural catastrophes damages. It also requires the company to provide, after a climate risk event occurs, information on the conditions under which coverage could be renewed or maintained.

The 2nd **criteria "Product design"** requires the products to offer risk-based rewards for preventive actions taken by policyholders (e.g., lower premiums whether investment in adaptation measures are made) but, where legal restrictions forbid those rewards, they may instead provide to customers information or advice regarding climate risks and preventive measures that could be taken. Such information regarding the relevance of preventive measures and in particular their positive impact on insurance coverage or premium level shall be also covered by products distribution strategy implemented by the company.

The 3rd **criteria "Innovative insurance coverage solutions"** requires the products to offer coverage for the climate-related perils (where the demands and needs of policyholders require so) and include, based on customers' needs, specific risk transfer solutions such as protection against business interruption, critical infrastructure failures or cascading effects.

The 4th **criteria "Data sharing"** requires the company to share the loss data related to its activity by making them available (or by declaring to make them available if they are not yet sharing), free of charge, to one or several authorized public authorities for analytical research for purposes of enhancing adaptation to climate change.

The 5th **criteria "High level of service in post-disaster situation"** requires the company to process claims (both ongoing and those from large-scale loss events resulting from climate risks) fairly with respect to customers, in accordance with high handling standards for claims and in timely fashion in line with applicable law. It also requires that information regarding procedures on additional measures in case of large-scale loss events is publicly made available.

Eventually, the **DNSH criteria** requires that the **IA** shall not include insurance of the extraction, storage, transport or manufacture of fossil fuels or insurance of vehicles, property or other assets dedicated to such purposes in order to **not significantly harm** the **objective of climate change mitigation** while substantially contributing to the **climate change adaptation objective**.

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TR: TSC for reinsurance activities

7 MAY, 13 2021

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BACK TO THE INDEX

According to the **Climate Delegated Act** (**CDA**), **reinsurance activity** (**ReA**) consists in the coverage of risks stemming from climate-related perils, provided in **Appendix A to the Annex II of the CDA**, ceded by the insurer to the reinsurer. The coverage is set out in a contractual agreement, in which a **reinsurance intermediary** may be involved, between insurer and reinsurer specifying the insurers' products (i.e., "underlying products") from which the ceded risks originate.

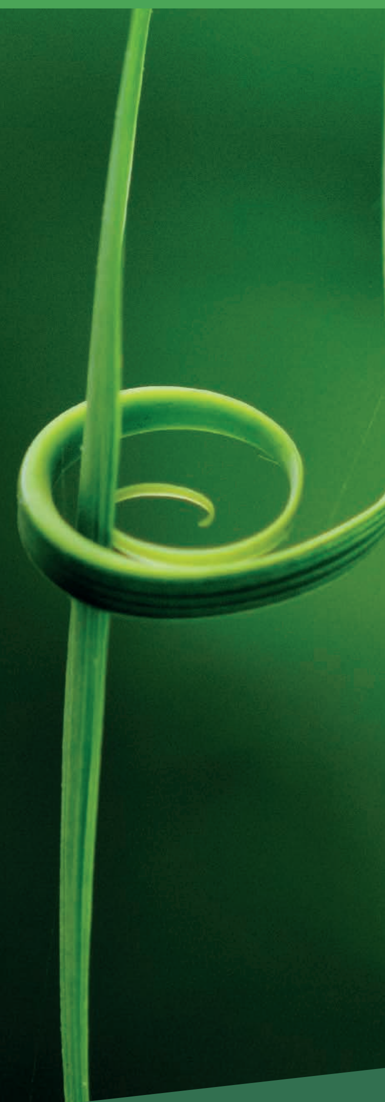
A **ReA** is one of the economic activities (EAs) that should be considered as an **enabling activity** that substantially contribute to the objective of **climate change adaptation** where it meets the **five technical screening criteria** (**TSC**) and the do no significant harm (**DNSH**) criteria set out in **chapter 10.2 of the Annex II**.

The **1st**, the **3rd**, the **4th** and the **5th TSC** provided for a **ReA** are similar to those given for a **non-life insurance activity** with the obvious difference of focusing on the risks stemming from climate-related perils ceded by the insurer.

Dissimilarly, the **2nd TSC**, "**Supporting development and supply of enabling non-life reinsurance products**" provides specific indications for a **ReA** by requiring complying with one or more of the following **three criteria**:

1) where desired by the insurer, the reinsurer engages with the insurer, either directly or via a reinsurance intermediary, during the development of the underlying product by:
   - discussing possible reinsurance solutions that the reinsurer is willing to offer in relation to that product. The final product is brought to market using one of the reinsurance solutions that were discussed with the reinsurer during the product development phase;
   - providing data or other technical advice enabling the insurer to price the coverage for risks stemming from climate-related perils as well as risk-based rewards for preventive actions taken by the insurer's policyholders;
2) the insurer would likely reduce or discontinue its coverage under the underlying product without the reinsurance agreement or a comparable reinsurance agreement in place;
3) the reinsurer provides, as part of the business relationship with the insurer or the reinsurance intermediary, data or other technical advice or both enabling the insurer to offer coverage of risks stemming from climate-related perils and the coverage allows for risk-based rewards for preventive actions taken by the insurer's policyholders.

Eventually, to **not significantly** harm the **objective of climate change mitigation** while substantially contributing to the **climate change adaptation objective**, the **DNSH criteria** requires that the **ReA** shall not cover cession of insurance of the extraction, storage, transport or manufacture of fossil fuels or the cession of insurance of vehicles, property or other assets dedicated to such purposes.



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TR: Introduction to the Disclosure Delegated Act

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BACK TO THE INDEX

Article 8 of the **Taxonomy Regulation** (**TR**) requires financial undertakings (i.e., insurance and reinsurance undertakings, asset managers, credit institutions, investment firms) and non-financial undertakings that are subject to an obligation to publish non-financial information pursuant to Articles 19a or 29a of Directive 2013/34/EU to include, in their non-financial statements or consolidated non-financial statements, information on how and to what extent their activities are associated with environmentally sustainable economic activities.
Article 8 provisions rely on the **Climate Delegated Act** (**CDA**) and its future amendments, as well as upcoming environmental delegated acts, to mandate companies to assess and report the alignment of their financial and non-financial activities with the EU Taxonomy.
Although Article 8 requires non-financial undertakings to disclose **key performance indicators** (**KPIs**) on the proportion of the turnover, capital expenditure (**CapEx**) and operating expenditure (**OpEx**) of their activities related to assets or processes associated with environmentally sustainable economic activities, it does not specify equivalent **KPIs** for financial undertakings.
Therefore, the European Commission has deemed necessary to **supplement Article 8** of the **TR** to specify the **KPIs** for financial undertakings and further detail the content and presentation of the information to be disclosed by all undertakings (financial and non-financial) and the methodology to comply with that disclosure.
On **10 December 2021**, the **Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852**, also referred to as the "**Disclosure Delegated Act**" (**DDA**), was approved and published in the Official Journal of the EU, together with its eleven **Annexes**). The DDA sets out in details the content, methodology and presentation of the **KPIs**.
The **DDA** finally **entered into force on 30 December 2021**, to be applied from the **1st January 2022** on a phased basis:

- from the **1st January 2022** (for the reporting period 2021) only qualitative information and information on the proportion of taxonomy-eligible activities in relation to total activities set out in the **DDA** have to be disclosed;
- from the **1st January 2023** (for the reporting period 2022) the **DDA** will apply fully to non-financial undertakings and from the **1st January 2024** (for the reporting period 2023) to financial undertakings;
- from the **1st January 2026** (for the reporting period 2025) the **DDA** will apply for the KPIs of credit institutions for the trading book and non-banking services.

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ANIA, the Italian Insurance Association,
founded in 1944, is a voluntary non-profit association.
Its main purpose is to develop and spread the culture of safety
and prevention in our country, so as to protect both people
and companies, and society as a whole, more and better.

Moreover, ANIA represents its members and the Italian insurance
market vis-à-vis the main political and administrative institutions,
including the Government and Parliament,
trade unions and other social bodies.

The Association studies and cooperates in the resolution
of technical, economic, financial, administrative, fiscal, social, juridical
and legislative issues concerning the insurance industry.
It supports and provides technical assistance to members,
promotes the education and professional training of those
working in the insurance sector.

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