

Guidance on the integration of sustainability preferences in the suitability assessment under the Insurance Distribution Directive (IDD)

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INTRODUCTION

This Guidance is a follow-up to a public consultation which EIOPA ran on draft Guidelines on integrating the customer's sustainability preferences in the suitability assessment under the Insurance Distribution Directive (IDD)¹. During the public consultation, a number of respondents stressed the need for a simpler, more user-friendly document to facilitate comprehension of how to integrate the customer's sustainability preferences into the suitability assessment under the IDD.

EIOPA therefore decided to pause its work on issuing Guidelines under Article 16 of EIOPA Regulation as initially proposed for public consultation and focus as a priority on providing competent authorities, insurers and insurance intermediaries with guidance in advance of the application of new legislation² under the IDD on 2 August 2022. The objective of this Guidance, therefore, is to promote better understanding of the new rules coming into effect and facilitate a correct implementation by presenting the new requirements in a more user-friendly language and presentation. EIOPA may revisit work on a stronger convergence tool after some experience has been gathered by insurers and insurance intermediaries and NCAs in applying the new legislative framework.

The new legislation aims to ensure that retail investors can invest and save sustainably and facilitate their participation in the transition to a low-carbon, more sustainable, resource-efficient and circular economy in line with the Sustainable Development Goals, as insurance intermediaries and insurers have to recommend IBIPs that meet the sustainability preferences of their customers or potential customers, if they have such preferences: *"Recommendations to customers or potential customers should reflect both the financial objectives and any sustainability preferences expressed by those customers"*³.

Customers may have specific "sustainability preferences" when they buy insurance-based investment products (or IBIPs) and the new legislation will introduce important changes about the

¹ Public consultation on draft Guidelines on integrating the customer's sustainability preferences in the suitability assessment under the IDD, which ran until 13 May 2022: <https://www.eiopa.europa.eu/document-library/consultation/public-consultation-draft-guidelines-integrating-customer%E2%80%99s>

² Commission Delegated Regulation (EU) 2021/1257 of 21 April 2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurers and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products (OJ L 277, 2.8.2021, p. 18).

³ Recital 11 of Commission Delegated Regulation (EU) 2021/1257.

way in which those sustainability preferences of the individual customer need to be taken into account when insurers and insurance intermediaries provide advice on IBIPs as part of the so-called “suitability assessment”.

The suitability assessment is one of the most important requirements for consumer protection under the IDD. It ensures that insurers and insurance intermediaries providing advice provide personal recommendations to their customers as to which products are suitable for them based on their personal circumstances.

The main objective of including sustainability factors in the advisory process is to ensure that it does *“not lead to mis-selling practices or to the misrepresentation of IBIPs as fulfilling sustainability preferences where they do not”*⁴.

In order to reach these objectives, it is important that insurers and insurance intermediaries providing advice on IBIPs do not recommend IBIPs as meeting individual sustainability preferences where those products do not meet those preferences.

Note: Important regulatory initiatives are still ongoing to identify and properly disclose investments in sustainable economic activities, including under the EU Taxonomy. These disclosures are crucial for insurers and insurance intermediaries to assess whether the products offered match the sustainability preferences of customers.

Some of the rules are not yet finalised and the implementation of these initiatives do not converge at the same points in time, in particular the application date of the new legislation under the IDD precedes the deadlines for reporting of company data under the Corporate Sustainability Reporting Directive and of the application of the Delegated Regulation supplementing the Sustainable Finance Disclosure Regulation.

As a result, insurers and insurance intermediaries need to responsibly disclose on sustainability, based on the data currently available and make best efforts to ensure good data quality.

This guidance is intended to provide indications to national competent authorities and to insurers and insurance intermediaries on how to assess the customer’s sustainability preferences under the IDD suitability assessment. It is not binding and should not be considered as guidelines within the meaning of Article 16 of Regulation (EU) No 1094/2010 or a supervisory convergence tool within

⁴ Recital 11, Commission Delegated Regulation (EU) 2021/1257

the meaning of Article 29 of Regulation (EU) No 1094/2010. It also does not preclude national competent authorities from taking a stricter approach to promote consumer protection, but is without prejudice to the applicable EU legislative acts in this field. Insurers and insurance intermediaries should not restrict themselves to the aspects covered only in this guidance.

Structure of the guidance

Each section of this guidance starts with a description of the underlying legislative requirement, followed by a box with “Key Principles”. Some sections of this guidance also include “Notes” to further clarify concepts or emphasise points. To illustrate the content, diagrams and flow charts are used.

HOW TO UNDERSTAND THE TERMS USED IN THIS GUIDANCE

EU Taxonomy

The EU Taxonomy is a green classification system that translates the EU's climate and environmental objectives into criteria for specific economic activities for investment purposes. It recognises as green, or 'environmentally sustainable', economic activities that make a substantial contribution to at least one of the EU's climate and environmental objectives, while at the same time not significantly harming any of these objectives and meeting minimum social safeguards.

Insurance-based investment product' or 'IBIP'

An insurance product which is made available to a customer and which offers a maturity or surrender value that is wholly or partially exposed, directly or indirectly, to market fluctuations. Typically, this covers unit-linked life insurance, with-profits life insurance or hybrid products.

Investments aligned with the EU Taxonomy

Environmentally sustainable investments as defined under the EU Taxonomy⁵.

Multi-Option Product

In the context of the IDD, MOPs are insurance-based investment products that offer the customer a range of underlying investment options.

Principal Adverse Impacts

"Principal Adverse Impacts" are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Examples include Greenhouse Gas emissions and carbon footprint.

⁵ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

<i>Suitability assessment</i>	The whole process of collecting information about a customer and the subsequent assessment by the insurer or insurance intermediary that a given IBIP is suitable for a customer as defined under Art. 30(1) of the IDD ⁶ .
<i>Sustainable Finance Disclosure Regulation (SFDR)</i>	The SFDR ⁷ was introduced to improve transparency in the market for sustainable investment products by making the sustainability profile of products more comparable and better understood by end-investors. It was also introduced to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants. It has started applying as of 10 March 2021, but the detailed legislation underpinning it is not due to apply until January 2023.
<i>Sustainable investments</i>	Sustainable investments as defined in the SFDR are investments in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices
<i>Sustainability preferences</i>	As defined in the new IDD legislation ⁸ , these are (the same colour differentiation is used in the references in the guidance): (a) an IBIP for which the customer determines that a minimum proportion should be invested in <i>environmentally sustainable investments</i> (as defined under the EU Taxonomy) (b) an IBIP for which the customer determines that a minimum proportion should be invested in <i>sustainable investments</i> (as defined under the SFDR) (c) an IBIP that considers “Principal Adverse Impacts” on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the customer

⁶ Directive (EU) 2016/97

⁷ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

⁸ Commission Delegated Regulation (EU) 2021/1257, **N.B. The text is deliberately colour-coded as this Guidance refers at many points to points (a), b) and (c)**

GUIDANCE

1. WHAT INFORMATION NEEDS TO BE PROVIDED TO CUSTOMERS ABOUT THE PURPOSE AND THE SCOPE OF THE SUITABILITY ASSESSMENT WITH REGARD TO SUSTAINABILITY PREFERENCES?

The IDD requires insurance intermediaries and insurers to explain the distinction between IBIPs that pursue Taxonomy-aligned investments, sustainable investments (as defined under the SFDR) or that consider principal adverse impacts on sustainability factors and other insurance-based investment products without those specific features.

Reference: Recital 12 Commission Delegated Regulation (EU) 2021/1257

KEY PRINCIPLE: Ensure that customers have a good grasp of the notion of “sustainability preferences” and their choice as to whether and to what extent a particular product should be integrated into their investments.

It is important that insurers and insurance intermediaries ensure that customers have a good grasp of the notion of “sustainability preferences” and their choice as to whether and to what extent a particular product should be integrated into their investments. Therefore, insurers and insurance intermediaries should be able to explain the term ‘sustainability preferences’ in a clear manner by explaining the distinction between the types of sustainability preferences listed in points (a), (b) and (c); and products with and without such sustainability features.

How to do it?

- Avoid using technical language or introduction of other terms or definitions
- Explain what the different sustainability aspects mean
- Use, for example, the “explanatory notes” included in the margins of the compulsory

templates⁹ to explain such notions (see Figure 1 below).

Figure 1 – Explanatory notes from the SFDR templates		
<p>The EU Taxonomy is a classification system which establishes a list of environmentally sustainable economic activities. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.</p>	<p>Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.</p>	<p>Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.</p>

The explanations to be provided to the customer can be presented in ‘layers’, for instance in the introduction to a questionnaire on the sustainability preferences. Insurers and insurance intermediaries should provide more granular information if the customer requests it.

The explanations should be given prior to addressing the questions on sustainability preferences as part of the collection of information on the investment objectives of the customer.

⁹ These are the templates to be used as an Annex to pre-contractual and periodic information which need to be provided under the [legislation underpinning the SFDR](#)

2. HOW DO YOU COLLECT INFORMATION ON SUSTAINABILITY PREFERENCES FROM THE CUSTOMER?

The IDD requires that the information regarding the investment objectives of the customer should include his/her sustainability preferences. The level of information gathered should be appropriate to the specific type of product or service being considered. Insurers and insurance intermediaries should therefore be able to ask questions to identify a customer's individual sustainability preferences.

Reference: Paragraph 4 of Article 9 Delegated Regulation (EU) 2017/2359 as amended by Commission Delegated Regulation (EU) 2021/1257 and recital 11 of Commission Delegated Regulation (EU) 2021/1257

KEY PRINCIPLES:

- **For the purpose of a suitability assessment, it is important that insurers and insurance intermediaries obtain information on sustainability preferences in the course of the collection of information on investment objectives and this may be collected as the last element within the collection of information on investment objectives¹⁰. However, in the latter case, this should not prevent the customer, at his/her own initiative, from bringing up their sustainability preferences in an earlier part of the information collection**
- **The information to be obtained needs to include all aspects of the customer's "sustainability preferences"**
- **The information should be sufficiently granular to allow for a matching of the customer's sustainability preferences with the sustainability-related features of the IBIP being offered. It should also make it possible to provide for a combination of points (a), (b) and (c)**
- **It is important that throughout the process, insurers and insurance intermediaries adopt a neutral and unbiased approach so as to not influence the customer's answers**

¹⁰ In accordance with Article 9(2)(a) and (4) of Commission Delegated Regulation (EU) 2017/2359 and recital 11 of Commission Delegated Regulation (EU) 2021/1257

How to do it

For the purpose of a suitability assessment, it is important that insurers and insurance intermediaries obtain information on sustainability preferences in the course of the collection of information on the customer's investment objectives and this may be collected as the last element within the collection of information on investment objectives. In the latter case, the customer should not be prevented from bringing up his/her sustainability preferences in an earlier part of the assessment.

As a first step, insurers and insurance intermediaries need to obtain the following information from customers:

1. whether the customer has any sustainability preferences (Yes/No) after having explained to him/her what "sustainability preferences" are;
2. if the customer has sustainability preferences, the information to be obtained should include all aspects of the customer's "sustainability preferences":
 - whether the customer has sustainability preferences with regards sustainable investments or PAI as defined in points (b) or (c) or if the customer has a preference for a combination of them;
 - if the customer has a preference with regards point (b), whether with regard to aspects defined in points (a)

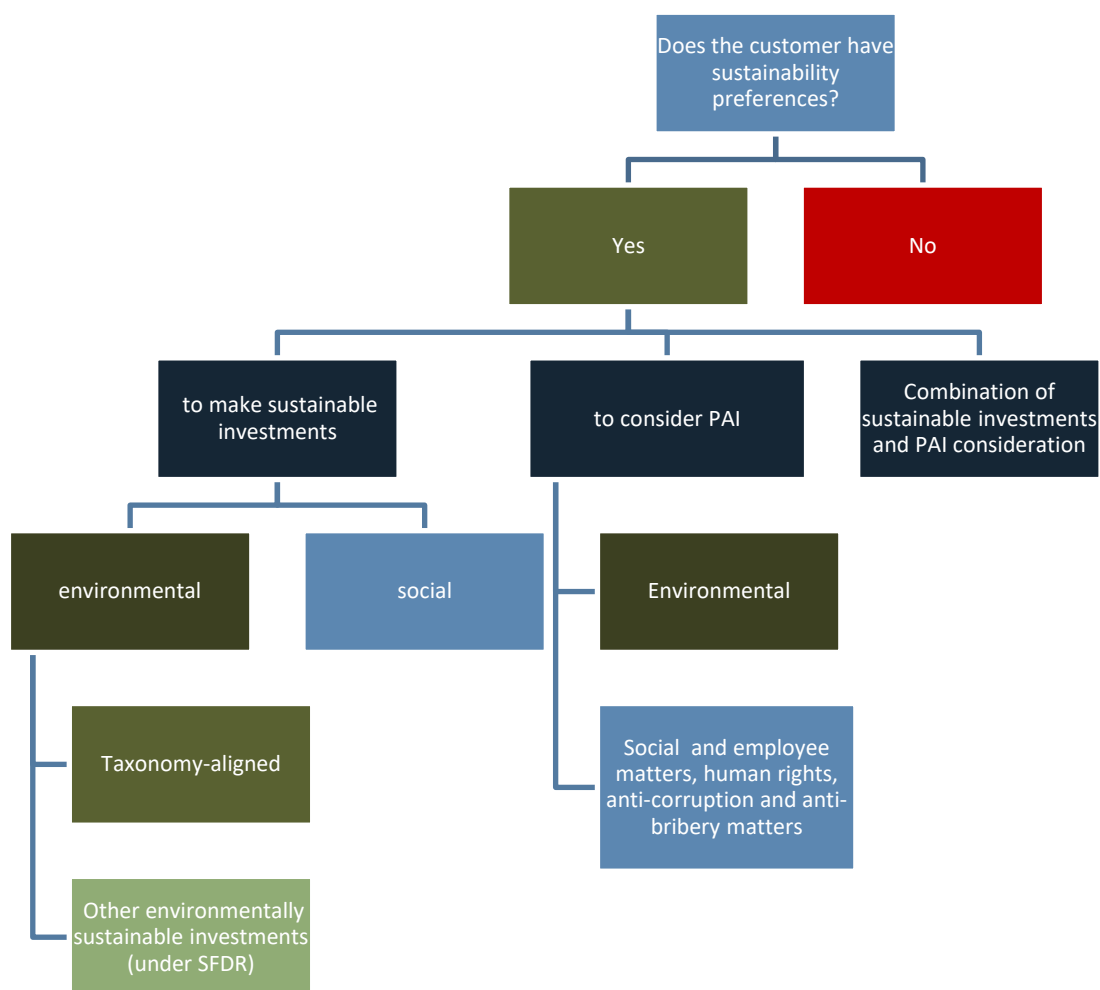
The information should be sufficiently granular to allow for a matching of the customer's sustainability preferences with the sustainability-related features of the IBIP being offered. It should also make it possible to provide for a combination of points (a), (b) and (c). It is important that throughout the process, insurers and insurance intermediaries adopt a neutral and unbiased approach so as to not influence the customer's answers.

As a second step:

- For points (a) and (b), consider what would be the minimum proportion respectively of:
 - investments aligned with the EU Taxonomy;
 - investments considered "sustainable investments" under the SFDR;
- For point (c):
 - which principal adverse impacts (PAI) should be considered including quantitative or qualitative criteria demonstrating that consideration.
 - For multi-option products (MOPs), insurers and insurance intermediaries should collect information from the customer on whether all underlying options should consider PAI of investment decisions on sustainability factors, or only a proportion,

which in any case should be at least one underlying option.

Figure 2 - Collecting information from the customer - Step 1



How to do it?

To achieve this, insurers and insurance intermediaries could collect the information following the process outlined in Figure 2.

Step 1

Collecting information on the customer's preferences on Sustainable Investments and investments aligned with the EU Taxonomy

As regards **point (b)**, insurers and insurance intermediaries could, for example, obtain information on whether the customer's sustainability preferences have a focus on either environmental or social criteria or a combination, or whether the customer does not have such a preference.

Within environmental criteria, information could be obtained on whether the customer has a preference for investments aligned with the EU Taxonomy under point a) or not. In addition, information on the objective of sustainable investments could be obtained.

In addition, with regard to **point (a)**, as of January 2023¹¹, insurers and insurance intermediaries should explain to the customers that there are **two Key Performance Indicators (KPI) used to calculate the proportion of investments that are aligned with the EU Taxonomy**:

- **The first one (KPI 1)** shows the extent to which the product is aligned with the EU Taxonomy based on an assessment of *all of its investments*.

Note: This is significantly influenced by the current limitations to apply EU Taxonomy rules to certain assets, in particular government bonds. If applicable, insurers and insurance intermediaries should explain to the customer that government bonds may help to reduce the volatility of the investment return of the IBIP.

- **The second KPI (KPI 2)** shows the extent to which the product is aligned with the EU taxonomy based on an assessment of *all of the investments except government bonds*.
- Insurers and insurance intermediaries should **provide the explanation on the basis of both KPIs (including and excluding government bonds)** included in the information disclosed prior to the conclusion of the contract of an example of a product, under the *section "To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?"* in the Annex to the information provided to the customer under Solvency II¹² (see figure 3 below).

¹¹ when new SFDR legislation comes into force

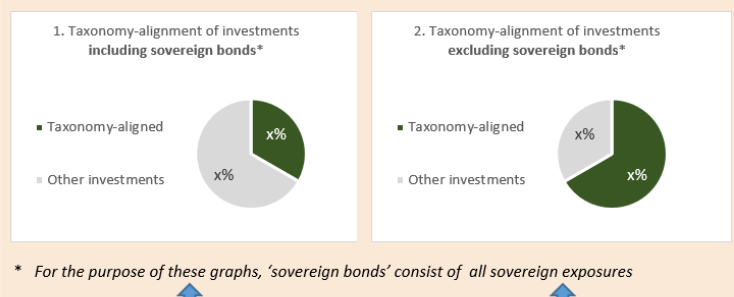
¹² Article 185(2) of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II Directive) (OJ L 335, 17.12.2009, p. 1).

Figure 3 - The two KPIs from Solvency II disclosures as amended by SFDR to be shown to the customer



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



Key Performance Indicator 1

Key Performance Indicator 2

- As a next step, insurers and intermediaries could ask the customer whether the extent to which their investment should be aligned with the EU Taxonomy should be based on all the investments of the IBIP (KPI 1), or only on the assets that are not government bonds (KPI 2) (see illustration in Figure 2)¹³.

Collecting information on the customer’s preferences when considering Principal Adverse Impacts

As regards point c), it would be useful if insurers and insurance intermediaries obtain information on:

- whether the customer’s sustainability preferences have a focus on either environmental or social criteria or a combination thereof, or
- whether the customer does not have any such preference.

In addition, information on employee matters, respect for human rights, anti-corruption and anti-bribery matters could be obtained. This information could be obtained through “Yes/No” questions.

¹³ This does not preclude national competent authorities from taking a stricter approach to promote consumer protection in line with the statement on pages 4-5 in the Introduction to this Guidance.

Step 2

As a second step for points (a) and (b): insurers and insurance intermediaries should obtain information on the customer's preferences in terms of the 'minimum proportion' as set out in points a) and b). Insurers and insurance intermediaries should obtain this information in terms of a particular percentage or share.

Insurers and insurance intermediaries could, for example, assist the customer to identify the minimum proportion by approximating the minimum proportion by standardised minimum proportions, such as "minimum 10%, minimum 20%, minimum 30%, minimum 40%, minimum 50%, minimum 60%, minimum 70%, etc."

Note: It is important that this assistance is provided in a neutral way and on the basis of the preferences of the customer, without influencing the customer's choice of the IBIP.

The information provided by the insurers and insurance intermediaries to the customer needs to be sufficiently granular to enable the customer to determine the minimum proportion of investments aligned with the EU Taxonomy or sustainability investments.

As a second step for point (c): the information collected should cover the PAI and qualitative/quantitative elements mentioned in point (c).

Insurers and insurance intermediaries could, for example, test the customer's preferences and appetite for integrating PAI with regard to the families of PAI indicators as a whole, based on a possible focus of the customer on environmental, social or governance aspects¹⁴

What happens where a customer states that he/she has sustainability preferences, but does not determine a preference with regard to points (a), (b) and (c) or with regard to a minimum proportion in points (a) and (b)?

In order to gather the information from the customer, insurers or insurance intermediaries could ask the customer whether there is a need to explain again him/her the specificities of some aspect.

Insurers and insurance intermediaries should have policies and instructions in place for situations where, despite the additional explanations on sustainability, the customer is still not willing or not

¹⁴ For example, categories such as those set out in the forthcoming SFDR legislation applying from January 2023 can be used - such as emissions, energy performance, water and waste, social and employee matters, human rights (instead of an approach based on each PAI indicator). An evaluation could then be initiated for each category that is important for the customer. This evaluation should be based on the approaches in which products consider PAI (e.g. exclusion strategies, controversies policies, voting and engagement policies).

able to make a choice. The guidance specifies further the requirements for the assessment of suitability in this case (see Section 5 below “*What arrangements are necessary to ensure the suitability of an IBIP?*”).

What happens when a customer *does not* have any sustainability preferences?

Where a customer does not answer the question whether he/she has sustainability preferences or answers “No”, the insurer or insurance intermediary may consider this customer as “sustainability-neutral” and recommend products both with and without sustainability-related features.

Note: The product offer should be documented and explained to the customer and include information on the sustainability features of the IBIPs offered.

3. HOW DO YOU CARRY OUT A PERIODIC ASSESSMENT OF THE CUSTOMER'S SUSTAINABILITY PREFERENCES?

The IDD requires that where an insurance intermediary or an insurer has informed the customer that it will carry out a periodic assessment of suitability, the periodic report shall contain an updated statement of how the insurance-based investment product meets the customer's preferences, objectives and other characteristics of the customer.

Reference: Paragraph 5 of Article 30 of IDD

KEY PRINCIPLE:

- **For existing customers, for whom a suitability assessment has already been undertaken, insurance intermediaries and insurers should use the next regular update of the existing suitability assessment to identify the customer's individual sustainability preferences.**
- **They are not expected to conduct the periodic assessment at the date of the application of the new requirements.**

How to do it?

The periodic assessment is to be conducted where the insurer or insurance intermediary providing advice on IBIPs has informed the customer that a periodic assessment will be carried out.

For existing customers, for whom a suitability assessment has already been undertaken, insurers and insurance intermediaries should use the next regular update of the existing suitability assessment to identify the customer's individual sustainability preferences. Insurers and insurance intermediaries are not expected to conduct the periodic assessment at the date of the application of the new requirements.

First step: Insurers and insurance intermediaries should first assess the customer's sustainability preferences including the minimum proportion when conducting the initial suitability assessment. When providing a periodic assessment of suitability, the information with regard to the sustainability preferences of a customer should be regularly updated.

In the regular periodic assessment, it is important that the insurer or insurance intermediary collects

updated information from the customer on whether his/her circumstances have changed. The suitability statement as such should cover the aspects that have changed, including, where this is the case, the circumstances of the customer, as required under EU legislation¹⁵.

What happens if the customer said he/she had sustainability preferences at the initial suitability assessment?

The insurer or insurance intermediary should assesses whether those preferences are still met when conducting a periodic assessment of suitability or whether the sustainability preferences have changed, and issue appropriate recommendations, where relevant.

What happens if the customer said he/she did **not** have sustainability preferences at the *initial* suitability assessment?

The insurer or insurance intermediary should assesses whether this has changed on the occasion of the customer providing updated personal information or at the time of a regular periodic assessment, and should that be the case, identifies what are the sustainability preferences of the customer and issue appropriate recommendations where relevant.

What happens if the product invested in *does not match* the customer's sustainability preferences including due a change in the customer's sustainability preferences?

The insurer or insurance intermediary should:

- inform the customer;
- evaluate the impact of this change;
- inform the customer in an updated suitability report, and
- make a new recommendation where required by national rules or where it provided for under the contract.

¹⁵ Article 14(3) of Delegated Regulation (EU) 2017/2359 under the Insurance Distribution Directive

4. HOW DO YOU COLLECT INFORMATION ON THE SUSTAINABILITY FEATURES OF IBIPS?

The IDD requires that the personal recommendation made by the insurer or insurance intermediary to the customer or potential customer should meet the customer's investment objectives, including that person's risk tolerance and any sustainability preferences.

Reference: Paragraph 1, point (b), point (i) of Article 14 of Delegated Regulation (EU) 2017/2359 as amended by Commission Delegated Regulation (EU) 2021/1257

KEY PRINCIPLE:

It is important that the sustainability information which has to be disclosed prior to the conclusion of the contract¹⁶, as well as the information, which is disclosed via the insurer's website¹⁷, is used to assess whether a product matches the sustainability preferences of the customer.

It is important that the sustainability information which has to be disclosed prior to the conclusion of the contract¹⁸, as well as the information, which is disclosed via the insurer's website¹⁹, is used to assess whether a product matches the sustainability preferences of the customer.

For all IBIPs, including those with a long recommended holding period of, for example, over 20 years, where the asset allocation may change over time, the features of the product disclosed by the insurer prior to the conclusion of the contract²⁰ represent sufficient information.

Note: This is because the minimum share of sustainable investments and environmentally sustainable investments which is disclosed in that pre-contractual information, is expected to be maintained by the insurer over time.

¹⁶ This is information which the SFDR has required insurers to disclose to the customer in addition to the information an insurer is already required to disclose to the customer under Article 185 of the Solvency II Directive

¹⁷ SFDR has brought in some website disclosures for product manufacturers

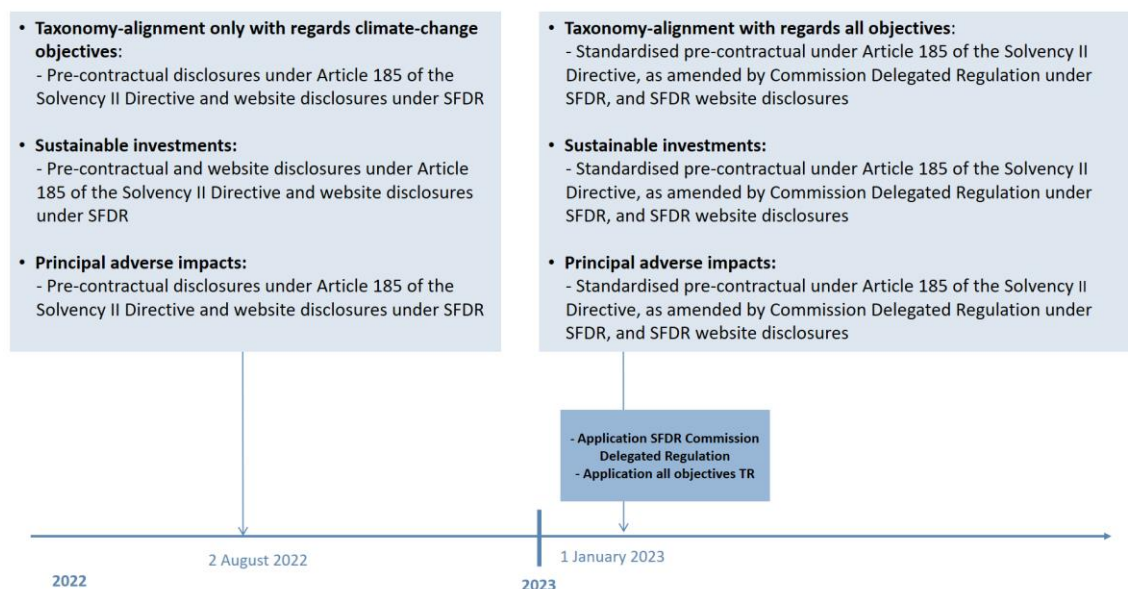
¹⁸ This is information which the SFDR has required insurers to disclose to the customer in addition to the information an insurer is already required to disclose to the customer under Article 185 of the Solvency II Directive

¹⁹ SFDR has brought in some website disclosures for product manufacturers

²⁰ Article 185 of the Solvency II Directive

When a customer has indicated a preference for a combination of points (a), (b) and (c), it is important that the product to be recommended matches the specific combination expressed by the customer.

Figure 4 - SFDR disclosures to be used to assess whether an IBIP matches the customer's preferences



How do you assess whether an IBIP matches the customer’s sustainability preferences as regards investments, which are aligned with the EU Taxonomy (point a)?

As illustrated in Figure 4 above:

- **Between 2 August 2022 and 31 December 2022**, in order to assess whether an IBIP matches the customer’s sustainability preferences *with regards to climate-change objectives under the EU Taxonomy (point a)*, insurers and insurance intermediaries should use the information describing the *environmentally sustainable investments* of the IBIP, which are disclosed in the pre-contractual disclosures²¹ and website disclosures of the insurer²².

²¹ Under Article 185 of the Solvency II Directive (as supplemented by the SFDR)

²² As required under the SFDR

- **From 1 January 2023**, in order to assess whether an IBIP matches the customer’s sustainability preference:
 - Insurers and insurance intermediaries should use the information describing and illustrating the level of alignment of the IBIP with the EU Taxonomy, which is disclosed in the pre-contractual template under the section “*To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?*”²³
 - In order to assess whether the IBIP matches the customer’s preferences, where the insurers and intermediaries asked the customer whether the extent to which their investment should be aligned with the EU Taxonomy should be based on all the investments of the IBIP (KPI 1), or only on the assets that are not government bonds (KPI 2) (see illustration in Figure 2):
 - **the insurer or insurance intermediary should use the KPI that includes all investments of the financial product (KPI 1)** where the customer opts for KPI 1
 - **the insurer or insurance intermediary should use the KPI that excludes government bonds (KPI 2)** where the customer opts for KPI 2

How do you assess whether an IBIP matches the customer’s sustainability preference **as regards sustainable investments (point b))?**

As illustrated in Figure 4 above:

- **Between 2 August 2022 and 31 December 2022**, in order to assess whether an IBIP matches the customer’s sustainability preferences for point b), insurers and insurance intermediaries should use the information describing *the proportion of sustainable investments* of the IBIP disclosed in the pre-contractual disclosures²⁴, and website disclosures²⁵ of insurers.
- **From 1 January 2023**, in order to assess whether an IBIP matches the customer’s sustainability preferences under point b), insurers and insurance intermediaries should use the information describing *the minimum proportion of sustainable investments* disclosed ²⁶

²³ N.B. This will be an Annex to the information the insurer is legally obliged to provide to the customer under Article 185(2) of the Solvency II Directive.

²⁴ Under Article 185 of the Solvency II Directive as supplemented by the SFDR

²⁵ As required under the SFDR

²⁶ This is disclosed in a template and as an Annex to the information provided to the customer in accordance with Article 185(2), Solvency II Directive. It is included in the section of the template on “*What is the asset allocation planned for this financial product?*”

How do you assess whether an IBIP matches the customer’s sustainability preferences as regards principal adverse impacts (point c)?

As illustrated in Figure 4 above:

- **Between 2 August 2022 and 31 December 2022**, insurers and insurance intermediaries should use the information disclosed in the pre-contractual disclosures²⁷, and via the website²⁸ of the insurer.
- **From 1 January 2023**, the insurer or insurance intermediary should use the information disclosed the pre-contractual template under the section on “Does this financial product consider principal adverse impacts on sustainability factors?”²⁹.

Can an insurer or insurance intermediary, group and rank IBIPs?

When considering the sustainability factors of products in order to then match them with the customer’s sustainability preferences, insurers and insurance intermediaries may, for example, rank and group IBIPs included in their product range in terms of:

- the proportion invested in economic activities that qualify as environmentally sustainable³⁰;
- the proportion of sustainable investments³¹,
- the consideration of Principal Adverse Impacts.

Note: Grouping IBIPs for the purpose of the suitability assessment does not replace the need to collect the necessary information from the customer.

How do you assess whether a multi-option product (MOP) matches the customer’s sustainability preferences?

For MOPs, in order to assess points (a), (b) and (c), insurers and insurance intermediaries should:

- with regard to points (a) and (b), assess whether the weighted (per premiums) average of minimum proportion of environmentally sustainable investments or sustainable

²⁷ Under Article 185, Solvency II Directive as supplemented by the SFDR

²⁸ as required under the SFDR

²⁹ N.B. This is an Annex to the information provided to the customer in accordance with Article 185(2) of the Solvency II Directive

³⁰ as defined Article 2(1) of the Taxonomy Regulation

³¹ as defined Article 2(17) of the SFDR

investments in the selected underlying options of the MOP matches the minimum proportion expressed by the customer at the time when the advice is provided; or all the underlying options selected should match the minimum proportion determined by the customer at the time when the advice is provided.

- with regard to point (c), take into account the sustainability preferences determined by the customer (see Section 1.2 above).

5. WHAT ARRANGEMENTS ARE NECESSARY TO ENSURE THE SUITABILITY OF AN IBIP?

The new IDD rules require that an insurance intermediary or insurer should not recommend IBIPs as meeting a customer's sustainability preferences where those IBIPs do not meet those preferences. Where no IBIPs meets the customer's sustainability preferences, the customer can decide to adapt his or her sustainability preferences.

Reference: Paragraph 6 of Article 9 of Delegated Regulation (EU) 2017/2359 as amended by Commission Delegated Regulation (EU) 2021/1257

KEY PRINCIPLES:

- **It is important to take into account sustainability preferences once the suitability has been assessed in accordance with the customer's knowledge and experience, financial situation and other investment objectives.**
- **It is particularly important that insurers and insurance intermediaries do not exert pressure on the customer to adapt their sustainability preferences**
- **When a customer decides to adapt its preferences, the insurer or insurance intermediary could for example disclose to the customer information about the products integrating sustainability preferences that are the closest to the preferences expressed by the customer available in the market and/or by the insurer or insurance intermediary providing the advice.**
- **When a product does not meet the customer's initial sustainability preferences, the insurer or insurance intermediary should not recommend a product that does not match these preferences, unless the customer adapts his/her preferences³² (see illustration below in Figure 6)**

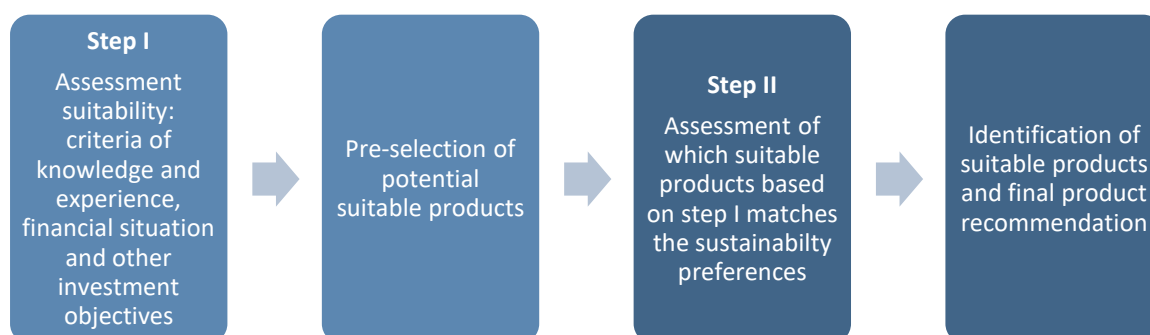
³² **N.B. This is EIOPA's understanding of the relevant provisions of Commission Delegated Regulation 2021/1257 based on information informally communicated by European Commission services.**

When should the insurer or insurance intermediary assess the sustainability preference?

Sustainability preferences should only be taken into account once the suitability of the IBIP has been assessed in accordance with the customer's knowledge and experience, financial situation and other investment objectives.

Once the range of suitable products has been identified following the step described hereabove, *in a second step*, the IBIP that fulfils all the customer's preferences, including the sustainability preferences, should be chosen among the ones identified in the first step (see Figure 5 below).

Figure 5 - Two-step process to assess the suitability of an IBIP



What should the insurer or insurance intermediary do when no product matches the *initial* sustainability preferences of the customer?

If the customer states that he/she has sustainability preferences, and the insurer or insurance intermediary does not have any IBIPs with sustainability-related factors available, this should be documented in the suitability statement³³.

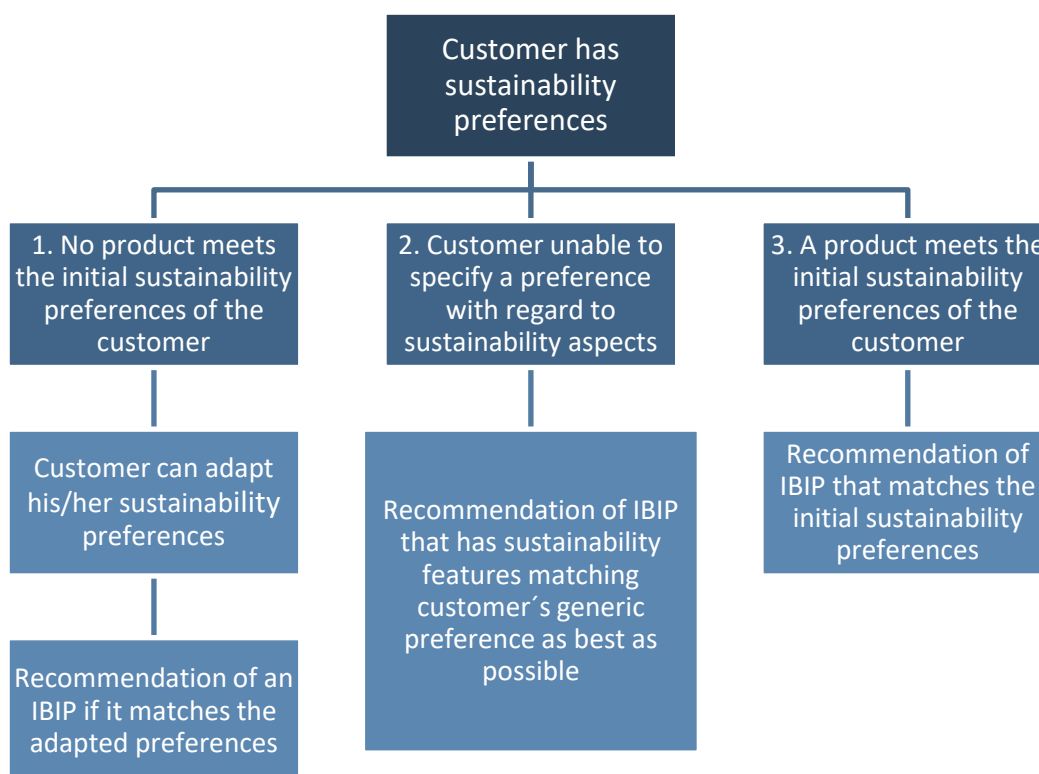
When a product does not meet the customer's initial sustainability preferences, the insurer or insurance intermediary should not recommend a product that does not match these preferences, unless the customer adapts his/her preferences³⁴ (see illustration below in Figure 5)

³³ As required by Article 30(5) second sub-paragraph of the IDD

³⁴ N.B. This is EIOPA's understanding of the relevant provisions of Commission Delegated Regulation 2021/1257 based on information informally communicated by European Commission services

In case the assessment results in *no products matching the sustainability preferences* of the customer, it is important that the insurer or insurance intermediary explains the reasons and inform the customer that he/she can adapt their sustainability preferences. The explanation for resorting to such a step, as well as the customer's decision, should be documented in the suitability statement.

Figure 6 – Possible steps when the customer expresses sustainability preferences



What information could be provided by the insurer or insurance intermediary when the customer decides to adapt his/her sustainability preferences?

It is important that insurers and insurance intermediaries do not exert pressure on the customer to adapt the sustainability preferences.

When a customer decides to adapt his/her sustainability preferences, the insurer or insurance intermediary could disclose to the customer, information about the products closest to the sustainability preferences expressed by the customer that are available in the market and/or by the insurer or insurance intermediary providing advice.

In that case, the insurer or insurance intermediary should clearly inform the customer, at the same time as the product information is provided, whether such information is based:

- only on the products he/she makes available; or
- represents information on the products available on the market.

What products can be recommended when the customer has not determined a specific sustainability preference?

Where a customer answers that he/she has sustainability preferences, but despite questions posed by the insurer or insurance intermediary, did not specify a preference with regard to points a), b) or c), the insurer or insurance intermediary can still recommend an IBIP that has sustainability features matching the customer's preferences as best as possible, taking into account the sustainability preferences as expressed by the customer in general terms (see illustration in Figure 6 above).

In that case, the insurers and insurance intermediaries should record in a suitability statement:

- i. a description of the customer's sustainability preferences, even if in broad or general terms;
- ii. the fact that even though the customer has sustainability preferences, he/she has not specified a preference with regard to any aspect(s); and
- iii. if a personal recommendation of an IBIP is made based on the customer's sustainability preferences, the reasons underlying that personal recommendation.

6. HOW DO YOU COMPLY WITH THE RECORD-KEEPING REQUIREMENTS WHEN THE CUSTOMER ADAPTS HIS/HER PREFERENCES?

The IDD requires that where no IBIP meets the customer's sustainability preferences, and the customer decides to adapt his/her sustainability preferences, the insurance intermediary or insurer should keep records of the decision of the customer, including the reasons for that decision.

Reference: Paragraph 6 of Article 9 of Delegated Regulation (EU) 2017/2359 as amended by Commission Delegated Regulation (EU) 2021/1257

KEY PRINCIPLE:

Record keeping is required where a customer adapts its sustainability preferences.

Insurers and insurance intermediaries providing advice on insurance-based investment products are required to keep records of all relevant information about the situations where a customer's sustainability preferences are adapted, including a clear explanation of the reasons for such adaptation.

In addition, the decision of the customer to adapt his/her sustainability preferences and the reason to do so should be recorded in the suitability statement.

7. WHAT COMPETENCES ARE NEEDED TO ASSESS A CUSTOMER'S SUSTAINABILITY PREFERENCES?

The IDD requires insurance distributors and employees of insurers carrying out insurance distribution activities to possess appropriate knowledge and ability in order to complete their tasks and perform their duties adequately and comply with continuing professional training and development requirements in order to maintain an adequate level of performance corresponding to the role they perform and the relevant market.

Reference: Paragraph 1 and 2 of Article 10 of IDD

KEY PRINCIPLES:

- **Employees of insurers and insurance intermediaries selling IBIPs need to have basic knowledge and competences to know how to assess the customer's sustainability preferences**
- **Employees of insurers and insurance intermediaries selling IBIPs that *promote environmental or social characteristics or that have a sustainable investment objective* should have a more detailed knowledge and competence, in accordance with the nature of products they provide advice on**

Employees of insurers and insurance intermediaries selling IBIPs need to possess the necessary knowledge and competence with regard to the criteria of the sustainability preferences and are able to explain to customers the different aspects in a language that is clear, succinct, comprehensible and not misleading.

In general, relevant employees of insurance undertakings and insurance intermediaries should possess basic knowledge and competences with regard to the criteria of the sustainability preferences, while employees of insurance undertakings and insurance intermediaries offering insurance-based investment products that promote environmental or social characteristics or that have a sustainable investment objective should have a more detailed knowledge and competence, in accordance with the nature of products they provide advice on. To that effect, insurance undertakings and insurance intermediaries should ensure that employees are appropriately trained and keep their knowledge up-to-date through Continuous Professional Development.

GUIDANCE ON THE INTEGRATION OF SUSTAINABILITY PREFERENCES IN THE SUITABILITY ASSESSMENT
UNDER THE INSURANCE DISTRIBUTION DIRECTIVE (IDD)

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