Insurance Council of Australia

28 November 2024

Australian Sustainable Finance Institute (ASFI)

Via online portal

Australian Sustainable Finance Taxonomy V0.1 – Second Public Consultation

The Insurance Council of Australia is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 46,000 people[1], generates gross written premium of $66 billion per annum, on average pays out $159 million in claims each working day ($39.4 billion paid out per year).[2]

The Insurance Council of Australia (**Insurance Council**) thanks the Australian Sustainable Finance Institute (ASFI) for the opportunity to provide feedback on the second public consultation of the Australian Sustainable Finance Taxonomy (taxonomy). We congratulate ASFI, the Taxonomy Technical Expert Group and the advisory and technical experts that have contributed to the development of the taxonomy. The taxonomy is a pivotal step to support the development of low-carbon industries and enable the decarbonisation of activities.

Our submission reflects consolidated feedback from Insurance Council members, focusing on key items in the draft taxonomy most relevant to the insurance industry.

The Insurance Council and its members are supportive of an Australian Sustainable Finance Taxonomy

The Insurance Council and its members support the development of a taxonomy aligned with key trading partners to enable cross-border flows of sustainable finance. A taxonomy is needed to accelerate and scale up the flow of capital into investments that support Australia's commitment to its Nationally Determined Contribution (NDC) and transition to a net zero economy.

The Australian sustainable finance taxonomy can support insurers aligning their underwriting and investment decisions with net zero (and over time, broader sustainability) outcomes. For example, the taxonomy can assist insurers to identify and select investments that meet the taxonomy criteria; and will also help provide a consistent framework for reporting sustainability performance across underwriting and investment portfolios, making disclosures more transparent and comparable across the industry.

Many financial markets are moving towards establishing taxonomies for sustainable finance, or have already done so, including markets in the EU, Canada, China and New Zealand. We welcome ASFI's approach to align the Australian sustainable finance taxonomy with key international taxonomies like the EU taxonomy, while also reflecting the unique characteristics of the Australian market. It is important to maximise consistency between the Australian taxonomy and that of our key trading partners to enable cross-border flows of sustainable finance for companies and investors operating in multiple jurisdictions.

We also acknowledge that the Australian taxonomy should be reviewed regularly as the sustainable finance taxonomies of our key trading partners mature, to support ongoing consistency and interoperability across different markets and jurisdictions.

<u>Questions in the Consultation</u>:

1. **As a voluntary tool, do you think further guidance is required to clarify how the taxonomy can be used under existing and emerging regulations? If so, what taxonomy uses do you consider to be a priority to enhance the taxonomy's voluntary adoption?**

The taxonomy will provide a framework for insurers to identify low carbon economic activities, offering insurers a tool for developing transition plans under the Australian Sustainability Reporting Standard 2 (ASRS 2). The taxonomy will also help facilitate comparability of disclosures between different entities and different industries under ASRS 2.

The Insurance Council would welcome further guidance on how insurers can apply the taxonomy despite existing data gaps. Applying the Australian sustainable taxonomy in practice will require a significant amount of data, which will not necessarily be available to the insurance industry, especially during the first years of implementation. Gathering all the required information will need a significant effort for the industry.

For example, insurers tend to categorise underwriting by product line and geography and group their portfolios across SMEs, corporates, and global companies. Adding to this complexity, these insurance customers receive various products, ranging from directors' insurance to public liability, and business interruption insurance. As insurers typically do not track by customer, this makes it challenging for them to identify customer exposure, classify client income by economic activity type and analyse portfolios by industry code or customer. Guidance on how to address these data gaps would help insurers to address these challenges in a consistent manner.

2. **Should the taxonomy provide guidance to lenders and users on the approach and expectation for evidencing alignment with the DNSH and MSS criteria? If so, please provide suggestions on what guidance is needed.**

Learning from past taxonomy implementation, many lenders and users of the EU taxonomy outsourced data collection to data providers due to the amount of work involved in obtaining data on the taxonomy alignment of individual issuers and assets. This also raised concerns about varying approaches taken by the data providers and called on them to be more transparent on their methodologies and share more raw data so investors could more easily compare assessments from different providers.

To avoid these issues, the Insurance Council would welcome guidance for users of the taxonomy, such as:

- Ensure all testing criteria have clear yes/no outcomes that can be objectively determined;
- Minimise subjective language;
- Ensure guidance is given on what a suitable yes/no outcome is for process-based tests, in the form of supplementary guidance.

For further information, an example of guidance material with practical approaches to apply the EU Taxonomy was published by UNEP in 2022.[1]

[1] UNEP, Practical Approaches to Applying the EU Taxonomy to Bank Lending, 2022: [Practical Approaches to Applying the EU Taxonomy to Bank Lending 2022]

Construction and Building

21. Are the proposed TSC credible? In this context, credibility of criteria refers to whether a transparent scientific approach aligned to the Paris Agreement temperature goal was used, informed by the latest technological understanding

Yes. The proposed Technical Screening Criteria in the taxonomy for *Construction and Buildings* is aligned with scientific principles for limiting global temperature rise in line with the Paris Agreement.

The Insurance Council supports the approach of the taxonomy criteria incorporating activities to reduce operational emissions, embodied greenhouse gas emissions in buildings, and limits the global warming potential of refrigerants, while promoting energy efficiency of buildings. The transition to an electric-based system is consistent with global efforts to electrify building operations using renewable energy sources.

The taxonomy transition criteria (with a 2031 sunset date) will enable existing buildings that are not considered "green" to be financed for improvements and retrofit to lower emissions. By requiring post-work verifications of emission reductions, the taxonomy ensures that renovations result in real emissions reductions.

22. Are the proposed TSC usable? In this context, usability of criteria refers to whether they are comparable, clear, objective and easy to understand. If not, please explain how they could be improved.

Yes. The Australian taxonomy aligns with global efforts to ensure that building practices and financing supports a global transition to a net-zero economy by 2050. The TSC provides a clear framework for reporting activity-level and portfolio alignment to demonstrate commitment to reducing climate-related financial risks and quantify taxonomy-aligned opportunities. Insurers can use this voluntary tool to evaluate climate-related risks and opportunities in their underwriting processes and investment strategies.

23. Please provide any further feedback on specific activities here and provide evidence to support any recommendations

Screening criteria for the construction and the built environment could be extended to include resilience and adaptation activities focused on improving the resilience of Australian homes to climate change. For example, it is proposed the Australian sustainable finance taxonomy considers the energy efficiency potential of new buildings in the screening criteria for new construction activities – this could be extended to also consider the resilience potential of new buildings. This could be achieved by:

- Aligning the Australian sustainable taxonomy with the National Construction Code (NCC) resilience requirements. In June 2024, it was agreed the Australian Building Codes Board will work with industry, government and community stakeholders to ensure that any future NCC changes to improve climate resilience are cost effective, practical and fit-for-purpose. With extreme weather events becoming more frequent and findings that strengthened home resilience could save $4 billion a year[2], its critical to embed the principle of resilience in the NCC to ensure future buildings are better able to withstand bushfires, cyclones and floods.

[2] Insurance Council of Australia, Future Proofing Australia's Resilience, 2023: [Future Proofing Australia's Resilience Insurance Council of Australia Summary report]

- In addition to requiring minimum energy efficiency ratings, the new construction screening criteria could require a minimum resilience rating, such as those that can be provided by the Resilient Building Council's voluntary resilience rating tool and mandatory disclosure of resilience ratings for homes and commercial buildings at the point of sale or lease.

The Insurance Council and its members, along with the Resilient Building Council and Investor Group on Climate Change (IGCC) has previously recommended property sector mitigation and adaptation as a key priority for taxonomy coverage. Property sector mitigation and adaptation is proposed due to the readiness of the property sector to match capital with existing solutions and the interconnection between emissions reduction and disaster resilience for buildings and construction. The approach would expand the eligible economic activities for financial institutions to include adaptation; and enable adaptation to be included in Green Bonds/Residential Backed Mortgage Securities.

The Insurance Council and its members support the inclusion of decarbonisation activities in the built environment in the Australian sustainable finance taxonomy. The 'sunset date' of July 2031 for acquisition and ownership, renovations and upgrades will enable the industry to transition and make a direct contribution to reducing emissions in the short term.

The Insurance Council and its members are supportive of the clarification made to the technical screening criteria for new construction that requires additional mitigation beyond current regulation in Australia. The clarification of how climate alignment is achieved in the New Construction screening criteria, in alignment with the EU taxonomy to include additional requirements for no fossil fuel use, limiting global warming potential of installed refrigerants and limiting the embodied greenhouse gas emissions is welcomed, in addition to the focus on energy efficiency requirements in the first draft taxonomy.

Transport

24. Are the proposed TSC credible? In this context, credibility of criteria refers to whether a transparent scientific approach aligned to the Paris Agreement temperature goal was used, informed by the latest technological understanding

Yes. The proposed Technical Screening Criteria for *Transport* in the taxonomy is in line with scientific principles that advocate for a phased transition toward net-zero emissions. The Insurance Council is supportive of the green criteria informed by ClimateWorks's transport sector scenarios. To ensure full alignment with the Paris Agreement temperature goal, the taxonomy could emphasise prioritising zero-emission solutions and encourage scaling of enabling infrastructure, as well as facilitate systemic changes in mobility patterns.

To accelerate deployment of innovative technologies in hard-to-abate transport modes, where zero emission solutions are not yet fully commercially viable, the taxonomy criteria could help to direct investment towards research and development investments, such as in low-carbon liquid fuels (LCLFs) for hard-to-abate transport modes.

The Insurance Council welcomes the taxonomy's emphasis on green infrastructure and reducing the level of transport activity by shifting to lower emissions modes of transport such as passenger vehicles to public and active transport.

25. Are the proposed TSC usable? In this context, usability of criteria refers to whether they are comparable, clear, objective and easy to understand. If not, please explain how they could be improved.

Yes. The TSC provides a clear framework for reporting activity-level and portfolio alignment to demonstrate commitment to reducing climate-related financial risks and quantify taxonomy-aligned opportunities. Insurers can use this voluntary tool to evaluate climate-related risks and opportunities in their underwriting processes and investment strategies.

Beyond transitioning to electric vehicles, mode shifting can deliver significant emissions reductions. Active and public transport can make a significant contribution to reducing transport emissions, while easing congestion, improving health, and reducing pollution, heat, and noise. Achieving higher rates of active and public travel requires investment in electrified public transport and improvements in the safety, connectivity, and convenience of walking and cycling infrastructure. The taxonomy can promote investment in modernising and expanding public transport networks, a key part of a credible plan to decarbonise the transport sector.

Electric micromobility is a growing part of active transport; the Insurance Council and its members have been calling for government action to strengthen regulation and enforcement of electric micromobility by creating a national regulation framework to ensure the importation and sale of safe electric personal mobility devices to reduce fire risks. The taxonomy screening criteria for electric micromobility could emphasise compliance with the latest national policy and regulatory framework in Australia.

26. **Do you agree with the inclusion of the decarbonisation measures for hard-to-abate activities, and the sunset dates? Where providing recommendations, please provide evidence**.

Yes. The use of low carbon liquid fuels (LCLF) is an important interim measure for reducing emissions in hard-to-abate sectors, along with a clear sunset date to be considered within the 'transition' period until 31 December 2039.

27. **Please provide any further feedback on specific activities here and provide evidence to support any recommendations**

The Insurance Council supports the principle of resilience being embedded within all charging infrastructure. Flooding, cyclones and other weather events could damage charging infrastructure and may take a long time to safely repair, impacting mobility in the aftermath of disasters especially in regional areas. With demand for electric vehicles expected to grow significantly, the taxonomy could play a greater role in investing in charging infrastructure resilient to extreme weather, as well as battery recycling facilities.

Do No Significant Harm (DNSH) Criteria

29. Are the proposed generic DNSH criteria aligned to Australian environmental laws and regulations and relevant international standards and practices? If your answer is no, please provide suggestions on how they could be improved.

N/A

30. Are the proposed specific DNSH criteria aligned to Australian environmental laws and regulations, relevant international standards and industry best practice? If your answer is no, please provide suggestions on how they could be improved.

N/A

31. Are the proposed generic DNSH criteria and guidance clear, relevant and usable? If your answer is no, please provide suggestions on how they could be improved.

Yes. The Insurance Councils welcomes the approach of the Australian taxonomy's DNSH criteria covering each environmental objective broadly and being informed by the approach recommended by the UK Green Technical Advisory Group in its 2023 report on the usability of DNSH criteria in the EU Taxonomy Regulation. The DNSH generic criteria was developed to be interoperable with key international taxonomies using a "revise and adopt" approach, principles-based and clear for users with consistent formatting and minimal subjective or qualitative language.

32. The generic DNSH criteria for circular economy go beyond existing regulatory requirements in Australia and have been framed around best efforts compliance accordingly. Does this approach give rise to any additional usability challenges, particularly in relation to demonstrating compliance? If so, how could their usability be improved?

N/A

33. Are the proposed specific DNSH criteria clear, relevant and usable? If your answer is no, please provide suggestions on how they could be improved.

Yes. The specific DNSH criteria clearly address particular requirements for different sectors or activities, focusing on material impacts not covered by the generic criteria, as well as consistent formatting and minimal subjective or qualitative language.

34. Is there any other feedback you would like to provide on the proposed DNSH framework?

Learning from past taxonomy implementation, many users of the EU taxonomy outsourced data collection to data providers due to the amount of work involved in obtaining data on the taxonomy alignment of individual issuers and assets. This raised concerns about varying approaches taken by the data providers and called on them to be more transparent on their methodologies and share more raw data so investors could more easily compare assessments from different providers.

The Insurance Council would welcome guidance for users of the taxonomy, such as

- Ensure all testing criteria have clear yes/no outcomes that can be objectively determined;
- Minimise subjective language;
- Ensure guidance is given on what a suitable yes/no outcome is for process-based tests, in the form of supplementary guidance.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Aaron Finnegan, Advisor, Climate Change. afinnegan@insurancecouncil.com.au.

Yours sincerely

Andrew Hall

Executive Director and CEO