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Insurance in Transition: Decoding the Omnibus Agenda's Ripple Effect

Summary

- *The insurance sector plays a key role in Europe's transition to a sustainable economy. As major investors and risk managers, insurers can direct capital towards green activities and protect the financial system from the growing risks originating from climate change. This makes them essential to Europe's competitiveness and resilience in the face of growing environmental and social challenges.*
- *However, the recently proposed Omnibus I package could undermine these efforts, by weakening or delaying key rules that ensure the insurance sector is aligned with the EU climate goals and protects financial stability.* ***This is particularly concerning given the enabling and systemic role it plays in the European economic and financial sectors. Failing to properly account for sustainability-related risks, can jeopardise financial stability.*** *Without a functioning insurance sector, financial services become unavailable and economic activities cannot take place.*
- ***New research commissioned by ShareAction shows that up to 85% of European insurers currently covered by the Corporate Sustainability Reporting Directive (CSRD) could be excluded from reporting under changes being discussed between EU policymakers, depending on which thresholds are ultimately adopted during ongoing negotiations.*** *These changes risk significantly reducing sustainability transparency, data availability, and accountability across the sector – the key tools to drive the green transition and enable proper financial risk management and supervision. This will make the European economy more vulnerable to the shocks of a rapidly changing world.*
- *The number of insurers in scope of the EU Taxonomy, which is tied to provisions in the CSRD, would also effectively be limited to the largest companies that are subjected to the CSDDD, further adding to the above risks.*
- *Moreover, the proposal to weaken the obligation for companies to implement transition plans under the Corporate Sustainability Due Diligence Directive (CSDDD) would exacerbate existing challenges. On the one hand, it would delay the much-needed transition, increasing the severity of extreme weather events responsible for damages covered by insurers. On the other hand, it would make it more difficult for insurers to assess and manage risks, adding further instability to the financial system.*

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EU Transparency Register nr:
75791956264-20

- *For insurers, the impact of the proposed changes included in the Omnibus I package will go well beyond the EU Taxonomy, CSRD and CSDDD, with implications on Solvency II and the Sustainable Finance Disclosure Regulation.*

Introduction

Insurance is a cornerstone of the EU economy and plays two important roles. As underwriters, insurers help protect people and institutions by covering the costs of unexpected events like floods, fires, or accidents. As investors, they invest in the economy the money paid (in premiums) by individuals and businesses, thereby enabling various activities and projects. As a result, the EU insurance sector manages around 9 trillion in assets and retains a significant influence that could accelerate the transition to a green future. However, this potential remains largely untapped.

Extreme weather events, exacerbated by carbon pollution, are increasing in frequency and severity. In 2024 alone, they resulted in 33 billion USD in economic losses in Europe – and studies confirm that these numbers are likely to go up this year.[1] Insurers, through their underwriting and investments choices, play a role in either reinforcing or mitigating this trend. Policymakers and supervisors increasingly recognise that harmful investments, especially in fossil fuels, do not only contribute to climate change, but also are a source of systemic risk as the economy transitions,[2] which could then disrupt financial stability. Hence, it is imperative that insurers phase out risky and harmful projects such as fossil fuels and scale up transition financing.

Transition finance is about mobilising private capital and adopt strategies to drive decarbonisation, manage sustainability-related risks and invest sustainably, ultimately supporting the transition to a resilient and sustainable economy. As both investors and underwriters, insurers naturally play a central role in facilitating this process. At the EU level, transition finance measures have been gradually rolled out across several pieces of financial legislation. So far, the Corporate Sustainability Reporting Directive (CSRD) requires companies to disclose their sustainability practices, including a transition plan if they have one, in a comparable and reliable way through the European Sustainability Reporting Standards (ESRS); the Sustainable Finance Disclosure Regulation (SFDR) mandates financial market participants to disclose whether and how their financial products integrate sustainability considerations; and the Corporate Sustainability Due Diligence Directive (CSDDD) requires companies to adopt an emissions-reduction transition plan and mitigate environmental risks in their value chains.

However, the political landscape has shifted, with policymakers prioritising short-term economic growth and "competitiveness" over sustainability considerations. This has fuelled attacks on sustainability measures, and sustainability reporting in particular, with arguments that their costs outweigh their benefits. While the sustainable finance framework could certainly be improved to become more intuitive and effective, the current simplification approach is steering toward deregulation rather than meaningful streamlining. It also overlooks the real cost of taking further action in the future, with more urgency and after climate impacts have worsened. **This brings a real danger: weakening the recently adopted sustainability measures risks bringing the insurance sector's sustainability efforts to a halt. Without clear and consistent rules, insurers will find it harder to assess risks, steer investments toward green solutions, and build resilience against future climate shocks. At the same time, without clear and reliable data, supervisors will not be able to properly oversee financial risk management by insurance companies.** This is particularly important given the enabling and systemic role they play in the European economic and financial sectors, where, without a functioning insurance sector, financial services become unavailable[3] and economic activities cannot take place.

The recently announced Omnibus proposal exemplifies this trend. It waters down key standards across the EU Taxonomy, CSRD and CSDDD, and may influence future revisions of laws regulating insurers and insurance products, such as the SFDR and Solvency II - which defines capital requirements for European (re)insurers. For instance, on Solvency II, the sector has already started advocating[4] for the removal of the obligation to adopt sustainability risk plans.

This paper delves into the short-term impact that this simplification agenda will have on the insurance sector's alignment with the green transition through the Omnibus proposal, as well as on its implications for longer-term policy discussions relevant to insurers. It also features recommendations to policymakers at the end.

Implications of the Omnibus I package on insurers

The Omnibus I package aims to "address overlapping, unnecessary or disproportionate rules that are creating unnecessary burden for EU businesses",[5] with a focus on the sustainability measures included in the EU Taxonomy, CSRD and CSDDD. Among the several amendments proposed by the European Commission, changes to the scope of the CSRD and the set of European Sustainability Reporting Standards ("ESRS"), to the scope and mandatory nature of Taxonomy reporting and to transition planning provisions in the CSDDD, will have the biggest impact on insurers from a sustainability perspective.[I]

Reduced transparency and accountability

One of the most concerning Omnibus proposals is the plan to increase the employee threshold for CSRD compliance from 500 to 1,000.

New research conducted by FairFin Research for ShareAction reveals that **1 in 2 (51%) European insurers currently subject to the CSRD could be exempted under the 1,000-employee threshold.** This exemption rate rises to **67%** if the recent suggestions from the European Parliament's rapporteur to increase the turnover threshold to €450 million is adopted. And should the employee threshold be raised further to 3,000, as also recently floated in discussions at the European Parliament,[6] **a striking 74%** could be left out of scope of reporting requirements altogether. This would then become **82%** with a 5,000 employee threshold, as recently suggested by the French finance Minister.[7] Consequently, combining a 3,000 employee threshold with a turnover threshold of €450 million would reduce the number of insurers reporting under the CSRD by **81%; 85%** if the former is raised to 5,000.[II]

While European top insurers will remain in scope given their size, several smaller insurers - some of which still exposed to harmful and risky business - will no longer be required to share data on their activities and operations from a sustainability perspective. The consequences are twofold: **there will be less transparency on, and accountability over, investments and underwriting by individual insurers that have fallen out of scope of the CSRD and, as a consequence, the amount of data made available to supervisors, investors, and consumers will be reduced.**

While some companies (including insurers) may continue to report such information for strategic and reputational reasons, the European Commission's assumption that most exempted firms will voluntarily do so is highly optimistic, risks creating an unlevel playing field and defeats the stated purpose of "simplifying" reporting obligations. Through its European federation, Insurance Europe, the (re)insurance sector has strongly supported the current

[I] For a comprehensive list of measures included in the Omnibus I package, please see here.

[II] Further information on the methodology of this piece of research is available at the end of the briefing.

approach of simplifying EU regulations. At the same time, it has reiterated its commitment to "helping to address climate change and remain committed to supporting Europe's sustainability goals".[8]

However, calls for the reduction of the number of insurers subject to CSRD reporting requirements, along with plans to remove sector-specific reporting standards, could actually hinder progress towards these sustainability goals. The ESRS are key to ensure that corporate disclosures – including those made by insurers – are standardised, comparable and credible. They rely on companies assessing which sustainability issues are most relevant to their operations, and as such do not represent an indiscriminate burden. Therefore, drastically reducing the data points collected will only make insurers' less accountable for their sustainability performances, as the data will be more difficult to interpret – or simply not available.

Growing delays of the green transition

Reducing the number of companies in scope of the CSRD will also automatically lower the number of those subjected to the EU Taxonomy, given that their respective scopes are aligned. Doing so, and making reporting mostly voluntary, will lead to very similar issues as those described above, thereby effectively paving the way for **incentivising rather than reducing greenwashing in the EU and a delay of the green transition**. Weakening or fully deleting transition planning requirements from CSDDD[III] would further exacerbate this, de facto wiping out mandatory efforts by companies, including insurers, to truly decarbonise. Investments by insurers, if redirected towards low-carbon activities, can actually enhance Europe's long-term competitiveness by making its economy more sustainable. The Draghi report highlights decarbonisation as major growth opportunity for the EU, which develops more than one-fifth of global clean and sustainable technologies.[9] Yet, the proposed revisions of reporting standards fail to recognise sustainability as one of the competitive levers of the EU economy, undermining the EU's efforts to achieve strategic autonomy and economic resilience. Ultimately, these changes can also hinder proper risk-management – one of insurers' core business.

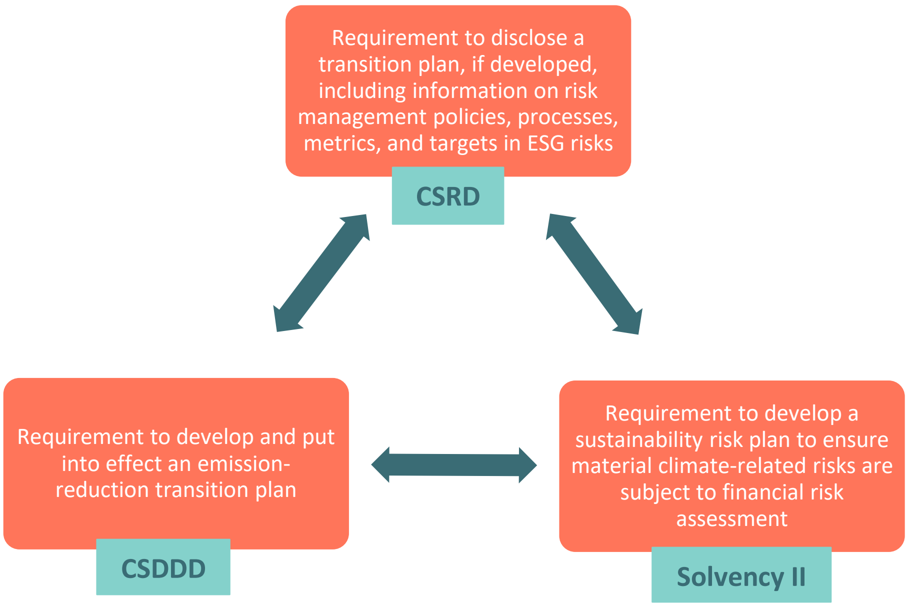
Weaker risk management practices

Sustainability data shortage significantly undermines the ability to properly assess, and manage, sustainability-related risks. Insurers rely on this information to make sure they are stable and resilient in the long-term. **Data availability for insurers and by insurers is crucial to guarantee supervisors can properly oversee insurance companies, which in turn take the necessary steps to remain solvent and adequately capitalised.** This is especially critical given the urgent need to transition to a lower carbon economy and "as environmental risks,

[III] As per current discussions currently taking place at the European Parliament.

including climate-related risks, are expected to become even more prominent through various combinations of transition and physical risks",[10] as stated by a non-paper recently circulated by the Spanish government.

Developing, adopting, and implementing a transition plan is also necessary for risk management purposes. By assessing to what extent a company's business model is on track to reach its decarbonisation targets, insurers are better equipped to promptly detect, and manage, risks associated with deviating from such plan. The European Insurance and Occupational Pensions Authority's (EIOPA) draft Regulatory Technical Standards on sustainability risk plans by insurers[11] follow the European Banking Authority (EBA)[12] in confirming this. However, the Omnibus proposal seeks to remove the obligation for companies to put into effect transition plans under the CSDDD, with direct implications for insurers in their dual capacity as investors and underwriters. Failing to implement a decarbonisation strategy will on the one hand exacerbate extreme weather events responsible for damages covered by insurers. On the other hand, when entities portray themselves as being more sustainable than they are in practice, risk assessment and management processes become more challenging, with potential additional risks to financial stability. Some European insurers have been implementing basic voluntary transition plans for a number of years now, even prior to the finalisation of CSDDD negotiations in 2024,[13] as part of their long-term net-zero strategy. Nonetheless, the majority has not done the same. This underlines the key role played by regulation in establishing a level playing field among corporate sustainability practices and ambition by setting clear requirements and standards. Standardisation, in turn, is needed to ensure the comparability and overall effectiveness of efforts.



Beyond the current Omnibus

The impact of the proposed changes included in the Omnibus I package will go well beyond the EU Taxonomy, CSRD and CSDDD, the three files amended in the Commission proposal.

From a risk-management perspective, the already mentioned **EIOPA draft Regulatory Technical Standards on management of sustainability risks including sustainability risk plans for insurers will be delayed** because the disclosure provisions therein are aligned with the CSRD. This will translate into delayed guidance for insurance companies on how to adequately embed sustainability considerations into their risk assessment and management practices, thereby negatively affecting frontrunners on the matter.

Similarly, the Omnibus could affect the **upcoming review of the Solvency II Delegated Regulation,** which sets out detailed requirements for insurers to apply the Solvency II framework and covers many technical provisions including, for example, on governance and the calculation of the level of capital for asset classes insurers may invest in. The introduction of **higher mandatory Pillar 1 capital requirements** that would more adequately reflect the sustainability risks of stocks and bonds in which insurers invest, as recommended by EIOPA in 2024,[14] is likely to be delayed. This is particularly relevant given the content of the European Commission's recently published Communication on the Savings and Investments Union, which suggests facilitating investments in equity by insurers through a favourable prudential treatment (read: reduced capital requirements for) long-term investments in equity and investments under specific legislative programmes. Insurers are thus encouraged to take upon more risk without having clear data to assess effective risk levels and without conditionalities on the sustainability credentials of the chosen assets (at least at this stage). **The combination of the "simplification" measures to be adopted under the Omnibus I package, and the unconditional relaxation of capital requirements to facilitate investments could lead to more capital flowing blindly from insurers to unsustainable, risky activities. This would not only contribute to climate disruption but also carry higher risk levels that threaten financial stability in the long-term.**[15]

Finally, it is important to underline that a review of the Sustainable Finance Disclosure Regulation (SFDR) is also planned for Q4 2025, and has been included in the 2025 Commission Work Programme under the "simplification" label. Given its links to CSRD, which has directly been targeted by the Omnibus I package, it is likely that this cornerstone piece of the Sustainable Finance agenda will also be significantly affected by current trends. In particular, Insurance Europe has already been calling for an overhaul of its disclosure framework which would see product level disclosures covered solely by the SFDR, and entity level disclosures covered solely by the CSRD, except if financial market participants are not subject to the CSRD.[16] **Given the likely drastic reduction in sustainability data under the CSRD, removing**

entity-level disclosures from the SFDR would risk creating a significant information gap and further obscure the adverse impacts of financial market participants' activities. Entity-level disclosures offer end investors and other stakeholders essential insights into the broader sustainability practices of asset managers, providing a firm-wide view of the adverse impacts associated with their investments, along with the policies in place and actions taken to mitigate those impacts.

Recommendations to policymakers

Insurers, given their resources and key position in the EU economy, should be a driving force for sustainability considerations to be mainstreamed across financial legislation. Because of their unique role as investors and underwriters, insurers are also among the financial market participants that would benefit the most from having access to more and better sustainability information, as they could more overtly support the green transition while preserving financial stability through accurate risk assessment and management practices.

To this end, we at ShareAction call for:

- Going back to the original scope of the CSRD to ensure a meaningful amount of insurers' sustainability data is available to supervisors, investors, and consumers. This means including companies meeting at least two of the three following criteria: balance sheet (€25 million), net turnover (€50 million), and the average number of 250 employees.
- Swiftly adopting the draft Regulatory Technical Standards on management of sustainability risks including sustainability risk plans, which are being delayed because of their links with CSRD and the current Omnibus negotiations;
- In the upcoming review of the Solvency II Delegated Act:
    - Ensuring the European Commission follows up on EIOPA's recommendation to introduce a dedicated prudential treatment for insurers' fossil fuel assets to reflect the higher transition risks they carry;
    - Making sure that any reduction of capital requirements for investments by insurers proposed in the Savings and Investments Union is proportionate and evidenced, and includes sustainability-linked conditionalities.
- Preserving the CSDDD requirement to put into effect corporate transition plans to support the green transition and proper risk assessment and management by insurers.
- Preserving entity-level disclosures in the upcoming review of the Sustainable Finance Disclosure Regulation (SFDR), so that end investors and consumers can assess how insurers address their adverse sustainability impacts.

Research methodology:

The study was done by FairFin Research, on the basis of company data in the financial database Refinitiv/LSEG Workspace. All insurance companies either headquartered, incorporated or traded on exchanges in the EU were included in the analysis. To select for insurance companies the TRBC Industry name label was used. Balance sheet size was determined through last reported total assets, turnover through last reported total revenue from business activities, and number of employees through either average or last reported number of FTE's depending on data availability. Where necessary, given the gaps in the consulted database, the data was supplemented by additional research into specific annual reports, and wholly owned subsidiaries were removed from the list as much as possible.

While every effort has been made to ensure the information in this publication is correct, ShareAction cannot guarantee its accuracy and shall not be liable for any claims of any nature in connection with information contained in this document.

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