



BIPAR Response to ESMA Call for Evidence

On the integration of sustainability preferences in the suitability assessment and product governance arrangements

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BIPAR is the European Federation of Insurance Intermediaries. It groups 47 national associations in 30 countries. Through its national associations, BIPAR represents the interests of insurance agents and brokers and financial intermediaries in Europe.

Apart from some large multinationals, the insurance intermediation sector consists of hundreds of thousands of SMEs and micro-type operators. It accounts for 0.7% of European GDP, and over one million people are active in the sector. Insurance and financial intermediaries facilitate the insurance and financial process for several hundreds of millions of customers. The variety of business models, the high level of competition and the geographical spread in the sector ensure that everyone in Europe has easy access to tailor-made insurance and financial services. The sector is highly regulated and strictly supervised.

BIPAR is a member of the World Federation of Insurance Intermediaries (WFII). Founded in Paris in 1937, BIPAR has been established in Brussels since 1989.

General remarks:

BIPAR welcomes ESMA's Call for evidence on the integration of sustainability preferences in the suitability assessment and product governance arrangements as it represents a valuable opportunity for ESMA to collect stakeholder feedback and firsthand accounts regarding the practical application of the sustainability requirements under MiFID II.

BIPAR supports the Commission's and ESMA's ambition to encourage investments in a more sustainable world. In that regard, financial intermediaries play an important role in helping investors achieve their goals and objectives, both financial and non-financial. **Because of their proximity to their customers, the financial intermediaries who are members of BIPAR's national associations are one of the "cornerstones" of the promotion of the distribution of "sustainable" financial products throughout Europe.**

We recognize the need for a concise framework on transparency of sustainability risks and factors in order to avoid mis-selling and build public trust. To achieve this objective, it is crucial to ensure that product providers provide correct, reliable and clear product information to intermediaries, financial advisors and customers.

Through continuous exchanges with its members, BIPAR understands that the sustainability requirements under MiFID II are quite complex and sometimes difficult to apply in practice. This is especially true for smaller entities. The complexity of the framework (and the still not finalized set of rules) also makes it harder for customers to understand and engage with. BIPAR believes simplicity and proportionality are key to ensure an effective application of the framework and to channel investments towards sustainable financial products.

BIPAR answers to ESMA questions :

Question 1: What actions did firms implement within their organisation to take into account the new requirements related to sustainability preferences? Please elaborate especially on the following:

- What proportion of firms' employees (differentiating between client facing staff and the other staff) have received training on sustainability topics? What these trainings consisted of? Was any test or exam put in place?
- Which conflicts of interest relating to the integration of clients' sustainability preferences did firms identify and which measures did firms take to ensure that these conflicts of interest do not damage the interest of clients?

BIPAR response:

Some of our members have reported all their employees providing advice were subjected to in person and webinar training in 2022, supplemented by a knowledge test.

None of our members reported having identified conflicts of interests in that regard.

Question 2: Are there specific aspects of sustainable finance that retail investors struggle to understand? For example:

- Understanding of general aspects such as why it is important to consider sustainability risks and factors when investing?
- Understanding differences between sustainable products and products without sustainability features?
- Understanding that sustainability characteristics and (expected) return are two separate issues?
- Understanding the new legal definition of "sustainability preferences" and its components (e.g., categories a), b) and c), minimum proportion, principal adverse impact indicators (PAIs), etc)?

BIPAR response:

According to some of our members, retail investors struggle to understand the new legal definition of "sustainability preferences" and its components. They find it especially difficult to understand the difference between categories a) and b) and, within category b), the difference between article 8 and article 9 funds.

Furthermore, some customers' expectations cannot be met due to the insufficient offer of products with sustainability features and the uncertainty that still surrounds the legal framework. Progress seems to have been made recently but it is still too early to make a definitive assessment of the situation.

Principal adverse impact indicators seem easier to understand.

Question 3: Are there specific financial education initiatives on sustainable finance developed by consumer associations, trade associations or other organisations and that are used by investment

firms that you can bring to ESMA's attention? Please accompany your reply with any relevant background information on the initiative and/or with details on its effectiveness/usefulness.

BIPAR response:

The French *Autorité des marchés financiers* (AMF) has decided to create a new module to verify the knowledge of professionals regarding green and sustainable finance. The sustainable finance exam is addressed, in particular, at professionals exercising sales functions and wishing to have a general knowledge of the institutional and economic framework of sustainable finance. It aims at allowing them to understand the essential relevant concepts and to acquire a reading grid of the products and methodologies used, in order for them to be able to effectively and accurately collect information about customers' sustainability preferences and to offer products adapted to their needs.

This module is complementary to the generalist AMF examination which aims to verify minimum knowledge. The sustainable finance exam is optional and available to anyone wishing to demonstrate their basic knowledge in sustainability-related matters.

To the best of our knowledge, in most markets, initiatives have been taken to educate people in the sector. However, it is too early, at this point, to effectively assess the situations and the effects of this training. The complex and still evolving legal framework makes it a difficult challenge.

Question 4: What is the main way firms currently provide information to retail clients about sustainable finance? For example:

- Orally during the meetings with clients
- Through educational brochures or other (paper) documents
- Through dedicated website and apps
- A combination of the above
- Other

In your opinion, are these approaches effective? Please provide details. Are retail clients satisfied with the quality of information provided?

BIPAR response:

In most cases, customers are informed in writing via information brochures and orally during meetings.

Experience demonstrates that the complexity of the topic is too high for many customers and that the explanations related to the different categories of sustainability preferences (a), b) and c)) are not understandable. This is likely to be the reason for a high amount of clients not indicating any sustainability preferences.

Question 5: What are clients' experiences/reactions to the new questionnaires including questions on "sustainability preferences"? (e.g. do they require guidance to be able to answer to the questions? Do they show interest in the topic?)

BIPAR response:

It is too early to respond to this question. However, it appears that clients are generally interested in the topic of sustainability but that the complicated and technical nature of the explanations to be provided tend to deter clients from indicating any sustainability preferences. This is also due to the fact that the lack of available products with sustainability features means the product selection for customers who indicate such preferences is limited.

Question 6: Are there practical examples of questions used to collect information from clients on their sustainability preferences that you can share with ESMA? (as for other parts of this CfE, respondents can opt for their input to ESMA not to be made public)

BIPAR response:

Our Austrian members have reported that the Professional Association of Financial Service Providers (the Austrian Chamber of Commerce) has developed practical guidelines that are now being implemented quite uniformly through different Austrian investment firms.

Question 7: Which of the sustainable investment definitions do clients most often opt for? (EU Taxonomy alignment? Sustainable investment within the meaning of SFDR? Consideration of PAI? All of them?) Please provide any statistics, where available.

BIPAR response:

It is too early to respond to this question. However, our understanding is that the complexity of the options and the lack of available products in the first two categories result in most clients that decide to express sustainability preferences opting for category c) (PAI consideration).

Question 8: How are firms collecting information from clients on their preferences concerning the minimum proportion? With regards to the use of standardised minimum proportions, which standardised minimum proportions are presented to clients?

BIPAR response:

It is too early to respond to this questions.

Question 10: Are firms currently able to satisfy the sustainability preferences expressed by clients (in particular in relation to the three categories (Taxonomy, SFDR, PAI))? If so, for which categories and/or types of financial instruments do firms find it most difficult to satisfy clients' preferences?

BIPAR response:

According to some of our members, the lack of data on investee companies makes it difficult for firms to match customers' sustainability preferences and the investment products offered. The lack of data makes it difficult for distributors and manufacturers to offer products with a high degree of Taxonomy alignment, sustainable investment products or products considering PAIs by using quantitative indicators. Clients are largely unaware of that issue, leading to a potential mismatch between clients' expectations and available products.

Regarding products in the b) category (SFDR), it would be important to have a standardized definition of sustainability and not to allow each manufacturer to create their own. The standardization of the definition allows for higher degrees of comparability between products and helps preventing greenwashing. The introduction of a percentage of Taxonomy alignment and a number of PAI indicators considered for products in the b) category would allow for greater consistency.

Intermediaries, advisors and clients must be able to rely on the information provided by the product manufacturers through their disclosures obligations.

Question 11: How often has the adaptation of clients' sustainability preferences been necessary during these first months of application of the rules (e.g. in terms of percentage considering new clients and existing clients whose profiles have already been updated to include information on sustainability preferences)?

BIPAR response:

It is too early to respond to this question. To the best of our knowledge, there has not been any market research done on this aspect to this day.

Question 14: Have firms imposed limits on how frequently a client can adapt its sustainability preferences during the investment advice?

BIPAR response:

None of our members have reported any such limitation.

Question 15: If available: what percentage of those who adapted decided to (1) lower the level of ambition within an option (i.e. reducing the "minimum proportion" or lowering the threshold of sustainable investments in a portfolio), (2) change between the three options (i.e. categories a, b and c) (3) opt for a combination/ for a different combination between the three options (i.e. categories a, b and c) (4) express no sustainability preferences anymore.

BIPAR response:

It is too early to respond to this question, especially considering the low amount of customers indicating any specific sustainability preferences.

Question 16: How often did clients refrain from adapting their sustainability preferences, accepting that the firm could not recommend any financial instruments or invest on their behalf?

BIPAR response:

It is too early to respond to this question. To the best of our knowledge, there has not been any market research done on this aspect to this day. Furthermore, the question is very general and probably not verifiable in practice.

Question 17: In relation to the update of clients' profiles:

- Which percentage/average proportion of clients have updated their (MiFID) profiles following the entry into application of the new regime on 2 August 2022?
- On average, taking into account the number of clients whose profile has already been updated, what is the proportion of clients who express sustainability preferences in your firm/jurisdiction?
- On average, taking into account the number of clients who express sustainability preferences, what is the proportion of clients that have expressed a specific preference for one or more of the three categories (Taxonomy, SFDR, PAI) in your firm/jurisdiction? (How many clients are only expressing whether or not they have sustainability preferences i.e. yes, no?).

BIPAR response:

It is too early to give respond to this question. However, to the best of our knowledge, the proportion of customers indicating sustainability preferences is quite low and so is the proportion of clients to have updated their profiles.

Question 20: What are the issues that firms encountered in the application of the requirements at portfolio level?

BIPAR response:

One of the main issues identified at this point is the lack of available data. Product manufacturers still

appear to be reluctant to disclose sustainability data. This leads to a investment firms having a very limited range of products to recommend to customers with sustainability preferences.

Question 26: What are the issues that firms encountered in the consideration of PAIs from clients?

BIPAR response:

Some of our members have indicated that, in most cases, customers do not select any specific PAI indicators but opt for a general consideration of PAI. This can be difficult to transpose into the format of the existing templates.

Question 26: What approach and criteria have firms adopted for the mapping of products' ESG features in view of their matching with clients' sustainability preferences?

BIPAR response:

There are many, possibly as many answers as there are firms. It is impossible to give a general answer to this question. It also depends on what "firms" the question is referring to.

Question 32: How are firms, in their capacity as distributors, collecting relevant information from manufacturers on sustainability-related objectives of the target market? Is the information received from manufacturers sufficient, or are firms considering other inputs? If so, please explain why and describe such additional inputs.

BIPAR response:

Distributors mainly rely on the standardized SFDR pre-contractual template. However, this document is not always easy to find on asset managers' websites and is sometimes filled incorrectly (lack of PAI indicators, confusion between PAI and exclusions, etc).

Distributors can also use European ESG Template (EET) files but may encounter a number of issues. These files are not always easy to access. When they are accessible, they sometimes seem more suitable to be read by machines than by human beings. These files are sometimes filled incorrectly as well.

Obtaining information on the sustainability features of a fund is therefore a long and complicated process for distributors. Distributors, advisors and clients must be able to rely upon the information provided by product manufacturers through their disclosures obligations.

Question 34: Have firms noticed increased demand by clients of financial instruments with sustainability features? Please provide any relevant available statistics on this topic (e.g. percentage of clients asking information about these products; trends over time). Furthermore, please explain if factors such as age, gender, level of education or level of income/wealth play a role in the demand for financial instruments with sustainability features.

BIPAR response:

It is too early to respond to this question, the information is insufficient.

Question 35: Which percentage of products in firms' offering have sustainability features? Please provide breakdowns and details, where available. Are retail clients satisfied with the availability of products with sustainability features (number, type, characteristics)?

BIPAR response:

The general trend seems to indicate that products considering PAI (category c)) are developing whereas the offer of products under categories a) and b) remains quite low.

Question 36: Are firms facing specific issues related to data availability/data quality with respect to financial instruments with sustainability features? If yes, how are firms dealing with these issues?

BIPAR response:

In practice, we are still in the early days of the sustainable finance framework. Manufacturers seem to be very careful in the identification of sustainability features as it is a constantly evolving concept. In addition, the average consumer/investor does not yet have a clear perception of what products are “sustainable”.

The “anecdotal” reality is that, when having a conversation about sustainable investment, consumers quickly link this concept to other topics and this leads to tangential discussions as to, for instance, whether nuclear energy or electric cars are sustainable. There are as many different opinions about sustainability in the “consumer/investor” sphere as there are in the political, scientific and media spheres.