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The Corporate Due Diligence Directive and its effect on the insurance sector

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The Corporate Sustainability Due Diligence Directive (Directive (EU) 2024/1760, "CSDDD"), which came into force in July 2024, aims to **foster sustainable and responsible corporate behaviour with regard to environmental and human rights issues**.

This directive requires operators to:

- implement a **due diligence process** to identify adverse impacts and related management actions;
- adopt and put into effect a **transition plan** for climate change mitigation.

In addition to these main requirements, the CSDDD requires significant involvement of relevant stakeholders both when identifying and assessing impacts and when defining actions and indicators for monitoring them. Companies must also set up accessible and transparent notification mechanisms and complaints procedures to allow stakeholders to notify or complain about actual or potential adverse impacts with respect to the companies' own operations.

The analysis of the implications of the Directive on the insurance sector highlights some special aspects in its implementation.

The Directive was one of the provisions discussed in depth as part of the Omnibus Package designed to reduce compliance complexities for operators. If the proposed changes are accepted, the first implementation deadline will be postponed to July 2028 (i.e., implementation for companies with more than 3,000 employees). The proposed changes that could impact the financial sector the most are the following:

- the limitation of the assessment of adverse impacts to relationships with Tier 1 business partners, including a limit on the information that can be requested from companies with fewer than 500 employees;
- the extension of the frequency of re-evaluation of adverse impact assessments to five years (currently annually);
- revising the wording on transition plans by providing for their adoption (and not also specifying the implementation requirement);
- the removal of the minimum fine threshold (5% of turnover) by providing guidance to support the authorities that will have to calculate fines.

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Negative impacts along the chain of activities

The Directive requires companies to design a due diligence process inspired by the OECD Guidelines for Multinational. This process must make it possible to:

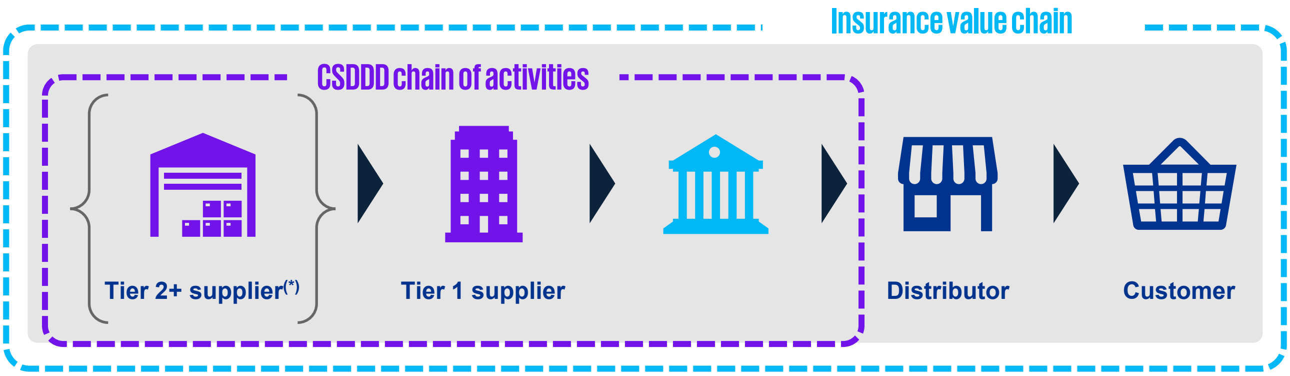
- identify actual or potential adverse human rights and environmental impacts;
- prevent adverse impacts or, where prevention is not possible, adequately mitigate potential adverse impacts. If adverse impacts have occurred, their bringing to an end and, in case of damage, remediation is required;
- monitor the actions undertaken, including by using qualitative and quantitative indicators;
- communicate to the market the approach and actions taken to avoid and manage adverse impacts.

Unlike the Corporate Sustainability Reporting Directive (Commission Delegated Regulation (EU) 2023/2772, the "CSRD"), which focuses on the concept of the "value chain"(1), the CSDDD requires the identification of adverse impacts on the "chain of activities"(2), which is a part of the broader value chain. For financial companies, it is limited(3) only to their own operations (e.g., product development, corporate asset management, etc.) and to activities upstream in the chain (e.g., relationships with general suppliers and service providers, delegated managers, reinsurers, etc.), excluding downstream activities (e.g., relationships with distributors, private/corporate customers and companies receiving investments)(4).

Given the limited scope of the Directive, **the most affected activities for the insurance industry appear to be relationships with suppliers involved in the claims settlement processes**. The suppliers in question are body shops that provide assistance for the repair of insured vehicles, clinics that provide services covered by health insurance policies, expert networks, etc.. These suppliers vary in both size and the scope of their activities. As a result, insurance companies often need to conduct thorough assessments to identify potential impacts (environmental or human rights) and determine appropriate actions.

For example, in **health care activities** (e.g., pharmaceutical production and service delivery within the health care system), adverse environmental impacts may arise both during the procurement and production of medicines in biodiversity-sensitive areas and through waste generation and pollution (e.g., excessive use of antimicrobials, production of medical waste and single-use plastics).

Value chain vs. chain of activities in the insurance sector



(*) Potentially excluded from the scope of the CSDDD following the proposed revisions introduced by the Omnibus Package.

(1) "The Commission Delegated Regulation (EU) 2023/2772 (the "CSRD") defines the value chain as follows: "*The value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include: i. those in the undertaking's own operations, such as human resources; ii. those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and iii. the financing, geographical, geopolitical and regulatory environments in which the undertaking operates. Value chain includes actors upstream and downstream from the undertaking. Actors upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking's products or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking."*

(2) The CSDDD defines the "chain of activities" as: "*(i) activities of a company's upstream business partners related to the production of goods or the provision of services by that company, including the design, extraction, sourcing, manufacture, transport, storage and supply of raw materials, products or parts of products and the development of the product or the service; and (ii) activities of a company's downstream business partners related to the distribution, transport and storage of a product of that company, where the business partners carry out those activities for the company or on behalf of the company, and excluding the distribution, transport and storage of a product that is subject to export controls under Regulation (EU) 2021/821 or to the export controls relating to weapons, munitions or war materials, once the export of the product is authorised*".

(3) The Omnibus Package proposes deleting the review clause on the exclusion of the downstream chain for financial institutions. The ECB took a negative view of this deletion and recommends retaining this clause, while extending the timeline for the preparation of the review report by the Commission. The ECB considers that financial undertakings should not be treated differently from undertakings in other sectors so that private finance can effectively manage risks and support the green transition of the real economy. Indeed, the CSDDD's due diligence requirements can help to ensure that financial institutions systematically integrate sustainability matters into their decision-making and risk management practices. (See "OPINION OF THE EUROPEAN CENTRAL BANK of 8 May 2025 on proposals for amendments to corporate sustainability reporting and due diligence requirements").

(4) The recent publication of the Principles for Sustainable Insurance (PSI) "Insuring a Resilient Nature-Positive Future" (December 2024), provides a useful illustration of the value chains applicable to non-life as well as life & health businesses.

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Incorrect management of such activities could put significant pressure on the environment. Similarly, **activities related to the servicing and repair of vehicles** by body shops may lead to pollution and the production of significant greenhouse gas emissions.

These factors highlight the **insurance industry's potential to influence and reduce adverse environmental impacts along its value chain** by implementing appropriate preventive, mitigation or remedial actions in coordination with its business partners.

Ultimately, **the adverse environmental impacts generated may directly threaten insurance companies by affecting their supply chains and/or insured assets**. For example, as biodiversity loss and ecosystem degradation intensify, insured assets and activities become more vulnerable to damage and loss, resulting in more frequent and severe claims. This, in turn, affects both the affordability and availability of insurance, as well as the insurability of certain assets. Effectively managing adverse impacts and developing innovative insurance products can help address nature- and climate-related risks. This contributes to strengthening the resilience of the economic system and narrowing the protection gap.

The CSDDD requires that all identified impacts be mapped and addressed through actions defined using prioritisation criteria based on their severity and likelihood of occurrence. With respect to insurance groups, this entails **also analysing the chains of activities related to the group's other businesses** (e.g., real estate, agriculture, hotels, etc.). In the case of non-financial activities, both upstream and downstream activities are included in the scope of analysis. For example, in real estate activities, adverse human rights impacts may arise from the management of suppliers (and subcontractors) involved in the construction/renovation of buildings. Additional risks include adverse impacts on biodiversity or poor waste management at construction sites and adverse impacts on local communities affected by construction activities.

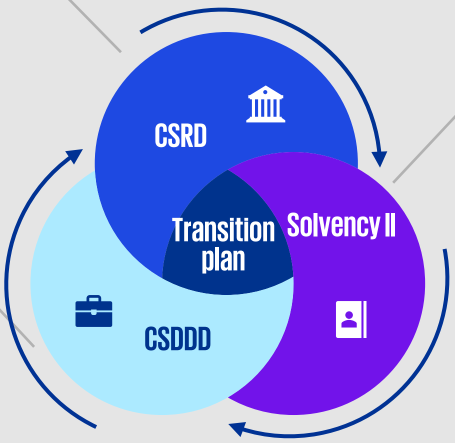
The transition plans of CSRD and CSDDD

The CSDDD requires companies to adopt and implement a transition plan for climate change mitigation which aims to ensure, through best efforts, that their business model and strategy are compatible with the Paris Agreement. Intermediate and climate-neutrality targets to 2050 (also with regard to coal-, oil- and gas-related activities) must be set. **Preparation of the transition plan under the CSRD also enables companies to meet the corresponding requirement under the CSDDD**(5)**.**

The transition plan in EU Legislation

The **ESRS E1-1 disclosure requirement (paragraph 14)** establishes that the undertaking shall disclose its **transition plan** for climate change mitigation.

- **AR.1** *"When disclosing its **transition plan**, the undertaking is expected to provide a high-level explanation of how it will adjust its strategy and business model to ensure compatibility with the transition to a sustainable economy and with the **limiting of global warming to 1.5° C in line with the Paris Agreement**[…]"*



The CSDDD sets out an obligation for companies to adopt and put into effect, through best efforts, a transition plan for climate change mitigation with **intermediate five-year targets from 2030 to 2050** to ensure that the business model and strategy of the company are compatible with:

- the transition to a sustainable economy;
- the limiting of global warming to 1.5° C;
- achieving climate neutrality by 2050;
- and where relevant, the exposure of the company to coal-, oil- and gas-related activities.

The **Solvency II review** (Directive 2009/138/EC) requires insurance and reinsurance companies to define specific **plans, set quantifiable targets and implement processes to monitor and manage financial risks arising from sustainability factors** over the short, medium and long term. **The plans must be consistent with those prepared under the CSRD.**

The plan required by the Solvency II Directive focuses more on financial materiality, while those defined by the CSRD/CSDDD place greater emphasis on impact materiality.

Nevertheless, the company's actions and targets must be consistent with the overall strategy in both plans.

Similarly, the methodologies and assumptions underlying the targets must also be consistent across the different transition plans.

(5) Article 22(2) of the CSDDD: *"Companies that report a transition plan for climate change mitigation in accordance with Article 19a, 29a or 40a, as the case may be, of Directive 2013/34/EU shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation referred to in paragraph 1 of this Article".*

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Given the above, it is not clear whether insurance companies implementing the CSDDD are required to include their downstream chain of activities in the transition plan, given the specific limitations applied to financial institutions under the Directive. A similar transition plan for both CSRD and CSDDD purposes would probably include downstream activities (particularly given the importance of "Scope 3 - Category 15" emissions for the insurance sector), but the Directive does not appear conclusive[6].

The CSRD transition plan appears broader in scope than that envisaged by the CSDDD because, in addition to the mitigation target, EFRAG[7] also seems to include the adaptation target and impacts on biodiversity and a "just transition".

Climate change mitigation and adaptation strategies are often interlinked, as the effectiveness of mitigation efforts often depends on and is influenced by adaptation measures. For example, insurance products that promote adaptation measures that strengthen the resilience of energy systems also support mitigation efforts by preventing disruptions in the renewable energy supply chain. This is the case of hydroelectric power plants that could be affected by reduced water availability due to changes in rainfall patterns, or solar panels that could be damaged by severe weather events (e.g. hailstorms, etc.). Adaptation strategies such as water management, diversification of renewable energy sources and protection against severe weather events ensure that renewable energy production remains stable and reliable, thereby supporting the transition away from fossil fuels. An insurance company's transition plan should also reinforce the critical role of insurers in addressing the climate risk protection gap.

However, the direction of insurance companies' capital flows towards decarbonisation may generate both positive and adverse impacts on biodiversity. This is often because climate mitigation - such as the expansion of renewable energy, land use change and the implementation of large-scale energy storage systems - introduce new environmental dynamics that can significantly affect ecosystems and species. Therefore, EFRAG recommends that biodiversity standards (ESRS E4) be considered to ensure that the transition plan also addresses the risks and impacts on biodiversity and ecosystems that may arise from decarbonisation strategies.

Similarly, a decarbonisation strategy based solely on the exclusion of certain economic sectors does not foster the conditions necessary for a "just transition" of the economic system. The transition has significant implications for workers, communities and even consumers in all sectors of the economy, from energy to transport to agriculture. Therefore, EFRAG recommends that social standards relating to workers, communities and customers be considered to ensure that significant social impacts associated with climate change and transition planning are identified and integrated in the transition plan.

In addition, the **recent changes to insurance prudential regulations** (i.e., Solvency II) require operators to integrate ESG factors into their risk management framework. They must also draw up a sustainability risk plan that identifies material sustainability risks, outlines actions taken and planned to address them and sets specific management objectives. This **sustainability risk plan**[8] must be consistent with the content of the company's transition plan, which, in turn, should consider a broader range of sustainability considerations than just climate risk mitigation.

The supervisory authorities welcome the adoption of transition plans by the financial sector. Indeed, sound transition planning is widely recognised as a key tool not only to structure, articulate and monitor the overall strategy for adapting to the low-carbon transition, but also to manage the related financial risk. Recently, with reference to the Omnibus Package, the ECB[9] supported maintaining the obligation to adopt transition plans and pointed out that there is a risk the revised drafting may be misinterpreted as meaning that undertakings are obliged to adopt transition plans but not to implement them. It stated that this could undermine the purpose of the requirement, increase the risk of greenwashing and reduce the usefulness of transition plans for investors and financial institutions as a means of channelling investment to those undertakings that are preparing for the transition.

(6) The Scope 3 emissions of insurance companies are material (over 70% of total emissions).
(7) See "EFRAG IG [4] Implementation Guidance [draft] Transition Plan for Climate Change Mitigation", latest draft approved by the TEG on 23 January 2025.
(8) Please also refer to the EIOPA document "*Consultation Paper on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans"* (2024), which provides guidance on implementing the Solvency II updates that will come into force in January 2027.
(9) See "OPINION OF THE EUROPEAN CENTRAL BANK of 8 May 2025 on proposals for amendments to corporate sustainability reporting and due diligence requirements (CON/2025/10)".

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In addition to a number of reporting requirements involving the reporting of emissions(10), **there are several voluntary initiatives within the insurance sector (e.g., NZAOA, FIT, etc.) that promote the development of transition targets by fostering convergence in industry actions and promoting the development of methodologies and best practices**. These initiatives inevitably focus on the activities in the value chain giving rise to the sector's issues: investment activities and underwriting activities. At the moment, emission measurement and target setting methodologies are more evolved for investment activities (financed emissions), while methodologies and best practices for insurance-associated emissions are gradually being developed. The measurement of emissions related to non-life underwriting is currently limited to motor' and commercial covers only. Given the importance of suppliers involved in claims settlement processes, some operators are considering measuring emissions and setting targets in this area as well.

Recent sustainability statements of European insurance companies reveal that almost all of them have disclosed their investment emissions values and targets, while several are preparing to disclose their insurance-associated emissions in line with the prevailing methodologies (i.e., PCAF standard - Part C). **The decarbonisation of underwriting portfolios is therefore perceived as a priority by the industry**.

Relationship among the CSDDD, the CSRD and Minimum Safeguards

The regulations that have been designed as part of the European Sustainable Finance Action Plan are strongly interrelated and significantly linked for individual requirements.

The table below summarises the **main links among the CSDDD, the CSRD and Minimum Safeguards** defined by the EU Taxonomy(11):

	CSDDD	CSRD	Minimum Safeguards (EU Taxonomy)	Solvency II
Application date	July 2028? (depends on the Omnibus Package)	January 2024 (first reporting wave)	2024 (start of aligned KPI reporting for financial companies)	January 2027
Identifying adverse impacts	Identification of adverse environmental and human rights impacts and prioritisation of actions based on the severity and likelihood of adverse impacts (reference to OECD Guidelines).	Identification of adverse impacts on all ESG matters and prioritisation of actions solely for material impacts (reference to OECD Guidelines).	Identification of adverse impacts on a selection of S-G12) matters and prioritisation of actions based on the severity and likelihood of adverse impacts (reference to OECD Guidelines).	N/A
Value chain vs. chain of activities	Chain of activities (excluding downstream activities)	Value chain	Value chain	No exact definition is given.
Transition plan	Adoption of a transition plan for climate change mitigation required.	Adoption of a transition plan for climate change mitigation required (including focus on biodiversity and just transaction as per EFRAG).	N/A	Definition of a sustainability risk plan (to be aligned with the CSRD transition plan).
Supervisory authority	Consob (the Italian Commission for listed companies and the stock exchange) integrated reporting with the CSRD	Consob	Consob	IVASS (the Italian Institute for the Supervision of Insurance)

(10) In addition to that required by the CSRD (ESRS E1), the Sustainable Finance Disclosure Regulation (SFDR) has required the publication of a Principal Adverse Impacts Statement (PAI) Statement in which Scope 1, 2 and 3 investment emissions are reported since 2021. The IVASS also requires data on investment portfolio emissions on an annual basis.

(11) The EU Taxonomy Regulation requires that the minimum safeguards be met for an economic activity to be considered as environmentally sustainable. This includes the performance of a due diligence process in accordance with the OECD Guidelines for Multinational Enterprises.

(12) The Platform for Sustainable Finance's Final Report on Minimum Safeguards indicates that, in the context of the minimum safeguards, four areas should be considered among the areas identified in the OECD Guidelines: taxation, corruption and bribery, fair competition and human rights, as well as controversial weapons introduced by Commission Notice 2023/C 211/01.

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Compliance with just one regulation requires companies to adopt a structured approach, which effectively brings forward the application of a regulation such as the CSDDD even though it has been postponed by the Omnibus Package. Therefore, the benefits of the postponement (and the exclusion of downstream activities) may not be particularly significant for the insurance industry.

Whether compliance with these regulations will be merely formal or genuinely substantive will depend on the approach taken by regulators and supervisory authorities. In practice, companies could simply adapt their internal policies and procedures without implementing concrete actions to drive change and manage adverse impacts if the authorities fail to provide clear guidance on good practices that can effectively be developed. In this respect, the market is awaiting the CSDDD implementation guidelines that the Commission is expected to publish in 2026.

> **“Indeed, sound transition planning is a key tool not only to structure the overall ESG strategy, but also to manage the related financial risk.”**

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