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Statement on themed inspection at Danica Pension, Livsforsikringsaktieselskab (the sustainability area)

In November 2023, the Danish Financial Supervisory Authority (the Danish FSA) commenced an inspection of Danica Pension, Livsforsikringsaktieselskab (the company) as part of a themed inspection focused on compliance with the requirements applicable to sustainable investments and international standards applying to pension companies offering optional sustainability products. The Danish FSA based its inspection on the 'Danica Balance Responsible Choice' product (the product), which discloses information in accordance with article 8 of the Sustainable Finance Disclosure Regulation (SFDR).

The themed inspection focused on the companies' methodology and processes, including internal reporting, to ensure compliance with the requirements applicable to sustainable investments [1] to

- 1) contribute to an environmental or social objective (a sustainable investment objective)
- 2) measure the contribution to the sustainable investment objectives
- 3) do no significant harm to any environmental or social objectives
- 4) invest only in companies that follow good governance practices.

The themed inspection also focused on the companies' compliance with the international standards on which the companies report to investors and the public in their 'Statement on principal adverse impacts of investment decisions on sustainability factors'.

It is important that the customers having accepted an agreement for a pension product receive what they were promised, also in relation to any sustainability considerations. If the provider of a pension product commits to making sustainable investments and complying with international standards, the individual company must have adequate processes and methodologies in place to do so.

Executive summary

In several areas, the company has processes in place that contribute to ensuring compliance with legislation. In specific areas, the Danish FSA finds that the processes or documentation is not sufficient.

With the 'Danica Balance Responsible Choice' product, the company is committed to ensuring that each of the individual sustainable investments contributes to at least one of the 17 UN Sustainable Development Goals (SDGs). This is ensured by a number of measures. However, the company does not have any methodologies that ensure that this is calculated or reported for the individual SDGs across the asset classes of the product. It is therefore unclear how and to what extent the product contributes to the individual SDGs. This entails a risk that the company does not regularly consider the size and distribution of the investments' positive contributions to the individual SDGs and that the product's actual contributions to the investors are not clearly disclosed.

For the alternative investments asset class, the process to ensure that the alternative investments are sustainable has not been documented, and among other things, it is unclear how the company addresses the reporting received from the companies in which investments are made. Thus, there is a risk that developments in the specific investments after the time of investment are not taken into consideration in relation to sustainability matters and that the alternative investments of the product cause significant harm to environmental or social objectives, for example.

Overall, the company has been ordered to establish processes and methodologies to ensure that the contributions to the individual social and environmental objectives of the sustainable investments are calculated and reported [2] and to have documented methodologies and processes in place to ensure compliance with the requirements applicable to sustainable investments for the alternative investments asset class [3].

[1] See article 2(17) of the Sustainable Finance Disclosure Regulation.

[2] See article 51(1)(d) of the Delegated Sustainable Finance Disclosure Regulation and section 14(2)(ii) of the Danish Executive Order on Management.

[3] See article 2(17) of the Sustainable Finance Disclosure Regulation and section 14(2)(ii) of the Danish Executive Order on Management and Control of Insurance Companies etc.

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