Insurers' ESG Performance and its Importance

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Introduction to ESG

- ESG is an acronym for Environment (E) , Social (S) and Governance (G)
- "ES" criteria are often discussed in the context of corporate social responsibility and sustainable investing.
- "G" is a broad term that refers to distribution of rights and responsibilities among stakeholders, including board of directors and managers.
    - Related to "ES" issues
- Due to the focus on climatic risks, the "E" gets the most attention.

Environment (E) Criteria

Sustainable Land Use

Greenhouse gas emissions

Clean energy

Preservation of Bio-Diversity

Preservation of Water Resources

Social (S) Criteria

Product Issues (Safety, Privacy etc.)

Education

Diversity & Inclusion

Women Empowerment

Poverty

Youth Empowerment

Labor Practices

Employee Health and Safety

Why consider ESG while investing?

- Investments with poor "ES" characteristics face significant downside risk:
  - Greater Reputational Risks: Consumer boycotts
  - Potential Litigation: Contingent liabilities "down the road"
  - Government Regulation

- In the US sustainable investing strategies grew from $12.0 trillion at the start of 2018 to $17.1 trillion at the start of 2020, an increase of 42 percent.

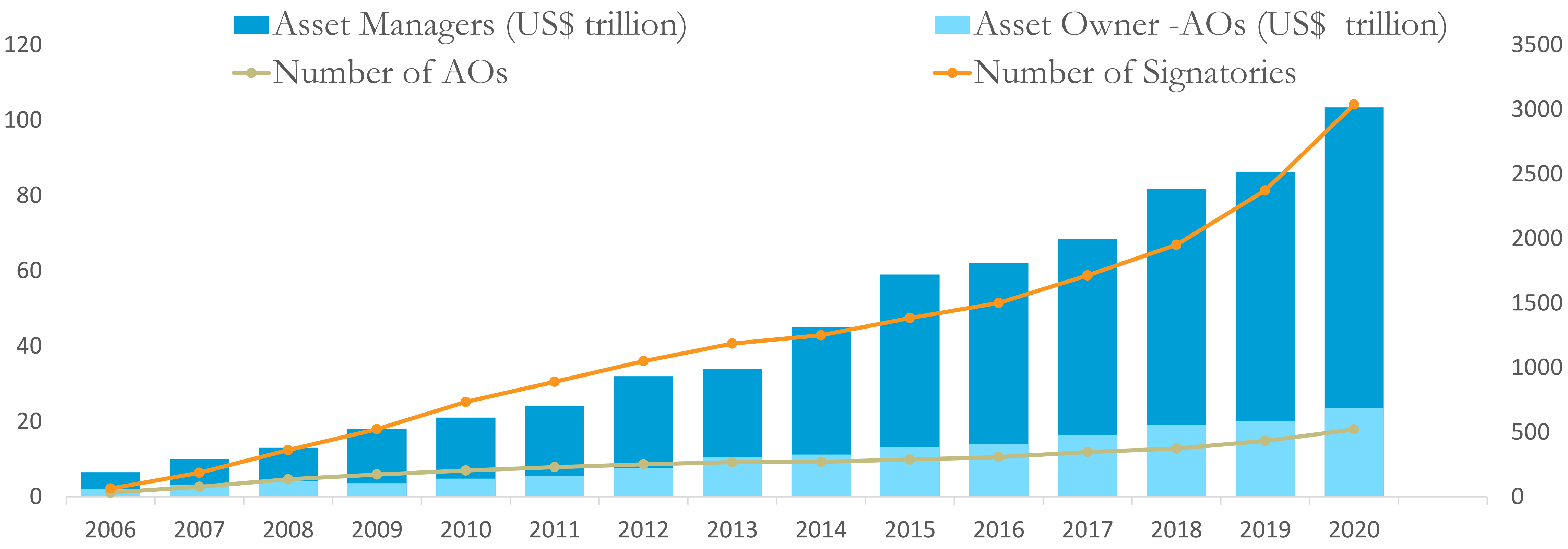


Figure: Global Growth in Signatories to UN supported Principles for Responsible Investment (PRI)

ESG Risk Implications for Insurers

- *Asset risk:* Significant write-downs can occur for investments with greater ES Risks

- *Liability risk*: The P&C industry faces significant underwriting risks too.
  - Natural Disasters: US suffered damages of $0.40 trillion across 80 severe climate events from 1980 to 1999. Increased significantly to $1.31 trillion across 178 events from 2000 to 2019.
  - Directors & Officers (D&O) Liability Risks: Greater litigation risks. Lawsuits for sexual harassment, discrimination, labor practices etc.

Opportunities for Insurers

- Insurers are significant investors ($7 trillion), and their preferences matter.
- Insurance is integral to operation of businesses. Greater consideration of ES issues in underwriting can impact insureds' behaviors.
- Risk management education benefits insurers and society.
- Micro-insurance activities provides new opportunities for market development, while also contributing to upliftment of communities and nations.

ESG Survey – Words and Phrases Used by Respondents

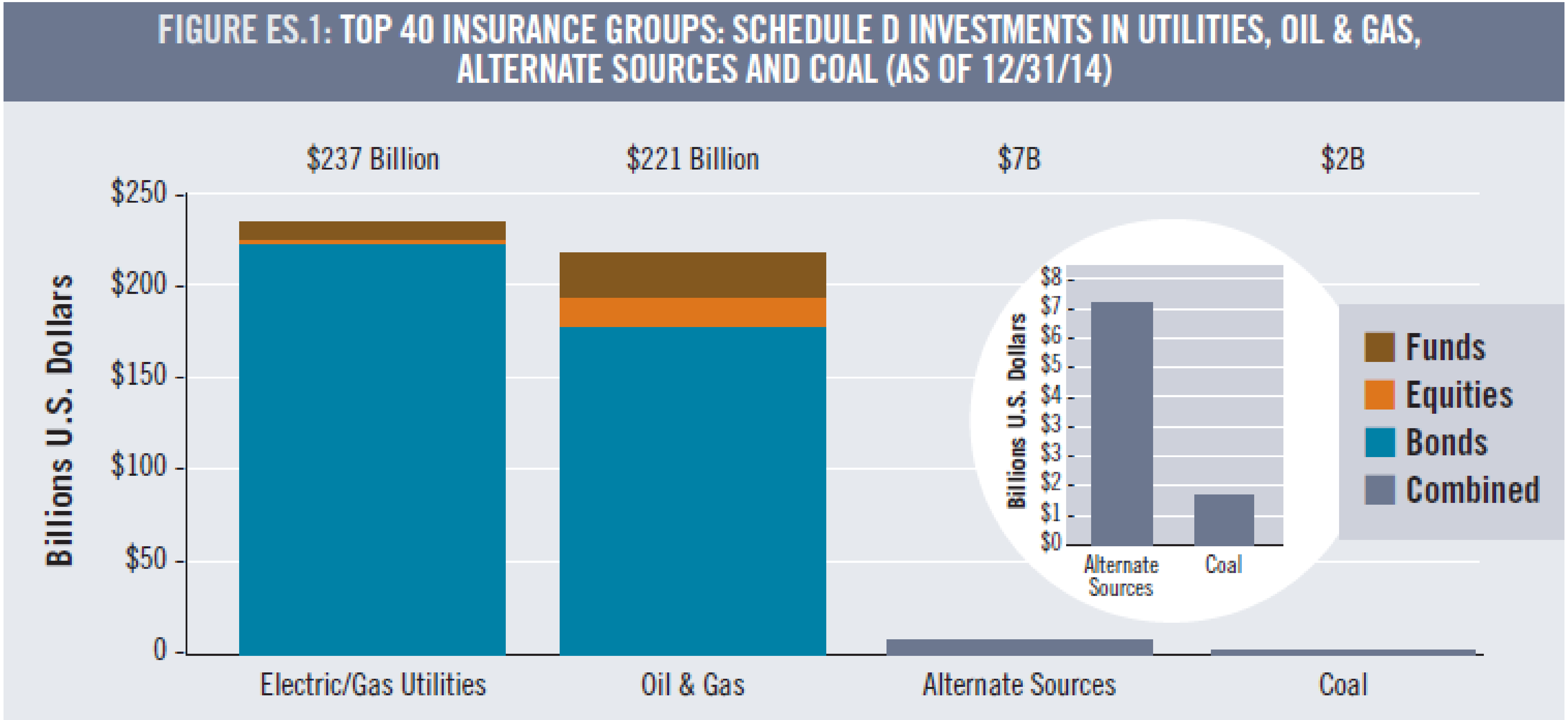
Emphasis on climate risk

Source: AM Best data and research, 2020

Current discussion: “E” dominated

- US insurers significantly lag European counterparts, though the scrutiny on climate change is increasing.
  - Several big US insurers have policies to scale back or stop underwriting of fossil fuels, but continue to insure such projects.
  - Coal insurance: Swiss Re AG ending in 2023; Zurich Insurance ceased in 2020.
  - NAIC has also set up a climate task force.

- UNEP FI’s Principles for Sustainable Insurance (PSI)
  - Insurers representing 25% of world premiums are signatories
  - No US insurer is a signatory.



Source: Ceres Report June 2016

Insurers hold a significant amount of fossil fuel bonds

The Silent "S" (Social)

- Overall ESG rating: Insurers' performance is no different from rest of the financial sector — average performers when compared to other industries. (AM Best, 2020)

- There is little discussion about the social initiatives of insurers.

- Our students will shed light on the global landscape of insurers' social initiatives:
  - Micro-insurance initiatives
  - Risk management education
  - Women Empowerment
  - Diversity and Inclusion

Thank you!