

ESG in Insurance

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Agenda



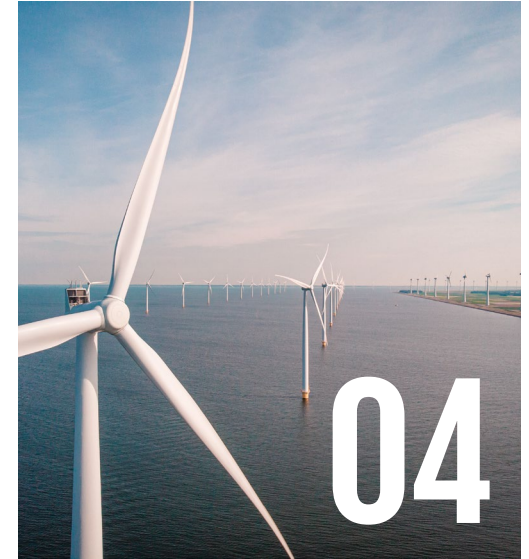
ESG Understanding



**ESG Risk, Strategy,
Opportunity**



ESG Insurance Products



The Way Forward



01

ESG Understanding

- What is ESG?
- Recent trends and developments
- ESG in the context of Insurance
- Why ESG is important to insurers

What is ESG?

The broad group of issues - Environmental, Social, and Governance that have been grouped and used in the capital markets and by investors to evaluate and measure a company's total impact on the planet and on society.



E

Environmental

- Air and water pollution
- Biodiversity
- Climate change
- Energy efficiency
- Resource depletion

S

Social

- Brand reputation
- Diversity and equal opportunities
- Product safety and liability
- Human rights
- Data protection and privacy

G

Governance

- Bribery and corruption
- Business ethics
- Compliance
- Executive remuneration
- Lobbying
- Political contributions

Recent trends and developments

Requirements and pressures for companies are coming from various sides and are forcing businesses in all sectors to think more about ESG, the impact they have and how to measure and track performance and compliance.



Recent trends and developments

The rise of the ESG agenda



Access to capital

Investors increasingly factor in ESG considerations when making investment decisions, pushing ESG expectations downwards to portfolio companies.



Enhanced risk management and investment returns

ESG integration has become an investment norm. 75% of institutional investors now consider ESG factors to be “material” to their investment analysis.



Societal pressure

Stakeholders increasingly scrutinize companies’ ESG performance and transparency affecting project approval, brand acceptance and consumer demand.



C-suite and board buy-in

ESG has evolved from a topic that is primarily owned by sustainability experts and teams, to a C-suite and Board concern.



Climate change

Companies now accept that climate change equals financial risks. KPMG’s Global CEO Report and the World Economic Forum identify climate change as the single greatest risk.



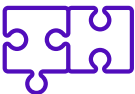
Workforce of the future

ESG has become a key factor in attracting and retaining top talent, as employees are seeking purpose from their work.



Regulatory developments

ESG-related compliance costs and disclosure requirements continue to evolve, as securities commissions, supervisors, stock exchanges and governments tighten the rules

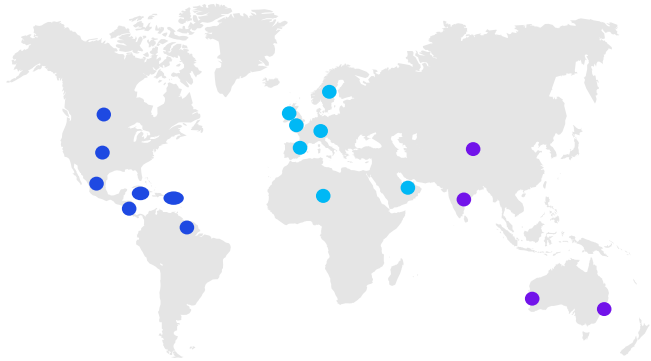


Reporting standards

Measurement and reporting of ESG-related information is maturing rapidly, as investor-centric disclosure standards are making headway (e.g. ISSB, TCFD, SASB).

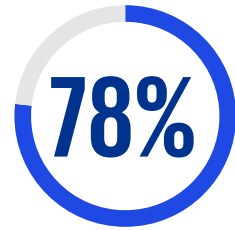
Recent trends and developments

COVID-19 accelerating the focus on ESG



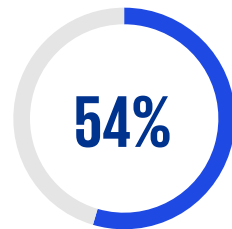
Sustainability is one of the most prominent themes to insurers.

 Source: BlackRock Global Insurance Survey

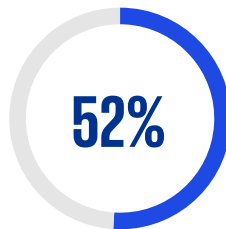


Over 70 percent of insurers believe the COVID-19 pandemic is accelerating their focus on ESG, with a greater emphasis on social and governance aspects.

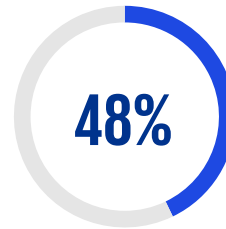
Global insurance companies considering ESG



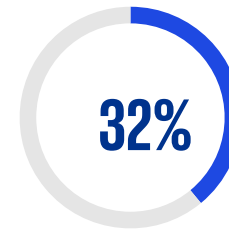
Over 50% say they have invested in specific ESG strategies in the last 12 months



Over 50% have made ESG risk a key component of our investment risk assessment for new investments

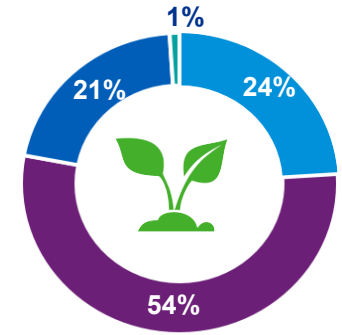


Over 40% have published ESG-related commitments



Almost have turned down an investment opportunity in the last 12 months due to ESG concerns

Impact of COVID-19 on the focus of ESG in investment portfolios



- Accelerating focus on ESG
- Accelerating focus on ESG and shift in focus from E (Environmental) to (S) Social or (G) Governance
- Decelerating emphasis on ESG, instead refocused on economic risk
- No change

ESG in the context of Insurance

According to UN Environment Program Finance Initiative (UNEP FI) Principles for Sustainable Insurance (PSI):



“Sustainable insurance is defined as a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way.”

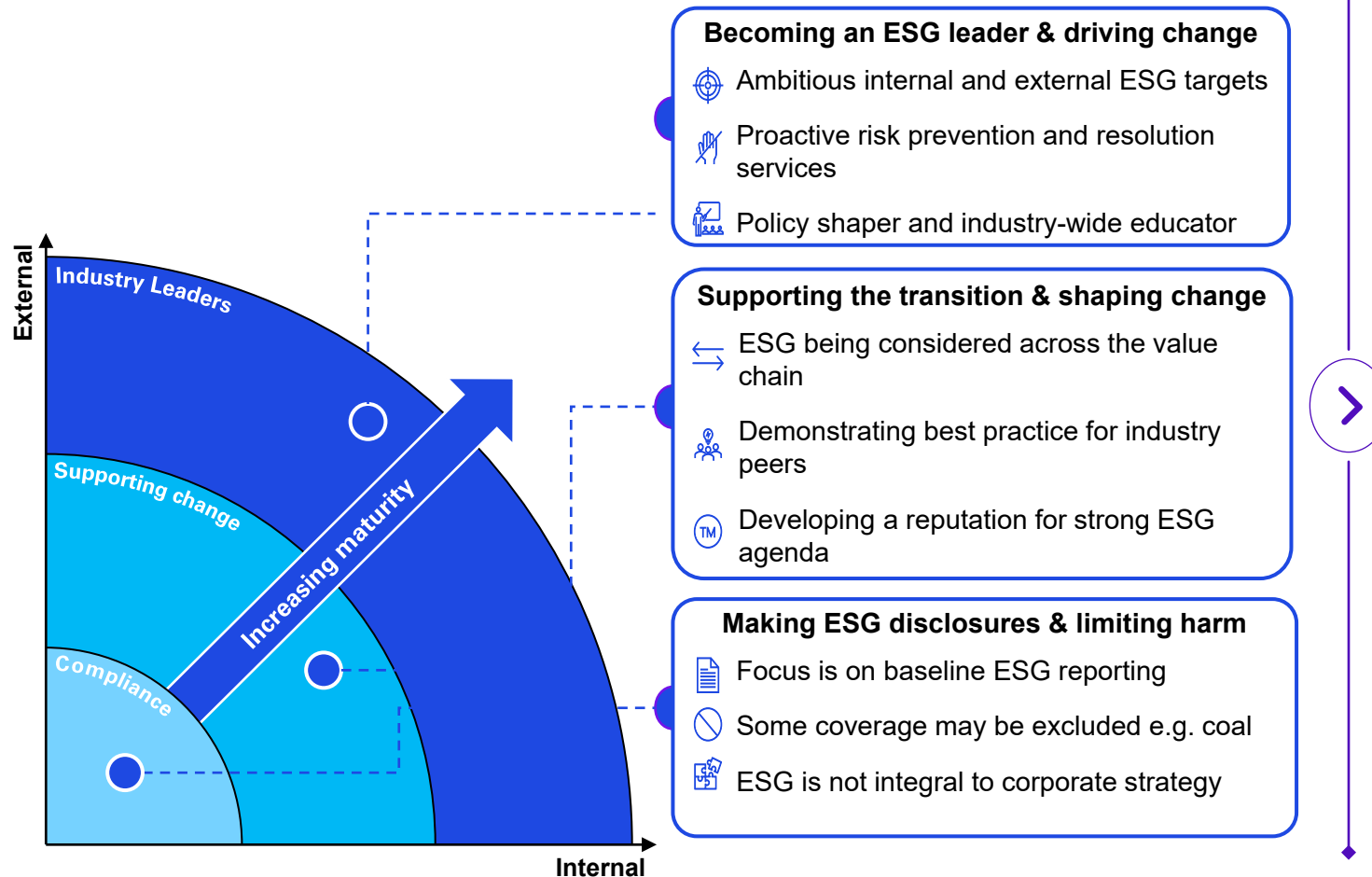
ESG methodologies and frameworks are being developed and incorporated in risk evaluation processes:

Exposures identified within the insurance sector are impacting overall business models of insurers from three different positions:

- Sustainability in own operations
- Sustainability in investment management
- Sustainability in insurance underwriting

Why ESG is important to insurers?

Insurers can align their actions to drive change as demonstrated in examples below.



External

➤

Investment

- Using voting power and influence to drive change
- Links with transition planning
- Investing for longer time frames

Underwriting

- Introduction of ESG factors into benefits
- Links with industry changes (e.g. recycled car parts, EV)
- Indemnity – repair vs replace (Circular Economy)

Internal

➤

Own Operations

- Consistent implementation of E, S and G criteria across own operations
- How to link in with supply chain

Claims

- Embedded ESG approach clear to end customer
- Supplier values and practices aligned with organisation’s ESG culture
- Customer-first, ‘spirit of the policy’ mindset

A large-scale photograph of an offshore wind farm. The image shows a long line of white wind turbines stretching across a vast blue sea towards a hazy horizon. In the foreground, a large white turbine is partially visible, its blades extending from the right side of the frame. The sky is a pale, clear blue, suggesting a bright day. The overall scene conveys a sense of clean, renewable energy.

02

ESG Risks and Opportunities

- ESG Risk and Opportunity for insurers
- Building ESG in business strategy

ESG Opportunities and threats for insurers

Evolution of insurable risks: ESG has spurred new risks that require insurers, without the presence of historical data, to adapt and innovate on how they insure these risks.



Leading insurance companies are recognising the magnitude of biodiversity loss and configuring innovative policies aimed at protecting diverse biomes such as mangroves, coral reefs, wetlands, etc. in the aftermath of a storm or flood.



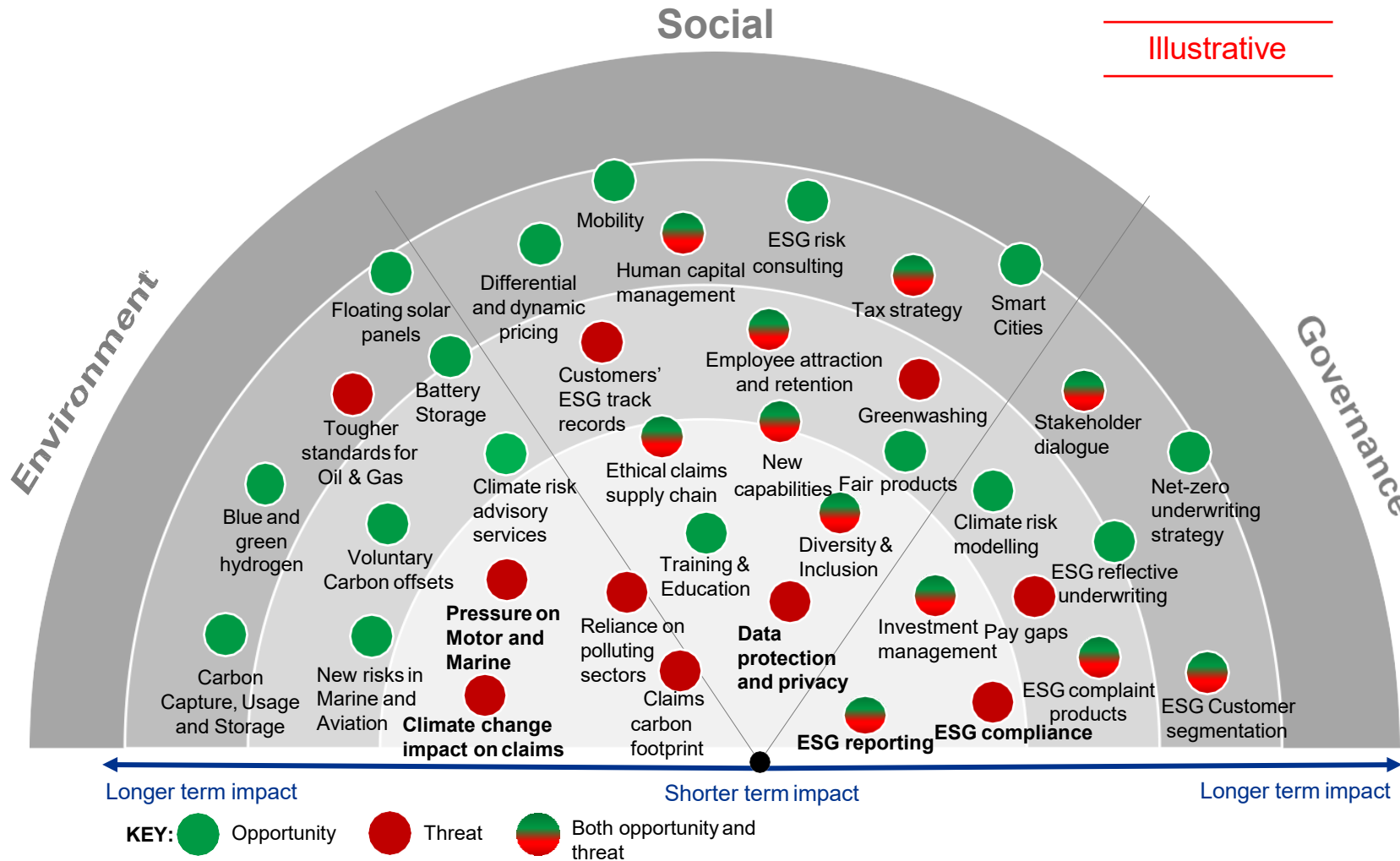
Some insurers are also expressing increasing interest in covering the loss of carbon credits due to natural events like wildfires, which could help spur the growth of the carbon credits market.



Within the larger realm of the energy markets, some insurers are coming up with innovative ways of providing insurance to cover hydrogen projects, off-shore and on-shore wind farms, hydropower and solar projects, all of which could help stimulate the usage of renewable sources of energy.

From these examples, it is clear to see how the industry is evolving and companies are adapting to address emerging ESG risks and striving to stay relevant and attract client, employees and suppliers.

ESG Opportunities and threats for insurers



Illustrative

Implications for insurers

Compliance - regulators, investors, finance providers, customers, brokers and reinsurers expect progress on ESG. Insurers need to demonstrate compliance and action

Reporting – reporting on ESG and integrating ESG into underwriting requires enhanced data collection and analysis, and new modelling approaches to take account of climate change and ESG factors

ESG Opportunities and threats for insurers

ESG can have a significant impact across the whole insurance business.

H	Priority area – high impact internally / high influence externally
M	Medium impact / medium influence
L	Lower priority initially

	Area	E	S	G
Core ESG impact areas	Product & Proposition	H	H	H
	Underwriting	H	H	H
	Reinsurance	L	M	M
	Asset / Investment Management	H	H	H
	Marketing	L	L	H
	Distribution	H	H	H
	Claims Management	H	H	H
	Finance & Actuarial	L	L	H
	Risk Management	L	L	H
	Climate Modelling	H	L	H
ESG enablers	Data & Technology	M	M	M
	People & Culture	M	H	H

To be successful a **holistic and considered approach to ESG** across all functions is required

Embedding ESG will have the **highest impact via Product, Underwriting, Asset Management and Claims**

Governance tends to be the **most pressing issue for internal functions**

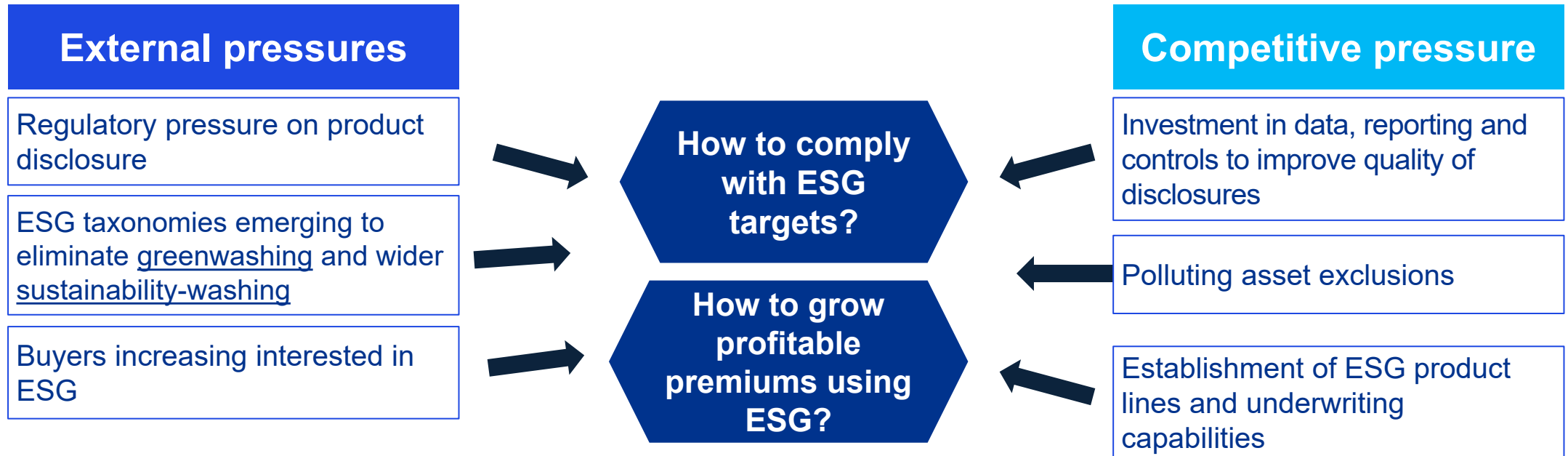
 Source: KPMG Thought Leadership: [ESG - ESG in Insurance - Building confidence in the future - All Documents \(kpmg.com\)](#)



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Key Questions based on ESG Threats and opportunities

ESG brings external pressures on insurance firms to align with regulations while remaining competitive.



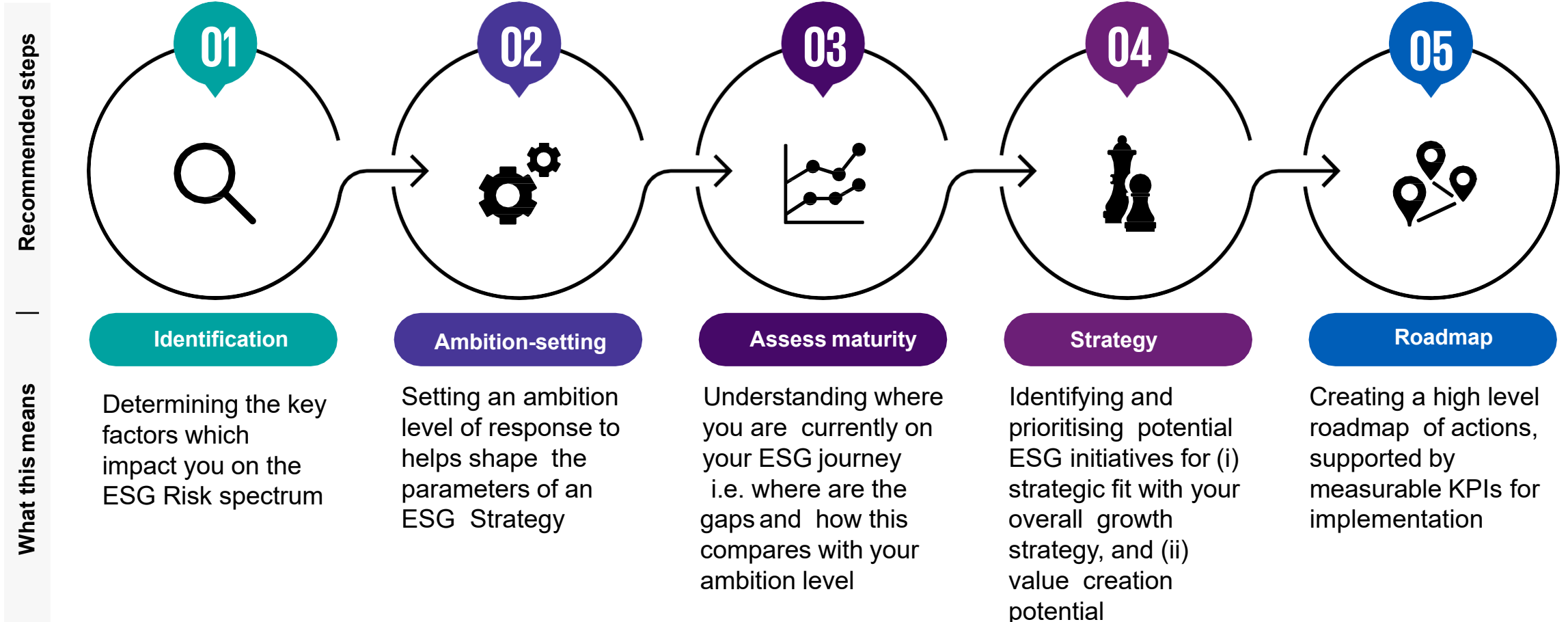
03

Aligning Strategy with ESG



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Defining Strategy Considerations



Conforming with regulations

Considerations

General

- **Government policy:** what are the likely disruptions as national ESG policies develop
- **ESG-orientated customers:** How to target customers and markets
- **ESG brand:** How to differentiate your ESG brand to improve customer growth and retention

Life products

- **In the EU, SFDR article 8 & 9 funds:** how sustainable or eco-sustainable to make the portfolio
- **Customers' sustainability preferences:** how to collect them and how products can meet them
- **Review of investment strategies:** consider also Net Zero Alliance targets
- **Principal Adverse Impacts:** definition, measurement and reporting

Non-life and reinsurance products

- **Taxonomy alignment:** determine greenwashing risk appetite - climate risk modelling can help with ESG product features
- **Other "ESG oriented products":** products could meet other sustainable objectives e.g. decarbonization, SDGs, ...
- **Underwriting -** incorporate ESG factors into underwriting & pricing to be competitive and to meet firmwide ESG targets
- **Net Zero Insurance Alliance:** how products can support the transition of real economy towards net zero
- **Green claims management** across the supply chain e.g. 'green' suppliers, circular economy enablers, ...
- **New insurable assets/ new services:** e.g. green energy infrastructure projects that require new risk transfer options/ advisor services, ...

Defining an ESG product set

The seven key steps to drive premium growth through ESG



Determine what percentage of customers who have **the potential to be attracted by ESG propositions**

Cluster potential customers into **distinctly unique groups** based on their **preferences & objectives**, attitudes, behaviours, demographic characteristics and, for commercial customers, lines of business

For each segment, **outline the deeper needs and expectations** to determine key product features and marketing approach – this must be informed by insight

Identify which key ESG product features to incorporate – compare to local taxonomy where appropriate - this will vary by insurance product

Consider underwriting and pricing implications

Look across the firm to eliminate aspects that could weaken ESG brand credentials

Activate each segment through a **tailored marketing plan**, via channels, campaigns, both direct and B2B

Capture high quality and ensure the sales experience is aligned to the core ESG proposition components

Create relevant engagement aligned to ESG throughout policy lifecycle

Examples of potential product evolutions

1. **Life:** Offering higher-quality ESG investment fund options
2. **Retail P&C:** ESG-friendly claims supply chain partners
3. **Speciality P&C:** new risk transfer mechanisms for emerging green infrastructure projects



04

The Way Forward

- Next steps for insurers in the region
- We have experience and solutions that can help

Next steps for insurers in the region

Call to action: questions to reflect on

01

What are the ESG factors that have the biggest impact on my business and how do I prioritise amongst them?

02

Do I have access to the right data set and the optimal analytical tools to gather actionable insights?

03

How do I ensure that ESG is embedded throughout by business, divisions, and departments?

04

ESG is a journey and not a destination. This transition may drive disruption in the near term. Is my business resilient?

05

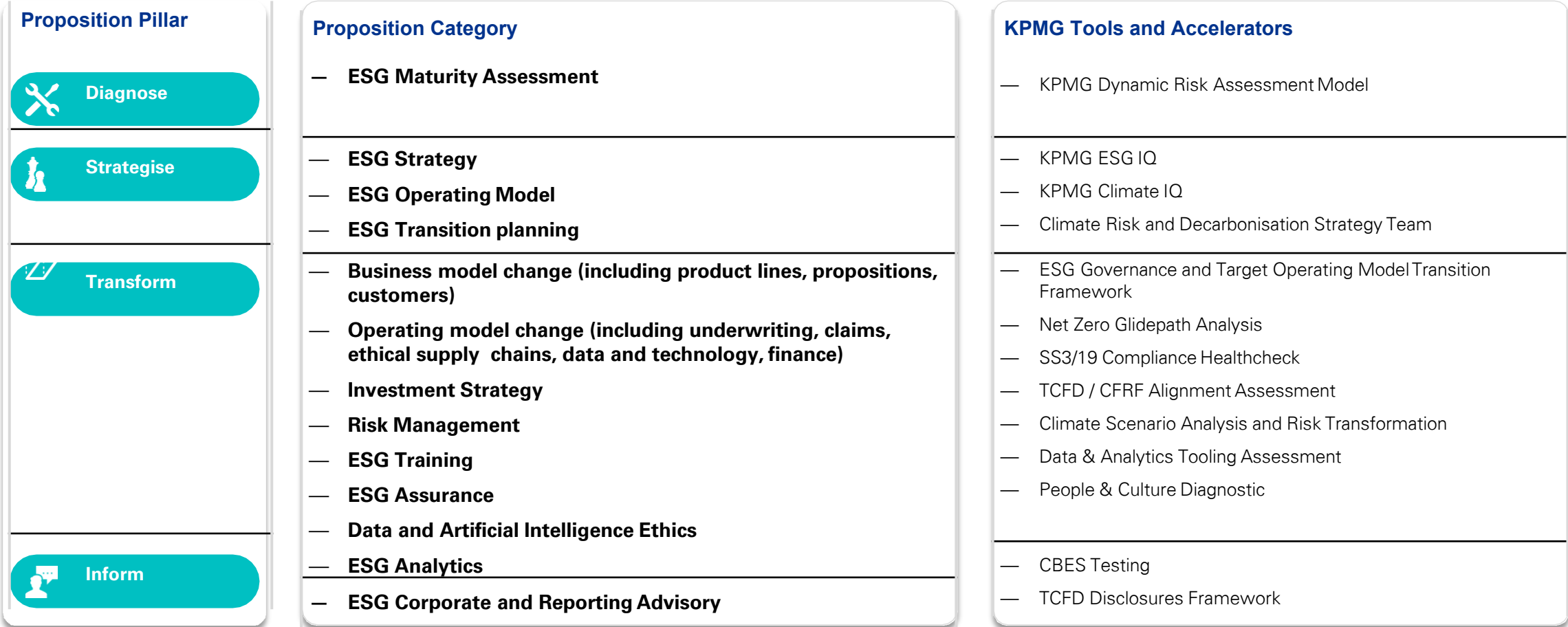
How do I ensure that my culture, communication strategy and branding align with my ESG related commitments and goals?

06

Finally, what should be the governance framework I need to incorporate to measure progress, drive accountability and ensure transparency?

Clearly ESG is not something you do but everything you do – the time to act is now!

We have experience and solutions that can help





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