ESG insurer
Pathways to a sustainable future
January 2023 Edition: 22

ESG Outlook 2023: Five key themes for the year ahead

In our first edition of the year, we examine five key themes that will play a major role in shaping the industry's efforts to advance the ESG agenda during 2023 page 11-14

Latest ESG actions and initiatives

We recap the latest round of ESG activities to be unveiled across the industry and look back at other major news developments impacting the ESG agenda.
Page 29-32

Integrating sustainability: the challenge for underwriters in 2023

Alex Hindson, recognised as outstanding industry contributor at last year's *ESG Insurer* Awards, reflects on the industry's ESG challenges for 2023 following his recent move to Crowe Consulting.
Page 20-23

Aon unveils exposure standard

New collaboration between broker, major reinsurers and Oasis Loss Modelling Framework aims to facilitate increased resilience among vulnerable communities across the world
Page 8-9

ESG data: the need for transparency

New research highlights the need for standardisation and transparency in the collection and usage of ESG data
Page 24-27

ESG partners: AON, CONDUIT RE, EY Building a better working world, MOODY'S | RMS, RenaissanceRe

From the publishers of theinsurer.com

Welcome to *ESG Insurer*

Welcome to the first monthly *ESG Insurer* edition of 2023, a year which has already seen a raft of ESG announcements across the (re)insurance sector.

Perhaps most significantly, the Net-Zero Insurance Alliance has this month launched its target-setting emissions protocol – the first mechanism to enable the measurement of greenhouse gas emissions associated with underwriting portfolios.

In this first monthly edition of 2023 we examine what are expected to be some of the key ESG themes of the year ahead for the (re)insurance sector.

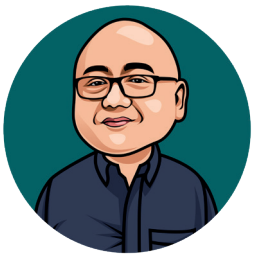
We also hear from Alex Hindson, recognised as outstanding contributor at the 2022 *ESG Insurer* Awards, on his views on the key challenges for 2023.

And we provide our regular recap of all the major ESG developments during the first few weeks of 2023.

Over the coming weeks we will also be continuing our research to provide visibility on the sector's progress in meeting ESG challenges through the launch of our second annual survey of the Lloyd's market

Respondents representing 70 percent of Lloyd's capacity took part in last year's survey, providing the first independent benchmark of market progress in adapting business models to factor in ESG commitments.

Having established a baseline with last year's survey, this year's survey will examine progress over the past 12 months among managing agencies in addressing ESG within their business plans and operations.



Scott Vincent
Managing News Editor, *The Insurer*

ClimateWise members continue "steady progress" ahead of crucial year in 2023

ClimateWise members continued to make "steady progress" around meeting the initiative's key principles during 2022, a year which saw the number of members of the body rise 18 percent to 41.

The annual assessment of the integration of Climatewise's seven principles into members' business activities saw the average member score rise one percentage point year-on-year to 69 percent, with top performing members consistently exceeding 90 percent.

The seven principles – accountability; incorporating climate-related issues into strategies and investments; identifying, understanding and managing climate risk; reducing the environmental impact of business; informing public policy making; supporting climate awareness among clients; and enhancing reporting – are aligned with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

The first principle of accountability continued to be one of the highest scoring areas, with the review noting that new members demonstrated steps taken to integrate climate risk into their governance prior to joining the network.

The most significant year-on-year improvement was seen in relation to board-level engagement and oversight of climate risks and opportunities. For example, ClimateWise highlighted how Allianz's group ESG board has oversight of its ESG strategy and reports to the board of management.

In addition, Argo's global board is supported by its risk and capital committee to monitor and review ESG metrics, while MS Amlin Underwriting and Canopius created new head of sustainability roles, the review noted.

For the second principle around incorporating climate-related issues into strategies and investments, ClimateWise recognised the efforts of RSA in providing a detailed explanation of how climate risks are integrated into the risk control environment, with priority risks and opportunities established across defined timeframes and lines of business.

Hiscox also provides detailed information on how climate risks are integrated into investments, through both negative screening and the adoption of specific decarbonisation targets, the review added.

ClimateWise members

ABI
Allianz
AON
ArgoGlobal
AVIVA
AXA
beazley
BRIT
Chartered Insurance Institute
canopius
CHUBB
CONDUIT RE
convex
DAC BEACHCROFT
esure GROUP
Ecclesiastical
FIDELIS
FLOODRE
HISCOX
Howden Group Holdings
INIGO
Lancashire Insurance Group
Liberty Specialty Markets
LLOYD'S
MarshMcLennan
MS amlin
Munich RE
QBE
RenaissanceRe
RSA
Sanlam
Santam
sedgwick
SIRIUS POINT
Swiss Re
TOKIO MARINE HCC
TOKIO MARINE KILN
TOKIO MARINE NICHIDO
THE HARTFORD
wtw
ZURICH

The approach of Zurich was used by ClimateWise as a case study for this principle, with the Swiss group systematically incorporating climate-related issues into its strategies and investments using several indicators across underwriting and investment activities to monitor, assess and manage climate-related impacts.

The review described members' performance in sub-principle 4.1 – 'Encourage our suppliers to improve the environmental sustainability of their products and services and understand the implications these have for our business' – as "one of the areas of significant improvement compared to 2021".

In policy making, ClimateWise noted collaboration between Munich Re Group with the UN Environmental Programme and the Global Climate Forum to support European policymakers' introduction of a price for carbon emissions. In addition,

the group has represented the Sustainable Finance Committee advising the German government.

The review also recognised the efforts of the ABI in informing policy, as an official 'accelerator' of the UN-backed Race to Zero campaign – the only financial services trade association to achieve this status.

Key action points for 2023

ClimateWise described 2023 as "a crucial year for firms to embed climate action" in the context of the heightened frequency and severity of extreme weather events, including Hurricane Ian, the US heatwave, European drought, and flooding in Pakistan.

The report outlined four key actions for ClimateWise membership and the wider industry to continue advancing the long-term change required by customers and society, beginning with accelerated climate action and increased stakeholder engagement.

On the practical side, the report emphasised the need to overcome implementation barriers and embrace decision-making with imperfect information and lack of available data, as well as full integration and embedding of ESG reporting frameworks into long-term strategic plans.

For behavioural changes, ClimateWise highlighted the importance of promoting broader understanding of the systemic approach required to address climate change, nature loss and social challenges to maximise potential synergies and cost efficiencies.

Seega said: "This year's report demonstrates the action members have taken in developing risk management solutions, integrating climate risk into operating structures, operationalising voluntary reporting, as well as demonstrating leadership at the highest global level on the importance of action on climate change.

"The focus for the industry now needs to move to insurers, reinsurers and brokers becoming long-term partners and essential enablers of enhanced climate financing, climate resilience building and climate solutions."

Kevin O'Donnell, president and CEO of RenaissanceRe and chair of ClimateWise, added: "As expert managers of risk and volatility, ClimateWise members are uniquely positioned to understand and mitigate the potential impact of climate change on society.

"In this year's Principles Independent Annual Review, the ClimateWise membership continues to display the insurance industry's focus on employing risk management expertise to drive forward the transition to a climate-resilient future and seek out opportunities to develop innovative product solutions."

NZIA launches target-setting emissions protocol in "landmark breakthrough"

The first framework to measure the emissions generated by underwriting activities was unveiled at the World Economic Forum's annual meeting in Davos earlier this month.

In what has been labelled a "landmark breakthrough" in the industry's decarbonisation drive, the launch of the first version of the Net-Zero Insurance Alliance's (NZIA) Target-Setting Protocol will enable the measurement of greenhouse gas emissions associated with underwriting portfolios for the first time.

The initial scope of the protocol includes multiple commercial and specialty lines, with plans for the initiative to expand to include more challenging areas such as treaty reinsurance in the future.

Version 1.0 of the Protocol enables members of the UN-convened Alliance to begin independently setting science-based intermediate targets for their (re)insurance underwriting portfolios in line with the net zero transition pathway consistent with the Paris Agreement.

The Protocol contains five target types within the three target categories: overarching emissions reduction and sectoral decarbonisation (emissions reduction); portfolio coverage and focused engagement (engagement); and (re)insuring the transition.

Under the Protocol, existing NZIA members are required to set and disclose at least one of the five targets by 31 July 2023, and at least one target type in each of the three categories by 31 July 2024.

Firms that join the NZIA after January 2023 will have six months to set their initial target, and one year after that to set a target type in each category.

Landmark breakthrough

"The NZIA's first Target-Setting Protocol is a landmark breakthrough," commented Renaud Guidée, NZIA chair and group chief risk officer at Axa. "For the first time ever, (re)insurance companies among the largest globally have built a framework and measurement tools to assess the impact of their activities on climate change."

Thierry Léger, group chief underwriting officer at Swiss Re, added: "Climate change is one of the biggest challenges we face as a global society and (re)insurers play their part in the transition to a low carbon economy. "Setting targets to decarbonise (re) insurance portfolios is therefore a crucial step forward, serving as a north star on the path to net zero."

> "Setting targets to decarbonise (re)insurance portfolios is therefore a crucial step forward, serving as a north star on the path to net zero"
>
> **Thierry Léger, group chief underwriting officer at Swiss Re**

Butch Bacani, programme lead for the UNEP's Principles for Sustainable Insurance Initiative, said: "Now is the time for insurers to set ambitious and credible science-based decarbonisation targets for their respective insurance portfolios and support a just transition to a net-zero emissions economy to avert climate catastrophe and ensure a sustainable future."

Initial scope

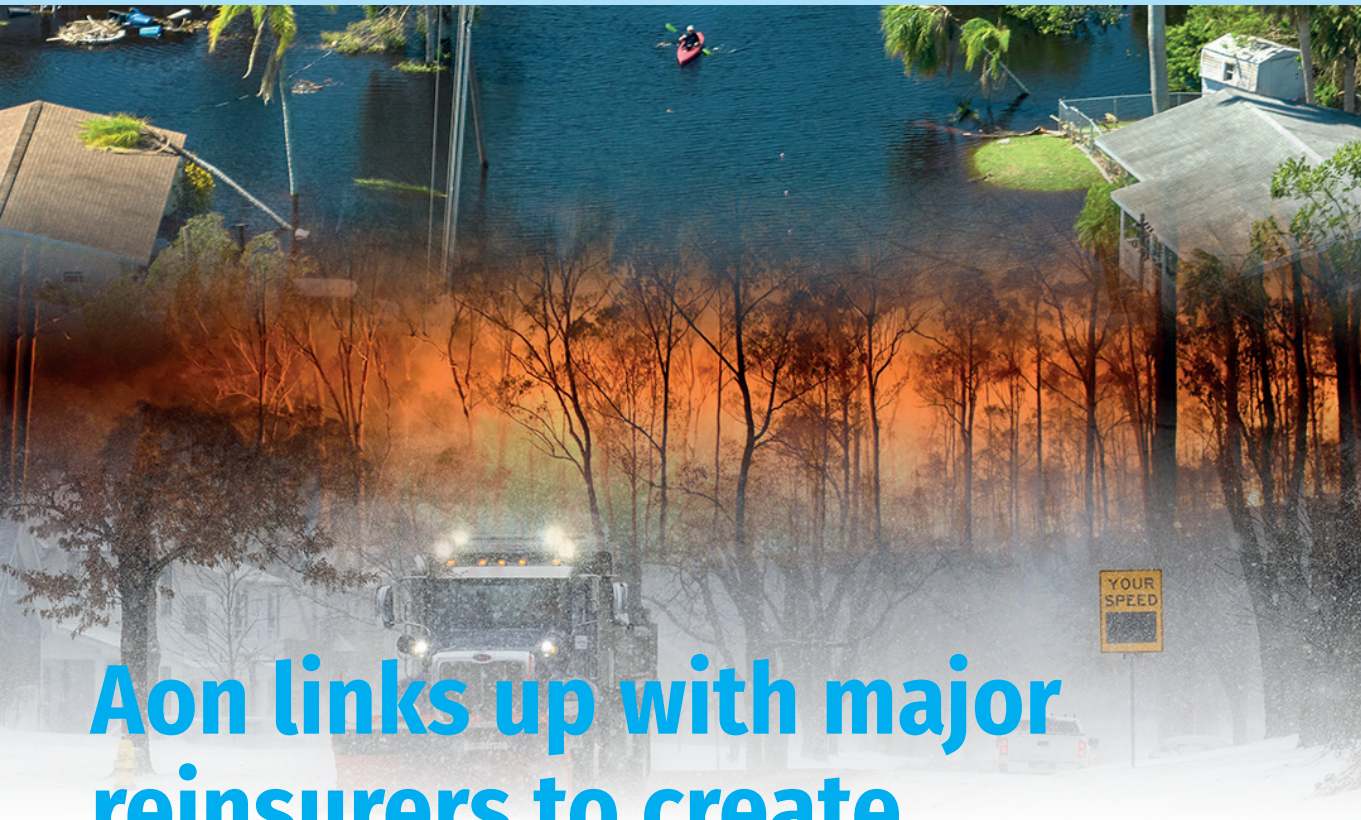
The scope of the Protocol includes property, casualty, commercial motor, marine, aviation, agriculture, trade credit and specialty lines.

Structured trade credit, surety, construction all-risks and personal lines are not included in the current version, nor any lines of businesses in treaty reinsurance, including treaty-like facultative reinsurance structures.

Speaking on a media call unveiling the launch, Léger said this is because the nature of being one step removed from clients presents challenges around accessing the necessary information. "The transparency provided in a treaty today is simply not at the level required to make a commitment in the way we would wish," he explained.

"To set targets, we have to make sure that the data and science is there, the system has to be ready. None of that really is ready today in treaty, so that's why it's not included. We need more time, it will be set on the agenda for the next version by the end of 2024."

The new Protocol expands on the launch of a global accounting standard in November 2022 to measure greenhouse gas emissions associated with underwriting portfolios. The insurance-associated emissions standard was developed by the Partnership for Carbon Accounting Financials in collaboration with the NZIA.



Aon links up with major reinsurers to create exposure data standard

Aon has partnered with four leading reinsurers to create a community-owned market standard for catastrophe risk data – a move the broker said will lower the barriers of entry for model developers as well as helping facilitate increased resilience among vulnerable communities across the world.

The Open Exposure Data (OED) standard, which has been curated by the Oasis Loss Modelling Framework, has been developed in partnership with RenaissanceRe, Scor, Hannover Re and Swiss Re.

The parties have described the new standard as a "non-commercial venture designed to test and support the hypothesis that open data standards in risk modelling are more effective than proprietary and commercial standards in terms of improving operational efficiency, reducing costs and increasing transparency and consumer choice".

Aon said the OED standard, which began development in 2018, will lower the barriers of entry for model developers, with initial testing on reinsurance placement data for Japan, Australia and China having proved successful.

Benefits of the standard include a reduction of resource strain in data processing and formatting, an improvement in the quality of data transfer between users of multiple models and systems, better access to credible data for underserved communities and a reduction in the reliance on any singular risk modeller.

Dan Dick, executive managing director and global head of property analytics for Aon's Reinsurance Solutions, said the initiative will help reduce volatility in data assumptions, improve consistency in modelled output and increase the operational resilience of clients and markets.

"This exemplifies the ways in which our industry is making a positive impact in our communities and for our fellow citizens, by collaborating and focusing on critical issues where we can apply our energy and expertise to make a meaningful difference by informing better decisions."

One of the goals of the standard is to promote equality when accessing critical risk information which will in turn allow communities across the world to become more risk-aware and risk-informed.

Ian Branagan, EVP and group chief risk officer at RenaissanceRe and co-chair of the Insurance Development Forum's Risk Modelling Steering Group, said the development of the standard represented "an outstanding example of continuing industry collaboration to drive the democratisation of risk insight around the world".

"RenaissanceRe is incredibly proud of this initiative, and it is tangible evidence of our ESG goals of protecting communities by closing the protection gap and inducing positive societal change," Branagan said.

Paul Nunn, head of Sustainable Insurance at Scor, said the development of the standard would "greatly advance our common goal of helping to continuously advance societal resilience globally".

"The success of this data standards initiative typifies the enormous drive and desire of our commercial and non-commercial partners to invoke meaningful and positive change through greatly improved 'open' and 'easy' exchange of critical risk information," he said.

Martin Bertogg, head of Cat Perils, Cyber and Geo at Swiss Re, said globally shared data formats are an important step to overcome barriers for consistency, processing efficiency and a transparent cat risk dialogue.

"Our industry has an urgent need to take out non-value adding friction from its production chain. By supporting OED, we take an important step to facilitate more insurance risk transfer," he said.

Jörg Steffensen, general manager, group risk management at Hannover Re, said the new standard also supports a wide field of open source projects in academia.

"Therefore it serves perfectly Hannover Re's principle "beyond risk sharing – we team up to create opportunities. The new standard is a major step forward in creating more resilience to natural catastrophes around the world and closing the protection gap," he said.

Bertogg, Branagan, Nunn and Steffensen are among the executive members of the OED standard project alongside Peter Cheeseman, head of APAC Analytics – Reinsurance Solutions at Aon, Sean Ringsted, chief risk officer at Chubb, and Oasis CEO Dickie Whitaker.

CONDUIT RE

"At Conduit we seek to support impactful local initiatives. That's why we are proud to join others in our community sponsoring, for the second year, the Bermuda Youth Climate Summit, which brings together over 100 students aged 13-22 to kick off a year of action on conservation, sustainability and climate justice."

Stuart Quinlan, Deputy CEO and COO

conduitreinsurance.com

Youth Climate Summit Bermuda BUEI

ESG Outlook 2023: Five key themes for the year ahead

Environmental, social and governance concerns have seen a meteoric rise up the agenda of insurance boardrooms over the past 18 months.

Below we look ahead at five key ESG considerations for 2023 for the (re)insurance sector:

1: Net zero commitments need longevity and transparency

An ever-increasing number of industry participants are now committing to net zero carbon emissions across their underwriting and investment portfolios by 2050, many of which have committed to do so through membership of the Net Zero Insurance Alliance

But there remains a need for more detail and transparency as to how they will navigate this journey.

According to Sylvain Johansson, senior partner at McKinsey, the industry still has work to do in establishing both a baseline and future trajectory as to how it assesses emissions within underwriting portfolios.

Johansson believes data to inform a comprehensive strategy and decision-making protocols will be critical on this journey, as well as support from frameworks such as the PCAF methodology and the freshly-launched NZIA target-setting protocol.

Ben Howarth, chief sustainability officer at the Association of British Insurers (ABI), said critical headline commitments made at the launch of a target must be continually driven throughout an organisation.

To do so he said it is important to work with independent external organisations to verify that the targets are linked to climate change science, as well as ensuring transparency.

Chris Croft, CEO of the London and International Insurance Brokers Association (LIIBA), said there remains a need for a "credible, independent body that can attest that firms' net zero plans meet an agreed global standard."

2. Disclosure requirements will raise reputational and litigation risks

ESG-related disclosure requirements and oversight of sustainable investing practices will continue to rise up the agenda of financial regulators in 2023.

"Firms will need to assess the rising tide of requirements to identify what is relevant to them and prepare for compliance – a particular challenge for global firms," said Roger Jackson, global insurance ESG lead at KPMG.

Brandan Holmes, vice president and senior credit officer at Moody's, said insurers pursuit of net zero objectives also brings reputational risk. "The dependence on external parties – such as governments, regulators and investee or client corporations – increases reputational risk for insurers in the event that they are unable to meet their commitments because they have only limited ability to influence the outcome," he explained.

> "The dependence on external parties – such as governments, regulators and investee or client corporations – increases reputational risk for insurers"
>
> **Brandan Holmes, vice president and senior credit officer at Moody's**

The potential for allegations of greenwashing also increases as more information is disclosed.

The potential for climate change-related litigation also remains a concern. Holmes said that while litigation currently predominantly focuses on the enforcement or interpretation of environmental laws, the rise in cases seeking specific damages from companies alleged to have contributed to climate change will over time drive losses for insurers under general liability and D&O claims.

3. Nature and biodiversity are rising up the agenda but frameworks and data trail

The UN Biodiversity Conference in Montréal in December was key in promoting the nature and biodiversity agenda going into 2023, with 150 signatories – including Scor, Axa, Tokio Marine and Sompo – calling on governments to adopt the ambitious Global Biodiversity Framework to ensure the halt and reversal of nature loss by 2030.

KPMG's Jackson said biodiversity has also risen up the agenda following the publication of the Taskforce for Nature Financial Disclosure's (TNFD) third iteration of the framework for nature-related disclosures.

The ABI's Howarth highlighted that although public policy and decision-making around carbon emissions and wider biodiversity tend to be treated as separate, the two topics are in fact "completely interlinked".

"One of the best ways to reduce carbon emissions is to restore our nature and underlying systems because that's what absorbs the carbon in the most effective way," he noted.

However, the industry's grasp on nature-related risks and data is around three to five years behind climate in terms of understanding frameworks, according to McKinsey partner Antonio Grimaldi, with the role of insurance "still an open question".

"What's really challenging – and I don't think anyone would pretend otherwise – is that understanding really complicated data and using it to inform decision-making at this point is still a fairly early stage," affirmed Howarth.

> "One of the best ways to reduce carbon emissions is to restore our nature and underlying systems because that's what absorbs the carbon in the most effective way"
>
> **Ben Howarth, chief sustainability officer at the Association of British Insurers**

"There are initiatives that are helping, particularly the work of the TNFD, to make this more accessible for firms, but I think one of the reasons it hasn't had as much traction as carbon emissions is because it's really hard to measure and requires a lot of scientific expertise to get your head around."

4. Social impact and unlocking humanitarian relief

In the context of ESG, the ingrained societal role of the insurance industry to boost resilience for the most vulnerable will likely continue to rise in prominence in 2023.

LIIBA's Croft said: "I am hopeful that this is the year that we see the full potential of commercial risk as a major player in managing societal challenges.

"Risk markets can play an ever greater role in helping to efficiently and effectively deploy capital to support humanitarian assistance, the financing of net zero projects and de-risking of new technology."

A raft of sovereign credit initiatives were launched at COP27 with the aim to unlock investment for the most climate-vulnerable countries, such as Scor's parametric microinsurance climate cover for farmers in Fiji, and WTW's sovereign risk management programme to support the planning and implementation of a transition plan in Indonesia.

While these could help provide a roadmap for balancing economic and social development goals with decarbonisation targets, the success of these initiatives will depend on a credible, committed policy plan, according to a report by Moody's..

McKinsey's Johansson added that although there is obviously an awareness of the protection gap in emerging markets, the issue always returns to affordability. "Everybody in general wants to do more to reduce the protection gap because it's the right thing to do," he said. "The question is, what do you need to be in place to actually have an impact? It's a combination of being able to do it in an economical way – public private partnerships, adaptation, and so on."

5. Risk transfer opportunities of the energy transition

The energy transition will bring risk transfer opportunities for the (re)insurance sector, with the industry having a critical role to play as an enabler of the new technologies that will make transition possible.

> "I am hopeful that this is the year that we see the full potential of commercial risk as a major player in managing societal challenges"
>
> **Chris Croft, CEO of the London and International Insurance Brokers Association**

Johansson said capacity deployment to new infrastructure and new risk coverages should be the top two priorities for P&C C-suite and executive committee members. "The climate transition is creating a whole new host of new industries and technologies, or the scale up of existing technologies such as renewables," Grimaldi added. "Clearly, financial services have a big role in financing the scaling and deployment of capital towards these new technologies. From an insurance point of view, there is a clear role in creating the conditions for the capital to be deployed in a less volatile environment."

Howarth affirmed the significant level of infrastructure investment required over the next 10 years. "For the long-term savings part of the market, that's a key opportunity to invest into productive long-term assets that are both good financial value but will also play a real role in helping society and the early underwriting and general insurance side of the market," he said.

"There are things that governments need to do to de-risk investments, but insurance can play an absolutely key role in making those investment opportunities less risky." Lastly, LIIBA's Croft predicts that markets will begin to incorporate transition risk into asset value as the long-term risk of carbon-intensive assets gains greater clarity.

"This is an area where brokers can help, deploying their expertise in measuring and pricing risk, helping develop net zero pathways for industries that are currently carbon intensive, and supporting the finance for transition," he said.

RSA's Spiers: Skills development should be key focus for 2023

The insurance industry has a huge opportunity to engage and invest in skills development at every stage of the career journey, according to Laura Spiers, head of social impact and ESG at RSA, UK & International.

Spiers told *ESG Insurer* the year ahead will see the cost-of-living crisis widen socio-economic inequality gaps, increasing the vulnerability of employees, households and businesses across the value chain.

"There's a need to listen to those communities and help tackle the underlying issues whether educational attainment, improving health or the availability of job opportunities to improve resilience," she said.

"The insurance industry is not immune to the skills shortage, with companies competing for talent and needing to nurture skills – we have a huge opportunity to engage and invest in skills development at every stage of the career journey, which will benefit individuals and our business."

Spiers said 2023 will also see an increasing focus on climate adaptation and resilience building, as the reality of achieving emissions reductions and delivering complex energy transition plans becomes clear.

"There's a growing opportunity for insurers to explore innovative nature-based solutions, which combine restoration of biodiversity and ecosystems to deliver protection against the increasing severity and frequency of extreme weather events – this requires a wide range of stakeholders to work together to realise the long-term benefits."

Integrating sustainability into underwriting: Alex Hindson looks at the focus for insurers in 2023

Alex Hindson, the outstanding industry achiever at last year's *ESG Insurer* Awards, reflects on the industry's ESG challenges for 2023 following his recent move to Crowe Consulting.

What will be the focus of your new role?

The remit of my role has three aspects. Firstly, I am going to build on the excellent work already done by Crowe's risk consulting practice in supporting insurers and asset managers on their climate change and sustainability journeys. I see transition planning as a major challenge in 2023 for these institutions, as expectations on delivering Net Zero start to bite.

Secondly, I am being asked to develop a sustainability proposition for Crowe's corporate and not-for-profit clients. This is a very interesting challenge to understand and respond to the broad corporate sector needs. I have previously worked at AstraZeneca and provided consulting services to corporates while at Aon, so I have some experience to build on.

Finally, I will seek to coordinate Crowe's internal sustainability strategy and ensure that we keep pace with market developments and our clients' expectations of our credentials in this area.

What do you see as the key ESG challenges for insurers in the year ahead?

Making good on Net Zero commitments and integrating sustainability into underwriting. Like many sectors, insurers have been making Net Zero commitments. 2023 will be the year where these commitments will need to be evidenced by action and progress in delivering transition plans, with an expectation that science-based targets will be set. Not only will there be an expectation to 'come good' on the promises, but there

will be additional scrutiny applied to how robust the processes are that support these disclosures. Risk functions have a key role to play in ensuring ambition and organisational risks are well-balanced.

Secondly, insurers need to focus on their core business activity of underwriting when pointing to their climate change and wider sustainability credentials. It will no longer be sufficient to integrate ESG into their business operations and investment activity given that operations in particular are unlikely to be the major component of their emissions.

Each insurer will need to take a view on their risk appetite for disclosure, given that much of the underlying data is heavily dependent on assumptions and extrapolations. Not disclosing opens up concerns over lack of transparency, while at the other extreme, lack of caution could lead to accusations of greenwashing. Any stance will need cul calibration and regular review. It may start to be increasingly obvious which companies are "disclosure-led" and which are truly "purpose-led".

Are there any changes to reporting and disclosure requirements insurers should be aware of?

Reporting and disclosure requirements unfortunately vary significantly depending on the jurisdiction in which insurers operate and are particularly challenging for international groups. There continue to be developments in terms of prudential requirements, for example a revised Insurance Code in Bermuda and enhanced Bermuda Monetary Authority climate risk guidance, and the implementation of New York DFS's climate risk guidance. We should expect this trend to continue.

From a stock exchange perspective, UK listed companies are now captured by the need to report on Task force for climate-related financial disclosures within their accounts and the US Stock Exchange Commission continues to develop its proposals for climate reporting for US listed companies. We can anticipate this trend growing internationally, particularly with the launch of the International Sustainability Standards Board (ISSB) guidance due in 2023.

In your new role you will be working across many sectors – how do the challenges differ across sectors? What skills that you picked up working with the insurance industry do you think are transferable to other sectors?

One of the most interesting challenges of this role will be looking for these cross-over synergies. It is early days, but I can see that all sectors are faced with the challenge of trying to establish and articulate a sustainability strategy that is both relevant and authentic, while responding to increasing demands for disclosure and reporting.
For many corporates outside financial services, the regulatory demands are lower, but the customer and governmental pressure to reduce emissions and ensure their supply chains are ethical and sustainable remain intense.

The key transferable skills between sectors I believe are the ability to understand an organisation's context in terms of its stakeholders and their expectations and translating this into practical plans that can be implemented and reported on. It's about functional leadership more than technical expertise.

AON

Investing Today for Resilience Tomorrow

Did you know that the effects of climate change contributed to the $343 billion in economic losses from natural catastrophes in 2021 – but only 38 percent of that was covered by the private insurance market and government sponsored insurance programs

The public and private sector now has a unique opportunity to collaborate and implement new strategies that will build resilience for communities and businesses.

Download Aon's 2021 Weather, Climate and Catastrophe Insight to discover more

EY: Risk pools and PPPs needed to realise $1trn+ protection gap opportunity

Closing the protection gap represents a $1trn+ opportunity for the insurance industry to generate greater revenue and exercise innovation across products, underwriting models and distribution channels, according to EY.

The firm's 2023 Global Insurance Outlook pegged the global insurance protection gap in 2021 at around $1.4trn – having doubled since 2000 and likely to have since been exacerbated by the current recessionary environment.

"As is often the case in the insurance industry, the biggest challenges present the most compelling opportunities," the outlook said.

"In the wake of the pandemic, social unrest and more natural disasters, consumers and companies have never been more aware of their need for protection. From that perspective, the protection gap represents an opportunity to bring in a great deal more revenue, perhaps as much as $1trn more, and to gain billions in profits."

Citing figures from Swiss Re Institute, the report noted a potential increase between $60-80bn in annual industry profits if the protection gap is narrowed.

Opportunities in climate risk pools and public-private partnerships

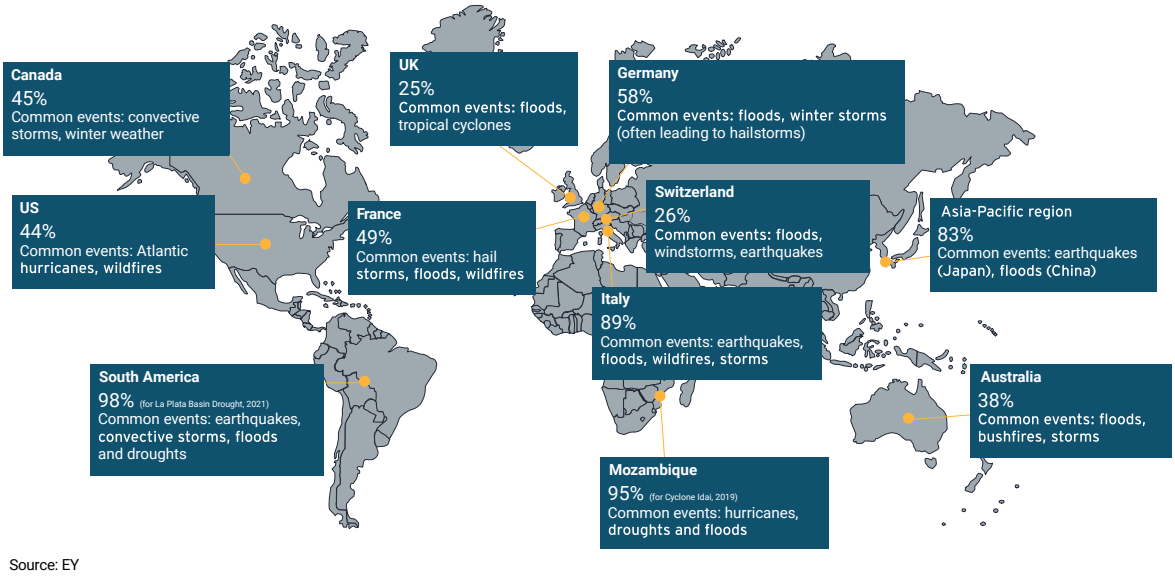
EY outlined individual opportunities for insurers to address large risk pools across two ESG pillars: environmental catastrophes and climate risk; and social risks, including healthcare and mortality.

With uninsured losses exceeding the claims paid out, insurers are reducing their nat cat exposures, and climate change is increasingly exacerbating risks such as food security, the environmental coverage gap is set to only increase.

Closing the gap requires innovation on the part of the insurance industry, the report said, including the development of new products and services, underwriting models and distribution channels.

EY added that solutions must address barriers relating to both demand (affordability, awareness, appeal, trust) and supply (transaction costs, adverse selection, insurability limits).

The worldwide natural catastrophe protection gap, 2011-21



Source: EY

Public-private partnerships (PPPs) will also be necessary where insurability is too expensive or simply impossible, the report added. “The unique challenges climate change presents to the industry also demand action. Affecting both assets and liabilities, climate risks are very difficult to model and extend across long time horizons,” EY said.

“These complexities underscore the need for bold and creative solutions – including efficient risk capital, risk transfer and risk syndication strategies – to spread risk around and expand coverages. The industry is responding with innovative solutions, with different markets adopting varying approaches around the world.”

On the PPP side, Flood Re is a collaborative scheme between the UK government and insurance industry to make flood coverages affordable for property owners in high-risk areas.

Similarly in France, the French Association for Natural Disaster RIsk Reduction is a non-profit organisation formed in 2021 for insurers to work with the public sector to address risk transfer and finance projects to reduce disaster risk.

Elsewhere, EY noted the formation of a Spanish co-insurance pool and Austrian mutual insurance company respectively to provide coverage in support of more effective agricultural risk management.

Risk pooling is also a popular approach in climate-vulnerable areas, with EY highlighting the Caribbean Catastrophe Risk Insurance Facility, which operates as a sovereign cat insurance pool. Formed in 2007, the multi-country risk pool helps Caribbean governments to limit the impact of nat cats in participating nations.

> "The protection gap represents an opportunity to bring in a great deal more revenue, perhaps as much as $1trn more, and to gain billions in profits"

In addition, the report noted the Pacific Catastrophe Risk Insurance Company – founded 2016, it operates as captive insurer of the Pacific Catastrophe Risk Insurance Foundation to provide disaster risk financing services to Pacific Islands nations.

"Advanced technology holds the key to innovate in the face of these new risks. AI and modelling tools can link index insurance with traditional mechanisms to reduce risk or digitise loan mechanisms. Predictive tools can provide policyholders with advance notifications of seasonal weather patterns and potential storms," EY said.

The report also emphasised the educational role of the industry: "Insurers can take the lead in educating society about the risks of climate change, starting with their individual and commercial customers.

"With more consumers aware of and making purchasing decisions based on companies' commitments to ESG issues, these efforts have more to do with performance than public relations."

The report concluded: "Insurers have a long history of mitigating risk in innovative ways, including catastrophe bonds and weather insurance. Lessons from these past ventures can be applied to mobilise capital in the service of innovation.

"Physical and business risk insurance for investors in solar photovoltaic plants and other innovative technologies can provide extraordinary benefits to society, as well as strengthening the bottom lines of leading insurers."

Standardisation and transparency needed in collection and implementation of ESG data

Brokers are calling for greater consistency and transparency from (re)insurers on how client ESG data is being used, according to new research, with (re)insurers simultaneously facing challenges in capturing reliable ESG data and uncertainty over how to implement it into underwriting decisions.

The ESG Data for Underwriting report found that most (re)insurers are still in the process of establishing how ESG risks and opportunities relate to them, as well as how to embed ESG considerations into the underwriting process to effectively lead the green transition.

The report was produced by specialist insurance management consultancy Oxbow Partners and Better Insurance Network, a collaboration network focused on insurance sustainability.

The need to act on ESG data in underwriting is underpinned by several drivers outlined by the report, including meeting regulatory requirements, satisfying stakeholder pressure, meeting group and industry sustainability goals and seizing new business opportunities.

For the latter, key opportunities for the insurance industry specifically include underwriting the growing renewables sector, developing coverage for carbon capture and emerging green technologies, and climate risk modelling and scenario-testing solutions.

Standardisation initiatives gain traction, but there is more to do

Respondents indicated that (re)insurers and brokers want a common language for ESG, with brokers willing to accept that insurers will take slightly differing approaches to ESG on the condition that the industry agrees on key metrics and question sets.

Standardisation is therefore urgently needed to address inconsistencies in the way in which ESG data for underwriting is disclosed, captured and implemented throughout the underwriting process.

The Global Reporting Initiative was formed in 1997 to create a common language for organisations to report their impacts across a range of sustainability issues, while the Task Force on Climate-Related Financial Disclosures was created by the Financial Stability Board in 2015 as a framework to assess and disclose climate-related risks.

The report recognised that some progress has been made in underwriting in the past 12 months, including the launch of the International Sustainability Standards Board at COP26 to develop a global baseline of sustainability and climate-related disclosure standards.

"Several insurers we spoke to have reservations over the reliability of ESG ratings in their current form, even though many of those firms also use ratings in their assessments"

Most recently, last week saw the launch of the Target-Setting Protocol by the Net-Zero Insurance Alliance (NZIA), a framework to measure emissions generated by underwriting activities.

Commercial ESG data solutions outlined in the report include WTW's Climate Transition Pathways accreditation framework to evaluate the transition plans of carbon-intensive sectors, and the Moody's-Chaucer ESG Balanced Scorecard.

The report also recognised collaborative efforts to standardise question sets in the Lloyd's and company markets, with Lloyd's looking to standardise approaches among insurers operating in certain classes of business to ensure market alignment and data aggregation.

But there remain several challenges the industry must overcome to improve ESG data quality and assessment, with the report identifying 'blind spots' in the private sector regarding scope 3 emissions and in treaty reinsurance and delegated authority business.

"Several insurers we spoke to have reservations over the reliability of ESG ratings in their current form, even though many of those firms also use ratings in their assessments," the report said.

"ESG risk rating methodologies are often opaque, giving insurers limited look-through to underlying metrics. [Insurers] also said it is difficult to independently verify the quality, reliability or timeliness of data being provided to rating agencies, which could be based on prior year disclosures."

Only the most sophisticated minority have begun ESG data implementation

While insurers may not be ready to articulate their internal processes as they remain 'in progress', brokers want insurers to reveal how client ESG data affects their underwriting decisions, Oxbow Partners and Better Insurance Network found.

"Many insurers are capturing ESG data but are unsure how to act upon it. Insurers are still in the process of embedding ESG data assessment in the underwriting process, with some lines of business more advanced than others," the report said.

> "In five years, many of the insurers we spoke to expect ESG data to flow into underwriting dashboards and influence decision-making and pricing along with other risk factors. Insurers and brokers believe companies with strong ESG credentials will eventually be rewarded with favourable coverage"

"With the exception of some isolated sustainability-focused insurance business models, ESG data is not yet having a direct influence on the provision of capacity or the pricing of risk (with the exception of the broad exclusion of high-emission risks such as new thermal coal mining projects)."

All (re)insurers surveyed said they want to be able to automatically ingest ESG into underwriting dashboards, along with other risk factors, to generate an overall risk score within five years.

The report noted that this would require the development of internal ESG rating methodologies, as well as a significant improvement in the quality and consistency of ESG data captured.

While a small minority of sophisticated companies have made some progress in developing internal ESG rating models to integrate ESG risk into underwriting decisions for targeted lines of business, the majority are focused on the top priorities of how to capture better ESG data capture and understand its materiality to the business.

The report added that some (re)insurers are exploring potential correlation between ESG and profitability, with the expectation that client ESG data will impact risk pricing and/or terms within five years, following research by Howden and Fidelis in

December that identified a direct correlation between ESG ratings and underwriting performance "In five years, many of the insurers we spoke to expect ESG data to flow into underwriting dashboards and influence decision-making and pricing along with other risk factors. Insurers and brokers believe companies with strong ESG credentials will eventually be rewarded with favourable coverage," the report said.

Next steps require (re)insurer-broker collaboration

Greater collaboration between (re)insurers and brokers, including among competitors, will be essential to move the industry forward, said Oxbow Partners and Better Insurance Network.

The report noted that progress on ESG data will only be achieved if companies define a clear ESG strategy on which to anchor their data initiatives.

(Re)insurers must identify what their overall ESG strategy implies for ESG data priorities in underwriting and consider their operating models – for example, assigning responsibility for the ESG data value chain, the report said.

In addition, it will be crucial to source relevant ESG data to allow (re)insurers to execute on their strategy and achieve outcomes aligned with their ambition. This includes assessing data from multiple data providers against a series of metrics that best align to their need, as well as cost, coverage and reliability.

"The question for many (re)insurers is not whether to acquire and incorporate ESG data into their underwriting processes, but how to do it in a way that aligns with the outcomes they are seeking and their overall ESG strategy"

Miqdaad Versi, partner at Oxbow Partners, commented: "Building an approach for ESG data is becoming increasingly essential for (re)insurers. Despite the known coverage gaps and consistency challenges, ESG data is needed to embed ESG within underwriting.

"The question for many (re)insurers is not whether to acquire and incorporate ESG data into their underwriting processes, but how to do it in a way that aligns with the outcomes they are seeking and their overall ESG strategy."

Antony Ireland, founder of Better Insurance Network, added: "Improving the quality of ESG data for underwriting is vital to enable (re)insurers to better understand the ESG risks, opportunities and impacts within their portfolios and to fulfil their critical role in leading the transition to a more sustainable economy.

"Greater collaboration between stakeholders is urgently needed to standardise ESG data capture and implementation, which will in turn build greater trust and transparency between underwriters, brokers and insureds on ESG."

JANUARY 11

WEF: Cost of living crisis and climate action failure dominate risk landscape

The window for action on the most significant long-term threats – dominated by environmental risk concerns – is rapidly closing as the short-term need to address the cost of living crisis poses a "tough trade-off", the World Economic Forum (WEF) has warned.

Failure to mitigate and adapt to climate change topped the list of top 10 risks over the next decade in WEF's annual Global Risks Report. This was followed by natural disasters and extreme weather events, and biodiversity loss and ecosystem collapse, with the latter highlighted as one of the most rapidly deteriorating global risks over the next decade.

JANUARY 11

Clyde & Co: Greenwashing to rise as regulatory risk in 2023

Regulators look set to take a more stringent stance against greenwashing in 2023 as new frameworks and codes around disclosure requirements nullify companies' existing defence of a lack of clear guidance, according to law firm Clyde & Co.

In the third edition of the firm's insurance predictions for the year ahead, London-based partners Nigel Brook and Laura Cooke recognised mounting pressure from stakeholder groups for companies to provide greater transparency around their sustainability efforts, as well as the environmental impact across their products, services, activities and policies. Scrutiny from regulators, consumers and investors alike is particularly felt in the financial services, airlines and retail sectors, the outlook noted.

JANUARY 09

Moody's warns on "complicated and conflicting" ESG regulatory landscape

ESG-related disclosure requirements and oversight of sustainable investing practices will continue to dominate the agenda of financial regulators in 2023 as macroeconomic, financial and geopolitical factors exacerbate ESG credit risks, according to Moody's.

The rating agency's ESG global outlook outlined how the "increasingly complex" ESG regulatory and political landscape will heighten regulatory and reputational risks from positioning and potential misrepresentation. "Companies and investors will continue to face a complicated and sometimes conflicting patchwork of regulations and views related to ESG disclosures and investing practices," Moody's said.

JANUARY 12

Beazley awarded SMI's Terra Carta Seal for sustainability efforts

Beazley has received the Sustainable Markets Initiative (SMI)'s Terra Carta Seal, an accolade recognising the commitments of global companies to drive innovation and momentum in the creation of sustainable markets within their industry.

Beazley is one of 19 recipients of the accolade in 2022, which was launched at COP26 by His Majesty King Charles III as an embodiment of the vision and ambition of the Terra Carta, a threefold recovery plan for nature, people and planet. The seal acknowledges that each industry within the private sector faces unique challenges at the different stages of the transition to a more sustainable future.

DECEMBER 23

NN tightens investment policies on unconventional oil and gas

Dutch insurer NN Group has unveiled a climate action plan with the aim to reduce greenhouse gas emissions to net zero in its own operations by 2040, and in its investments and underwriting by 2050.

The group previously set interim targets for the share of assets considered at least aligning towards net zero to make up 25 percent of its corporate investment portfolio by 2025, and 45 percent by 2030. The new climate action plan includes a further tightening of NN's investment policies on unconventional oil and gas, as well as thermal coal.

JANUARY 10

Aon and Mosaic partner with Apex Group to launch ESG offering

Aon and specialty insurer Mosaic have partnered with financial services provider Apex Group to launch an ESG product offering, Apex Protect.

Apex Protect will offer enhanced D&O coverage for funds, with the product able to factor in ESG credentials in its insurance risk assessment.

The product is aimed to improve turnaround times for coverage, with instant price discovery as well as exclusive policy wording and increased pricing leverage.

Apex outlined how higher ESG scores will also result in premium benefits.

JANUARY 11

Zurich partners with ICS to launch sustainability captive Envision Re

Zurich North America has teamed up with Innovative Captive Strategies (ICS) to create Envision Re which aims to serve businesses that are looking to optimise their risk management programs while reducing their carbon footprint.

In an announcement, the companies said the "groundbreaking" group captive insurance company would bring together companies from diverse industries with a common interest in optimising risk management programs and advancing sustainable business practices. Prospective members of the captive will undergo a vetting process that begins with a sustainability assessment of their carbon footprint and energy consumption, led by Zurich Resilience Solutions.

JANUARY 04

Chubb forms new global climate business unit under McMullin and Hardy

Chubb has formed a global climate business unit to bring together its segments involved in traditional, alternative and renewable energy, climate tech, agribusiness and risk engineering services.

The new unit is designed to provide a range of products and services – including risk management and resiliency services – to these businesses as they develop or employ new technologies and processes during the decarbonisation transition. The global climate business unit will be co-led by two existing Chubb executives. New Jersey-based Matthew McMullin will assume the role of North America leader of the global climate practice, with London-based Matthew Hardy representing all markets outside the US, Canada and Bermuda.

JANUARY 12

Axa renews Research Fund for 5 years as appoints Roberts to lead scientific board

Axa has renewed the mandate of its scientific philanthropy initiative for the private sector Axa Research Fund for a further five years, with Debra Roberts appointed president of the scientific board.

Under the new mandate, the objectives of the Research Fund will focus on reinforcing the transdisciplinary exploration of emerging risks, as well as consolidating links between academic experts, industry and the public sector around major societal issues. The Fund will also look to launch innovative formats for the dissemination of scientific knowledge.

ESG actions and announcements

A recap of some of the initiatives launched by carriers and brokers in recent weeks

Date	Company	Action
16.01.2023	AVIVA	Expands into offshore wind insurance market with standalone policy wording to offer construction all-risks and operational risks for battery electric storage systems
12.01.2023	AXA	Renews mandate of scientific philanthropy initiative for the private sector, Axa Research Fund, for five years. Appoints climatologist Debra Roberts as president of the scientific board
12.01.2023	beazley	Receives the Sustainable Markets Initiative's 2022 Terra Carta Seal in recognition of driving innovation and momentum in creation of sustainable markets, and accelerating the transition
11.01.2023	ZURICH	Forms group captive Envision Re with Innovative Captive Strategies to bring together companies looks to optimise risk management and advance sustainable business practices
10.01.2023	AON	Partners with Mosaic and Apex Group to launch Apex Protect, an ESG product offering enhanced D&O coverage for funds that factors in ESG credentials during risk assessment
09.01.2023	Oxbow Partners	Promotes ESG specialist Miqdaad Versi to partner, having previously founded the firm's ESG practice to help clients' develop end-to-end ESG strategy
06.01.2023	wtw	Appoints Cameron Rye as head of modelling research and innovation within WTW Research Network, combining science, academia and the private sector to improve risk quantification
04.01.2023	CHUBB	Forms global climate business unit co-led by Matthew McMullin as North America leader of global climate practice and Matthew Hardy as Chubb overseas general leader
23.12.2022	NN	Published a climate action plan aiming to reduce greenhouse gas emissions to net zero in own operations by 2040, and in investments and underwriting by 2050
20.12.2022	PREVISICO	Partners with with geospatial data provider Geosite to provide the latter's US carrier clients with live actionable flood alerts to help mitigate flood losses
19.12.2022	Allianz	Appoints Gabrielle Durisch as global head of ESG & sustainability solutions within new dedicated in-house ESG organisation. Also includes global head of ESG & sustainability governance Ralf Heintges and head of ESG operations Katja Oristanio
15.12.2022	MSCI	Unveils the Biodiversity-Sensitive Areas Screening Metrics to help investors identify companies with physical assets in areas of high biodiversity relevance, and the Deforestation Screening Metrics to highlight companies' exposed to deforestation-related risks
15.12.2022	CHUBB	Appoints environmental lawyer Margaret Peloso as senior vice president of the Chubb Group, global climate officer and executive director of the Chubb Charitable Foundation

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To become an *ESG Insurer* partner please contact:

Spencer Halladey
Commercial director
+44 (0)754 000 0929
spencer@wbmediagroup.com

Andy Stone
Sales manager
+44 (0)783 484 3176
andy@wbmediagroup.com