Marsh

ESG considerations gaining ground in underwriting

2023 ESG insurer survey

November 2023

For the second consecutive year, Marsh surveyed UK and European insurers, representing a cross-section of the UK insurance market, to explore how environmental, social, and governance (ESG) factors are affecting underwriting decisions, policies, and future strategies.

This year, in addition to the questionnaire, we conducted several in-depth interviews with survey respondents to better understand their approaches.

We found that ESG influences in underwriting are more established in the UK and Europe, although insurers in other jurisdictions are considering similar paths. For readers outside of the UK and Europe, these results may be indicators of how other insurers may evolve.

Treaty reinsurers were not included in our survey; however, it is worth noting that some reinsurers are starting to try to assess ESG metrics in their portfolios, with a particular focus on climate and the fossil fuel industry. A change in stance of reinsurance capital could have a wider impact on the insurance market in time, but this is not expected to have a material impact in the immediate future.

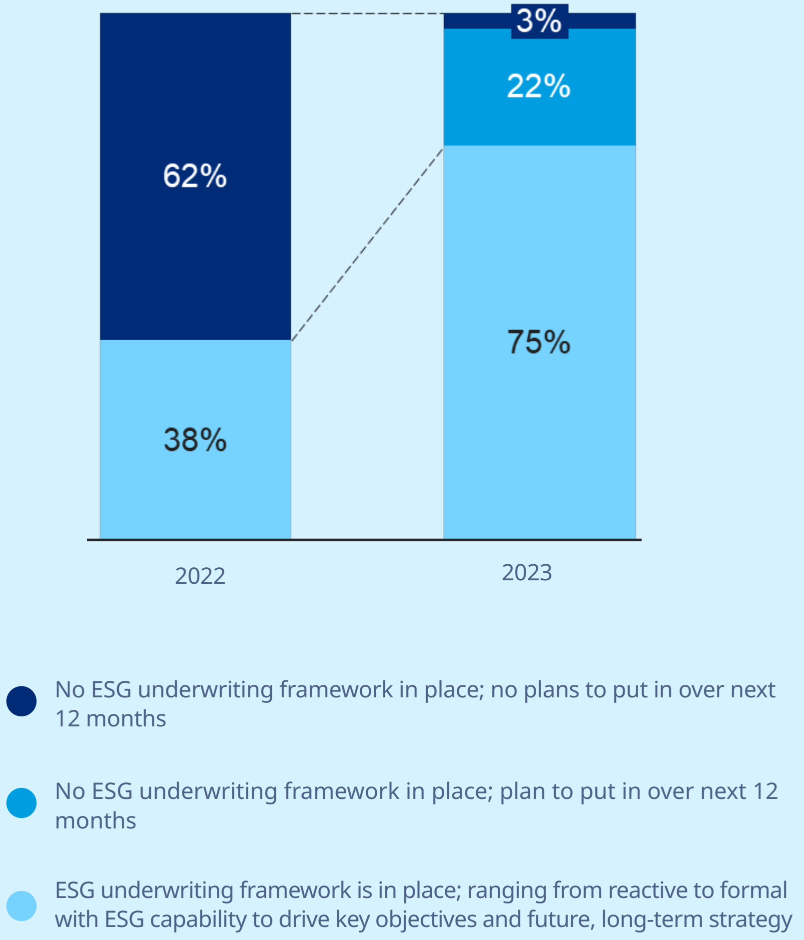
ESG considerations are moving into underwriting plans

The survey results combined with interviews of CEOs, chief underwriting officers (CUOs), and class/line underwriters made it clear that ESG considerations were more widespread in investment portfolios then they were in 2022.

Importantly, ESG also had a more prominent position in underwriting plans, with 75% of respondents in 2023 saying they have an ESG underwriting framework in place — ranging from formal guidelines to less formal, reactive responses — compared to 38% in 2022 (see Figure 1).

It is clear that climate and sustainability issues are widely considered by underwriters, and insureds would do well to provide clear messaging and data around their ESG performance and commitments.

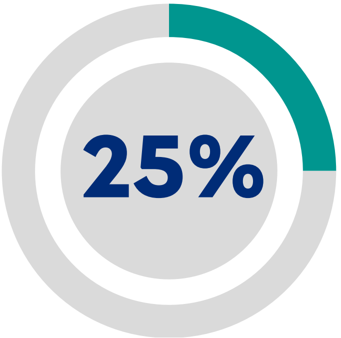
Figure 1: More underwriters considering ESG factors in 2023



Insurers approaches to integrating ESG considerations into underwriting differ

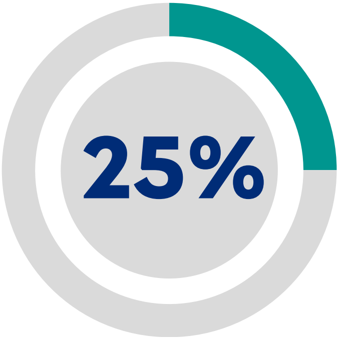
Despite the year-over-year increase in ESG integration into underwriting, there is yet to be a uniform approach within the insurer community regarding 'how' it is done.

Our survey respondents typically had one of three underwriting approaches to integrating ESG, with most respondents falling into the second category below:



About 25% are developing group-wide underwriting frameworks or guidelines across their portfolio that take either climate and/or sustainability into account. They have a clear referral process to their CUOs or sustainability committees about accepting or participating on individual risks that are deemed outside the guideline scope.

About 50% are developing overarching guidelines, but are selectively integrating by class of business or product line and leaving climate and sustainability decisions to the discretion of their underwriters.

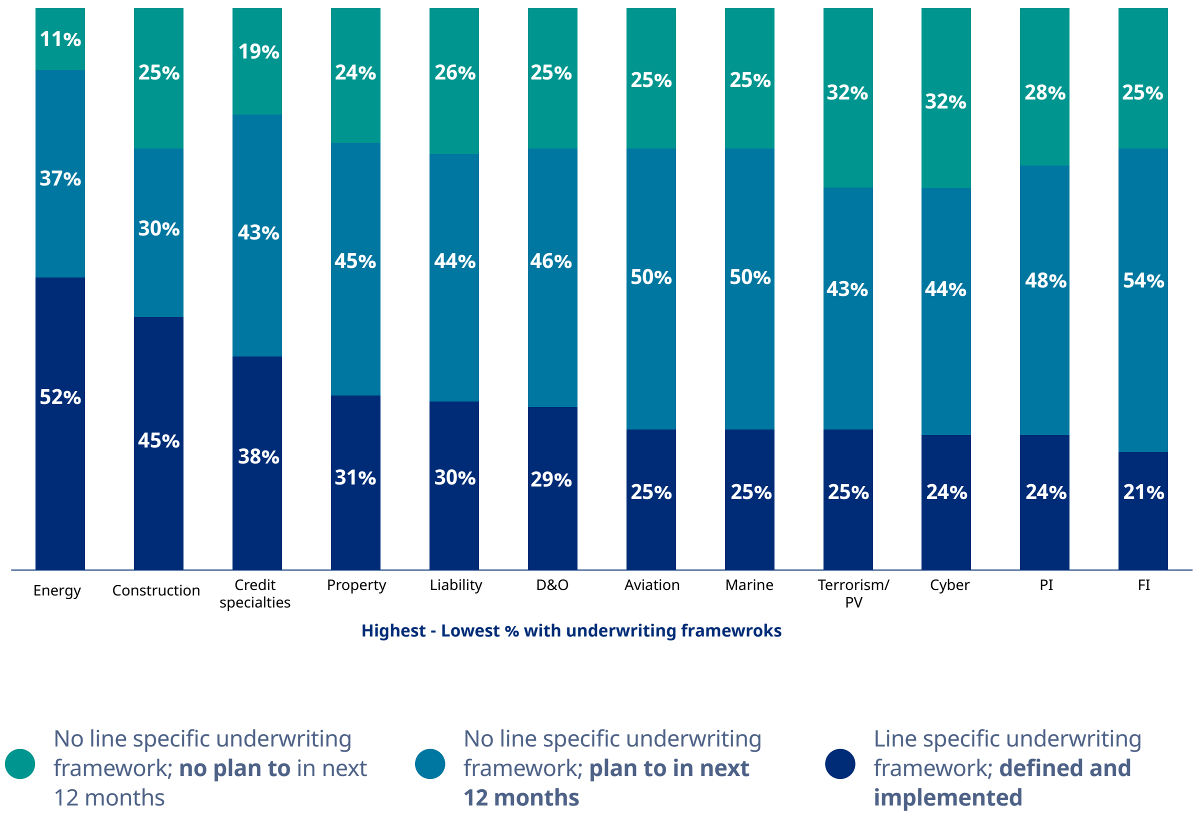


About 25% are not and do not intend to introduce ESG considerations into their strategies or underwriting in the next 12 months.

Many insurers are addressing the rollout of their plans into underwriting with a bias toward specific product lines. Not surprisingly, energy has the most attention (see Figure 3).

Figure 3: Environmental factors and energy sector leading the way in ESG considerations for underwriters

Q To what extent do you have ESG underwriting frameworks in place across specific products lines?



Insurers are taking a variety of approaches to underwriting, including engaging with high-emitting insureds on climate risk mitigation, withdrawing from some sectors, or setting underwriting criteria for carbon emission reductions.

Although higher-emitting sectors are naturally more highly scrutinised as part of the drive to net-zero, insurers are also considering other social or environmental factors, for example, biodiversity impact or water usage policies. Some insurers now regularly review their exposure to industries that are generally under higher ESG scrutiny, including forestry, mining, arms manufacturers, and tobacco.

Moreover, some insurers also incorporate social factors — including labour standards and modern slavery, supply chain counterparties, and business ethics — into their underwriting across all business lines. These policies are less mature than those for net-zero and climate.

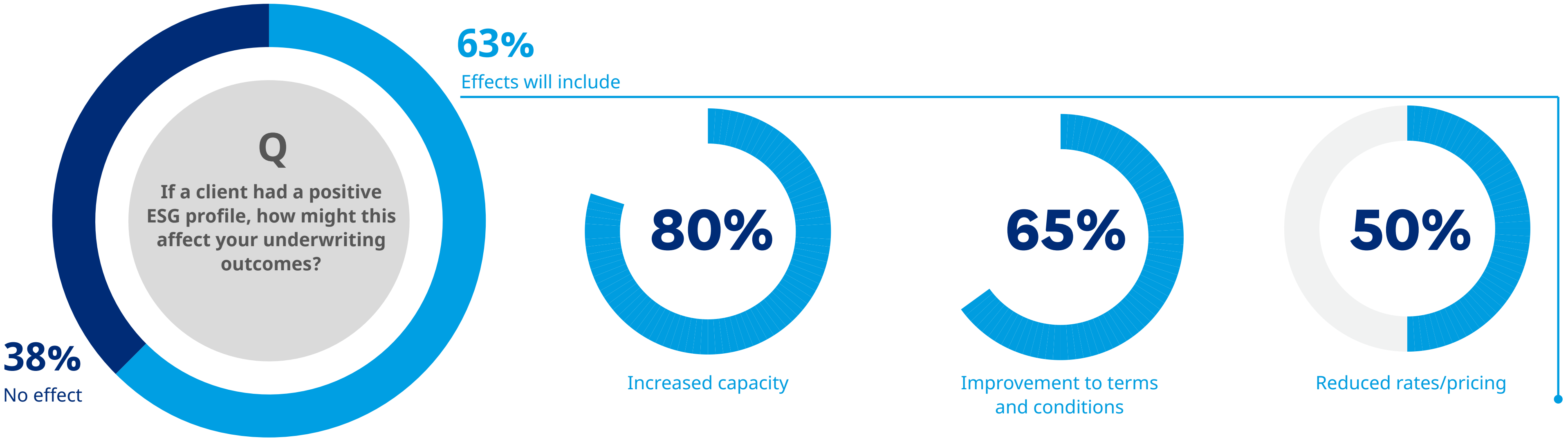
How climate and sustainability profiles may impact underwriting outcomes

For insureds, a common frustration is the lack of clarity regarding the specific ESG data that insurers require, and, importantly, how it would be used in underwriting. The results of our survey show that there remains a lack of consensus among insurers.

However, a key finding is that most insurers surveyed (63%) said that a positive ESG profile would likely affect an insured's underwriting outcomes (see Figure 4). Among that group of insurers, 80% said a positive ESG profile could lead to increased insurance capacity for the insured.

It is clear that, despite well-defined ESG underwriting requirements, in many cases the data affects underwriting outcomes.

Figure 4: ESG profiles can affect underwriting outcomes

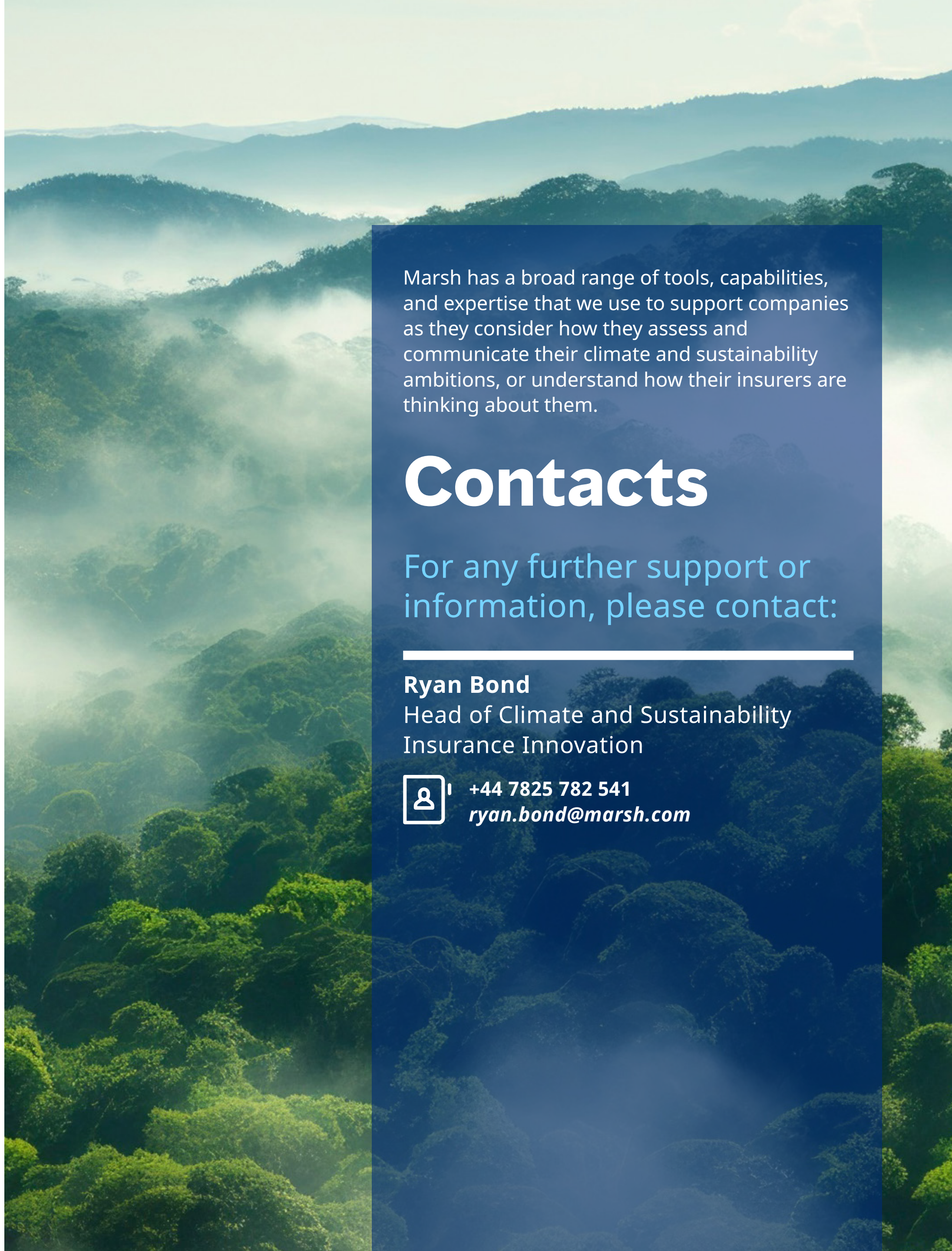


Key ESG considerations for underwriting

In our 2022 survey it was clear that many insurers had started to think about ESG in relation to their internal procedures, guidelines, and investment strategies. In 2023, we see insurers replicating some of the same considerations in their underwriting portfolios.

The results show that insureds should give due consideration to climate and sustainability in their risk presentations to underwriters, including:

- Work with your broker to understand the varying insurer ESG appetites and data requirements, to allow you to tailor market engagement to what is important to each insurer.
- Be ready to provide clear messaging on plans, frameworks, and data to support ESG ambitions.
- As more insurers start to account for Insured’s carbon emissions, be ready to provide data on scope 1, 2 and potentially 3 emissions and reduction targets to avoid insurers using third party data or proxies.
- Have a robust risk management plan in place for climate and sustainability, and track progress against clear milestones at each renewal.



Marsh has a broad range of tools, capabilities, and expertise that we use to support companies as they consider how they assess and communicate their climate and sustainability ambitions, or understand how their insurers are thinking about them.

Contacts

For any further support or information, please contact:

Ryan Bond
Head of Climate and Sustainability Insurance Innovation

+44 7825 782 541
ryan.bond@marsh.com

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