

ESG: Captive Solutions Guide

What you need to know

Captive insurance is at the forefront of ESG and can play a key role in managing your company's related risks.

WHAT IS ESG?

ESG, which stands for environmental, social, and governance, is essentially a framework to evaluate the impact of both the operations and output of an organization on people, prosperity, and the planet.



Environmental captures climate change, energy efficiencies, carbon footprints, biodiversity, and other environmentally sensitive issues.



Social covers labor standards, wages and benefits, diversity, human rights, privacy and data protection, health and safety, and other social justice issues.



Governance captures a company's control over the "E" and the "S" categories plus corporate governance considerations.

What ESG means for insurance companies

As regulatory bodies are applying pressure on companies to act on ESG, it is quickly becoming a compliance subject within the financial services sector. With this increasing focus, regulated insurance entities, including captives, can expect to see new climate and sustainability-related disclosure standards, along with requirements to monitor and stress test related risk exposures.

ESG regulations, status within captives

It has become clearer that captive regulators are planning to implement ESG frameworks for companies in their jurisdictions. In particular, Bermuda, Dublin, and Guernsey have started to define ESG standards and reporting requirements for captives.

Although regulation will be implemented in domiciles around the world at differing rates, ESG is likely to crystalize as an important topic for all captive owners over time.

IMPACTS AND OPPORTUNITIES FOR CAPTIVES

A captive is ideally positioned to assist organizations in all three ESG aspects.

Governance

Regardless of industry or size, the mere existence of a captive demonstrates good governance because a captive is a formalized loss-funding vehicle. It is licensed by regulators and is a regulated legal entity, which has been established to protect the organization against risk.

In addition, a captive demonstrates impactful governance in the following ways:

- Structured risk management review and oversight with:
 - External stakeholders, such as insurance regulators, outside audit, actuarial pricing and loss reserve opinions, domicile legal counsel, captive manager, and investment manager.
 - Internal stakeholders, such as captive board, risk manager, legal, finance/accounting, HR, and internal audit.
- Active risk management as a result of prefunding and oversight.
- Addresses risk management's contributions to a parent company's ESG efforts for required annual regulatory reporting in the US and EU.
- Facilitates tax and regulatory compliance.
- Enhances an organization's risk profile in the eyes of commercial insurers.

Social

Captives offer organizations flexibility and control to address the people risks that impact their business, including employee benefits and employee engagement programs. Captives writing employee benefit risk can support the execution and delivery of a company's diversity, equity, and inclusion (DEI) strategy and serve as a mechanism to:

- Harmonize benefit coverages across geographies.
- Provide coverage not available in some locations (e.g., maternity benefits).
- Remove exclusions (e.g., suicide, neonatal).

The captive board itself can also be a mechanism to enhance DEI strategy for the group, providing opportunities for individuals from a variety of business areas to participate in key decision making for an important group subsidiary.

Environmental

Many of the world's largest insurers have committed to a net-zero position on investments and underwriting by 2050, with significant reductions by 2030. These commitments will inevitably have an impact on commercial insurers' appetite and ability to underwrite carbon

intensive risk. We are already seeing captives owned by parents in affected industries being utilized to address coverage gaps, exclusions, climate-related perils, third-party coverages, and renewables. We fully expect this trend to grow over time as carbon-intensive businesses transition to a low-carbon future.

In addition, alternative structures such as protected cell captives may be used for certain risks, and other transformative vehicles such as insurance-linked securities (ILS) may be used to access alternative capital to protect against climate risk.

Additional benefits driven by including ESG in a captive

- Captive surplus can be used to support a sustainable investment strategy — for example, investments in green bonds.
- Captives enable organizations to reduce the total cost of risk and enhance sustainability as a long-term strategy, allowing them to preserve assets and improve resilience.
- Captives are a good way to prevent erosion of profitability and preserve the opportunity to support ESG programs and sustain future growth.

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OUR RECOMMENDATIONS FOR YOU

1. Connect with your organization's internal ESG department and:
 - a. Explain the role of a captive in governing, managing, and financing risk.
 - b. Outline how a captive enhances risk governance.
 - c. Explore ways a captive can support ESG programs.
2. If you have a captive, speak with your Marsh Captive Solutions team leader to:
 - a. Add ESG as an agenda topic to an upcoming captive board meeting, so that you can discuss where your parent organization is on the matter.
 - b. Explore opportunities for the captive to participate in investments in socially impactful or environmentally responsible areas.
3. If you don't have a captive, or other risk-bearing entity, and want to explore the possibility of one, please reach out to our captive consulting teams by sending an email to: marshcaptiveolutions@marsh.com.
4. Evaluate your existing ESG program via Marsh's ESG Pulse Check, found here: mrsh.cm/pulsecheck. If you are looking for deeper analysis and want to know about your company's ESG Risk rating, use Marsh's complimentary ESG Risk Rating tool, found here: mrsh.cm/esg-risk-rating.

For more information on Marsh's ESG capabilities and effort, please refer to:

- mrsh.cm/climate-change
- mrsh.cm/esg

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