A snapshot of ESG thinking in the development of the underwriting process

London Insurance Market

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Environmental, social, and governance (ESG) is increasingly impacting insurers' portfolios and will play a bigger part in future underwriting strategy. As UK companies grow in their understanding of ESG and strategically approach risk mitigation, insight into how insurers perceive ESG risk is essential.

To provide some initial information on this, Marsh undertook a survey of 30 insurers representing a significant cross section of the UK insurance market.

This survey explores the extent to which ESG factors are already being used to assess clients' risk profiles and the extent to which this trend might accelerate. It also looks at what incentives insurers might consider giving to clients who are able to demonstrate favourable ESG metrics.

As insurers increasingly consider ESG in underwriting models, the likelihood of aligned ESG assessment criteria in the future grows.

Do your underwriting models or rating tools consider ESG factors?

With 38% of respondents confirming that ESG factors are already being considered, it is clear that risk managers should be giving ESG due consideration in risk presentations. Currently, many carriers focus primarily on the environmental aspect of ESG — and climate specifically. As maturity and understanding in the ESG space grows, this focus may change.

Yes No

Do you currently use any ESG rating providers to assess clients?

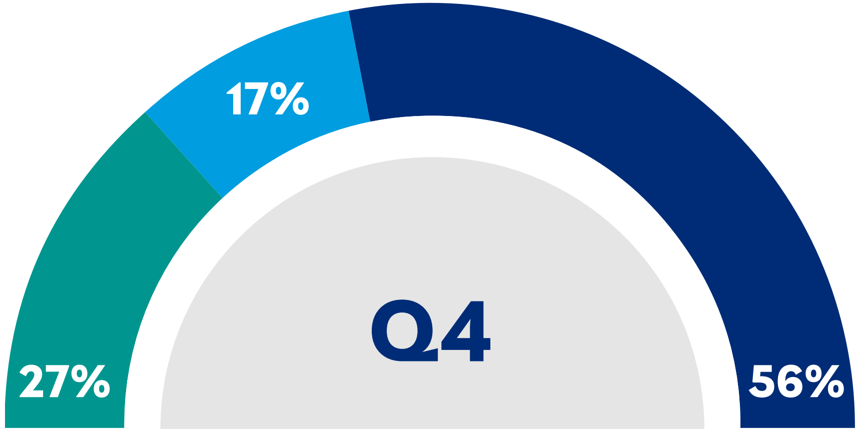
Nearly half of the respondents (47%) suggested that they were using external rating providers to help assess their clients' ESG performance. This journey is not disimilar to that seen of catastrophe modelling. As this contingent grows, there is a strong chance that remaining insurers move towards including assessment criteria as part of either their portfolio analysis or assessment of individual risks.

ESG's impact on insurers' risk selection grows, with strong incentives and more positive cost-of-capital for those with better ratings.

Do you expect ESG factors to play a bigger role in the underwriting process in the future?

With all respondents confirming that ESG factors will play a larger role in future underwriting, it is key that risk managers ensure they have a good understanding of their own ESG journey. While all of the insurers surveyed were working on their specific underwriting requirements for ESG, with regard to climate disclosures, all respondents pointed to a minimum requirement for disclosure of scope 1 and 2 emissions data and transition plans. Companies should consider how best to present their profile to insurers and how they differentiate from their peers and wider marketplace.

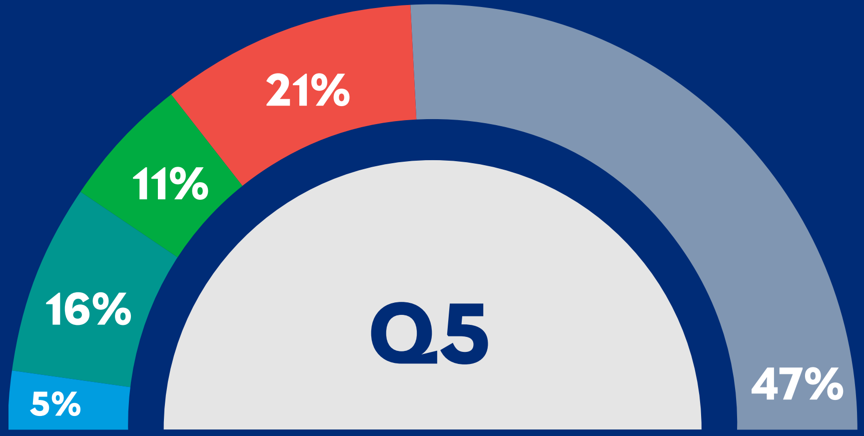
Do you envisage a lower cost of capital for risks that are identified as having positive ESG ratings?



Increasingly, positive ESG ratings are creating favourable conditions for companies, with 27% of insurers responding that ESG will have positive cost-of-capital implications moving forward. This group will likely grow, given that 56% of respondents stated that they were not sure of the cost-of-capital implications at this stage. In anticipation of this trend, insureds have an opportunity to position their ESG credentials to take advantage of potential future differentiation.

Yes
No
Don't know

If Marsh could demonstrate a client has favourable ESG metrics, would you contemplate offering any of the following?



As well as the positive cost-of-capital implications, 79% of respondents indicated the intent to offer some form of incentive for positive ESG metrics — and 47% stated that these would include all of the benefits proposed in the survey. According to the survey, ESG is set to have a significant impact on insurers' risk selection over time as carriers become more aligned to support higher scoring ESG organisations.

Premium credits
Additional capacity
Favorable terms and conditions
None of listed benefits
All of listed benefits

Summary

The ESG landscape is evolving quickly, and these insights give strong indication of insurers’ direction of travel. There will, of course, be variability in approach, appetite, and application across different product lines and regions — and even within the same global carriers — as insurers establish an ESG strategy across their various line underwriters.

It is also important to stress that not all underwriters are currently considering ESG factors and, within certain industry and segments of the portfolio, ESG is yet to make its way to the forefront. Despite there being no market-wide approach at present, all respondents indicated that they envisioned some form of unified approach in the future. We have also conducted similar conversations with carriers outside the UK and the current lack of a unified approach is a common trait globally.

Companies should consider how to assess and communicate their ESG profile and journey. Marsh is well placed to support those discussions.

Marsh’s ESG Risk Rating tool is a valuable starting point to engage, build a conversation, and develop an insurer engagement strategy.

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