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Environmental, Social, and Governance Factors — A Rapidly Evolving Landscape

While the investment community has considered Environmental, Social, and Governance (ESG) factors for some time now, an increasing focus from insurers on ESG is changing the insurance landscape rapidly. As a result, companies operating in or adjacent to carbon-heavy industries face a challenging insurance market for obtaining cost efficient and sustainable insurance.

UN Environment's Principles for Sustainable Insurance Initiative

In June 2020, we saw the release of the first ESG guide for the global insurance industry developed by the United Nations (UN) Environment Programme's Principles for Sustainable Insurance Initiative, "Managing environmental, social and governance risks in non-life insurance business."

The Sustainable Insurance Initiative is based on four key principles:

1. Embedding Environmental, Social, and Governance issues in decision-making.
2. Working with clients and business partners to raise awareness of environmental, social, and governance issues, manage risk, and develop solutions.
3. Working with governments, regulators, and other key stakeholders to promote widespread action across society on environmental, social, and governance issues.
4. Demonstrating accountability and transparency in regularly disclosing publicly progress in implementing the principles.

The intent of these principles is to provide a common aspiration and global framework for the insurance industry to manage ESG issues in respect to risk assessment and insurance underwriting.

While not intended as a formal standard, the guide is intended to be a tool for underwriters to consider ESG in the context of their business model, specific lines of business, size, and geographical scope.

The guide covers the following eight areas for underwriters to consider:

1. Developing an ESG approach.
2. Establishing an ESG risk appetite.
3. Integrating ESG issues into the organization.
4. Establishing roles and responsibilities for ESG issues.
5. Escalating ESG risks to decision-makers.
6. Defecting and analyzing ESG risks.
7. Decision making on ESG risks.

It will be interesting to see if this brings alignment or consistency in approach to ESG factors considered in underwriting, rather than the varied, ad hoc approach we have seen from insurers to date.

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ESG Factors to Address

While some insurers have issued public statements regarding their position on certain industry segments, many others take a more selective, case-by-case approach when reviewing the businesses they will continue to insure. Given the changing market, insureds should proactively include their response to ESG issues as part of their underwriting submission. Such actions may include:

Environmental

- What commitment have you made to reducing the carbon footprint of your operations and your products in line with the Paris Agreement?
- What commitment have you made toward reducing the carbon footprint of your customers and suppliers?
- What assessments of climate transition and physical risk have you conducted on your business?

Social

- How do you ensure there are no human rights violations in your business operations?
- How do you monitor health and safety of employees, customers, contractors, suppliers, and the general public?
- What is your process for community and other stakeholder engagement?

Governance

- How is your governance structure set up to ensure no corruption, bribery, or unethical work practices?
- What portion of your board are independent directors or women/minorities?
- Are board members trained on climate and other ESG related issues?

How to Communicate Your ESG Approach to Insurers

1. Take a proactive rather than reactive approach to providing relevant ESG information as part of your underwriting submission, market presentations, and general engagement with insurers.
2. Where possible, highlight diversification of your business model or implemented or planned measures that demonstrate a commitment to transitioning to a low carbon economy.
3. Demonstrate a commitment, backed up by targets (time bound and verifiable) where possible, to reducing your own greenhouse gas emissions as well as those in your supply chain.
4. Do not ignore the Social and Governance factors. As appropriate, highlight positives such as increased indigenous employment, commitment to health and safety, zero tolerance for unethical practices or corruption in your business activities, and diversity on your board and senior management.

For further information on ESG and guidance specific to your insurance program, please contact your Marsh client team.

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