

The European way to sustainable insurance - the ESG Challenge

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Agenda

- How it all started
- European legislative activities
- ESG in the European insurance industry
- Selected references

How it all started



UN Framework Convention on Climate Change 21st Conference of the Parties, Paris, 2015

How it all started

The Paris agreement

- is a legally binding international treaty on climate change, adopted by 196 countries in December 2015, entered into force in November 2016

Its goals are

- a limitation of global warming to well below 2°, preferably to 1.5° Celsius, compared to pre-industrial levels
- a reduction of greenhouse gas emissions worldwide, achieving a climate neutral world by mid-century
- an economic and social transformation, based on the best available science
- providing a framework for financial, technical and capacity building support to those countries who need it

How it all started

CSR – Corporate Social Responsibility

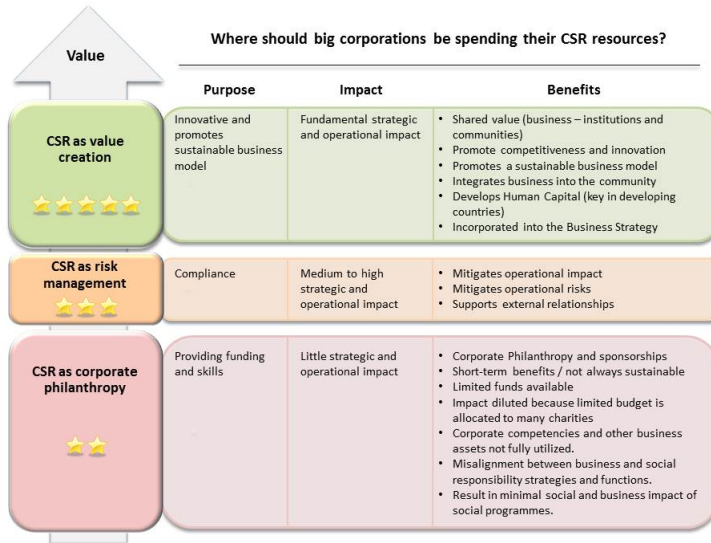
- a type of international private business self-regulation that aims to contribute to societal goals of
 - philanthropic
 - activist, or
 - charitable

nature

→ Berle-Dodd debate (1932)

How it all started

CSR – Corporate Social Responsibility



How it all started

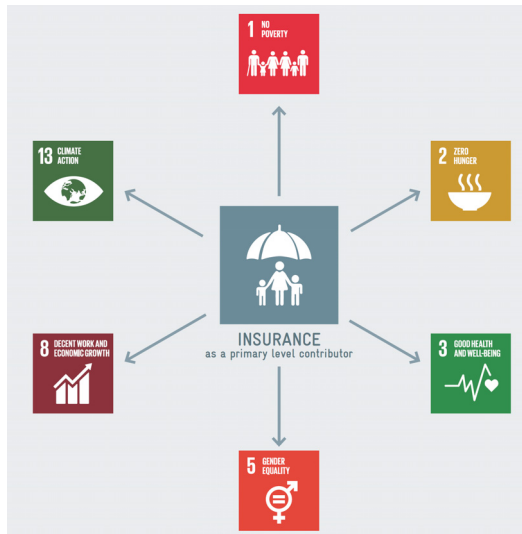
SDG issues – Sustainable Development Goals



UN 2030 Agenda for Sustainable Development, September 2015

How it all started

SDG issues – Sustainable Development Goals



GIZ 2017 (German Society for International Cooperation)

The European way to sustainable insurance - the ESG challenge

How it all started

SDG issues – Sustainable Development Goals (GIZ 2017)



How insurance helps to end poverty in all its forms everywhere

- Insurance provides a safety net for those using it, preventing families from falling (back) into poverty after experiencing a shock.
- Insurance provides an economic protection mechanism for all.
- Insurance sustains other development efforts.



How insurance helps to end hunger, achieve food security and improved nutrition and promote sustainable agriculture

- Insurance fosters locally driven and sustainable food production by opening lending opportunities where there were none before, and by encouraging investment in enhanced agricultural practices.
- Insurance improves household food security by stabilizing the household's financial situation after a shock.
- Insurance helps people to respond and adapt to natural catastrophes, which otherwise can plunge them into greater poverty.

How it all started

SDG issues – Sustainable Development Goals (GIZ 2017)



How insurance helps to ensure healthy lives and promote well-being for all at all ages

- Insurance and social protection can play complementary roles to cover a range of household health care costs.
- Insurance improves health-care seeking behaviour.

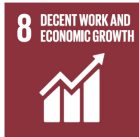


How insurance helps to achieve gender equality and empower all women and girls

- There are gender differences in risks faced by women and men.
- Insurance offers protection for women working in the informal sector who often fall outside the reach of public social protection schemes.
- Insurance protects women against the devastating effects of gender-related reproductive health risks.
- Insurance protects women from the financial impact of losing family members, helping women to retain their homes, sustain their businesses, continue education of their children, and generally maintain the financial stability of their household.

How it all started

SDG issues – Sustainable Development Goals (GIZ 2017)



How insurance helps to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

- Insurance protects assets, thereby unlocking loans and other funds for investments by MSMEs.
- Insurance frees MSME's private funds for productive investment.
- Insurance supports the development of MSMEs by protecting them from losses due to risks related to business, natural disasters or other catastrophes.
- Insurance helps to avoid child labour related risk financing.



How insurance helps to take urgent action to combat climate change and its impacts

- Insurance mitigates the effects of extreme weather events, thereby strengthening climate change resilience.
- Insurance complements and strengthens other climate change coping efforts.
- Catastrophe insurance protects a variety of stakeholders, from companies and infrastructure to the most vulnerable.

How it all started

ESG issues – Environmental, Social, and Governance

- Issues that investors apply to measure the sustainability of, and risk associated with, their investments
 - Environmental: issues connected to global warming, energy usage and pollution.
 - Social: factors related to the treatment of company workers, health and safety considerations, and community outreach.
 - Governance: topics including business ethics, board structure and independence, executive compensation policies and accounting.

PRI Association – Principles for Responsible Investment
An investor initiative in partnership with
UNEP Finance Initiative and UN Global Compact (2018)

European legislative activities

- **REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on**
sustainability-related disclosures in the financial services sector
("transparency regulation")
- **REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on the**
establishment of a framework to facilitate sustainable investment, and
amending Regulation (EU) 2019/2088
("taxonomy regulation")

European legislative activities

To whom it concerns

- an insurance undertaking which makes available an insurance-based investment product (IBIP)
- an investment firm which provides portfolio management
- an institution for occupational retirement provision (IORP)
- a manufacturer of a pension product
- an alternative investment fund manager (AIFM)
- ...

Article 2 of the transparency regulation

European legislative activities

Public disclosure requirements

- Information about the policies on the integration of sustainability risks in the investment decision-making process
- If adverse impacts of investment decisions on sustainability factors are **considered**: a statement of their size, the nature and scale of their activities and the types of financial products they make available
- If adverse impacts of investment decisions on sustainability factors are **not considered**: clear reasons for why they do not do so, including, where relevant, information as to whether and when they intend to consider such adverse impacts

Articles 3 & 4 of the transparency regulation

European legislative activities

Sustainability risk:

'Sustainability risk' means an **environmental, social or governance** event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment

→ The European ESG-Challenge

Article 2 (22) of the transparency regulation

ESG in the European insurance industry

Detailed specification of ESG criteria:

Environment:

- Climate mitigation
- adjustment to climate change
- protection of biodiversity
- sustainable use and protection of water and maritime resources
- transition to a circular economy, avoidance of waste, and recycling
- avoidance and reduction of environmental pollution, protection of healthy ecosystems
- sustainable land use

ESG in the European insurance industry

Detailed specification of ESG criteria:

Social:

- Compliance with recognised labour standards (no child labour, no forced labour or discrimination)
- compliance with employment safety and health protection
- appropriate remuneration, fair working conditions, diversity, and training and development opportunities
- trade union rights and freedom of assembly
- guarantee of adequate product safety, including health protection
- application of the same requirements to entities in the supply chain
- inclusive projects and consideration of the interests of communities and social minorities

ESG in the European insurance industry

Detailed specification of ESG criteria:

Governance:

- Tax honesty
- anti-corruption measures
- sustainability management by the board
- board remuneration based on sustainability criteria
- facilitation of whistle blowing
- employee rights guarantees
- data protection guarantees
- information disclosure

ESG in the European insurance industry

Detailed specifications for Risk Management:

- Definition of tasks, responsibilities and the timelines for identifying, evaluating, managing, monitoring and reporting sustainability risks
- Regular revision of methods and procedures for identifying, evaluating, managing, monitoring and reporting sustainability risks
- Establishment of processes for the early recognition of sustainability risks (early warning system)

This concerns both sides of the balance sheet: assets and liabilities!

ESG in the European insurance industry

Proposed methods:

- Exclusion criteria / limits (negative lists)
- Positive lists
- Best-in-Class approach
- Standards based screening / ESG integration (holistic approach)
- ESG ratings
- Stress tests including scenario analyses

ESG in the European insurance industry

Possible future developments:

- Integration of sustainability risks and ESG criteria into Solvency II
- Inclusion of sustainability risks and ESG criteria in the ORSA
- Extension of reporting duties (RSR, SFCR, ...)
- Taxonomy-alignment of assets
- Creation of new “green” insurance products on the liability side, e.g.
 - Building
 - Content
 - Third party liability
 - Accident
 - Agriculture
 - ...

ESG in the European insurance industry

Challenges for actuaries:

- Pricing of new “green” insurance products
- Sustainable reinsurance structures
- Investigating new dependencies between sustainability risks
- Stochastic models for unfavourable scenario analyses
- Development of climate-related mortality tables
- ...

Selected references

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