PRINCIPLES FOR SUSTAINABLE INSURANCE
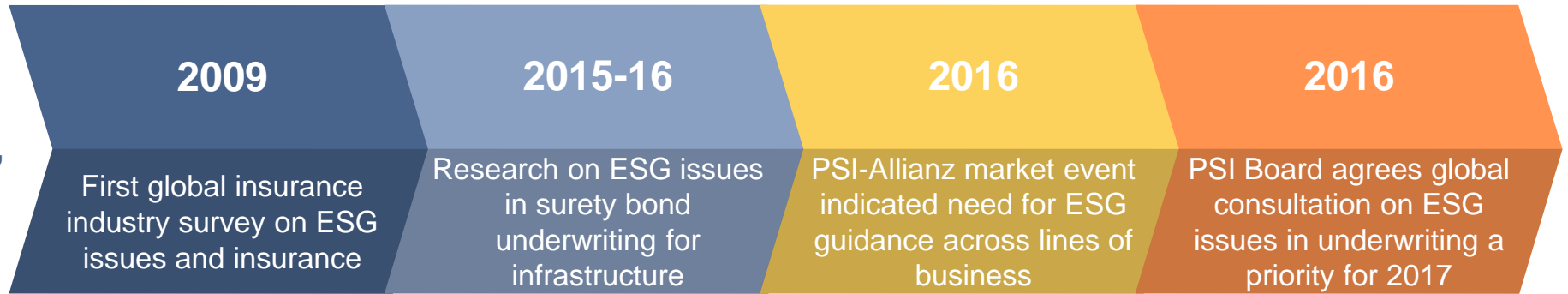
ESG STANDARD

Project overview

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BACKGROUND ON THE PSI ESG STANDARD PROJECT

The project to investigate the development of an insurance industry standard on environmental, social and governance issues has evolved out of other PSI-related projects

2009	**2015-16**	**2016**	**2016**
First global insurance industry survey on ESG issues and insurance	Research on ESG issues in surety bond underwriting for infrastructure	PSI-Allianz market event indicated need for ESG guidance across lines of business	PSI Board agrees global consultation on ESG issues in underwriting a priority for 2017

What is ESG?

ESG stands for environmental, social and governance issues. The initial focus of the project is how ESG issues are integrated into non-life insurance underwriting. Examples of good practice approaches are listed below.

Key reference documents:

- IMIA ESG integration paper
- Allianz ESG framework
- Swiss Re Sustainability Risk Framework
- UNEP FI report on ESG factors in insurance
- CRO Forum paper on ESG factors in country risk management
- CRO Forum paper on recommendations in managing environmental, social and ethical challenges in business transactions
- The Principles for Sustainable Insurance
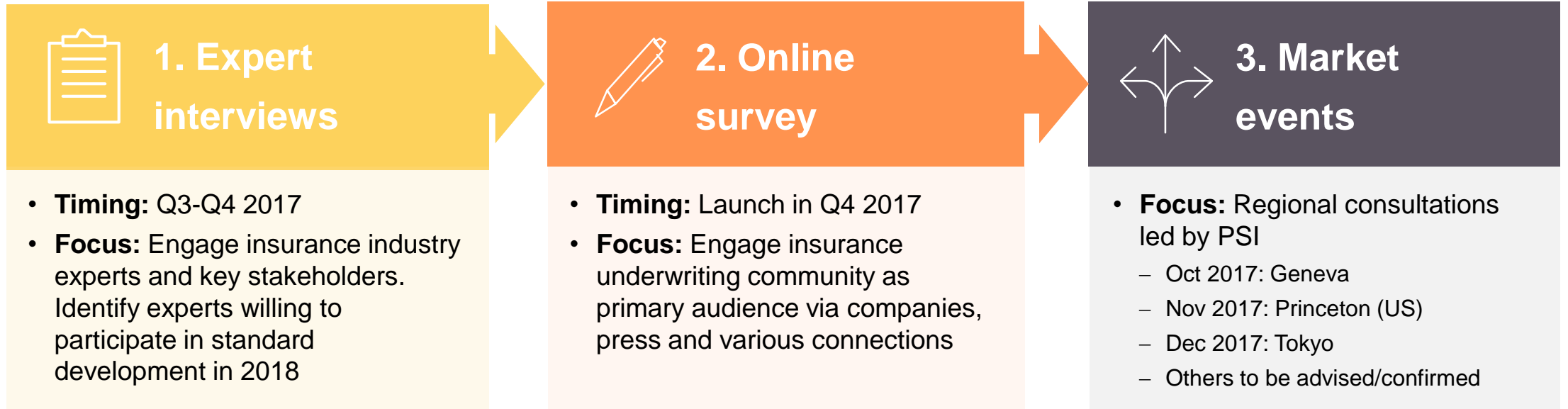
Why are we focusing on this?

1. Increasing requirements in international good practice standards such as the UN Guiding Principles on Business & Human Rights, OECD Guidelines for Multinational Enterprises, Equator Principles for project finance, Convention on Cluster Munitions, UK Modern Slavery Act, and more.
2. Growing reputation risk for the insurance industry
3. Increasing number of insurers conducting due diligence on ESG issues and opportunity to align approaches to improve and streamline the flow of information
4. Some evidence that well-managed ESG risks support claims reduction (e.g. poorly managed resettlement of labour issues leading to business interruption claims)
5. Support the UN Sustainable Development Goals

APPROACH TO PSI ESG STANDARD PROJECT

OBJECTIVES:
1. **Determine industry appetite for ESG guidance**
2. **Start to develop a framework if positive response**

1. Expert interviews

- **Timing:** Q3-Q4 2017
- **Focus:** Engage insurance industry experts and key stakeholders. Identify experts willing to participate in standard development in 2018

2. Online survey

- **Timing:** Launch in Q4 2017
- **Focus:** Engage insurance underwriting community as primary audience via companies, press and various connections

3. Market events

- **Focus:** Regional consultations led by PSI
  - Oct 2017: Geneva
  - Nov 2017: Princeton (US)
  - Dec 2017: Tokyo
  - Others to be advised/confirmed

OUTPUTS
1. **Development of standard by experts in 2018**
2. **Launch results in Q4 2018 at a PSI market event**

WHO IS INVOLVED IN THE PROJECT?

CORE PROJECT TEAM
(Open to any PSI members or non-members by agreement)

- Allianz
- AXA
- Generali
- Munich Re
- PSI Secretariat
- Santam
- Temple Univ. (Fox School of Business)
- Univ. Technology Sydney
- West Chester Univ.

ORGANIZATIONS INTERVIEWED OR BEING CONTACTED
(Additions occurring regularly)

- AAMGA
- Ace
- AIG
- Aon
- Aquiline Private Equity
- Aviva
- Bank of England
- Beach Reinsurance
- BIBA
- CERES
- Climatewise
- Danish Insurance Assoc
- Finance Norway
- Guy Carpenter
- IAG
- InsuResilience
- FIRMA
- FWU Group
- Hannover Re
- Helvetia
- HSBC
- IIS
- KfW
- LF
- Lloyd's of London
- Oekom
- PhilNaRe
- QBE
- RAA
- RepRisk
- RSA
- S&P
- Santam/Sanlam
- Sompo
- SRA
- Swiss Re
- UBS
- Iceland Univ.
- Willis
- WWF
- Zurich

EXPERT VOLUNTEERS FOR TECHNICAL ADVISORY GROUP
(Sample of volunteers to date)

Allianz:
- U/W, 15+yrs, liability/SME/x-border
- Hd U/W, 13+yrs, trade credit/fidelity/bonding
- Technical expert, 20+yrs engineering/reinsurance/energy

Oekom:
- Financial services ESG analyst

RepRisk:
- CEO

RSA:
- Director U/W, 50+yrs, casualty

Univ. Iceland:
- Assoc. Professor (insurance)

Zurich:
- Hd CR, 10+yrs, flooding/consulting/risk
- Chief Risk Officer

FINDINGS SO FAR FROM INTERVIEWS

25

INTERVIEWS CONDUCTED

100%

FAVOURABLE ESG STANDARD/GUIDANCE

AREAS OF EXPERTISE:

AVIATION, BONDING, BROKERAGE CARGO, CASUALTY, CONSTRUCTION, CLAIMS, CYBER, ENERGY, ENGINEERING, FACULTATIVE REINSURANCE, FIDELITY, LIABILITY, LIFE & HEALTH, LOSS ADJUSTING, MARINE, MEDICAL MALPRACTICE, MOTOR, PRICING, PRIVATE EQUITY, PROPERTY, RISK, TRADE CREDIT, TREATY REINSURANCE, ETC.

CEO (Global broker)

„„…don't use terms like CSR, Sustainability...it's a turn off for the industry…it's also important to recognize what the industry already does in considering some of these issues"

Head of U/W (Global)

„„…brokers are key and can control the flow of information, but sometimes there is just a lack of awareness and not just a desire not to help"

Reinsurance Expert (Global, 20+yrs)

„„… business interruption is important as it leads to damages to materials for construction when there are strikes, riots or delays. Often linked to poorly handled resettlement with knock-on impacts with machinery delayed installation and potential future claims. "

CEO

U/W

RE

U/W

CA

U/W (20+ yrs in multiple lines)

„„…it does not matter what your share of a risk is, or your role, you have a responsibility if you are involved…but there is less you can do to influence a risk if you are not the primary insurer or reinsurer"

U/W (13+ yrs in multiple lines)

„„…for ESG guidance making sure underwriters are at least given the tools to make those assessments is probably the most appropriate thing…"

Casualty Director (Global, 50+ yrs)

„„… any standard needs to be supported by major brokers…reinsurers can have a direct influence on the original insurers and communicate to cedants…fear of competitive pressure is what prevents. "

INVITATION TO HELP STEER THE DEVELOPMENT

We want to carry out a wide-reaching, inclusive industry consultation.

Companies or individuals can participate in a number of ways. Just get in touch at psi-underwriting@unepfi.org or contact james.wallace@allianz.com or butch.bacani@unep.org

1. **Join the core project team – if your organization wants to help drive the initiative**
2. **Talk to us to give your opinion or suggest an important stakeholder for an interview**
3. **Join the technical advisory group to steer the development of future guidance**
4. **Participate in and share the online survey in Q4 2017**
5. **Participate in one of the market events (Switzerland, US, Japan, others to be advised/confirmed)**

More information:
http://www.unepfi.org/psi/underwriting-esg-risks/