



Forthcoming Paper – Sustainability & Impact on Reputation Risk

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Context

- Scope & Mandate
 - ✓ Combining existing AAE workstreams on sustainability, and on reputation & conduct risk
- Writing Team
 - ✓ *Clara Armengol Vivas (Spain)*
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 - ✓ *Jana Zelinkova (Czech Republic)*
- Timeline
 - ✓ The paper will be finalized before the next AAE Spring Meeting 31.3./1.4.22

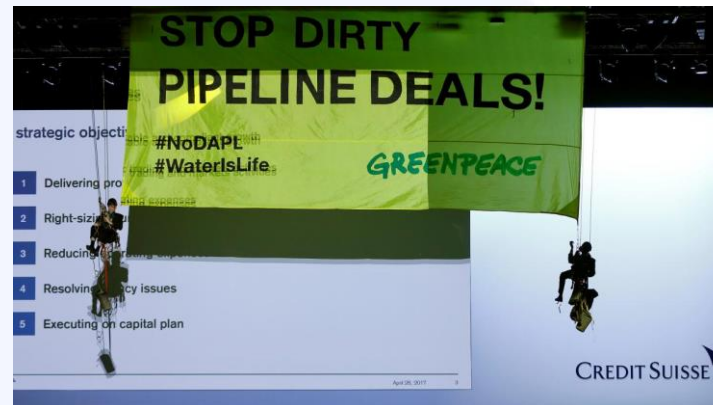
Introduction

- **Non-financial factors (like ESG)** are increasingly applied in investors analysis of investment risks and opportunities
- ESG can affect a company's reputation and several sensitive risk areas must be considered. The paper aims to:
 - ✓ Describe these issues and highlight challenges
 - ✓ Support actuaries & risk managers in the **identification, assessment, and mitigation** of such risks and provide input to ORSA & ORA processes
- Paper structure:
 - ✓ Ch. 1: How companies are affected by reputational risks
 - ✓ Ch. 2 & 3: Green products, greenwashing and examples
 - ✓ Ch. 4 : Protection gap & reputational issues



How companies are impacted by reputational risks (1)

- **Civil society & NGOs** advocate urgent need to integrate sustainability considerations in business & investment strategies
 - ✓ Potential driver for positive change
 - ✓ Reputational risk if 'name & shame' is applied














ARND WIEGMANN/REUTERS (2017)

- **Social media** spread negative news quickly
- Monitoring NGO & media coverage can provide valuable early risk signals to companies and risk managers regarding reputation issues

How companies are impacted by reputational risks (2)

Insure our Future 2021 scorecard (excerpt)

Company ^{1†}	Country ^{1†}	Fossil Fuel Insurance ^{1†}	Fossil Fuel Divestment ^{1†}
Allianz		4.7 / 10 Rank 1	4.4 / 10 Rank 3
AXA		4.6 / 10 Rank 2	5.4 / 10 Rank 1
Axis Capital		3.9 / 10 Rank 3	3.5 / 10 Rank 4
Swiss Re		3.6 / 10 Rank 4	3.5 / 10 Rank 4
Hannover Re		3.2 / 10 Rank 6	1.1 / 10 Rank 12
Zurich		3.2 / 10 Rank 5	3.3 / 10 Rank 6
Mapfre		2.8 / 10 Rank 7	1.7 / 10 Rank 8
Generali		2.6 / 10 Rank 8	2.9 / 10 Rank 7
QBE		2.1 / 10 Rank 10	1.0 / 10 Rank 13
SCOR Re		2.1 / 10 Rank 9	5.4 / 10 Rank 1
Munich Re		1.8 / 10 Rank 12	1.6 / 10 Rank 9



Reputational risks & products / consumers (1)

- Responses from financial companies
 - ✓ Products & communication
 - ✓ Is it enough?
 - ✓ What are the risks if not properly implemented?



1. MARKET:

- ✓ Impact on company's **shareholder value**
- ✓ "Sustainability premium" impacts **customer value** in old business lapses, new business growth / investment bubble

2. MOVING ESG TARGET:

- ✓ Ongoing development of ESG standards, current good practices might be **insufficient in the near future**
- ✓ **Legal rules mitigate uncertainty** - serving as a reference standard (e.g. EU Taxonomy, SFDR)

3. PRODUCTS / MARKETING:

- ✓ **Greenwashing**: not green behavior or products selling as green

Reputational risks & products / consumers (2)



Greenwashing: '7 sins' How to identify them?

According to: TerraChoice

<https://www.ul.com/insights/sins-greenwashing>

Examples from other industries (1)

- Siemens – rail signal system for coal mine
 - ✓ Contract with controversial Australian coal mine to connect it to a maritime freight terminal (*hidden trade-off*)
 - ✓ Negative press coverage, questions about Siemens's climate change commitments
 - ✓ Stock price initially fell by 10% in a month
- Volkswagen – emissions scandal
 - ✓ Intentionally programmed motor engines to falsely pass laboratory emission testing (*fibbing*)
 - ✓ Suspended executives, pleaded guilty to criminal charges
 - ✓ Stock price fell by a third in the aftermath, >30 \$bn in fines & penalties

SIEMENS



Examples from other industries (2)

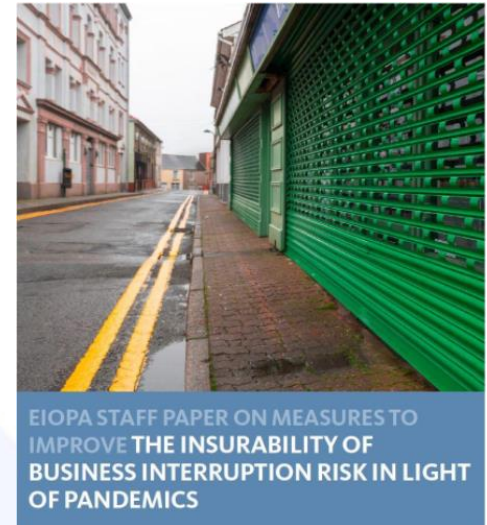
- DWS – greenwashing accusations
 - ✓ Asset management spin-off of Deutsche Bank
 - ✓ Accused of exaggerating claims of investing sustainably, under investigation by BAFin & US authorities (*irrelevance, vagueness*)
 - ✓ Stock price fell by 14% on 26 August 2021 and remained low

- British Petroleum – green repositioning
 - ✓ Rebranded itself as ‘Beyond Petroleum’ (2001), publicly promoting low-carbon energy
 - ✓ Still >95% of annual spending on oil & gas (*irrelevance, lesser of 2 evils*)
 - ✓ Reputational issues, negative media & NGO coverage



Insurability, affordability and claims service (1)

- Governments, businesses and policyholders expect insurance to remain **available, affordable, and that claims will be paid**
- COVID-19 reminded society that this cannot be taken for granted
 - ✓ Shutdowns led to uncovered **non-damage business interruptions**
- Environmental & climate risk poses a similar threat
 - ✓ Only **35%** of natural catastrophes are insured in the EU (source: EIOPA)
 - ✓ Increasing frequency & severity of claims, concentration of exposure



Insurability, affordability and claims service (2)

- **Annual property cover** traditionally reflected balanced interests of both insurers and customers, but now one-sidedly favour insurers
 - ✓ Annual premium increases, higher deductibles, exclusions
- Can lead to a **political and regulatory backlash**
 - ✓ Threats of higher taxes for insurers (France, Covid-19)
 - ✓ Mandatory moratorium on non-renewals (California, wildfires)
 - ✓ Potential way forward: **'impact underwriting'** and **smart claims payment** (e.g. 'build back better', 'green-for-old')



Conclusion

- The convergence of **media** evolution and **sustainability focus** significantly increases reputational risk
- **Greenwashing** is a major and multi-faceted issue, increasingly monitored by regulators and the public
- **Protection gaps** are another, lesser-known aspect of reputational risk
- Many financial institutions make ambitious **long-term commitments** (e.g. net-zero by 2050) but take limited immediate action ... how long can this discrepancy last?
- Reputational risk can also lead to actual **legal & litigation risk** (regulatory sanctions, class action etc.)
- All of the above should be high on the priority list of companies, risk managers and actuaries

Q&A

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