



Sustainable Insurance Products

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AAE Webinar on **Update on Risk Management Topics**

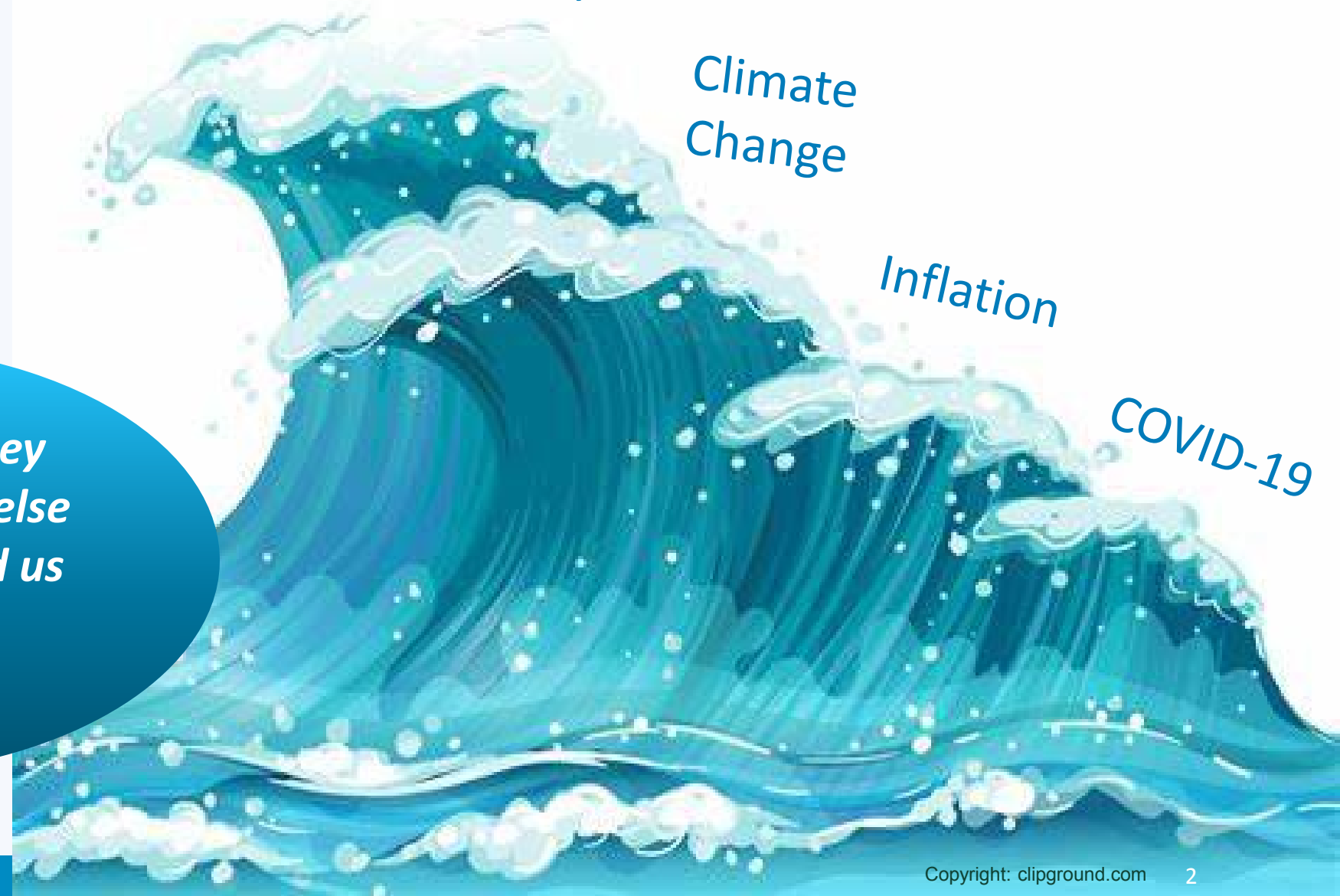
26 September 2023

Climate Change and Sustainability

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What is it all
about?

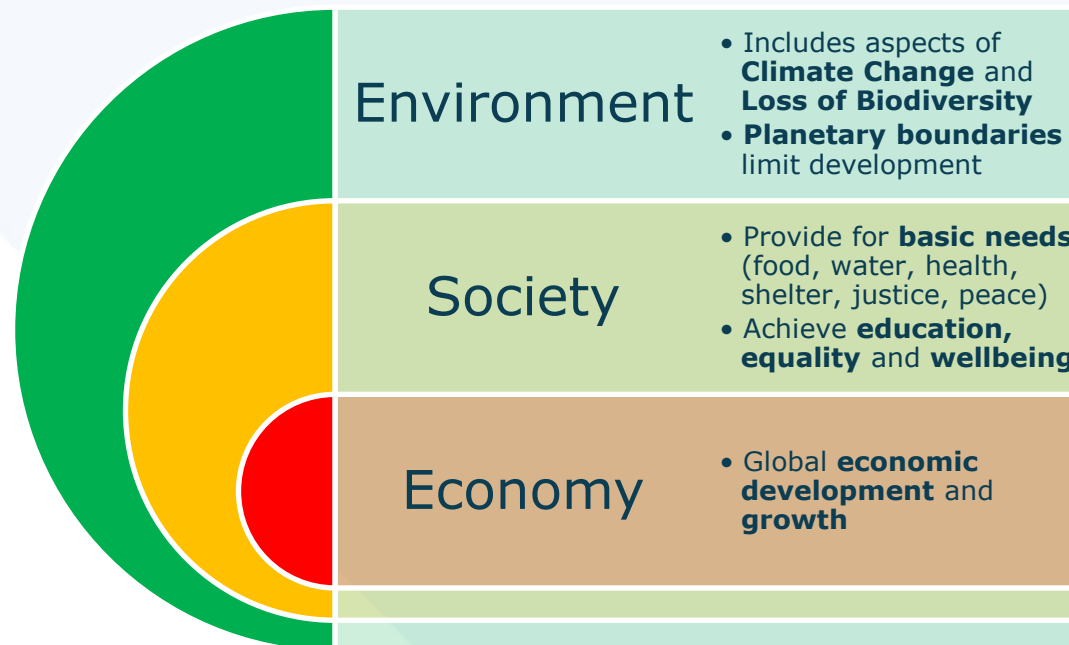
*“And I thought they
meant something else
when they warned us
about the next
wave...!”*

Migration of Peoples & Loss of Biodiversity



Sustainability is more than managing Climate Change

The three hierarchical perspectives of sustainability:

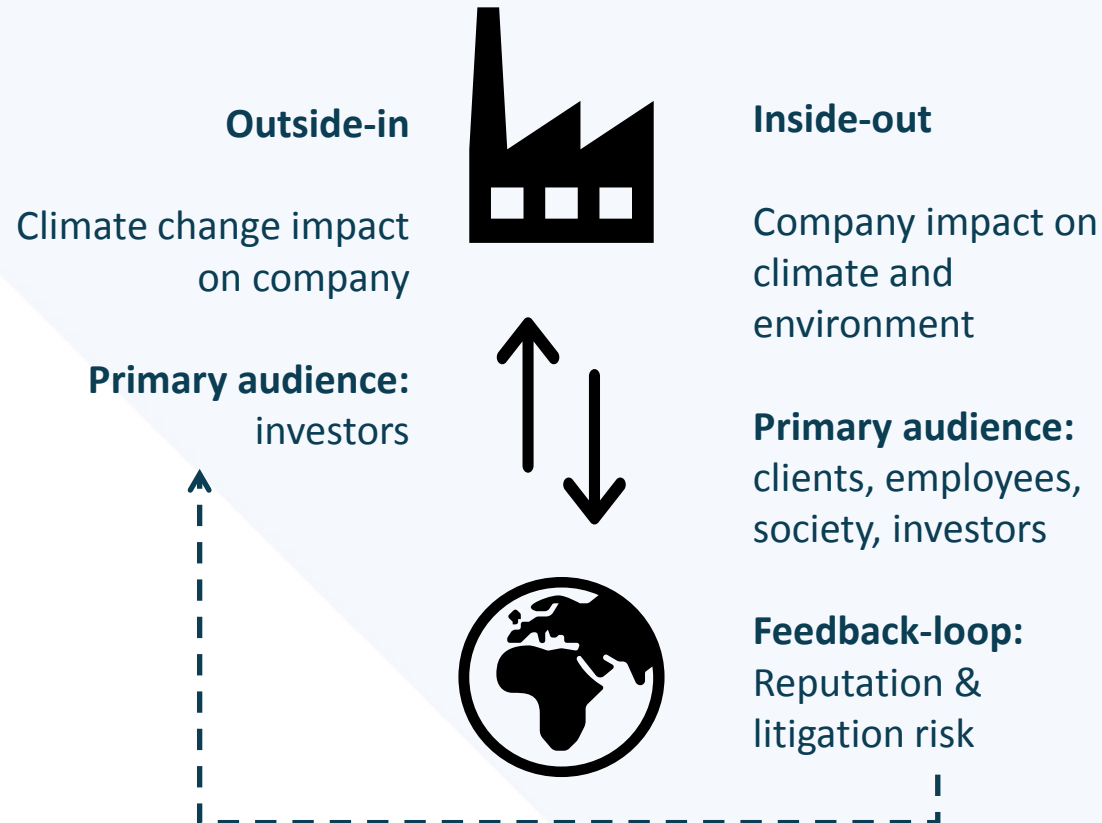


The Brundtland Commission:
“Sustainability means meeting
our own needs
without compromising the ability
of future generations
to meet their own needs.”

In addition to natural resources, we also must consider social and economic resources.

Sustainability is not just important for Risk Management

Concept of Double Materiality especially relevant for Europe



Note that:

- For the time being the **European Corporate Sustainability Reporting Directive (CSRD)** has **not included life insurance** in the taxonomy for environmental objectives.
- From a global perspective, the **IFRS Foundation** and its International Sustainability Standards Board (ISSB) have **not yet included double materiality considerations**, focussing instead on risks and opportunities that are financially material to reporting entities.

AAE Paper on Sustainable Products in Insurance

Agenda

1. Sustainable savings products
2. Sustainable Insurance Products and Insurers as Long-Term Partners
3. Insurance Products that Support the Economy in Achieving Sustainability Goals
4. Sustainability Reporting and Taxonomies
5. Conclusions



AAE
**Sustainable Products
in Insurance**
<https://actuary.eu/memos/aae-discussion-paper-sustainable-products-in-insurance/>

1. Sustainable savings products – Overview

Existing Standards

- The **EU taxonomy** provides companies, investors, and policy makers with definitions of what economic activities can be considered environmentally sustainable.
- The **EU's SFDR** aims to improve transparency on the ESG criteria of investment portfolios by requiring firms to classify them as either **Article 6**, **Article 8** or **Article 9** products.

Current Implementation

- **High level of uncertainty** and confusion among the suppliers of these products about the interpretation of the regulation and the reporting requirements.
- Many funds have **recently** been **reclassified** by investment firms from Article 9 to Article 8.
- The inability to offer Article 8 or Article 9 savings products jeopardises the attractiveness of the product portfolio.

1. Sustainable savings products – Specific definitions

Article 6	Article 8	Article 9
Non ESG	ESG	Sustainable
NOT GREEN	LIGHT GREEN	DARK GREEN
<ul style="list-style-type: none"> ▪ Products with no specific ESG criteria other than basic group exclusions ▪ Mainstream products ▪ All products that are neither Art. 8 nor Art. 9 	<ul style="list-style-type: none"> ▪ Products which “promote environmental or social characteristics, or a combination” ▪ They have an explicit ESG commitment as part of their investment objective and/or process description 	<ul style="list-style-type: none"> ▪ In addition to the points covered by Art. 8 products, they must have “a sustainable investment objective” ▪ Need to have measurable goals in place aligned with the investment objective which can be reported to clients

2. Sustainable Products: Insurers as Long-Term Partners

Impact Underwriting – a valid starting point

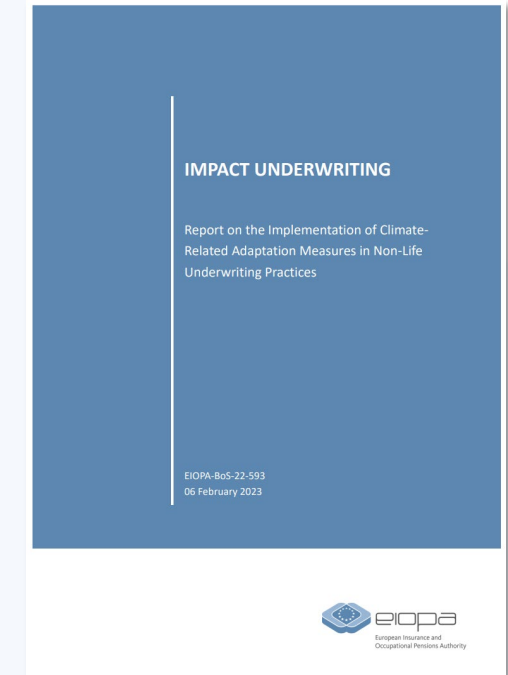
Impact UW for non-life insurance targets to have a positive effect for both, the insured and the insurer.

What insurers see as potential **impact of climate change**:

- Property insurance expected to be the most strongly exposed line
- Risk-based insurance premium levels are expected to rise

How risks could be mitigated by **adaptations measures**:

- Dedicated risk assessments and corresponding advice on prevention measures in property insurance
- Alert and warning systems against extreme weather events
- Static risk prevention measures and incentivize the take up of climate-related adaptation measures through premium discounts



EIOPA
Impact Underwriting
https://www.eiopa.europa.eu/impact-underwriting-eiopa-reports-insurers-use-climate-related-adaptation-measures-non-life-2023-02-06_en

2. Sustainable Products: Insurers as Long-Term Partners

1. **Embed in our decision-making ESG criteria** relevant to our insurance business.
 - Risk management and underwriting
 - Product and service development
 - Claims management
 - Sales and marketing
2. **Work together with our clients and business partners** to raise awareness of ESG criteria, manage risk and develop solutions.
3. **Work together with governments, regulators and other key stakeholders** to promote widespread actions on ESG.
4. **Demonstrate accountability and transparency** in regularly disclosing publicly our progress in implementing the Principles.



PSI
Principles for Sustainable
Insurance
<https://www.unepfi.org/insurance/insurance/the-principles/>

2. Sustainable Products: Insurers as Long-Term Partners

A Simple Example for such a Sustainable Product

What could be features of a sustainable building insurance product?

- Its price and features should be **attractive and attainable** for house owners.
- It should include an element to **determine**, among others thing, **extreme flood risk** to the building.
- Sales advisors and underwriters should **discuss openly with the policyholder** what can be done to mitigate the risks identified.
- In highly exposed areas, **claims payments could be linked** to the requirement to rebuild the house in a less exposed area or with features that effectively reduce the risk of damage due to flooding.

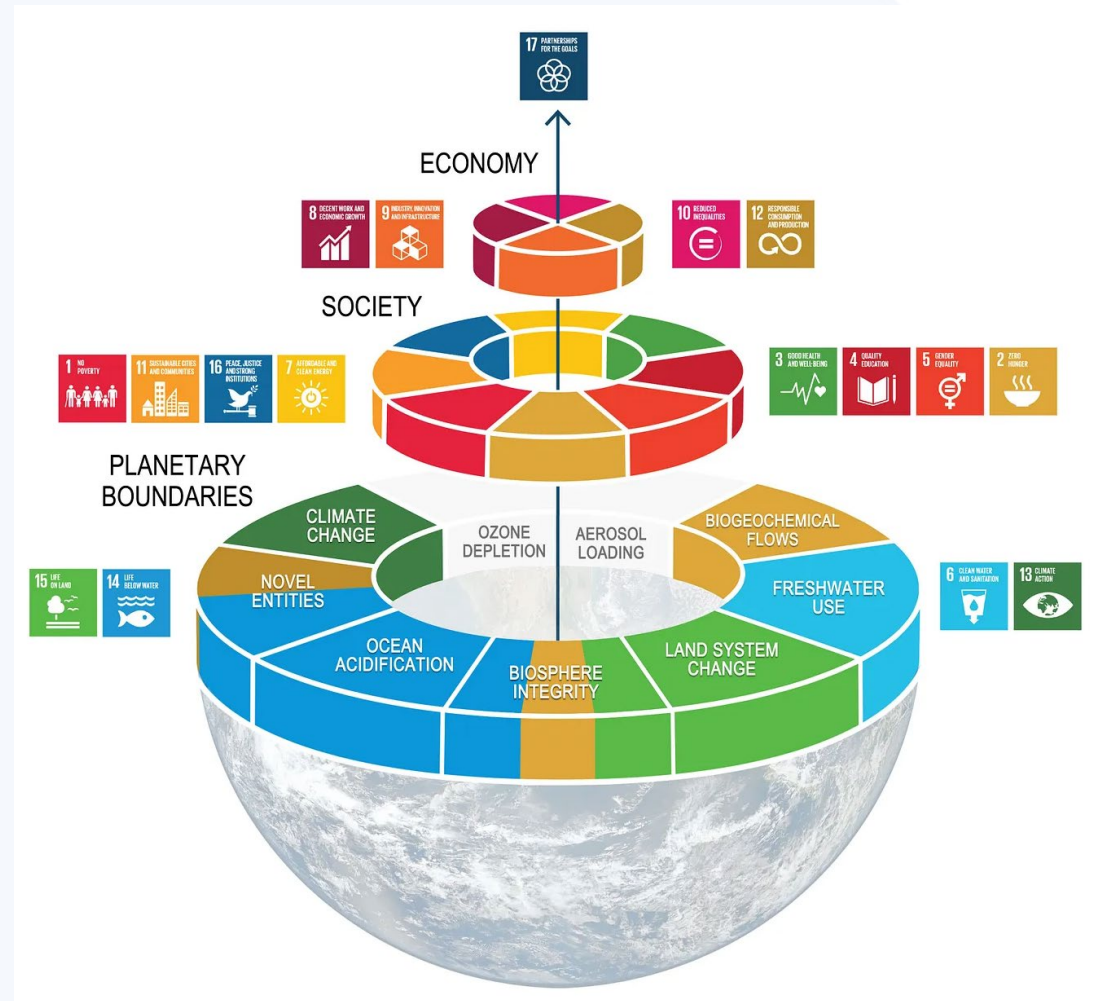
3. Insurance Products that Support the Economy in Achieving Sustainable Goals

Framework around the UN Sustainable Development Goals

WHAT, HOW and HOW MUCH the product impacts ESG:

1. Which **objectives** are affected in a relevant and either **harmful or beneficial** way
2. For each of the relevant objectives assign a **measure** and describe **risks and opportunities**
3. Aggregate the product's measures, to provide a **transparent overall measure** of the impact.

It is important to provide transparency to investors, customers and regulators



3. Insurance Products that Support the Economy in Achieving Sustainable Goals

Framework for Self-Defined Product Characteristics

Lacking a consistent reporting framework, larger insurers may wish to develop their own frameworks for assessing the sustainability impacts of their products

Some examples of features:

- **Value-added services** that help the customer **prevent the insured peril** from occurring.
- **Non-financial compensation** or support aimed at **restoring the customer's well-being**.
- Application of **circular economy principles** in the **restoration of assets** that have been damaged as a result of an insured event
- Use of **technological innovation** to significantly improve the **accessibility or affordability** of the product

Qualitative and quantitative measures to prove the positive effect on ESG criteria

4. Sustainability Reporting and Taxonomies

EU Corporate Sustainability Reporting Directive and Taxonomy

1. New Corporate Sustainability Reporting Directive (CSRD)
 - Extended scope to all large companies and listed SMEs, and non-EU companies
 - Double materiality and multi-stakeholder reporting will be included
 - New sustainability reporting standard (ESRS) developed by EFRAG
2. EU Taxonomy: The insurance industry will have to disclose two indicators:
 - Percentage of non-life gross premium written which aligns with the EU Taxonomy objectives (**green premium ratio**).
 - Percentage of investments in taxonomy-aligned activities (**green asset ratio**)

For the insurance industry current focus on non-life and assets

4. Sustainability Reporting and Taxonomies

IFRS International Sustainability Standards Board (ISSB)

- ISSB's objective is to provide a unified framework for the integrated reporting of climate and other sustainability risks and opportunities that financial reporting may not yet capture
It will not explicitly deal with their external impacts
- Standardized ESG reporting rules will complement the International Accounting Standards Board (IASB) financial accounting regime
- The reporting for insurance will be based on three main blocks:
 - IFRS S1: general aspects of ESG risks and opportunities
 - IFRS S2: specific climate-related risks and opportunities
 - IFRS S2 Appendix B: sector disclosure requirements

Key Challenges for the insurance industry:
(1) Complex and dynamic requirements and
(2) Lack of data and the need for expert judgment

5. Conclusions

- The insurance sector **faces the challenge of creating sustainable products** that can support environmental and social advancement for the economy and society
- **Regulatory and reporting requirements are changing rapidly**, sometimes conflicting or open to interpretation
- Some companies are **refraining from acting now**, preferring to wait for more specific regulation, as there is a **wide scope for interpretation**.
- **Sustainable products are becoming increasingly important** to all stakeholders, especially investors and policyholders.
- Beyond the basic insurance “product”, we **need to think about broader insurance solutions** and services that incentivise the policyholder to take risk mitigation actions
- **“Green Washing”** is important to have in mind when designing such solutions

5. Conclusions



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