



SOCIAL SUSTAINABILITY IN INSURANCE

WHAT, WHO AND HOW

Webinar – 08 March 2024

With you today

Introduction & moderation



□ Frank Schiller

The authors



□ Jérôme Crugnola-Humbert



□ Esko Kivisaari



□ Melissa Leitner



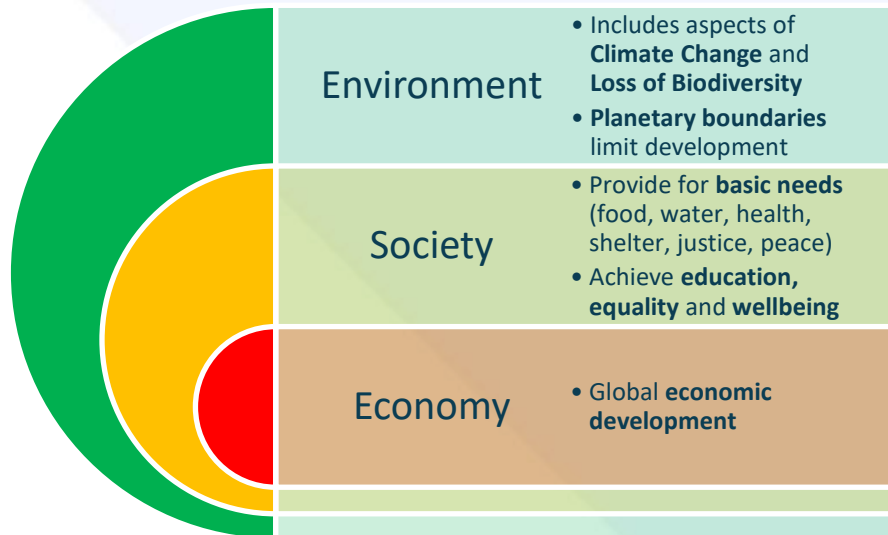
□ Victoria Zach

[Link to the discussion paper](#)



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 objectives.

Programme of the webinar

- ❑ Welcome and introduction (*Frank*)
- ❑ Scope, purpose and relevant standards (*Jerome*)
- ❑ What social role does insurance serve? (*Victoria*)
- ❑ Who does insurance serve? (*Melissa*)
- ❑ How can insurance achieve a positive social contribution? (*Esko*)
- ❑ Closing remarks (*Jerome*)
- ❑ Q&A with the audience (*moderated by Frank*)

Are social impacts a legitimate focus?



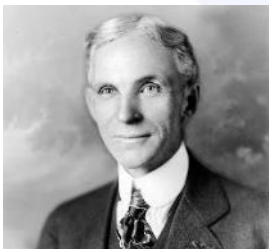
Milton Friedman (1912-2006, economist)

“There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits”

Margaret Thatcher (1925-2013, UK Prime Minister)

“There is no such thing as society”

≠



Henry Ford (1863-1947, industrialist)

“My ambition is to employ still more men, to spread the benefits to the greatest possible number, to help them build up their lives”

Adam Smith (1723-1790, economist)

“No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable”



Comparing carbon emissions and social issues

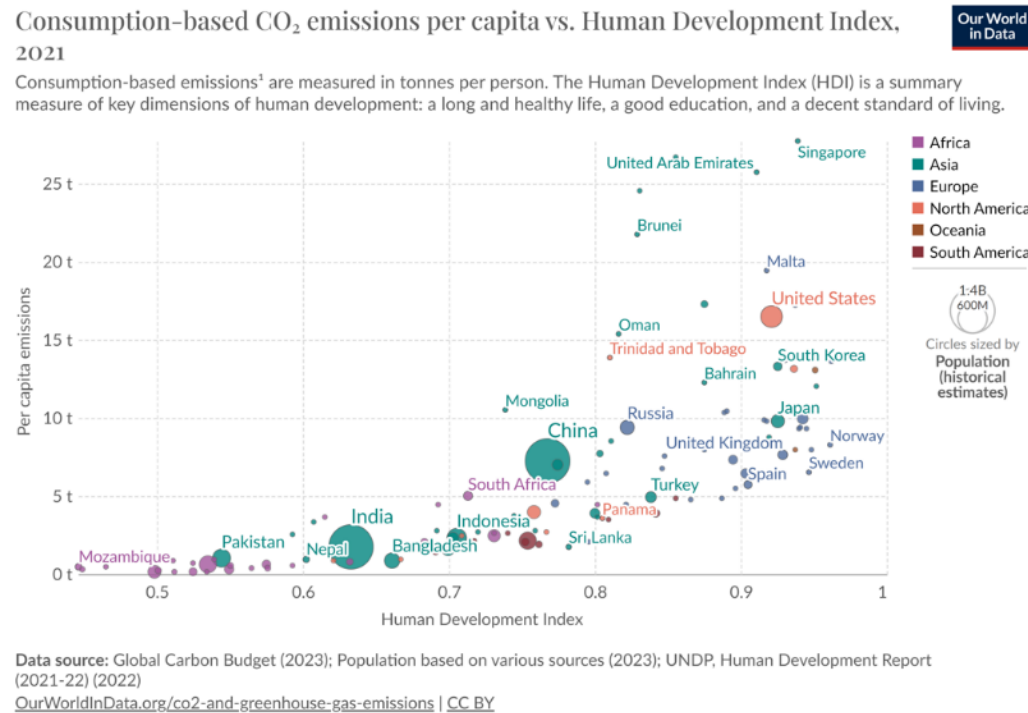
	GREENHOUSE GAS EMISSIONS	SOCIAL IMPACTS
SCOPE 1	<ul style="list-style-type: none"> Direct emissions from owned or controlled sources 	<ul style="list-style-type: none"> Own employees of the insurer
SCOPE 2	<ul style="list-style-type: none"> Emissions generated by the energy bought and consumed 	<ul style="list-style-type: none"> Local communities
SCOPE 3	<ul style="list-style-type: none"> Upstream operations in the supply chain Downstream activities from customers, investees and end-users 	<ul style="list-style-type: none"> Upstream value-chain partners Downstream customers and investees

(from The Geneva Association, 2022)




In focus:
insurance products

Potential tensions between 'E' and 'S' in ESG

- ❑ Economic development is generally a positive social factor (unless accompanied by extreme inequalities), but it has historically been based on cheap fossil fuel energy and exploitation of nature



Differences between climate, nature & social

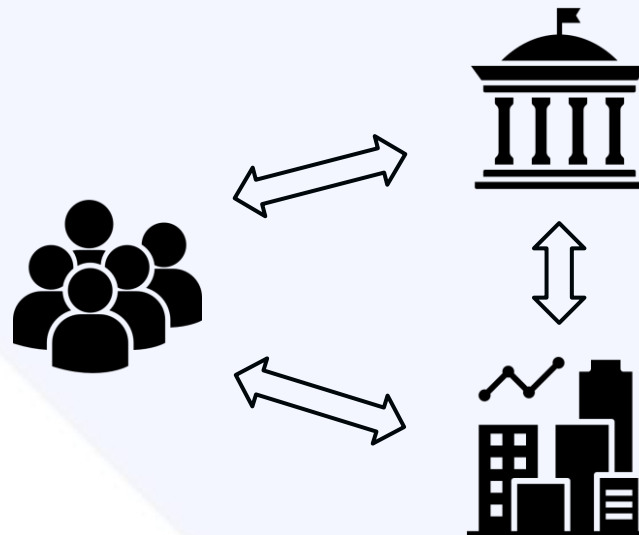
Topic	Climate 	Nature 	Social 
How to measure?	Tons of CO ₂ equivalent	<i>Various possible metrics</i>	<i>Various possible metrics</i>
Science-based?	Yes	Yes	<i>Expectations vary locally</i>

- ❑ No consensus on what good social indicators are, and how to measure
- ❑ Different local attitudes and policies e.g. health insurance



Private insurance and public good

- ❑ How to preserve the **availability**, **accessibility** and **affordability** of basic insurance products (such as health, household or motor) ?
- ❑ Policymakers should ensure that insurance markets are economically viable, and that basic insurance is offered at reasonable prices to those who need it most



International standards

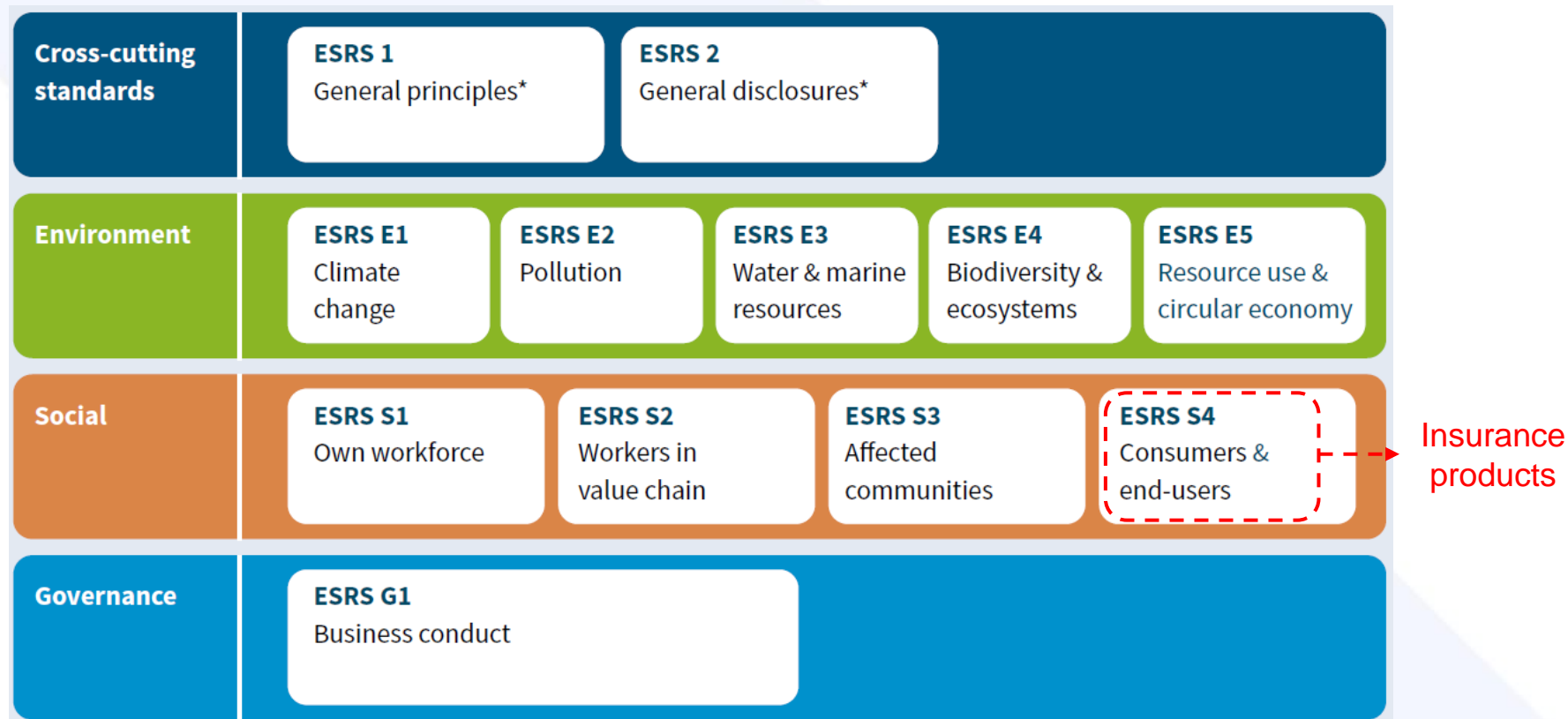
- ☐ Taskforce on Climate-related Financial Disclosures (since 2015)
- ☐ Taskforce on Nature-related Financial Disclosures (since 2021)
- ☐ Taskforce on Inequality and Social-related Financial Disclosures (TISFD, planned to launch in 2024)
- ☐ Social issues are included in IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information, 2023)

TCFD



European regulation

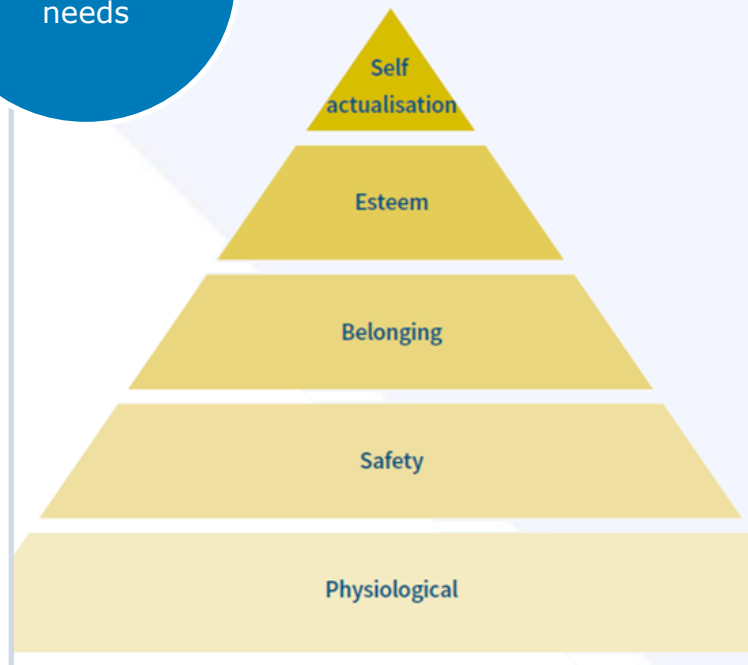
- ❑ Corporate Sustainability Reporting Directive (**CSRD**), requiring **double materiality** considerations of external impacts in addition to financial risks and opportunities



What social role does insurance play?

□ Measures to evaluate the social impact of an insurance

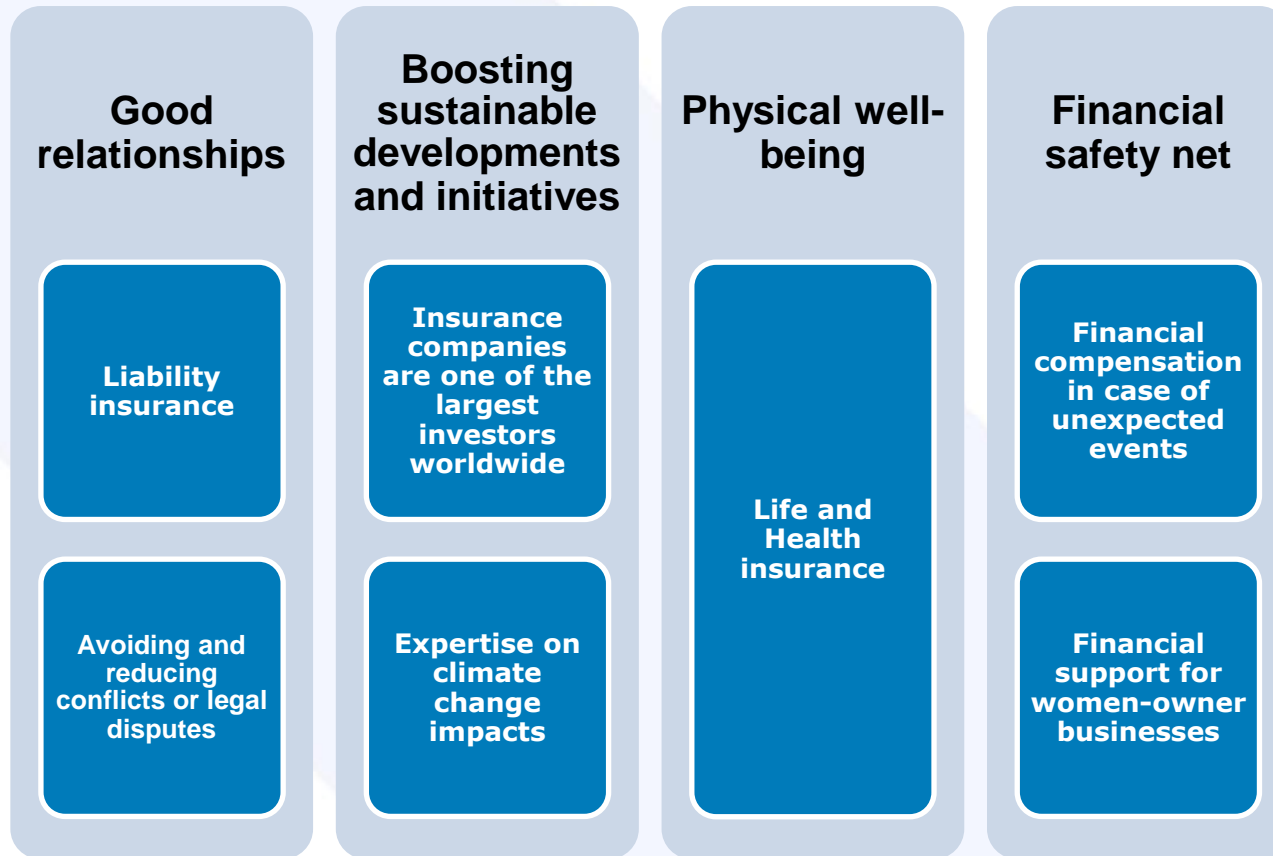
Maslow's
hierarchy of
needs



UN
Sustainability
Development
Goals



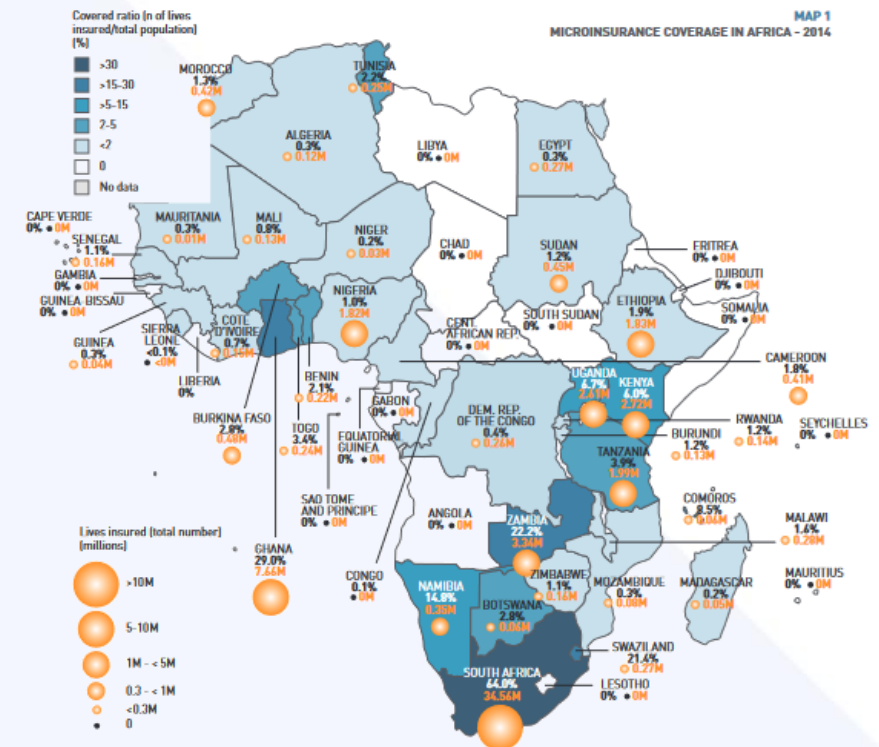
What social role does insurance play?



Use cases (1)

❑ Microinsurance in Africa

Safety net for vulnerable communities who were excluded from the mainstream insurance markets

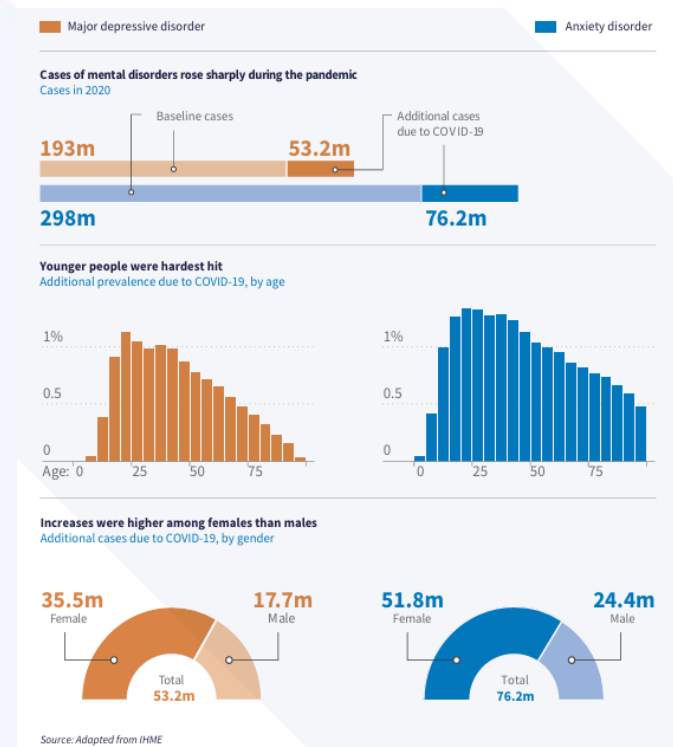


¹¹ Coverage ratio calculated as identified lives insured by microinsurance / total population.

Use cases (2)

❑ Mental health insurance

offering treatment possibilities like mental-health coaching to their customers and embracing tools like telemedicine, self-help guides or new forms of therapies and community interventions



Who does insurance serve?

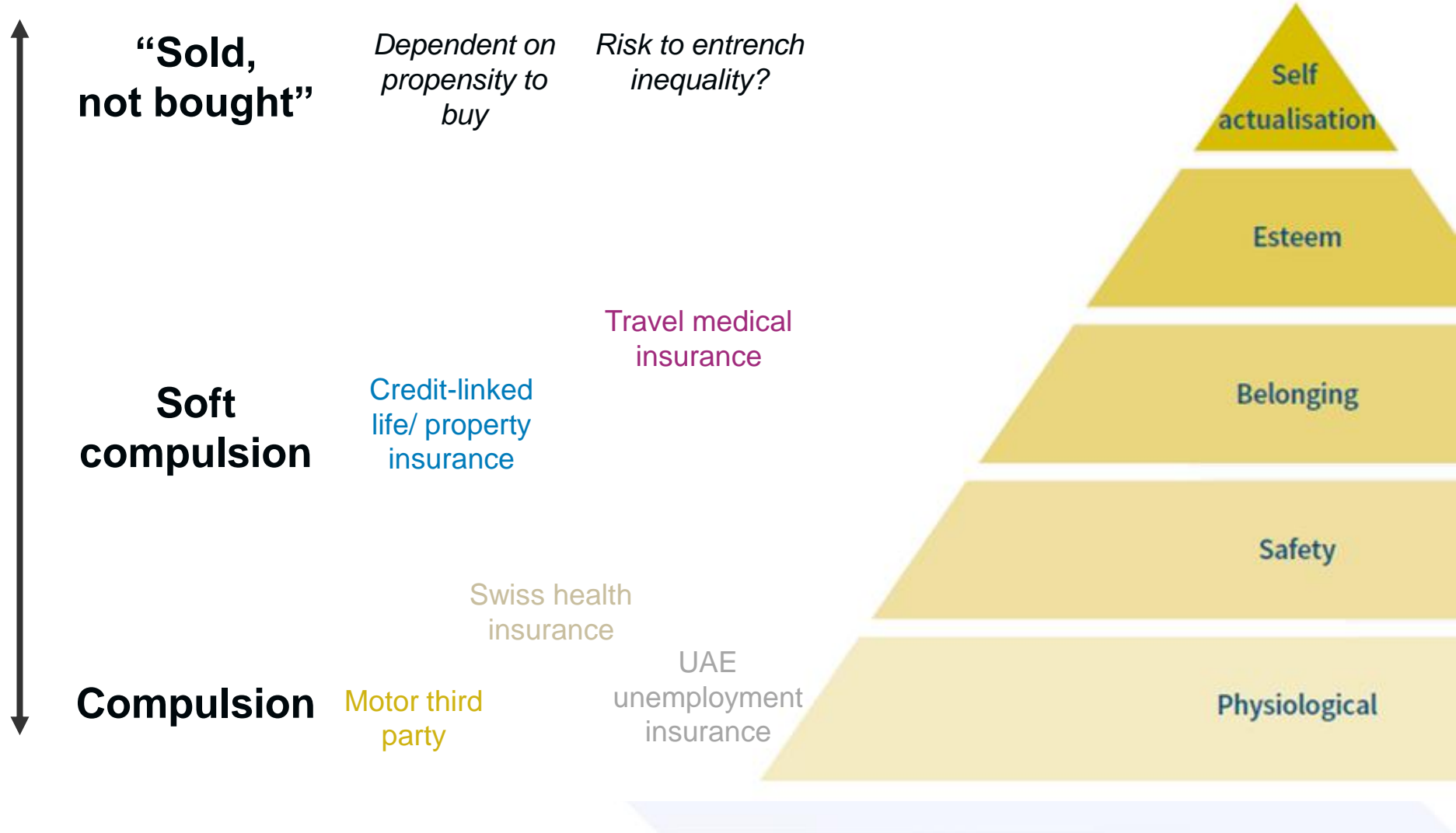
[EIOPA consultation](#), Dec 2023:

- ❑ ‘demands and needs of a **diverse** range of clients’
- ❑ ‘products to **vulnerable** parts of society’
- ❑ ‘more efficient and effective operating and distribution models for insurance, reducing social risks by extending **financial inclusion**’

Four discussion points:

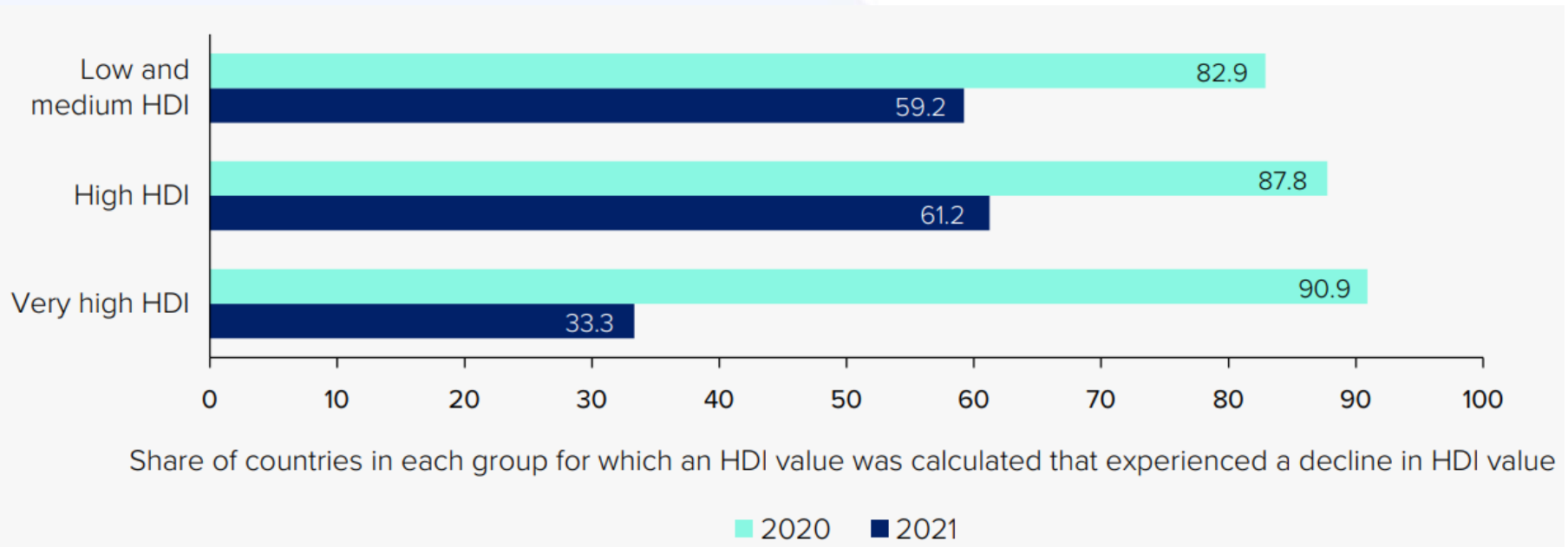
- ❑ Compulsion vs propensity to buy
- ❑ Higher vulnerability as a case for inclusion
- ❑ Cultural and legal basis
- ❑ Inclusion as a commercial opportunity

Compulsion vs propensity to buy



Higher vulnerability

“The global Human Development Index value has declined two years in a row, erasing the gains of the preceding five years”



Source: hdr2021-22overviewenpdf.pdf (undp.org)

Cultural and legal basis

- ❑ Laws and culture determine what is discrimination vs differentiation
- ❑ Neither are static
- ❑ Social tipping points:
 1. Europe: Cancer survivors and the right-to-be-forgotten
 2. US: Rising importance of DEI, in workforce and towards customers
 3. US: criticism of property insurers exiting California and Florida



Inclusion as a commercial opportunity

- ❑ Product, innovation and growth strategies for vulnerable, underserved groups
- ❑ Modernisation of underwriting conditions such as mental health and HIV
- ❑ Inclusion is the antidote to protection gaps, but it requires
 1. Research focused on underserved groups
 2. Partnerships to expand reach and scale
 3. Simpler products and processes
 4. Regulation that balances the goals of consumer protection and improving access

Does differentiation lead into discrimination?

- The actuarial premium differentiates between risks and reflects mathematical and statistical understanding of risks - each policyholder is charged a premium that corresponds to his/her individual risk
- It is easy to avoid direct discrimination, but to avoid indirect discrimination, rating factors should be subjected to a three-pronged test on whether the factors used are
 - necessary,
 - appropriate, and
 - legitimate in relation to the risk they are assessing

Challenges for risk differentiation

- Traditionally data has been scarce and expensive, data storage has been slow and inadequate and computing power has been limited
 - simple proxies like gender to evaluate risks were used
 - Now we have abundant cheap (cloud) computing power, abundant cheap (cloud) storage and huge amounts of data
 - risk modelling can be more accurate than ever before.
- However, privacy issues and the missing transparency of complex algorithms need to be addressed
- Discrimination and biased decision-making can occur in processes performed by humans which can be difficult to detect. Technology can help to identify such phenomena

Risks with new technology

- New technology can also introduce new sources of concern with complex models and black boxes where indirect discrimination might be harder to detect
- For socially sustainable outcomes, special concern should be devoted to avoiding the following situations:
 - Models can introduce excess poverty premiums or ethnicity premiums
 - Loyalty premiums arise under the practices of introducing an increase in premiums for customers having a longer relationship to the insurer
- Special concern should be devoted to ‘essential’ insurance products without which a customer is marginalised

In conclusion – Recommendations to insurers

1



Engage openly with **regulators** to influence standards and enhance disclosure transparency and consistency

2



Design new customer impact **measures** within underwriting

3



Integrate social considerations within underwriting and product **strategies**

4



Engage proactively with all relevant **partners in the value chain**

In conclusion – The role of actuaries

- ❑ Actuaries can and should meaningfully contribute to social issues and help quantify **social risks, opportunities and impacts**
- ❑ A ‘fair’ (i.e. actuarially correct) insurance premium might also be ‘unfair’ (i.e. with negative social outcomes), especially when it penalizes risks linked to socio-economic status



Q&A

Thank you for your attention!

