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ESG Reporting - ESG for Insurance & Financial Enterprises

2022 EBOOK

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ESG for Insurance & Financial Enterprises

Insurance and finance enterprises stand at the forefront of the ESG innovation, considering the breadth of these industries and the resources at their disposal. Overall, the identification, comprehension, and management of risks are the foundation of both the insurance and financial sectors. Compared to other forms of risks, such as financial risks, ESG concerns and their practical application to insurance are still in their infancy.

Even the most forward-thinking and well-intentioned businesses cannot address all ESG issues simultaneously. The secret to success is materiality. In other words, the knowledge of which ESG risks are pertinent to a company's industry and overall operational environment. The materiality evaluation of a company or investment will reveal which problems are most relevant to its business and its stakeholders.

Overall, the manner in which a firm or investor chooses to act on their most significant challenges will depend on various criteria, including their risk tolerance, although it is recommended to be proactive. Material ESG concerns may differ, but their impact on the bottom lines of corporations and investors is becoming more apparent. If firms do too little or wait too long to manage the most significant ESG challenges, they will have to play catch-up with their counterparts, and investors may see the value of their assets threatened over time.

Moving forward, these enterprises will have to issue ESG reports to align with the increasing demand within this area. Nonetheless, one of the most significant challenges is represented by collecting all the data and making sense of it concerning their scope one and two emissions. Verdafero's software platform pulls all the data automatically and makes sense of it to produce emissions report at the touch of a button.

ESG for Insurance Companies

Given their role in ensuring the operations of other corporations, and in addition to examining their own businesses' answers to ESG, insurers should be well-positioned to influence how others react, given their role in underwriting the activities of other corporations. And they have a special obligation to influence behaviour and expedite ESG results. By doing so, they may reinforce their position as a vital link in the social fabric.

Moving forward, the quantity and variety of ESG risks are proliferating. The hazards presented by climate change to (re)insurers are perhaps the most evident examples of this. According to the findings of S&P Global Ratings, 60% of S&P 500 corporations possess assets that are "high risk" due to the physical effects of climate change.

These risks also create considerable disruptions to enterprises and the market, as well as climate-related migration, which in turn leads to reduced property prices and, therefore, less income for (re)insurers in the regions where people are departing their homes.

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Enhancing ESG Performance Transparency

In addition to investments, establishing ESG performance transparency is becoming an increasingly significant criterion in getting company insurance. Insurers are increasingly interested in aligning their business with good ESG results, making it more challenging to get coverage in carbon-intensive industries such as oil and gas extraction and coal mining. For example, Lloyd's latest ESG report is unambiguous that it does not want the market to participate in tar sands or Arctic exploration.

Practically, some insurers are "active adopters" regarding ESG, which implies that they are drastically restricting their capacity to sectors with poor ESG performance. The oil and gas industry and other carbon-intensive businesses are bearing the brunt of the effects.

Down the scale are insurers who offer "considered coverage" and are interested in what their clients are doing from an ESG perspective but are still offering coverage if those organizations can demonstrate an improving approach to ESG; although there are pinch points for industries such as tobacco, gambling, and weapons manufacturers. Lastly, there are 'slower movers' among insurance firms whose ESG performance has yet to substantially impact coverage.

Tackling Unfulfilled Needs

In addition to renewing their current programs, stakeholders may inquire what the insurance markets are doing to assist them in mitigating and managing the emerging ESG-related risks. Pollution, public and product liability, directors' and officers', and health insurance are examples of sectors where conventional coverage handles 'event-based' ESG issues.

Nevertheless, many of the 'trend-based' risks developing within ESG are areas in which the sector must become more innovative to meet unmet demands and fill a growing protection gap with risks such as climate change, community effects, and company transparency and resilience.

According to a survey by DWF, 55% of senior executives operating in the insurance industry said they had seen greater pressure on ESG issues from stakeholders such as regulators, consumers, and workers over the last 1-2 years, compared to 46% across all industries.

Insurance enterprises are under increased pressure to fulfill market expectations, and as a result, stakeholders often seek ESG information from their suppliers. In the last twenty-four months, insurance has received a disproportionate amount of attention compared to other industries, which has resulted in firms losing revenue. Insurance businesses are aware of the need to catch up, and there is a heightened and essential degree of involvement at the Board level across all organizations.

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Integrating ESG Investments

Since insurers are long-term custodians of assets, they are more susceptible to sustainability challenges than most other investment classes; addressing ESG risks is potentially an existential issue for insurers. Governments and regulators expressly target long-term investors, including big asset owners such as the insurance industry, with their ESG mandates.

While ESG investing continues gaining traction, insurers who want to minimize portfolio risks and earn profits in the financial environment must concentrate on ESG criteria. Businesses that fail to manage the risks arising from E, S, and G factors will likely suffer repercussions from their shareholders, who have a heightened understanding of ESG and want responsibility from the insurance companies in which they have invested. Moreover, prominent institutional investors have articulated their expectations about corporations' commitments to environmental sustainability.

Implementing ESG Underwriting

Incorporating climate-related risks into underwriting and investment strategies, such as reducing Green House Gas (GHG) emissions from thermal coal, can aid the transition to a cleaner future. Numerous insurers plan to discontinue providing insurance or risk management services for new thermal coal mines or big polluters, as well as for possible new customers that earn a substantial portion of their income from thermal coal mining.

There is also an increasing trend toward renewable energy sources. This highlights the shifting goals of insurance companies, which are now actively seeking environmental and social advantages alongside investment choices. Following the release of their most recent ESG report, which establishes objectives for ethical underwriting and investing procedures, Apollo Lloyd's declared in December 2020 that they would no longer cover Adani's Carmichael coal project. This includes plans to phase out current coverage for some coal and oil operations by 2030, demonstrating the growing interest of insurers throughout the globe in embracing ESG principles.

Improving Resilience and Business Operations

Furthermore, insurers may advance the ESG agenda and sustainability via their own operations and commercial activities. Promoting diversity and inclusion, decreasing greenhouse gas emissions (GHGs), readdressing gender equality, and helping communities via charity work can all improve a company's brand, image, and true ESG credentials.

Even if there are risks and responsibilities associated with adopting ESG, such as increasing costs, insurers should look beyond them and recognize the significance of prioritizing this issue to secure future company success. Not only is it anticipated that these ESG-observant actions would decrease costs in the long term, but they also provide a chance to attract the expanding market of ESG-conscious customers and the potential to generate positive financial returns on investments.

ESG for Financial Enterprises

For businesses to remain ahead of legislation, the competition and to reap the full advantages of ESG, they must embed this framework deep inside their DNA. From a different angle, firms that fail to comply with environmental or social aspects may face future regulatory, legal, or reputational challenges.

Large institutional investors are increasingly adding ESG measures into capital allocation and stewardship criteria. This move toward sustainable finance, which has expanded beyond socially responsible investment to include asset management and ownership, has significant ramifications for investors and businesses. Moreover, major investors are motivated to adopt sustainable finance and interact directly with business leaders and boards by two current trends:

Tackling the Prevalence of Information about Business Operations

Currently, the accessibility of information pertaining to business operations sheds light on the roles that corporations play in affecting the environment and highlights the crucial role that the private sector will play in finding answers to challenges such as climate change or failing to do so.

Today, the vast majority, if not the vast majority, of innovation happens in the context of organizations or incumbents adopting policies with a beneficial effect. This will likely continue to be the case.

Comprehending the Positive Impact of ESG Credentials

The growing body of research indicates that tackling ESG concerns does not hinder financial success. In reality, proactive businesses on topics such as diversity, climate stability, and customer responsiveness may reap large financial benefits. It is anticipated that ESG-mandated assets will account for 50% of all professionally managed assets around the world by the year 2024 if their growth rate continues at its current pace.

Investment managers may relieve regulators' and investors' worries by comprehensively evaluating ESG investing-related disclosures and adopting corresponding compliance standards firm-wide.

Novel Prospects for the Financial Sector

Financial institutions are not only sources of finance to industry and conduits for investing personal wealth, but they are also extensively engaged in managing the transition from a fossil fuel-dominated to a renewable energy-based economy.

The most significant potential for financial services organizations is in stimulating and speeding the transition to a new economy, one built on ecosystems that meet basic human needs and desires while simultaneously addressing serious social problems requiring innovative solutions.

Traditional economic frameworks are being replaced by a consumer-driven economy in which capabilities are arranged according to fundamental human needs and desires. In contrast to the conventional industrial value chain, in which the customer sits at the end of a line of B2B partnerships, the customer is at the core of these new arrangements. Human needs will be met more immediately and effectively than ever before by the overlapping value webs around them.

Growing Importance of Risk Management

As this new environment increasingly impacts investment choices, the function of risk management and the board of directors will also change. Questions and clarity on who on the corporate board is accountable for ESG issues, such as climate change, will no longer be a “nice to have” if directors’ tasks are to be deemed sufficiently performed in the future.

In a recent Deloitte global risk management study, ESG was named by 38 % of financial institutions as one of the three risk categories that would gain the greatest relevance over the next two years, more than any other. However, just one-third of respondents said that their institutions were very or very competent in managing ESG risk.

Not only should ESG be on the board’s agenda a few times each year, but a corporation should also integrate sustainability ideas and thinking across the whole enterprise. For long-term success, the board must also acquire the relevant abilities and comprehend the external needs, in addition to internal governance. In addition, financial institutions will need to closely monitor the evolution of regulators, investors, and consumers’ ESG requirements.

Bottom Line

With our consulting and data analytics services, Verdafero can help the finance and insurance sectors boost asset values, which may be accomplished by lowering operating expenditures and achieving higher levels of efficiency.

Verdafero InSights provides a comprehensive set of features and functionalities that can be used to perform ESG research and to report across your entire property portfolio. At Verdafero, we are always developing a scalable platform by introducing new features in order to provide you with the ability to generate your ESG strategy and reporting requirements.

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About Verdafero, Inc.

Founded in 2009, Verdafero is a sustainability consulting and data analytics company providing intelligence and insights through their experience and patented technology to help companies manage their utility usage, costs and ESG reporting requirements with a cohesive enterprise-wide approach. As a recognized top 50 US Department of Energy Portfolio Manager user in North America, Verdafero is a leader in sustainability and energy efficiency for major clients across the commercial property space. Visit us online at verdafero.com.

The *Verdafero InSights®* SaaS platform provides data insights to help you to make better informed decisions across your business while providing the data and analytics for your Environmental, Social & Governance (ESG) reporting needs - all on a single, comprehensive platform.