



ESG Best Practices and Strategies in Insurers' Investments

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What are ESG Factors?

The consideration of environmental, social, and governance factors alongside financial factors in the investment and underwriting decision-making processes

Environmental factors relate to resource use, pollution, climate risk, energy use, waste management, and other physical environmental challenges and opportunities

Social factors relate to how a company interacts with the communities it operates in, its suppliers, employees, and broader stakeholders

Governance factors relate to procedures and processes according to which a company is directed and controlled

What are ESG Factors?

- Physical risks
- Transition risks
- Liability risks
- Stress test failures
- Environmental opportunities

Environmental



- Demographic changes
- Product liability
- Social inflation
- Data privacy
- Social opportunities

Social



- Corporate governance
- Corporate behavior
- Transparency
- Board composition
- Business ethics

Governance



ESG Incorporation in Investing Activities

Approaches

- Screening (i.e., exclusions)
- ESG integration
- Thematic investment
- Engagement
- Voting

Challenges

- Competition for limited pool of sustainable investments
- Assets with strong ESG ratings \neq better credit quality (necessarily)

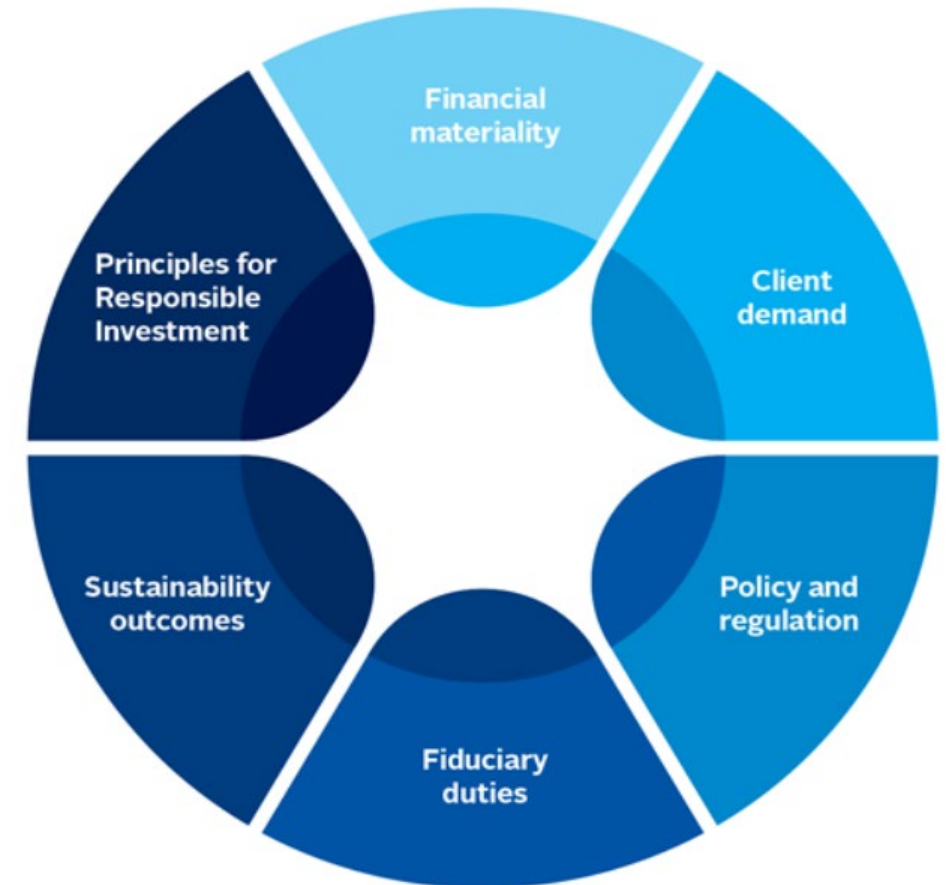
Opportunities

- Achievement of combination of return, risk mitigation and sustainability objectives

ESG in Investing: Examples of Considerations for Insurers' and Forces Driving ESG Investment Growth

Examples of Insurers' Considerations

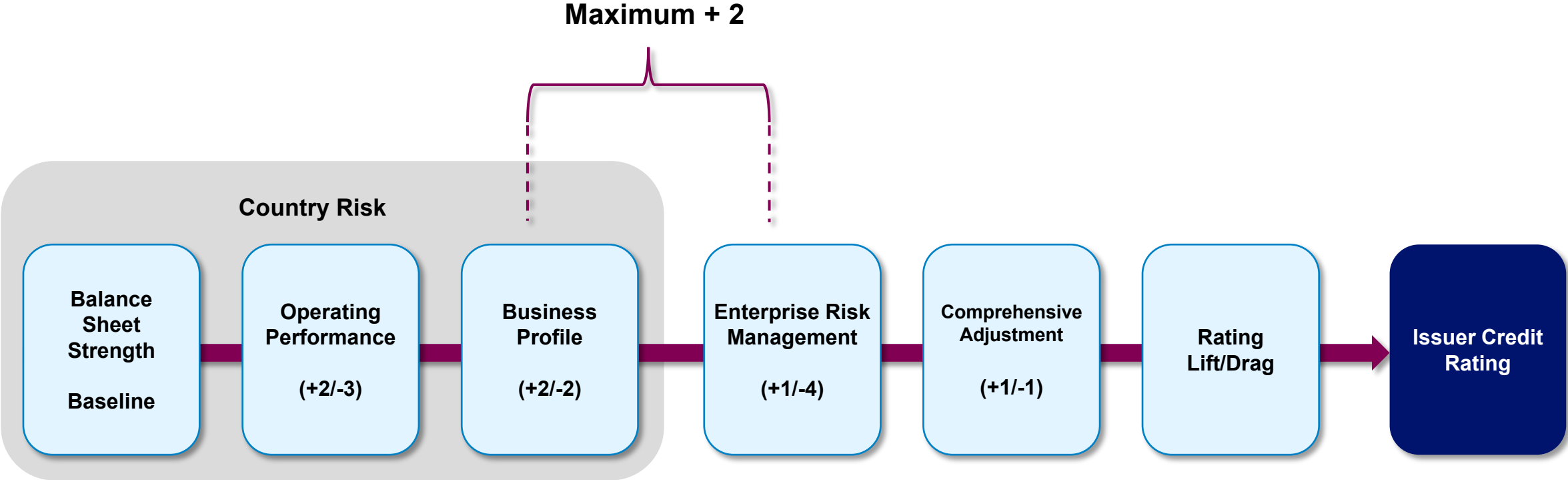
- Clear investment strategy
- Engaged stakeholders
- Choice of KPI (crucial for implementation and integration)
- Focus on data quality
- Focus on regulatory framework (i.e., SFDR)
- Transparency



Source: Principles for Responsible Investment

BCRM Building Block Approach

AM Best's Rating Process



ESG Within the BCRM

Balance Sheet Strength

- Climate risk
- ESG integration in investing activities
- Stranded assets

Operating Performance

- Social inflation
- ESG-related litigation
- ESG integration

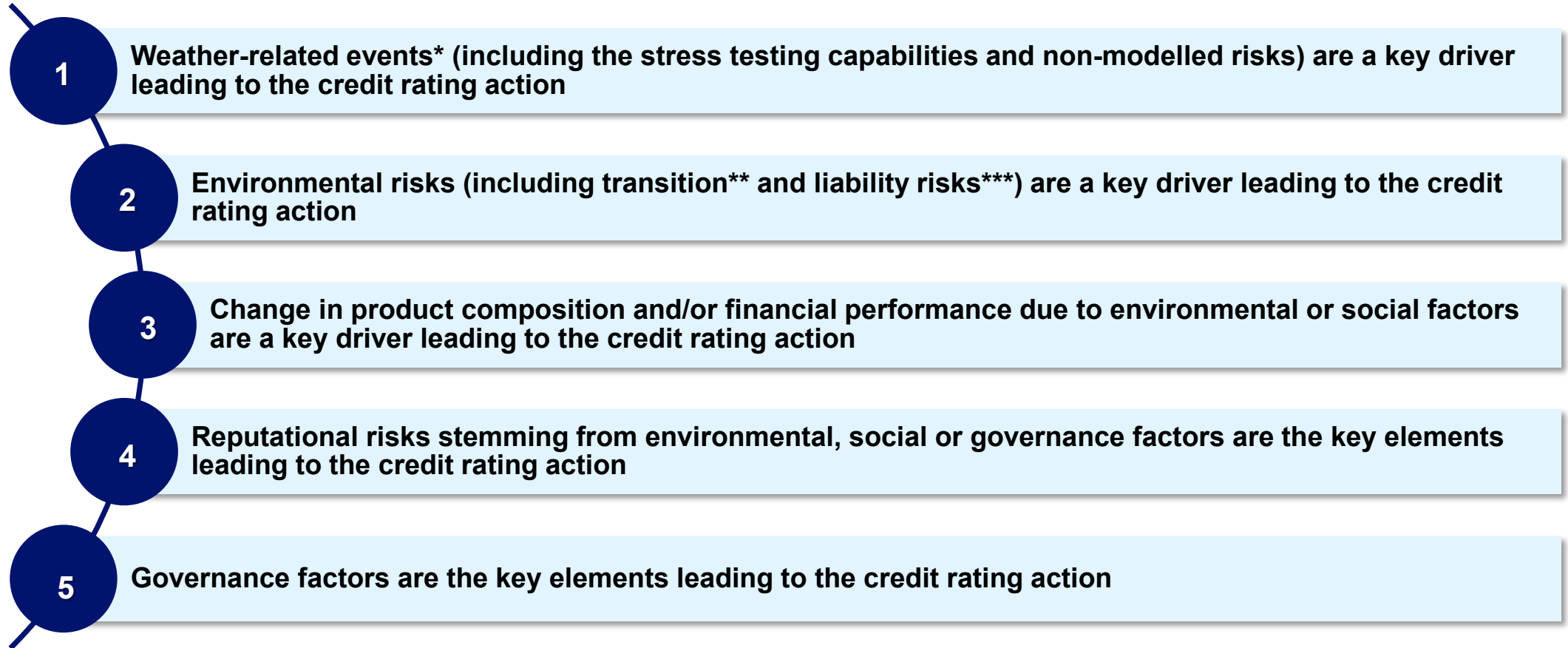
Business Profile

- Underwriting exclusions
- Changing demographics
- Data privacy
- Reputational risk

Enterprise Risk Management

- Corporate governance
- Stress testing
- Financial and non-financial risks

ESG Rating Factors



***Weather-related Events:** Generally classified by AM Best as hurricanes, landslides, typhoons, cyclones, wildfires, droughts, storms and floods

****Transition Risk:** Includes stranded assets

*****Liability Risks:** Pollution and Contamination

Examples of ESG Related Considerations Affecting (Re) Insurers

Financial Flexibility	Environmental Changes	Sustainability Policies	Transparency and Disclosure	Reputational risks
<p>Pressure to remain an attractive investment proposition in a context in which institutional investment are turning greener</p>	<p>Reinsurers on the first line to monitor and better understand changing environmental exposure due to position in the underwriting chain and impact of severe nat cat events</p>	<p>Increased attention on sustainability policies linked with investments, underwriting or corporate behaviour.</p>	<p>Increased pressure on ESG transparency and disclosure stemming from various stakeholders.</p>	<p>Increased reputational risks stemming from environmental, social or governance factors.</p>



Q&A



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