INSURANCES IN TRANSITION

Are they harnessing the potential to transform for sustainability?

Insurance is an ingenious product because it provides individuals and companies financial support in the event of a damage or loss. Yet the insurance industry does not have a very good reputation. The reasons stem from conflicting interests in the event of a claim as well as insurance products that are difficult to understand. Integrating sustainability into the insurance business now offers the industry a number of ways in which to improve its image and to decisively support societal change regarding climate protection and sustainability – in its own interest.

By Mathias Warlich

Reports and industry analyses show that the insurance industry is still very much in the early stages of integrating sustainability into its business model. Yet a low-emission insurance operation with regard to office management, reviewing a company car policy, IT and communication technology could be the quick solution of the task at hand. It is therefore not surprising when the insurers achieve timely success with their steps towards climate neutrality and even take on a role model function.

The insurance companies' leverage in their investment strategy has a far greater impact for sustainability than in their business operations.

The big leverage: 1,700 billion Euro and active ownership

At least since the publication of the Principles for Responsible Investment of the United Nations (UN PRI, see glossary) in 2006, sustainability has played a role in the capital investment of companies. Companies' and clients' investments have a volume of 1,700 billion Euros, according to annual figures of the German Insurance Association. This gives the insurance industry excellent leverage to help with shaping the transformation of the current economy.

There are countless ways to invest responsibly, from the exclusion of certain sectors of the economy, via a best-in-class approach to impact investing, for example in health,

education or renewable energies. Meanwhile, the concern that sustainability reduces return on investment is no longer valid. Nevertheless, the range of investment options is still very wide and often confusing for the layperson.
„Active ownership“ is also worth considering. Here, investors have the opportunity to exert influence on strategic decisions with their holdings by means of voting rights. In any case, here, the old adage “money makes the world go around” applies and with their power as investors, insurance companies have extremely strong steering mechanisms.

The real innovation: reviewing core business-thinking
It is equally important to integrate sustainability into the core insurance business functions. As in other industries, consistent sustainability in core business means boldly questioning the business model in respect of purpose and social responsibility. The main question is: Who or what is insured, with which products and at what price? The answer across all product groups and customer segments is insurance companies must apply more stringent criteria who or what they insure and on what terms. This can lead to „impact insuring“, that achieves steering towards a positive ESG performance (see glossary).

The Principles for Sustainable Insurance of the United Nations (UN PSI) – also in the glossary – laid the foundations for this back in 2012. There are many good examples of the implementation of these principles. Currently, most notable is the withdrawal from providing insurance cover for coal-fired power plants. Offering cover for cyber risks strengthens trust in a digital society. The creation of natural hazards maps and insurance solutions for green technologies are further examples.

One for all: all for one
In the event of a claim, there are also options for action that are advantageous to both insurer and policyholder. The InsurTech industry newcomer Lemonade Insurance N.V puts their cards on the table: a fixed 25 percent of the premium is for costs and reinsurance. The remaining 75 per cent is used to pay claims. If they rise above the 75 per cent, the reinsurer kicks in. If they remain below this level, the difference is paid to a charity chosen by the client. From the client‘s point of view, the insurer has no reason to save on claims settlements as it pays, either to the client or to the charity. From the insurer‘s point of view, the customer has less interest in embellishing a claim, because in doing

so, the charity he has named is harmed. Basically, a WIN-WIN situation!

Conclusion: As in all industries, the integration of sustainability is a fundamental change process for the entire company, and as we all know, this takes quite a while. In home office times an example of fair, sustainable portfolio management would be to allow homeowners to benefit from improved results due to declining frequency in burglaries. In any case, it is advisable to take a closer look at all the strategic topics that are currently being addressed, such as digitalization, artificial intelligence, sharing models or autonomous driving, and to incorporate and consider sustainability right from the outset. The integration of sustainability into the insurance business has huge potential, to honestly question oneself, to improve the industry's reputation – and to serve the common good.

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He has been self-employed since 2019 in sustainability management. His goal is to measure success by factoring in parameters more than merely financial return.

Glossary

Changes in the finance and insurance industry

The role of the United Nations: At the invitation of the Secretary-General of the United Nations, Kofi Annan, a group of the world's largest institutional investors worked in partnership with the Finance Initiative of the UN Environment Programme UNEP and the UN Global Compact to develop a concept to promote responsible investment. In 2006, the UN Principles for Responsible Investment (UN PRI) were introduced. They comprise six Environmental, Social and Governance criteria, or ESG criteria, for responsible investment. The aim is to assess the impact of sustainability for investors and to help signatories integrate these issues into their investment decision-making processes. The number of signatories has risen to around 3,000. However, achieving the target is voluntary and non-binding.

- **The Principles for Sustainable Insurance (UN PSI):** A framework for the development and expansion of innovative risk management and insurance solutions, to which over 90 companies have committed to. Building on this, in 2020 the United Nations Environment Programme Finance Initiative published a guide for non-life insurance, on how ESG criteria can be integrated into the insurance business.

- **Impact investing:** an investment in companies that have a positive impact on the environment and/or society, for example in the areas of nutrition, health, renewable energies, housing, culture, social issues. In addition to the financial return, other values are created. Success is measured, for example, against the UN's 17 Sustainable Development Goals.

- **Impact insuring:** insuring with the aim of bringing about further positive effects for the environment and society besides financial gain. The possibilities are manifold: insurance of sustainably operating companies, new, environmentally friendly technologies or special insurance offers, e. g. for the socially disadvantaged. Another aspect is the promotion of risk management, for example the use of sensor technology or water monitors. Attention is also paid to special, sustainable insurance attributes, through cooperation with experts such as energy consultants. This may result in special indemnities such as certified recycled products or repair agreements. The inclusion of sustainability parameters into pricing, e. g. the carbon footprint, also plays an important role in impact insuring.

- **Closing the Protection Gap:** the international share of global natural disaster losses not covered by insurance was around 70 per cent in 2019. Closing the Protection Gap is a 2014 initiative of the Geneva Association (GA) – Insurance for a Better World. The GA was founded in 1973 by the world's leading insurance and reinsurance companies and is regarded as the global voice of the insurance industry on strategically important insurance and risk management issues. Of the economic losses caused by over 400 natural catastrophe events in 2019, only about 30 per cent were insured. So, there is still plenty of potential for improvement.