THE GENEVA ASSOCIATION

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The Role of Insurance in Promoting Social Sustainability

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The Role of Insurance in Promoting Social Sustainability

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The Geneva Association

The Geneva Association

The Geneva Association was created in 1973 and is the only global association of insurance companies; our members are insurance and reinsurance Chief Executive Officers (CEOs). Based on rigorous research conducted in collaboration with our members, academic institutions and multilateral organisations, our mission is to identify and investigate key trends that are likely to shape or impact the insurance industry in the future, highlighting what is at stake for the industry; develop recommendations for the industry and for policymakers; provide a platform to our members and other stakeholders to discuss these trends and recommendations; and reach out to global opinion leaders and influential organisations to highlight the positive contributions of insurance to better understanding risks and to building resilient and prosperous economies and societies, and thus a more sustainable world.

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Foreword

When The Geneva Association embarked on this research initiative, it seemed like a straightforward undertaking: insurance is, intrinsically, a socially responsible economic activity. Insurance brings financial stability and peace of mind to individuals, households and businesses. It facilitates innovation and entrepreneurship, commerce and trade, and competitive, thriving economies.

We came to understand this aspect of insurers' social sustainability roadmap as 'business as usual'. It was just the starting point for the exploration of insurance's potential social impact.

Insurers can create additional social benefits by weaving social considerations through their core insurance activities; for example, by promoting financial literacy and prioritising affordability to better serve lower- to middle-income populations.

Prevention is also a powerful tool that speaks to social sustainability goals, particularly in the health, climate and cyber spaces.

Beyond how insurers can advance social sustainability through their insurance offerings, they should also play close attention to the activities of their corporate customers and investees, avoiding, for example, to serve or invest in companies with a record of human right violations.

A major challenge is to create a common language for measuring social impact. The framework developed for carbon emissions disclosure, the Greenhouse Gas Protocol's three scopes, could be a source of inspiration to measure social impact on insurers' employees (scope 1), communities (scope 2), and, most importantly, across the value chain (scope 3), from service providers to customers and investees. This report elaborates how that might look.

There is strong agreement that businesses must take their ESG focus beyond the 'E' and the 'G' and do more to tackle the 'S'. The setbacks of the pandemic and Russia-Ukraine war have propelled the social sustainability agenda into the spotlight. As policymakers, insurers and others rise to the challenge, we hope this report brings clarity and guidance to their initiatives.

Jad Ariss
Managing Director, The Geneva Association

1. Executive summary

In less than two decades, the ESG (Environmental, Social and Governance) movement has grown from a corporate social responsibility initiative launched by the United Nations (UN) into a global phenomenon that is reshaping the asset management and broader business landscape. According to Bloomberg, global ESG assets are on track to exceed USD 50 trillion by 2025, from their current base of around USD 35 trillion, accounting for more than a third of the USD 140 trillion in projected total assets under management.

Despite the triumphant march of ESG, companies, investors and the public at large have struggled to grasp precisely what role the social or 'S' dimension, i.e. the impact of businesses on people, should play in investment and business decisions. This lack of understanding has become even more apparent with the recent shift of ESG dynamics towards the 'S', driven by the pandemic and Russia's invasion of Ukraine and their global socio-economic implications.

Nonetheless, there is a broad consensus that businesses, including the insurance industry, will have to pay more attention to the 'S'. This imperative is further amplified by many governments' increasing use of legislation and regulation to advance the UN's Sustainable Development Goals (SDGs). The policy objective is to mobilise capital at scale for sustainable development, not least in light of the setbacks inflicted by the pandemic and the war in Europe.

> There is a broad consensus that businesses, including the insurance industry, will have to pay more attention to the 'S' of ESG.

This is particularly relevant for the insurance industry, which is widely recognised as inherently socially beneficial. Insurers make positive contributions to social sustainability, defined as the capacity of current and future generations to live and work in healthy and liveable conditions that promote diversity and equal opportunities. These contributions primarily arise from insurers' core business ('business as usual'), such as providing access to risk protection, incentivising risk prevention and investing funds for the long run.

By protecting lives, livelihoods and assets, insurers generate a global annual premium volume of close to USD 7 trillion, according to Swiss Re. The life segment is the biggest, with premiums of about USD 3 trillion. On that basis, we estimate that insurers contribute between USD 5 and 5.5 trillion per annum to global financial resilience in the form of insurance claims and benefits payouts.

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In addition, the global insurance industry manages assets in the amount of more than USD 40 trillion, according to BlackRock. As such, insurers' share in global assets under management exceeds one third. The assets of insurers, particularly life insurers, are mainly invested in bonds. According to the European Insurance and Occupational Pensions Authority (EIOPA), European life insurers' average holding period for government bonds and corporate bonds is 10.2 years and 7 years, respectively. Furthermore, an increasing number of insurers commit themselves to socially responsible investing, which involves choosing or disqualifying investments based on specific ethical criteria such as the UN Principles for Responsible Investment (PRI).

Given its pivotal role in risk taking and investing, insurance fosters socio-economic resilience and sustainability in the following ways:

- Providing financial stability and 'peace of mind' to individuals, households and businesses
- Stabilising, complementing or even substituting for social security programmes
- Facilitating commerce and trade
- Mobilising savings based on long-term offerings
- Promoting a society's ability to manage risk and prevent losses more efficiently.

With the adoption of the UN's SDGs in 2015, there is growing pressure and urgency across society to respond to the social sustainability challenges the world is facing. The insurance industry, like other sectors, is subject to an increasing number of international ESG standards and ever higher ESG-related stakeholder expectations. Against this backdrop, insurers are starting to explore the scope for generating additional social benefits from explicitly adopting ESG considerations in their core business activities.

Insurers are exploring the scope for generating additional social benefits from explicitly adopting ESG considerations in their core business activities.

One example is impact underwriting. This enables insurers, consistently with actuarial risk-based principles, to make specific contributions to social objectives by applying their data and risk expertise to the particular benefit of unserved or underserved groups. Also, insurers increasingly view risk prevention in the bigger context of ESG, contributing to climate, cyber or health risk prevention and mitigation at both the individual and societal levels. Another example is impact investing, through which insurers intentionally pursue a specific and measurable social impact at a financial return commensurate with the project's risk.

In addition to providing benefits to social sustainability, insurers need to avoid and address potential risks that may arise from their core business activities. In the property & casualty (P&C) business, ESG risks primarily lie with industrial and commercial insurance, potentially related to child labour, forced labour, forced resettlement, poor worker safety and violation of worker rights. In life & health insurance they include algorithmic underwriting (e.g. the risk of unintentionally excluding certain customers). In view of these risks, insurers have established mechanisms of mitigation. On the investment side, ESG risk is managed through exclusion or negative screening of business activities, e.g. coal mining, tobacco, gambling and certain weapons, or those with human rights violations. Engagement with investee companies is another approach that is gaining in importance.

In addition to providing benefits to social sustainability, insurers need to avoid and address potential ESG risks.

Despite these initiatives and measures, however, a decision-useful, conceptual framework that captures the insurance industry's contributions to social sustainability is still non-existent. This report aims to close this gap by offering a systematic approach to assessing an insurer's impact on its employees, value-chain partners, customers and communities. The suggested approach draws on the Greenhouse Gas (GHG) Protocol's well-established Three Scope model of carbon emissions disclosure.

Based on more than 40 in-depth executive and expert interviews, we put forward four recommendations for insurers. They are designed to safeguard and further strengthen the industry's role in promoting social sustainability and resilience.

1. **Adopt a three-tier approach to managing social sustainability.** First, maximise positive social impacts arising from the core business of insurance (inherent benefits); second, protect those benefits by carefully mitigating potentially negative impacts; and third, explore the scope for additional, commercially viable social benefits which do not adversely affect tiers one and two.

2. **Review current business models** with a view to shifting from pure risk transfer to a blend of risk transfer and prevention in order to build healthier, safer, more resilient and more economically productive societies. In addition, business models should allow for commercially viable, inclusive insurance enabled by low-cost digital distribution and end-to-end processing, coupled with underwriting on a portfolio basis (i.e. across various lines of business).

3. **Adapt core business operations** by incorporating social considerations – both risks and opportunities – in daily operations, addressing the lack of trust as a major factor behind protection gaps and exploring public-private partnerships as a promising route to providing insurance products with substantial social benefits.

4. **Build governance for the 'S'** by embedding social considerations in decision-making at the top of the company (board of directors, executive committee), promoting diversity and inclusion in the board of directors and senior management, including the 'S' in operational risk governance, appointing senior 'practitioners' as ESG market leads and linking top management compensation to performance against social sustainability-related targets.

2. Introduction

The notion of sustainability first came to the fore in 1987 with the final report of the UN-appointed Brundtland Commission, which was instrumental in unifying environmentalism with social and economic concerns related to sustainable development.[1]

The private financial sector became engaged in 1992 at the Rio Earth Summit through a UN Environment Program (UNEP) Statement by Banks on the Environment and Sustainable Development. Insurers followed suit in 1997. In 2003, all related activities were merged under the UNEP Finance Initiative (UNEP-FI), which still exists today.

The genesis of the term ESG must be viewed against this backdrop. The notion originated from a 2004 UN Global Compact research project dubbed 'Who Cares Wins', which first brought together institutional investors, asset managers, buy-side and sell-side research analysts, global consultants and government bodies and regulators to shed light on the role of ESG value drivers in asset management and financial research.[2] In the decade following this initiative, ESG research has virtually exploded, as has the importance of integrating ESG considerations into investment decisions in the asset management industry, an approach known as responsible or sustainable investing.

> The ESG movement has grown into a global phenomenon that is reshaping the asset management and broader business landscape.

In less than two decades, the ESG movement has grown from a corporate social responsibility initiative launched by the UN into a global phenomenon that is reshaping the asset management and broader business landscape. According to Bloomberg, global ESG assets are on track to exceed USD 50 trillion by 2025 from their current base of more than USD 35 trillion, accounting for more than a third of the USD 140 trillion in projected total assets under management.[3]

Despite the rapidly growing emphasis on ESG, companies, investors and the public at large have struggled to grasp precisely what role the social or 'S' dimension, i.e. the impact of businesses on people, should play in investment decisions. A 2019 Global ESG Survey by BNP Paribas found that 46% of investors surveyed considered the 'S' to be the most difficult to analyse and embed in investment

1 World Commission on Environment and Development 1987.
2 The Global Compact 2004.
3 Bloomberg 2021.

strategies. Whereas investors understand the 'E' and the 'G' dimensions, the 'S' was found to suffer from 'middle child predicament'.[4] Unlike environmental and governance issues, social factors are less tangible and come with limited data on how they can impact a company's performance.[5]

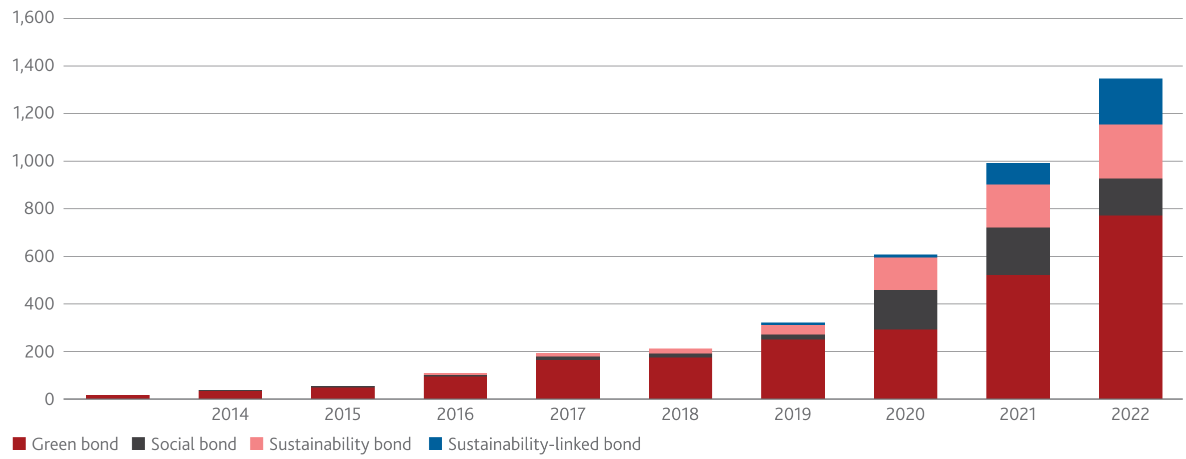
It is therefore challenging for a socially responsible investor to assess an investee company's strengths and weaknesses in dealing with stakeholder expectations relating to, for example, working conditions, decency of pay, product safety and community impacts. Ignoring such expectations could obviously dent a company's reputation and shrink the market for its products or services.[6]

Having said this, the dynamics of ESG have started to change in favor of the 'S' dimension, not least as a result of the pandemic and Russia's invasion of Ukraine.[7] In light of the massive societal imbalances caused by the pandemic and the war-induced turmoil in global food and energy prices, businesses will have to pay more attention to the 'S'.[8, 9]

> In light of the societal imbalances caused by the pandemic and turmoil in food and energy prices, businesses will have to pay more attention to the 'S'.

As an illustration of increased investor appetite, ESG bonds issued to fund social causes, such as hospitals and schools, increased ninefold to about USD 165 billion in 2020 from the previous year (see Figure 1). The COVID-19 pandemic was the primary driver for social bonds, which are mainly issued by governments, as investments in healthcare, critical infrastructure and education surged.[10] For 2022, Moody's expects social bond issuance to come in at about USD 150 billion.[11]

Figure 1: Global ESG bond issuance, by bond type (in USD billion, 2022 forecast)



Source: Environmental Finance Bond Database, compiled by Moody's[12]

4 BNP Paribas 2019.
5 PRI 2017.
6 Standard & Poor's Global 2020.
7 The Geneva Association 2021a. Author: Kai-Uwe Schanz; State Street Global Advisors 2022. See also section 4 of this report.
8 Morningstar 2020.
9 Bloomberg 2021.
10 S&P Global 2021a.
11 Moody's 2022.
12 Ibid.

Bonds linked to the UN's SDGs, which were launched in 2015 and cover many social-related goals, should also help encourage private investments.[13] Similarly, the International Capital Market Association (ICMA)'s expanded Social Bond Principles are set to facilitate the growth of this emerging asset class on the back of improved disclosure and transparency standards.[14]

The trend of social financing moving to the forefront of sustainable debt markets is likely to last long after the pandemic subsides. Investor appetite to generate positive social impacts is expected to remain strong, not least in light of evolving regulatory developments such as the Sustainable Finance Disclosure Regulation and the Social Taxonomy in the EU.[15]

For the insurance industry, the 'S' agenda is inherent in its core business. As risk managers, risk takers and investors, insurers play an important role in promoting socio-economic resilience and sustainability. Insurance helps individuals, households and businesses understand, prevent, reduce and cope with risk. By absorbing risk, insurance provides societies with financial security and the ability to withstand and bounce back from shocks. Finally, insurers support social sustainability through their long-term investments across asset classes and geographies.[16]

The 'S' agenda is inherent in the core business of insurance. By absorbing risk, it provides societies with financial security and the ability to withstand and bounce back from shocks.

Similar to other industries, the growing awareness and relevance of social sustainability presents both opportunities and challenges for insurance. Based on their core business activities, insurers are destined to promote economic well-being and socio-economic resilience. In addition, many insurers offer protection and savings products specifically aimed at financial inclusion or invest in health infrastructure. Against this backdrop, insurance has been identified as a primary-level contributor to the UN's SDGs, for example through promoting food security, combatting climate change and its impacts,[17] eradicating poverty and promoting healthcare.[18] At the same time, in order to mitigate reputational risks, insurers need to manage potentially negative impacts on society, e.g. in areas such as human and labour rights, diversity and equal opportunities.[19]

With that in mind, this report aims to enhance the understanding of the still elusive notion of social sustainability, the drivers behind its increasing importance and potential metrics. The main aspiration, however, is to develop a conceptual framework that captures the insurance industry's impacts on their employees, value-chain workers, customers and local communities. When discussing insurers' social footprint, we will focus on impacts which are specific to the business model of insurance, in particular to the core role of offering risk protection. The proposed social impact assessment framework will be used as a basis for illuminating the scope for an enhanced, commercially viable role of insurance in promoting social sustainability.

13 Swiss Re 2022.
14 International Capital Market Association (ICMA) 2021.
15 See section 4 of this report.
16 Liedtke 2007; section 6 of this report.
17 This includes addressing 'S' issues such as the social cushioning of the green energy transition, climate-related mass migration and challenges to livelihoods. See Box 1 in section 4 of this report.
18 Deutsche Gesellschaft für International Zusammenarbeit (GIZ) 2017; section 6 of this report.
19 Menhart 2021; section 6 of this report.

3. Understanding the social dimension of sustainability

The Brundtland Report [20] is widely seen as a milestone for social sustainability research. In exploring sustainable development, this report identifies the quality of human livelihoods as vital to accomplishing ecological goals through economic development.[21] In the 35 years since its publication, there has been a plethora of literature devoted to the general topic of sustainable development, including the social dimension. Having said this, a broadly agreed definition has not emerged yet, and the ‘conceptual chaos’ in the field of social sustainability may even compromise the term’s utility.[22]

The UN Global Compact defines social sustainability as “the identification and management of business impacts, both positive and negative, on people”, i.e. employees, workers in the value chain, customers and local communities.[23] Deficits in social sustainability, such as poverty, inequality and weak rule of law, can adversely affect business operations and growth whereas actions to achieve social sustainability, e.g. relating to education, health, access to goods and services, may help businesses capture new market opportunities, attract and retain business partners, foster innovation for new product or service lines, promote internal morale as well as improve productivity and risk management.[24]

“From an economics perspective, public goods such as education, basic healthcare access and infrastructure, are best dealt with by governments; access to these goods are some of the most important factors in reducing inequality. However, this is not to say the only responsibility for social inclusion belongs to governments. Companies ignore the ‘S’ at their own peril, given its increasing importance to their employees, customers and supply chains. Income inequality reduces consumption because the marginal propensity of lower-income households to consume is much greater. Therefore, firms that promote social and economic inclusion are not only doing what is right by lifting up their communities, they are also creating future customers.”

Constance Hunter, Global Head of Strategy and ESG, AIG

20 World Commission on Environment and Development 1987.
21 Vallance et al. 2011.
22 Ibid.
23 https ://www.unglobalcompact.org/what-is-gc/our-work/social. While it is the primary duty of governments to protect, fulfil and progressively realise the well-being of their citizens, ‘businesses can, and should, do their part’. Vallance et al. 2011.
24 Ibid.

From a research perspective the concept of social sustainability is much less well developed than notions of environmental and economic sustainability,[25] primarily because researchers disagree on its definition and scope.[26] Some define it quite broadly, for example as a 'life-enhancing condition within communities'.[27] Others focus on its meaning of meeting present needs without compromising future generations,[28] which is not too different from the definition of economic sustainability.[29] Wan and Ng[30] assert that social sustainability is about promoting both physical and social well-being, while Winterton et al.[31] focus on the social benefits of belonging to well-maintained communities.

Various attempts to introduce some order to the diverse range of work that covers 'social sustainability' can be found in the academic literature. One study identifies a number of constituent elements of social sustainability, such as social homogeneity, equitable incomes, access to goods, services and employment.[32] Another offers a comprehensive list of social sustainability characteristics, including education and training, inter and intragenerational social justice, participation and local democracy, health, quality of life and well-being, safety, community cohesion and employment.[33] A third proposes a conceptual framework for social sustainability that seeks to enhance the protection of people, regardless of colour, origin, culture or socio-economic status, against risk, resulting primarily from climate change and its ensuing uncertainties. This theoretical contribution makes risk a constitutive concept of sustainability thinking and practices.[34]

Given this cacophony of approaches, we propose a dual definition of social sustainability. From an activity perspective, we view social sustainability as the process of identifying and managing both positive and negative business impacts on key constituencies such as employees, value-chain workers, customers and affected local communities. This activity-based perspective will underpin sections 5 and 6 of this report. From an outcome perspective, social sustainability can be defined as the capacity of current and future generations to live, learn and work in healthy and liveable conditions which promote diversity and equal opportunities (see Figure 2).[35]

Figure 2: Two dimensions of social sustainability

Activity perspective	Outcome perspective
The process of identifying and managing both positive and negative business impacts on key constituencies	The capacity of current and future generations to live, learn and work in healthy and liveable conditions which reflect equity, diversity and inclusivity

Source: The Geneva Association

"Looking at the core role of insurers as risk takers, there are two main aspects of social sustainability. First, insurers need to make sure that their products add socially relevant value to customers, for example by making them more resilient. Second, insurers increasingly focus on solutions that make specific contributions to closing protection gaps, either individually or in collaboration with other industry and/or public partners."

Nico Ahn, Senior Manager, Global Sustainability, Allianz

"From the angle of risk, a sustainable society focuses on the living and developing standards of marginalised and vulnerable people, who face more risks and have less ability to deal with risks. Therefore, risk identification and alleviation for fragile groups is a very important part of social sustainability."

Yunlong LIU, Assistant General Manager, Strategy Department, PICC Group

"Everything a company does on the 'S' of ESG must be tied to its purpose as a business. When a company applies the full force of its purpose, the greater the impact it can make on customers, employees, shareholders, communities, society and the planet. This means harnessing the full scope of their resources to serve as a force for good for all stakeholders."

Jon Richter, Chief Sustainability Officer, MetLife

25 McKenzie 2004.
26 Eizenberg and Jabareen 2017.
27 McKenzie 2004.
28 Capital-funded insurance (especially in life and health insurance) can play a vital role in enhancing intergenerational sustainability.
29 Vallance et al. 2011.
30 Wan and Ng 2018.
31 Winterton et al. 2018.
32 Sachs 1999.
33 Dempsey et al. 2012.
34 Eizenberg and Jabareen 2017; Box 1 in section 4 of this report.
35 Sustainability Accounting Standards Board (SASB) 2017.

4. Drivers of the growing importance of social sustainability

As mentioned in the previous section, public interest in the somewhat elusive notion of social sustainability has increased sharply in recent years. The following section investigates three major drivers behind this trend (see Figure 3).

Figure 3: Current drivers of social sustainability

Recent tail events (COVID-19, Russia-Ukraine war)	Public policy	Institutional investors
Manifestation of protection gaps	EU green (and potential) Social Taxonomy Regulation	Stakeholder capitalism
Adverse impacts on health, education and standards of living	EU Non-Financial Reporting Directive	Increased awareness of legal, regulatory, operational and reputational risks
Deepening of social imbalances	National Supply Chain Due Diligence Acts	Focus on human rights and gender/racial diversity, equity and inclusion
	National Modern Slavery Acts	

Source: The Geneva Association

4.1. Most recent tail events: COVID-19 and the Russia-Ukraine war

The pandemic has served as a wake-up call, exposing protection shortfalls affecting peoples' livelihoods, lives and health.[36] In light of deepening societal imbalances caused by the pandemic, attention has shifted to the 'S' in ESG, for example equality of opportunity, foremost in terms of education and human capital development, but also with regards to the affordability of and access to insurance-based risk protection and mitigation.[37]

36 The surge in the issuance of social bonds is a measurable indication of increased interest (see Figure 1).
37 The Geneva Association 2021a.

> Deepening societal imbalances caused by the pandemic have increased attention to the affordability of and access to insurance-based risk protection and mitigation.

The COVID-19 pandemic marks the most severe health catastrophe since the Spanish flu epidemic more than a 100 years ago and the worst global economic recession since the Second World War. It has affected low- and lower-middle-income countries disproportionately, with particularly adverse impacts on health, education and standards of living. According to the World Bank, the pandemic has pushed about 100 million people around the globe into extreme poverty – which means living on less than USD 1.90 a day.[38]

At the same time, COVID-19 has highlighted the need to push forward even more resolutely with sustainability initiatives such as the UN's 2030 Agenda for Sustainable Development and its 17 SDGs. The lack of funding for social needs has been exposed and further aggravated by the pandemic. Roughly USD 3.3–4.5 trillion a year needs to be mobilised to meet the objectives of the UN's 2030 Agenda for Sustainable Development. At pre-pandemic levels of public and private investment in SDG-related activities, developing countries face an average annual funding gap of USD 2.5 trillion.[39]

COVID-19 alone would have significantly added to the pre-pandemic funding gap. In addition, Russia's invasion of Ukraine has sparked significant rises in energy and food prices at a time when developing countries are still struggling to recover from the economic, fiscal and social fallout from COVID-19. The war is threatening to derail progress towards achieving the SDGs and push them further out of reach.[40] In Africa, for example, food and fuel account for over one third of consumer spending and the current spike in inflation will be hard-hitting, especially for vulnerable groups like women and children. A further increase in economic inequality seems to be inevitable.[41] All in all, the war could push another estimated 40 million into extreme poverty.[42]

In light of these shocks and the fiscal stress they are causing in both developed and developing countries, the private sector's contribution to achieving the SDGs is set to grow. The following section focuses on the role of policymakers and investors in pushing companies to prioritise socially sustainable activities.

4.2 Public policymakers

Governments increasingly use regulation to improve the information available to stakeholders about corporate social activities, in the hope that stakeholders will effectively reward or punish firms, primarily in their capacity as investors.[43] Without reliable, comparable and meaningful sustainability disclosure from companies, investors and banks will struggle to incorporate long-term sustainability risks and opportunities into their decision-making. In the absence of disclosure standards, companies themselves could be left blind to such issues.[44]

> Without reliable, comparable and meaningful sustainability disclosure from companies, investors and banks will struggle to incorporate long-term sustainability risks and opportunities into their decision-making.

The social objectives of national and regional regulatory frameworks are often inspired by the UN's SDGs and the previously discussed need to mobilise capital at scale for sustainable development.

In the European Union (EU) relevant regulations and legislative initiatives include:

- The EU taxonomy regulation – a classification system for green activities
- The proposed Corporate Sustainability Reporting Directive (CSRD), which will replace the Non-financial Reporting Directive (NFRD) and introduce mandatory sustainability-reporting standards
- A potential EU social taxonomy.[45]

38 World Bank 2020.
39 United Nations Sustainable Development Group (UNSDG) 2018.
40 World Trade Organization (WTO) 2022.
41 United Nations Development Programme 2022.
42 Center for Global Development (CGD) 2022.
43 Jackson et al. 2020.
44 GermanWatch 2021.
45 Platform on Sustainable Finance 2022.

"Socio-economic inequality is a systemic issue on the 'S' side. For insurers, it is important to apply a double materiality lens to this topic so they can consider what risks it poses to their business and how their own actions might exacerbate or mitigate it. On the underwriting side, for example, physical climate risk is increasing for the most vulnerable, making their assets harder and more expensive to insure. A holistic, forward-looking approach to property insurance pricing would be needed to promote sustainable development, not just at the asset level but also at the community level."

Alex Bernhardt, Global Head of Sustainability Research, BNP Paribas Asset Management

"Insurance is rightly perceived as supporting socio-economic development. However, there are increasing challenges to this notion. Climate risk is an example. It could prompt insurers to no longer offer (affordable) coverage to households and businesses, leaving them more vulnerable to heightened levels of physical exposure. In light of the rapidly evolving risk landscape insurers need to think hard about how to maintain their social role without undermining commercial viability. One approach might be to better leverage insurers' expertise and knowledge through broader and deeper public-private partnerships."

Nathan Fabian, Chief Responsible Investment Officer, PRI and Chairperson of the European Platform on Sustainable Finance

"By extending the concept of double materiality in sustainability reporting to the 'S', insurers and their stakeholders would better understand how social factors impact insurance assets and liabilities. Insurers would also consider how their investment and underwriting activities affect employees, customers and communities. On that basis, the insurance industry could drive change across various sectors, through direct engagement on social risks such as strikes and consumer boycotts. It may be possible to use differentiated premiums on business customers determined by their ESG factors; doing so might qualify as a 'significant contribution' under a future EU Social Taxonomy."

Bryan Coughlan, Sustainable Finance Officer, BEUC – The European Consumer Organisation

"When thinking about social sustainability insurers should start with their purpose and an understanding of their impact on society. The most promising way for insurers to help build stronger communities is to share and leverage their risk knowledge and expertise. While private capital cannot insure every societal risk, we increasingly have the data and knowledge to explore the gaps and propose solutions with government and other partners that enable society to better protect vulnerable people."

Diane Flanagan, Vice President, Corporate Affairs & Communications, Intact Financial Corporation

The EU taxonomy regulation has established the world's first-ever 'green list' – a classification system for environmentally sustainable economic activities. It places obligations at entity level for large-listed firms (with more than 500 employees) already subject to the NFRD to disclose their level of alignment to the taxonomy. In addition, financial market participants such as asset managers and pension providers will be required to report the proportion of their managed investments that are aligned to the taxonomy.[46]

The NFRD lays down the rules for disclosing non-financial information by certain large-listed companies. Under the NFRD, those companies must publish information on their approach and alignment to: 1) the environment; 2) social matters and the treatment of employees; 3) respect for human rights; 4) anti-corruption and the fight against bribery; and 5) diversity on company boards (in age, gender and educational and professional background). The proposed CSRD, adopted by the European Commission in April 2021, would further extend those reporting requirements, for example by requiring companies to publish both information necessary to understand how sustainability matters affect them and the impact these companies have on people and the environment ('double materiality').

46 EU-Lex 2020.

Most importantly in the context of this paper, in February 2022, the Platform on Sustainable Finance (PSF) published its final report on a proposed social taxonomy.[47] The structure proposed in the report borrows various aspects of the environmental taxonomy, including the development of social objectives, types of substantial contributions and 'do no significant harm' criteria. The proposed social objectives are decent work (including for value-chain workers), adequate living standards and well-being for end-users, and inclusive and sustainable communities and societies.[48]

An example of relevant national legislation is the German Supply Chain Due Diligence Act (GSCA), which will come into force on 1 January 2023. Large companies (with more than 3,000 employees) will be required to identify and assess risks to human rights and the environment within their supply chains, and establish effective risk management systems. A primary objective is to eliminate child and forced labour from global commerce and improve working conditions across supply chains. The Act is ultimately designed to implement the United Nations Guiding Principles on Business and Human Rights.[49]

A prominent example from outside Europe is Australia's Modern Slavery Act, which came into force on 1 January 2019. The underlying term 'modern slavery' refers to any situation in which a person cannot refuse or leave work because of threats, violence, coercion, abuse of power or deception. From a legal point of view, it encompasses slavery, servitude, the worst forms of child labour, forced labour, human trafficking, debt bondage, slavery-like practices, forced marriage and deceptive recruiting for labour or services. This Act introduced a new mandatory statutory reporting requirement for larger companies (with an annual turnover of more than AUD 100 million) operating in Australia. The requirement extends to both operations and supply chains, including steps taken to respond to the risks identified.[50]

An increasingly important contributor to policymakers' heightened attention to the 'S' is the growing awareness of the interconnectedness of climate change and social sustainability. On the one hand, climate change will have (and is already having) devastating impacts on human lives and livelihoods (see Box 1).[51] On the other hand, the current cost-of-living crisis, if unmitigated, could seriously jeopardise the world's transition to net-zero carbon emissions, as energy security and poverty reduction have become as important as the green transition.[52]

47 Platform on Sustainable Finance 2022.
48 Ibid; sections 5 and 6 of this report.
49 DLA Piper 2021.
50 Norton Rose Fulbright 2021.
51 Allen et al. 2019; Nerini et al. 2019.
52 Centre for Social Justice (CSJ) 2022.

Box 1: Social impacts of climate change

The large-scale social impacts of climate change are fourfold:

1. **Rising poverty and compromised quality of life and livelihoods linked to extreme weather events.** Between 1970 and 2019, more than 11,000 reported disasters, over 2 million deaths and USD 3.64 trillion in economic losses have been attributed to weather-, water- and climate-related extremes globally.[53, 54] Since 1950 the number of reported disasters linked to natural hazards has increased by 73% each decade, with meteorological, hydrological and climatological events accounting for over 90% of total recorded events.[55] Beyond the increasing frequency and severity of hazards linked to climate change, the growing concentration of people and assets in high-risk regions (e.g. coastal and flood plain settlements) as well as poor development choices and construction practices, further exacerbate these impacts. Evidence shows that the most vulnerable communities may fall deeper into poverty following a disaster and be unable to recover, particularly when social protection and support programmes are lacking. The World Bank estimates that climate change will drive 68 to 135 million people into poverty by 2030.[56]
2. **Large-scale migration linked to chronic physical risks.** Evolving chronic risks, such as water scarcity in regions such as the Middle East and Africa and sea level rise in the Small Island States and coastal regions, are leading to migrations within and across national boundaries, resulting in major socio-economic challenges for migrants and the governments receiving them. Since 2008, over 20 million people annually have been internally displaced due to weather-related extreme events.[57]
3. **Impacts on workers and communities *in case of an unjust and poorly planned transition to a carbon-neutral economy*.** As economies wean themselves off carbon-intensive sectors, new technologies, processes, industries and infrastructure systems need to be developed, deployed at scale, operated and maintained. This will have significant impacts on individuals and communities across the full value chain.
   - Those employed in carbon-intensive sectors will lose their work and need to secure other sources of employment. The latest analysis shows that there will be an anticipated 187 million job losses by 2050 in sectors such as agriculture and food, the automotive industry, and oil, gas and coal extraction and production.[58]
   - There is potential for human rights violations, for example related to child labour and mistreatment of indigenous populations in transition-related mining projects.[59]
4. **Climate change and health-related issues**. There is growing evidence of air pollution, extreme heat, and water and food shortages leading to various health-related issues such as asthma, cardiovascular diseases, heat-related illnesses, malnutrition and the contraction of vector-borne diseases.[60, 61, 62]

Author: Maryam Golnaraghi, Director Climate Change & Environment, The Geneva Association

"The acuteness of climate change has put the spotlight on the social dimension of sustainability. Climate change adversely affects the lives, livelihoods and assets of an increasing number of people and translates into rising mortality and morbidity, on top of surging physical asset losses. At the same time, the global push towards net zero and the necessary economic and commercial adjustments need to be socially cushioned. For the insurance industry, addressing the intersection between environmental and social sustainability is both a challenge and an opportunity."

Amita Chaudhury, Group Head of Sustainability, AIA

53 World Meteorological Organization (WMO) 2021.
54 Weather is the state of the atmosphere at a particular location over the short term. Climate is the average of the weather patterns in a location over a longer period of time, usually 30 years or more. NOAA 2016.
55 International Disaster database (EM-DAT): https://public.emdat.be
56 World Bank 2020.
57 Intergovernmental Panel on Climate Change (IPCC) 2022.
58 McKinsey 2022.
59 For example, the World Bank expects a more than 1000% rise in demand for key minerals used in energy storage technologies in a 2°C climate scenario. World Bank 2017. For human rights-related issues in this context see the Business and Human Rights Resource Centre: https://www.business-humanrights.org/en/big-issues/natural-resources/extractives-transition-minerals/
60 The Lancet 2021.
61 According to the IPCC, it is expected that changing rainfall distributions together with warming temperatures will alter the distributions of disease vectors like mosquitoes and midges. Malaria vector hotspots and prevalence are projected to increase in East and Southern Africa and the Sahel by the 2030s, exposing an additional 51–62 million people to malaria risk. IPCC 2022.
62 Center for Disease Control and Prevention (CDC) 2022.

4.3 Institutional investors

Investors are increasingly aware of the potential for social sustainability to maximise long-term shareholder value, based on the growing belief that companies are best placed to deliver value for shareholders when they also take into account the interests of their other key stakeholders. Disregard for their stakeholders exposes companies to legal, regulatory, operational and reputational risks and undermines their long-term success. This philosophy is also known as 'stakeholder capitalism'.[63]

Academic researchers found evidence that special focus on social factors such as human capital management, workforce diversity and supply chain due diligence can help generate alpha, i.e. excess returns earned on an investment above the benchmark return.[64]

Special focus on social factors such as human capital management, workforce diversity and supply chain due diligence can help generate excess return on investment above the benchmark return.

Consequently, BlackRock, for example, is '(...) committed to engaging with companies on how they manage the human rights issues that are inherent in their businesses and monitor human rights practices on a best-efforts basis'.[65] The company also asks that 'investee companies'(...) disclosures on talent strategy fully reflect (…) long-term plans to improve diversity, equity, and inclusion'.[66]

As part of their 'Guidance on Enhancing Racial and Ethnic Diversity Disclosure', State Street Global Advisors adjusted their proxy voting practices in 2021. They will vote against the Chairs of the Nominating & Governance Committee of companies in the S&P 500 and FTSE 100 that do not disclose the racial and ethnic composition of their boards and, from 2022, that do not have at least one director from an under-represented community on their boards.[67]

"Without considering the social implications, humanity cannot tackle the defining challenge of our time: the mitigation of and adaptation to climate change. The rights of workers who will be adversely affected by the green transition need to be respected. Reskilling and upskilling opportunities must be offered. Access to energy must remain affordable, not only in developing countries but also in Europe in light of the Ukraine-Russia war. All these factors add to the need for companies to focus on the core of social sustainability: making sure that nobody is left behind."

Lucia Silva, Group Head of Sustainability and Social Responsibility, Generali

"We believe that mutualism is experiencing a revival. Today, most businesses want to be seen as sustainable and purpose-driven, as caring for people and the planet. Terms like 'stakeholder capitalism' are in vogue. The insurance sector has a major leadership role to play in advancing this momentous development, having started out as communities coming together to share life's big risks by mutualising them."

Shaun Tarbuck, CEO, International Cooperative and Mutual Insurance Federation (ICMIF)

"COVID-19 heightened appreciation for the value of resilience and sustainability across our global communities, with insurance playing an important role. As financial shock absorbers and risk managers, defining corporate purpose and addressing protection shortfalls are critical."

Jennifer Waldner, Chief Sustainability Officer, AIG

"The increasing focus by a widening array of stakeholders and advocacy groups on how insurers address ESG issues reflects growing frustration that governments are not taking necessary actions on issues of great societal import, including mitigating existential threats arising from climate change, or remedying serious social and economic inequities. The pressure on insurers and the entire financial services industry to drive societal change through business decisions will therefore grow more intense."

Joseph Wayland, Executive Vice President, General Counsel, Chubb

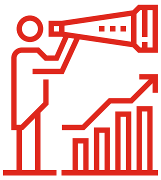
63 Schwab and Vanham 2021. Against this backdrop, at the World Economic Forum (WEF)'s Annual Meeting in Davos in 2020, 140 of the world's largest companies launched an effort to develop a core set of common metrics and disclosures on non-financial factors for their investors and other stakeholders (see section 5 of this report).

64 Edmans (2012) showed that the port¬folio of the 100 best companies to work for in the U.S. yielded an alpha of 2.3% above industry benchmarks over the period 1984–2011. Following up on the research, Boustanifar and Kang (2021) found that the outperformance persisted over the period 2012–2020. Just Capital (2021) offers more recent evidence, based on return on equity outperformance.

65 BlackRock 2021a.

66 Ibid.

67 State Street Global Advisors 2021.



5. Measuring social sustainability

Whereas it is possible to quantify how much value a company has created for its shareholders, it is more challenging to assess how a company affects its stakeholders and society at large. There is a plethora of approaches to measuring non-financial performance, with one account recording more than 600 frameworks and thousands of metrics.[68]

The lack of consistent and comparable information on non-financial performance prevents investors and other stakeholders from efficiently allocating capital towards socially sustainable activities. Therefore, there is a strong case for non-financial metrics and disclosures which can be used by companies to align their mainstream financial reporting with ESG indicators. Such metrics and disclosures are a prerequisite to consistently tracking companies' contributions towards sustainability objectives such as the UN's SDGs.[69] For companies themselves, they are indispensible to meeting the increasing expectations from stakeholders (as discussed in section 4 of this report) as well as to making strategic decisions which take into account the imperative of sustainability.

The lack of consistent and comparable information on non-financial performance prevents investors and other stakeholders from efficiently allocating capital towards socially sustainable activities.

With this in mind, WEF's International Business Council (IBC), a community of over 140 global CEOs, asked the 'Big 4' (Deloitte, EY, KPMG and PWC) to identify a set of universal and material ESG metrics that can be consistently integrated into the mainstream annual reports of companies.[70]

The recommended metrics are deliberately based on existing standards, with the near-term objective of facilitating convergence among the leading non-public standard-setters. On that basis, the ultimate objective is to enable more comparable and consistent ESG disclosures. This convergence, amongst others, includes the International Financial Reporting Standards (IFRS) Foundation and its recently established International Sustainability Standards Board (ISSB), which initially will focus on climate disclosures.[71]

68 FCLTGlobal 2021.
69 See section 6 for a more detailed, insurance-focused analysis of the SDGs.
70 WEF 2020.
71 ISSB 2021.

The proposed WEF/IBC metrics are organised under four pillars that are aligned with both the SDGs and the fundamental concept of ESG: Principles of Governance, Planet, People and Prosperity (see Figure 4).[72]

Figure 4: The WEF/IBC four pillars of corporate sustainability reporting

Principle of governance	Planet	People	Prosperity
How the company sets its purpose, is governed responsibly and manages risks	How the company helps protect the planet, e.g. through reduced carbon emissions	How the company takes care of its employees	How the company promotes economic, technological and social progress

Source: The Geneva Association, adapted from WEF[73]

For these four areas, WEF comes up with 21 core metrics that are deemed critically important in the short term.[74] They are primarily quantitative in nature, typically already reported by companies and focus on activities related to a company's core business. In addition, 34 expanded metrics are put up. These are less well-established and primarily address long-term value creation and companies' impact on a wider array of stakeholders, such as customers and local communities.[75] Figure 5 summarises the core metrics for the two pillars which are directly related to the 'S' in ESG: People and Prosperity.

Figure 5: The WEF/IBC core metrics and disclosures for the 'S' in ESG

People	Prosperity
Dignity and equality • Diversity and inclusion • Pay equality • Wage level • Risk for incidents of child, forced or compulsory labour	**Employment and wealth generation** • Absolute number and rate of employment • Economic contribution (e.g. revenues, wages) • Financial investment contribution (e.g. capital expenditures, share buybacks, dividend payments)
Health and well-being • Health and safety	**Innovation of better products and services** • Total R&D expenses
Skills for the future • Training provided	**Community and social vitality** • Total tax paid

Source: The Geneva Association, adapted from WEF[76]

5.1 The people dimension

As discussed in section 3 of this report, the 'S' dimension of ESG essentially boils down to the impact of businesses on people. With that in mind, companies are expected to embrace human rights, for example by fostering diverse, inclusive workplaces with equal pay for work of equal value.[77] Employees are crucial for the success of every organisation. Therefore, the business case for firms to measure, manage and disclose information on how they foster the health and skills of their workforce (including value chain workers) is obvious.

Also, the UN's 2030 Agenda for Sustainable Development puts people front and centre, based on key objectives such as the eradication of hunger and the provision of a healthy environment for all. While people objectives are strongly linked to all the SDGs, they manifest themselves most visibly in the six goals presented in Figure 6.[78]

72 See SASB 2017 for a similar, earlier approach.
73 WEF 2020.
74 Ibid.
75 KPMG 2022.
76 WEF 2020.
77 ILO 2016.
78 See section 6 of this report for an analysis of how insurance can promote those SDGs.

Figure 6: SDGs directly related to the people dimension of corporate sustainability reporting

Source: WEF[79]

Dignity and equality is the first of three major themes in the people pillar of the proposed WEF 2020 framework (see Figure 5). The starting point is the Universal Declaration of Human Rights, adopted by the UN General Assembly in 1948.[80] Translated into the world of work, this theme focuses on providing equitable opportunities to all employees, regardless of their gender, race, age, ethnicity, ability and sexual orientation. In doing so, companies can help integrate under-represented groups and minorities into the labour market and also enhance the pool of talent by including a more diverse workforce.

Proposed core metrics for the theme of dignity and equality include

- The percentage of employees per employee category, by age group, gender and other indicators of diversity (e.g. ethnicity)
- The ratio of the basic salary and remuneration for each employee category by significant locations of operation for women to men, minor to major ethnic groups, and other relevant equality areas
- Ratios of standard entry-level wage by gender compared to local minimum wage
- Ratio of the annual total compensation of the CEO to the median of the annual total compensation of all its employees
- An explanation of the operations and suppliers considered to have significant risk for incidents of child labour, forced or compulsory labour.

Stakeholders increasingly expect businesses to care for the health and safety of their employees and to provide a working environment that is conducive to physical and mental well-being.

Health and well being is a second rapidly emerging theme. Stakeholders increasingly expect businesses to care for the health and safety of their employees and to provide a working environment that is conducive to physical and mental well-being. In order to meet these expectations as well as increasing legal obligations companies need to maintain sufficently high labour standards across their entire value chains. Companies are likely to benefit from such investments through higher levels of employee engagement and productivity.

Proposed core metrics for health and well being include

- The number and rate of fatalities as a result of work-related injury
- High-consequence work-related injuries (excluding fatalities)
- An explanation of how the organisation facilitates workers' access to non-occupational medical and healthcare services
- The scope of access provided for employees and workers.

Skills for the future is the third and final theme in the people pillar of the WEF 2020 framework. To address skills gaps in their workforce, companies must invest in training, education and reskilling (not least in light of the green transition) in order to maintain and further boost employee engagement and productivity.

Core metrics for this area include

- Average hours of training per person undertaken by the company's employees during the reporting period, by gender and employee category
- Average training and development expenditure per full time employe.

79 WEF 2020.
80 UN General Assembly 1948.

5.2 The prosperity dimension

Prosperity is an area of critical importance on the UN's 2030 Agenda for Sustainable Development, where it is described in terms of economic growth, built on decent employment, sustainable livelihoods, rising real incomes and social protection; business model and product innovation to create shared value, including investments in sustainable and resilient infrastructure and technology; and shared prosperity and equitable growth, based on sustainable production and consumption. Figure 7 shows the SDGs most directly linked to the dimension of prosperity.[81]

Figure 7: SDGs directly related to the prosperity dimension of corporate sustainability reporting

Source: WEF[82]

Employment and wealth generation (see Figure 5) is the first theme that encompasses key aspects of prosperity. Companies create significant economic value for employees, shareholders and society at large by creating jobs, meeting customer needs and generating dividend income for capital providers.

Examples of core metrics include the absolute number, rate of employment[83] and rate of employee turnover, by age group, gender or other indicators of diversity and region. In addition, a company's economic contribution can be measured by direct economic value generated and distributed, such as revenues, operating costs, employee wages and benefits, payments to providers of capital and community investment. For insurance companies, the main measurable contribution is the payment of customer claims and benefits, based on commercially viable and reliable risk transfer and risk pooling.[84]

The second theme is the innovation of better products and services that respond to customers' changing needs and desires but that are also aimed at creating and commercialising solutions to complex socio-economic challenges such as the green energy transition. A company's contribution is typically measured by the total spend on research and development.

Community and social vitality is the third and final prosperity-related theme. Companies have the means to strengthen the social fabric and vitality of the communities in which they operate, either through direct investments or indirectly through taxes which help fund government services for those communities. The suggested measurement includes global tax payments, including corporate income taxes, property taxes, non-creditable VAT and other sales taxes, employer-paid payroll taxes, and other taxes that constitute costs to the company, by category of taxes.[85]

In summary, consistent and comparable information on the social impacts of corporate activities is a precondition for efficiently channeling more private-sector capital towards socially sustainable activities. For companies themselves, such information is vital to making strategic decisions which take into account the imperative of social sustainability. 'S' metrics are also indispensible for curbing social washing, which will remain widespread as long as social impacts remain poorly defined.

81 See section 6 of this report for an analysis of how insurance can specifcally support those SDGs.
82 WEF 2020.
83 The rate of employment describes the total number and rate of new employee hires.
84 See section 6 of this report.
85 In addition, two more elements should be considered: payments to social security schemes and, especially from an insurance perspective, the mobilisation of resources through foundations.

Insights from our Board members

"While the recent global trend is a shift from economic to social values, traditional Japanese companies, and insurers in particular, are generally focused on solving social problems as their corporate purpose. Japanese companies grow sustainably by solving social problems, and profit is a means to that end. I am concerned that recently, Purpose has become a boom as the quickest way to gain profit. Quite the opposite is true: Profit is the means to achieve Purpose. With that in mind, my hope is that investors increasingly judge returns according to the sum of both social and economic returns. Stakeholder capitalism should be achieved by utilising the power of shareholders in this way. And insurance companies should not focus on how to sell insurance products, but rather on how to be chosen by the market by solving social problems. It will not be easy, but it is worth the challenge. If such a culture permeates the organisation, it can also be the strongest form of governance."

Tsuyoshi Nagano, Chairman of the Board, Tokio Marine

"Social sustainability is the act to identify and manage impact related to people. As a basic notion, because life insurance is a business where people create a product with no form, handled by people, and provided to support people, there is a strong correlation with social sustainability. Thus, we can say that it is inherently embedded in our business. While so, many insurers are working on initiatives beyond business as usual, such as supporting local government for better resident services and providing childcare support to assist development of children. For such initiatives to grow and expand, it is crucial that there is a compelling business case, in ways such as enhancing productivity and risk management and seeking out new markets and business relationships."

Hiroshi Shimizu, President & CEO, Nippon Life

"Between the various ESG frameworks, for example those used for ratings, reporting and impact assessment, there is only limited agreement as to what constitutes the 'S', in terms of its scope, depth, relevant data, and interlinkages with the 'E' and the 'G'. This lack of consensus presents a major barrier to developing meaningful metrics to consistently measure and ultimately manage contributions to social sustainability."

Bruce Thomson, Associate Director, Global Social Specialist, Sustainable Finance, S&P

"Businesses contribute to the well-being of societies by influencing the current well-being of their stakeholders, either intentionally or non-intentionally, and through the creation as well as depletion, of economic, human, social and natural capital resources. In the face of emerging challenges, such as persistent inequalities exacerbated by the COVID-19 crisis, there is a heightened interest in understanding the impacts of businesses on society both on the part of policymakers, but also on the part of businesses themselves."

Ziga Zarnic, Head of SDGs and Impact Measurement, OECD

"Addressing sustainability issues requires analysing social risks and factors. EIOPA is working to identify how social risks can translate into prudential risks for re/insurers' assets and liabilities. As society's risk managers and important long-term investors, re/insurers should engage with social challenges. At EIOPA, we are working on the inclusion of social risks and factors in re/insurers' risk management and disclosure requirements."

Pamela Schuermans, Principal Expert Insurance Policy, EIOPA

"As part of their social commitments, insurers need to make their products and services more accessible for underserved populations that are particularly vulnerable to climate change or poverty in the event of a disaster. In order to meet such commitments, insurers need to set and track indicators to collect the number of beneficiaries from vulnerable communities. In this context as well, only what gets measured gets managed."

Céline Soubranne, Group Chief Corporate Responsibility Officer, AXA

Interview with

Christian Mumenthaler

Chairman, The Geneva Association
CEO, Swiss Re

What does social sustainability mean from an insurance perspective?

The biggest 'S' footprint we have as insurers is the effect of our products on society – and there, the industry starts from a very positive angle. We have a major impact by protecting individuals, families and societies from shocks. It is not a by-product – it's our business model.

While the risk diversification and transfer function of the insurance industry is very beneficial, the insurance industry clearly has an additional role in creating incentives to lower the risk. It's a smaller part of what we currently do, but it has potentially equal or even more impact on societies.

Insurers are also doing a lot of work with their customers to make insurance more affordable, simplify products and close the protection gap. If we really want to maximise our social value, we need to have more people insured. The protection gap is a good measure, and it's clearly a pain point for the insurance industry to solve.

But people are still certainly asking, 'What exactly is the 'S' part of ESG?'. We would need a clearer framework, and I wonder if the 'Scope 1, 2, 3' concept we use for the 'E' – for carbon footprint – could be adapted to the 'S'. Scope 1 would be our operations – our employees and everything we directly control; Scope 2 could be the impact we have on communities through our operations and our employees; and Scope 3 could be split into upstream, counting the 'S' impact of our providers, and downstream, the impact our products have through the activities we enable.

What do you see as the drivers behind increased interest in the 'S'?

I think we need to first mention the overall ESG movement, which has come up mainly through the 'E' route. We're in an 'ESG wave', and there are discussions in companies and boards around the world now that weren't happening 10 years ago. In terms of pressure and where it's coming from, you might say that 'S' is the forgotten child that was woken up two years ago. COVID further exposed and catalysed dialogue on racial and economic inequality.

How can insurers live up to the expectations being defined by the emerging European taxonomy around social sustainability?

I'm a big believer, as are many CEOs in The Geneva Association, that we work in a wonderful industry that has a huge social purpose. We don't need to fake it. Every day we help people by compensating them in case of accidents or disasters and helping them better understand their risks. It's a mega-important function for societies. Furthermore, the insurance industry increasingly adds a 'prevention' layer of service to further decrease risks for people and society at large.

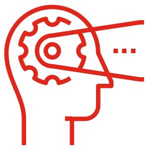
What will be some of the challenges of embedding ESG in daily business over the next five or 10 years?

If you want to have impact, you need to make ESG mainstream in the business. For example, in 2017 Swiss Re shifted all of its assets into ESG benchmarks, and our analysis shows we are better off in terms of lower volatility and higher returns.

The underwriting side is more challenging. Many companies already have guidelines around human rights and problematic industries. While we still have a long way to go, I do believe it is commercially viable to integrate ESG into underwriting. But when reporting on ESG, insurers ultimately need to follow the same KPIs and one standard. Right now, there are several.

How much does the insurance industry need an extra push in this area?

If we don't push, we will be pushed. The pressure is mounting and expectations are rising across society at large and from investors, pension funds, employees and NGOs. Could we all do more? Of course. For example, do all insurers look at their assets through an ESG lens? Does every insurance company have basic rules about what they write and don't write from an ESG framework? And how do local laws, as reflections of what people want, affect the motivation and decisions of CEOs and boards? There are differences in insurers' approaches that should be considered and discussed.



6. Conceptualising social sustainability: A risk and insurance perspective

The previous sections have highlighted the conceptual elusiveness of 'social sustainability' and the resultant lack of widely accepted metrics. These shortcomings increasingly matter for insurers, too, amid mounting stakeholder pressure on businesses to embrace the 'S'.

With that in mind, the following section endeavors to introduce a systematic approach for insurers to assess their impact on the 'S'. This is particularly relevant for an industry which can be viewed as inherently socially beneficial, given its role in promoting economic growth, mitigating social inequality, providing long-term investment funds and fostering risk mitigation and prevention at the individual, household, corporate and societal levels.[86] On the basis of this conceptual approach to impact assessment we also aim to facilitate the identification and definition of (more) suitable metrics capturing the social impacts of insurance.

6.1 A social impact assessment framework for the insurance industry

As discussed in section 4 of this report, there is a massive need for social investments to achieve the SDGs, much heigentened by the setbacks inflicted by the pandemic and the war in Ukraine.

The high demand for social bonds (to finance social housing and healthcare, for example) is a concrete indicator that investors see social investments as an opportunity.[87] For insurers, too, it is therefore crucial to better guide investors and other stakeholders in judging the industry's social footprint. Compared with analysing impacts on the environment, assessing the 'S' is a challenge. While they have detrimental effects on the environment, most economic activities can be viewed as inherently socially beneficial: they create jobs, meet customer needs and provide tax income to governments. In addition, while environmental objectives and criteria can be based on science, any assessment of social impacts has to rely on relevant (and rather generic) international standards such as the International Bill of Human Rights.[88]

A promising approach that could be drawn upon when conceptualising a social impact assessment framework for insurers is the GHG Protocol, introduced more than two decades ago.[89] As discussed earlier in this report, compared with social factors, ESG reporting of carbon emissions is relatively advanced. They are among the easiest of ESG items to reliably measure and interpret. Most of the companies

86 Skipper 1997; Swiss Re 2019, 2022b.
87 Moody's 2022.
88 Platform on Sustainable Finance 2022.
89 https://ghgprotocol.org/

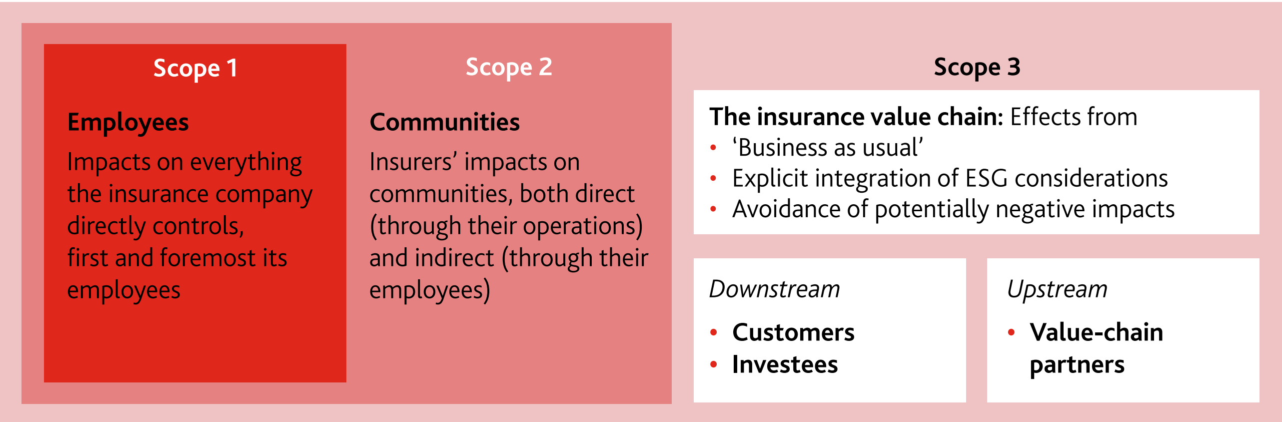
that provide this information in their reporting rely on the GHG Protocol. It offers a common language for carbon emissions and has developed into the default methodology underlying most ESG disclosure standards.[90] The protocol identifies three types of carbon emissions:

- **Scope 1:** Direct emissions from sources that are owned or controlled by a company, such as its production and transportation equipment
- **Scope 2:** Emissions at facilities that generate energy bought and consumed by the company
- **Scope 3:** Emissions from *upstream* operations in a company's supply chain and from *downstream* activities by the company's customers and end-use consumers.

Scope 1 emissions are the easiest to measure and the most relevant for fossil-fuel energy companies but are of less relevance to most other companies, including services companies such as insurers. Scopes 2 and 3 essentially cover all carbon emissions indirectly linked to a company's operations. Scope 3 is the main challenge of GHG reporting as it relates to emissions that a company cannot control directly.

Based on the Three Scope model, Figure 8 suggests an analogy between carbon emissions and social impacts. Scope 1 could capture an insurer's social impacts on everything the company directly controls, first and foremost its employees. Scope 2 could cover the insurer's impacts on communities, directly through its operations and indirectly through its employees (e.g. employee volunteering). Scope 3 would include the insurer's social impacts across the value chain, from risk taking and servicing to investing, both upstream (the 'S' impact on and of value-chain partners) and downstream (the 'S' impact on and of customers and investees). It is obvious that Scope 3 impacts are by far the biggest (see Figure 8).

Figure 8: The Three Scope model applied to the social impacts of the insurance industry



Source: The Geneva Association

In the context of Scope 3, the distinction between social benefits inherent to a company's core business ('business as usual') and additional social benefits that directly support the realisation of specific social objectives, such as improving access to quality healthcare for difficult-to-insure groups, is emerging in public-policy discussions, with the EU Social Taxonomy project being the most prominent example. Understanding and communicating this distinction between inherent and additional social benefits is a particular challenge for the insurance industry which, through 'business as usual', makes major direct and indirect contributions to social sustainability by fostering financial stability and resilience as well as helping society mitigate and prevent risk.

Against this backdrop, we propose a three-pronged approach for insurers to assess their social impacts under the proposed Scope 3 analogy (see Figure 8):

- The core business of underwriting and investing, i.e. the provision of risk protection and long-term investment funds ('business as usual')[91, 92, 93]
- Activities enabled by the explicit integration of ESG considerations in core business activities, such as improving access to risk cover for difficult-to-insure groups
- Efforts designed to avoid and address potentially negative impacts on employees, customers and communities, for example by not underwriting projects which may harm indigenous populations.

90 Kaplan and Ramanna 2021.
91 Baranoff et al. 2009.
92 Eling and Lehmann 2018.
93 Ibid.

Stakeholders affected by insurance activities include

- The insurer's own workforce
- Value chain partners and their workers
- Communities
- Customers
- Investees.[94]

The following section offers an in-depth examination of the three fundamental dimensions of social impacts generated by insurers.

6.2 Social impacts of insurers' core business activities

6.2.1 Inherent social benefits from 'business as usual'

The concept of solidarity is at the core of insurance. A large number of individuals, households and businesses facing the same type of risk pay premiums into a joint pool. If an insured pool member is hit by calamity, they will receive financial relief out of that pool. As organisers of this type of risk-sharing, insurers make societies more resilient and sustainable.

Box 2: Gauging the global insurance industry's contribution to socio-economic resilience

By protecting lives, livelihoods and assets insurers generate a global annual premium volume of close to USD 7 trillion. The life segment is the most important, with premiums of about USD 3 trillion,[95] followed by health (USD 1.9 trillion) and personal property & casualty lines (USD 1.1 trillion). Commercial property & casualty lines account for the remainder (USD 0.9 trillion).[96]

On that basis, we estimate that insurers contribute more than USD 5 trillion per annum to global financial resilience in the form of average insurance claims and benefits payouts. An estimated USD 1.4 trillion is paid out every year to facilitate people's access to and utilisation of private healthcare services. About USD 800 billion cover individuals' and households' losses of assets such as cars and homes. An estimated USD 1.9 trillion of annual benefits bolster people's retirement income and help them manage longevity risk, i.e. the risk of living longer than expected and running out of money before dying. About USD 550 billion in payouts per annum help surviving dependents and family members to manage the financial implications of premature death and disability.

Globally, insurers manage assets in the amount of more than USD 40 trillion.[97] As such, their share in global assets under management exceeds one third.[98] The assets of insurers, and life insurers in particular, are mainly invested in bonds. Non-life insurers have a liability structure that has a shorter term than for life insurers and tend to hold more assets in cash and deposits. In most OECD countries, bonds account for the lion's share of life insurers' investments. Equity investments account for less than 10% of invested assets in most jurisdictions.[99] Life insurers primarily invest in fixed-income securities in order to match their long-term liabilities and generate a stable and regular source of income. For European life insurers, EIOPA[100] finds an average holding period for government bonds of 10.2 years and for corporate bonds of 7.0 years. Corresponding average holding periods for non-life insurers' are 7.1 years and 5.2 years, respectively.[101]

In addition, an increasing number of insurers commit themselves to socially responsible investing which involves choosing or disqualifying investments based on specific ethical criteria. For this purpose, ESG benchmarks are systematically integrated into investment portfolios, with the objective of generating a positive impact on investment performance. Improving risk-adjusted return profiles and reducing downside risks makes particular sense to long-term investors such as insurers.[102]

Source: The Geneva Association

94 Ibid.
95 About USD 700 billion of premiums cover existential risks such as a family's main breadwinner's premature death or disability. Swiss Re 2022a.
96 Ibid.
97 BlackRock 2021b.
98 Boston Consulting Group (BCG) 2022.
99 OECD 2022.
100 EIOPA 2019.
101 Ibid.
102 Swiss Re (undated); Munich Re (undated).

"Two areas within a growing scope of social sustainability deserve special focus: direct and enabling impact of our business. Direct impact is the impact we have through our products and services, in particular when reaching previously underserved communities. The enabling impact we have is through the activities we insure. This impact is only positive if we insure sustainable activities. Enabling unsustainable activities will be harmful in the long-term. Our contribution to social sustainability is maximised when insurance becomes accessible, available and affordable to all segments of the global population and when we insure a more sustainable world."

Shailee Pradhan, Senior Sustainability Manager, Swiss Re

Given its pivotal role in risk-taking and investing, insurance fosters socio-economic resilience in at least six ways (see Figure 9). First, it promotes financial stability and 'peace of mind'. Insurance is designed to help stabilise the financial situation of individuals, families and organisations after a shock event. Anxiety that arises from concerns about the financial consequences of the loss of life, health and property can adversely affect mental health and cause paralysis in decision-making. Insurance instils 'peace of mind' and a sense of financial security which every individual and business needs.[103] This also reduces people's need for precautionary savings which are often unavailable to capital markets. Insurance thus helps provide more capital to the economy as people no longer have to protect themselves against the eventuality of, for example, their home being destroyed by a fire. As such, the insurance mechanism transforms 'dormant' capital into 'free' capital.[104] Finally, by stabilising the financial situation of individuals and households, insurance also contributes to mitigating social inequality; people are less exposed to falling (back) into poverty following a financial shock.[105]

Second, private insurance can stabilise, complement or even substitute for social security programmes. This is particularly important in developing countries which often do not have the institutional prerequisites to building social security systems (e.g. the ability to raise tax revenues). In advanced economies, insurance can alleviate the strain on taxpayers – a role that is set to become more important in light of the fiscal challenges faced by governments. Private life and health insurance in particular relieves pressure on social welfare.[106]

Private insurance can stabilise, complement or even substitute for social security programmes.

Third, insurance facilitates commerce and trade. Many products and services would be unavailable without adequate liability insurance covering claims for negligence. Airplanes would not fly – as we saw in the immediate aftermath of 9/11 when insurers withdrew coverage – ships would not sail and trucks would not carry freight in the absence of insurance. As such, insurance enables economic activity and serves as the 'lubricant' of commerce.[107]

Fourth, insurers help mobilise savings. In this respect, life insurers can be especially beneficial for developing countries. In contrast to banks, which mainly collect short-term deposits and extend short-term credit, life insurers, given the structure of their liabilities, adopt a longer-term view meaning they can offer more attractive options to savers and a longer-term source of capital to both governments and businesses. Ultimately, a rise in aggregate savings combined with an improved capital allocation enables more investments and higher economic growth.[108] In addition, the greater mobilisation of savings facilitates the transition to more sustainable funded retirement systems.[109]

Fifth, insurers promote a society's ability to manage risk more efficiently. Insurers price and pool risk. Business owners and managers, potential investors, creditors, employees and other stakeholders can use risk-pricing signals to make better-informed decisions. Pooling reduces volatility and enables lenders and investors to apply a smaller 'risk premium' when assessing a business.[110]

Sixth, insurers have strong economic incentives to help insureds prevent or reduce losses. Their risk data and expertise give insurers a competitive edge in risk assessment and control. Through risk pricing in particular insurers incentivise insureds to prevent losses and they further support those efforts through fire prevention and healthier lifestyle initiatives, for example. Society as a whole benefits from the reduction of losses.[111]

103 Skipper 1997.
104 Liedtke 2007.
105 The Geneva Association 2020a. Author: Kai-Uwe Schanz.
106 Ibid.
107 Courbage and Nicolas 2019.
108 Ribaj and Mexhuani 2021.
109 Castanheira and Galasso 2011.
110 Skipper 1997.
111 The Geneva Association 2021b. Authors: Isabelle Flückiger and Matteo Carbone.

Figure 9: The role of insurance in promoting socio-economic resilience

Source: The Geneva Association

> *"To harness the insurance industry's full potential to promote social sustainability, we first need to recognise insurers' fundamental role in building resilient communities by reducing risk and absorbing financial shocks. But we must also build on this traditional view. As with insurers' investments, insurance should also be viewed as an enabler of economic activities, which can be sustainable or unsustainable. This is why insurers are now increasingly assessing whether their activities generate a positive or negative impact on society and the environment, not only as investors, but also as underwriters. Moreover, there is an unprecedented opportunity for insurance to support a socially-just and inclusive transition to a net-zero and nature-positive economy."*
>
> **Butch Bacani**, Programme Leader, UN Environment Programme's Principles for Sustainable Insurance Initiative

6.2.2 Additional social benefits from explicitly adopting ESG considerations

As discussed in the previous section, through 'business as usual' – as risk managers, risk takers and investors – the insurance industry plays an important role in promoting socio-economic resilience and socially sustainable economic development. However, with the adoption of the UN's SDGs in 2015, there is growing pressure and urgency across society to respond to the social sustainability challenges the world is facing. The insurance industry, like other sectors, is subject to an increasing number of international ESG standards and ever-higher ESG-related stakeholder expectations.[112] Against this backdrop, the following section will explore the scope for additional social benefits arising from explicitly adopting ESG considerations in insurance core business activities while maintaining the imperative of commercial viability.

Impact underwriting

In the context of risk-taking, the notion of impact underwriting is gaining in importance. Consistent with actuarial risk-based principles, insurers, as risk managers and underwriters, can make specific contributions to social objectives by applying their data and risk expertise and communication capabilities to the particular benefit of disadvantaged groups.[113, 114]

112 The perspective of S&P, a major rating agency, serves as an illustration: "While we note that the premise of insurance is to provide policyholders with financial stability and economic resilience following loss events, these characteristics in themselves are not a reason for us to view an insurer's creditworthiness as positively influenced by social factors. When considering insurers' activities as socially beneficial, we are looking for evidence that these activities generate measurable positive externalities that have an impact beyond an insurer's own client base." See S&P 2021b.

113 EIOPA 2019.

114 Herweijer et al. 2009.

Insurers can make specific contributions to social objectives by applying their data and risk expertise and communication capabilities to the particular benefit of disadvantaged groups.

In property & casualty insurance, products that help climate-risk resilience have been launched by a number of carriers; for example, storm coverage premium credits for fortifying homes or for resilience-enhancing measures after the occurrence of damage.[115] Insuring renewable energy installations against physical, developmental or operational risks is another example.[116] Such impact underwriting activities can offer a 'double dividend', generating additional revenues (at improved longer-term profitability) in a growing market and realising positive externalities for society.

On the life & health side, impact underwriting is primarily about pushing the boundaries of insurability in order to include more people in insurance and reduce protection gaps.[117]

Risk prevention

Through 'business as usual'-type risk pricing, insurers have long influenced their customers to be more risk conscious. However, given the fact that many insurance policies are one-year, repriceable contracts, some insurers do not look beyond the one-year time horizon in their actuarial pricing. With climate risk, for example, this approach may not be sustainable in the mid to long run as it is bound to lead to unaffordable or even unavailable coverages, potentially underming the social utility of insurance. This is one of the reasons why insurers increasingly view risk prevention in the broader context of ESG: to maintain their core social utility in the long run. They do so by contributing to climate, cyber or health risk prevention and mitigation at both the individual and societal levels.[118]

Insurers increasingly view risk prevention in the broader context of ESG to maintain their core social utility in the long run.

"Insurers should aspire to make contributions to social sustainability that extend the core social utility of the industry. While many insurers have traditionally focused on the mass affluent segment of the market, there are pockets of opportunity where, based on innovation, collaboration, and sector- and policy-level changes, protection can be brought to underserved groups who may not currently be accessing insurance products. This could significantly boost the financial resilience of the communities we serve."

David Schofield, Group Head of Corporate Responsibility, Aviva

"In the presence of social ills such as poverty, inequality and unemployment, purpose-driven insurers operating in developing countries face the imperative of offering affordable, accessible and relevant products to the underserved and disadvantaged. In this context, scale, simplicity and cost-efficiency are the key success factors. An exclusive focus on the more affluent customer segments is not sufficient for securing a long-term license to operate from society."

Karl Socikwa, Group Executive, Market Development & Sustainability, Sanlam

"Through the use of science-based behavioural change programmes, with incentives to encourage and reward improved risk behaviours, insurers are in an ideal position to promote individual behaviours such as healthier living or more careful driving. By harnessing insights from behavioral economics, insurers can help build healthier, safer, more resilient and more economically productive societies."

Andrew Rayner, Chief Risk Officer, Discovery

"In addition to their core role of compensating policyholders, property & casualty insurers can make a major contribution to society at large by reducing the probability of (man-made) disasters through risk management, prevention, data analytics and communication. Those contributions are less visible than claims payments but may be of similar importance to modern societies."

Lei TAO, Assistant General Manager, Secretary of the Board, Director, ESG Office, China Pacific Property Insurance Company

115 Ibid (also includes more examples).
116 Allianz 2020 (also includes more examples).
117 Risk selection and underwriting need to be aligned with the pooling requirements of the insurance product. If this is not the case, insurance for disadvantaged groups might have a negative impact on the majority of policyholders and their willingness to buy insurance.
118 The Geneva Association 2021b, 2020b.

Risk communication is another important element of insurers' role in risk prevention. On-site visits by insurance experts and risk engineers to help customers better understand physical and climate risks have been 'business as usual' for many large commercial insurers. However, from a specific ESG lens, life insurers, too, can directly tackle social issues by sharing knowledge on challenges such as antimicrobial and antibiotic resistance, climate change, infectious diseases and lifestyle behaviour as critical determinants of mortality, morbidity and hospitalisation risks.[119]

Impact investing

Coined in 2007 by the Rockefeller Foundation, the term 'impact investing' was first used in the context of achieving purposeful, positive social and environmental impacts.[120] The approach connects investors with the real economy by supporting organisations that generate social and environmental benefits in addition to financial returns. Impact investing starts with identifying an intentional pre-determined social impact, in combination with a clear analytical approach to impact measurement.

For the purpose of this research report, social impact investing can be defined as investment opportunities that allow insurers to intentionally pursue a specific and measurable social impact, at a financial return commensurate with the project's risk. The intended impacts need to be measured and reported on. Examples include social bonds (see section 2), private-debt lending toward social institutions and dedicated private-equity impact funds.[121]

The shift from a pure responsible to a more impact-driven investing approach is increasingly apparent. To remain competitive with customers, employees and investors, insurance companies must not only adapt to current and future regulations. More and more stakeholders also expect insurers to demonstrate their contribution to specific social objectives, as disussed above.[122]

Box 3: Inclusive insurance and the SDGs

'Inclusive insurance' encompasses different approaches to reaching the unserved, underserved, vulnerable or low-income populations, primarily in emerging markets, with appropriate and affordable insurance products. The spectrum ranges from microinsurance for people with very little disposable income to new products and services for an emerging middle class not yet served by traditional insurance.[123]

Inclusive insurance as a risk-protection mechanism can effectively support many of the SDGs. GIZ[124] argues that insurance is critical at a primary level to the achievement of six of the 17 SDGs (see Figure 10) and importantly, at a secondary level, to the realisation of five other SDGs.[125]

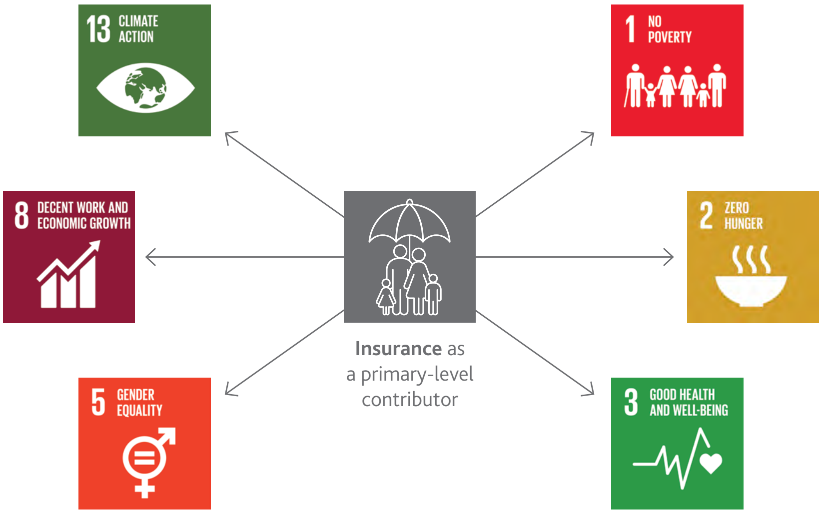
At the primary level, insurance helps fight poverty (SDG 1). It provides a safety net which prevents families from falling (back) into poverty after a financial shock.[126] Insurance is equally effective in combatting hunger (SDG 2): it promotes food security at the local level by facilitating lending and investments and at the household level by stabilising families' financial situation after a shock. In addition, insurance helps ensure healthy lives and promotes financial well-being (SDG 3) by facilitating access to and encouraging the utilisation of private healthcare services. Furthermore, insurance is essential to achieving gender equality and empowering women and girls (SDG 5) as it protects women who work in the informal sector and mitigates the financial consequences of a family member's premature death. It also helps promote inclusive and sustainable economic growth (SDG 8) by unlocking loans to and facilitating investments by Micro, Small and Medium-sized Enterprises (MSMEs). Finally, insurance is critical to addressing the challenge of climate change (SDG 13): it strenghtens climate resilience at a societal level and can protect the most vulnerable individuals, families and businesses.[127]

At the secondary level, insurance makes important contributions to inclusive education, more resilient infrastructure, reduced social inequality, more sustainable urbanisation and broader and deeper global partnerships, including both the public and private sectors.[128]

Source: The Geneva Association

119 UNEP-FI PSI 2022.
120 Credit Suisse 2020.
121 Zurich (undated).
122 Though it is beyond the scope of this report, we would like to emphasise that regulators should tread carefully when trying to promote inclusive insurance. For example, a right to be forgotten that disregards how risk pooling works would negatively affect the price and availability of insurance. While some disadvantaged groups may benefit, fewer people could be insured overall and aggregate protection gaps could widen. Insurance Europe 2021.
123 Center for Financial Inclusion (CFI) and Institute of International Finance (IIF) 2018.
124 GIZ 2017.
125 Ibid.
126 The Geneva Association 2020a.
127 Ibid
128 Ibid. We would argue, however, that the insurance industry's role in mitigating social inequality could be viewed as a primary-level contribution to SDG 10. The Geneva Association 2020a; Swiss Re 2022b.

Figure 10: The insurance industry's primary-level contributions to the SDGs



Source: GIZ[129]

6.2.3 Avoiding or addressing potentially negative impacts

In addition to providing direct or indirect benefits to social sustainability, insurers need to avoid and/or address potentially negative social impacts that may arise from their core business activities. The number of industry participants who actively integrate ESG risk factors into their risk assessment is growing rapidly. Insurers increasingly carry out ESG due diligence on clients and transactions to mitigate reputation risk and manage societal expectations.[130]

Insurance

In the property & casualty business, ESG risks in transactions primarily lie in industrial and commercial insurance. The 'heat map' poposed by PSI spans various insurance lines and indicates where there is a potential ESG risk, a potential elevated risk or a potential high or direct risk (see Figure 11).[131] Agricultural and construction & engineering insurance were found to be most prone to ESG risks such as child labour, forced labour, forced resettlement, poor worker safety and violation of worker rights.

"For insurers to make a greater contribution to social sustainability, there is a need for (more) patient capital. Building trust among unserved or underserved segments of society with no or little previous exposure to the concept of insurance takes time. A certain level of trust is a prerequisite to creating a culture of insurance which, in turn, is needed for the industry to make tangible contributions to social sustainability."

Craig Churchill, Chief, Social Finance Enterprises Department, International Labour Organization

"By allowing people and businesses to prepare for calamity, insurance makes a major contribution to economic and social stability and resilience. It provides policyholders with an essential planning tool and enables them to make better decisions around risk transfer and self-insurance. This is of paramount importance to a country like India where uninsured disaster losses remain a main impediment to people pulling themselves out of poverty."

Sanjay Datta, Chief Underwriting, Reinsurance, Claims & Actuarial Officer, ICICI Lombard

"The insurance sector has to work on promoting inclusion in all its aspects, through improving financial education, facilitating accessibility to insurance and ensuring sustainability across the value chain. As underwriters of risks and institutional investors, insurers have much clout to advance the cause of social sustainability. If we are not able to build a society in which people can develop and achieve their purpose, the communities within which we operate are at risk."

Mónica Zuleta Díaz, Group Head of Sustainability, MAPFRE

129 GIZ 2017.
130 UNEP-FI PSI 2020.
131 Ibid.

Figure 11: A 'heat map' of potential ESG risks in property & casualty underwriting

	Agribusiness	Property	Liability	Product liability	Workers' compensation	Construction and engineering	Credit and surety	Cyber	Directors' and officers' liability	Financial lines	Marine hull	Protection and indemnity	Aviation	Cargo
Child labour	▲	●	■	●	●	■	■		■	●	●	●	●	●
Human trafficking	■	●	●	●	●	■	●		●	●	●	●	●	■
Forced labour	▲	●	●	●	●	■	●		●	●	●	●	●	●
Forced resettlement (including land/water rights for native people, land grabbing)	■	■	■	●	●	▲	■		●	●	●	●	●	●
Poor worker safety record (e.g. worse than sector average record on accidents)	■	■	■	●	▲	▲	■	■	■	●	●	●	●	●
Violation of worker rights (e.g. discrimination, collective bargaining)	■	■	■	●	■	▲	■	●	■	●	●	●	●	●
Misconduct of security personnel (e.g. physical harm to people, human rights abuses)	■	■	■	●	●	▲	■	●	■	●	●	●	●	●
Controversial weapons exposure (e.g. UN conventions)		■	■	■	●	●	●	●	■	●	■	●	■	▲

□ Not applicable ● Potential risk ■ Potential elevated risk ▲ Potential high or direct risk

Source: Adapted from UNEP-FI PSI[132]

There is also a complex and evolving range of ESG risk considerations in life & health insurance underwriting. The United Nations Environment Programme Finance Initiative (UNEP-FI) Principles for Sustainable Insurance (PSI) proposes to break these down according to the four most relevant areas of underwriting:

1) Mortality – the risk of the insured dying prematurely
2) Longevity – the risk of the insured outliving his or her savings
3) Morbidity – the risk of the insured developing a condition or contracting a disease
4) Hospitalisation – the risk of the insured requiring private medical treatment.

Relevant ESG factors in life & health insurance include:

- Algorithmic underwriting (e.g. the risk of Artificial Intelligence biases leading to the unintentional exclusion of certain customers);
- Financial capability (e.g. the risk of not serving customers with low levels of financial literacy)
- Human rights (e.g. the risk of insuring employers with a poor worker-safety record).[133]

132 UNEP-FI PSI 2022.
133 Ibid; The Geneva Association 2022. Authors: Kai-Uwe Schanz and Isabelle Flückiger.

These examples should not lead to the erroneous conclusion that risk differentiation – a key element of private life & health insurance – should be disregarded. Risk-based pricing is a prerequisite to counteracting adverse selection[134] which, in turn, is essential to maintaining insurability.[135]

Investing

With ESG investing gaining further momentum, insurers, in order to reduce portfolio risks and generate sustainable returns, need to pay attention to ESG criteria. As described in section 4 of this report, firms who fail to take ESG risks into account are likely to be penalised by their shareholders.

ESG investment risk is primarily managed through exclusion or negative screening. For insurers, this entails avoiding or linking to behavioural change investment in companies that are involved in activities that are classified as controversial; for example, coal mining, tobacco, gambling, weapons such as cluster munition and anti-personnel landmines, or those with a record of human rights violations.[136]

Insurers are arguably most advanced in mitigating climate risk and apply ESG risk-screening criteria for investments in thermal coal companies. A number of major carriers have divested from equity holdings in, not purchased bonds from, or provided any loans to companies that derive more than a certain percentage of their revenues from mining or thermal coal.[137]

134 This phenomenon can be defined as persons who perceive a high probability of loss for themselves seeking to buy insurance to a much greater extent than those with a low probability of loss (based on Akerloff 1970).
135 Ibid.
136 Milliman 2020.
137 Zurich 2020.

7. Promoting social sustainability: Recommendations for insurers

Based on more than 40 in-depth executive and expert interviews conducted in support of this research, we put forward a set of recommendations for insurers. They are designed to further strengthen the industry's role in promoting social sustainability and resilience, both by enhancing social benefits from 'business as usual' and by unlocking the potential for additional, commercially viable contributions beyond the inherent social utility of insurance.

Adopt a three-tier approach to managing social sustainability

- First, maximise positive social impacts arising from the core business ('business as usual') of insurance (inherent benefits) such as offering risk protection, incentivising and facilitating risk prevention and investing funds for the long run.
- Second, protect those benefits by carefully avoiding and addressing potentially negative impacts on employees, customers and communities, for example by not underwriting socially questionable projects and activities.
- Third, explore the scope for additional, commercially viable social benefits which do not adversely affect tiers one and two, e.g. improving access to risk cover for difficult-to-insure groups while keeping risk selection and underwriting aligned with the pooling requirements of the insurance product in order to avoid negative impacts on the majority of policyholders and their willingness to buy insurance.

Review current business models

- Shift business models from pure risk transfer to a blend of risk transfer and prevention, with the aim of building healthier, safer, more resilient and more economically productive societies. Maintain relevance to society, even in light of increasing tail risk (such as pandemic and climate shocks) by expanding the role of insurance beyond financial shock absorption. Seek to generate positive societal impacts through risk prevention. A particularly promising approach is to leverage opportunities offered by the Internet of Things (IoT) for improved risk prediction and prevention, as well as for wider and more affordable insurance coverage, and to harness IoT-enabled services to support the implementation of the UN SDGs: fighting poverty (SDG 1) by promoting access to and affordability of insurance coverage; promoting good health and well-being for all individuals (SDG 3); fostering innovation and building resilient infrastructure at the corporate level (SDG 9); and supporting sustainable cities and communities (SDG 11).[138]

- Push the boundaries of commercially viable inclusive insurance and bring insurance to more people by low-cost digital distribution and end-to-end processing, coupled with underwriting on a portfolio (rather than line of business) basis. Harness technological, product and underwriting innovation to address insurers' main 'pain point' in the area of social sustainability: huge and still widening protection gaps.[139]

Adapt core business operations

- Embed social considerations in daily operations and define them as a way to achieve business objectives, both by capturing commercial opportunities and mitigating legal, reputational and other risks, covering areas such as:
    - Sustainable risk products and solutions (designed by a dedicated ESG team with senior business participation and implemented by core business units) which is where insurers, based on their knowledge and expertise, can achieve most
    - Human resources (diversity, equity and inclusion, employee health and well-being)
    - Human rights (supply chains, underwriting and investments)
    - Corporate citizenship (community engagement).
- Acknowledge and address the lack of trust as a major factor behind protection gaps and a barrier to insurers maximising their contribution to social sustainability. Employ impact underwriting to build awareness and trust with hitherto underserved or unserved communities.[140]
- Explore public-private partnerships as a promising route to providing insurance products with substantial social benefits. Encourage and enable the public sector to take ultimate responsibility for social sustainability.
- Further strengthen data ethics and eliminate potential (unintended) biases in pricing and underwriting, without compromising actuarially required and legitimate differentiation.[141]

"We need to draw a clear line between charity and sustainability. In order to be successful in the long run, the latter must go hand in hand with commercial viability. What matters most in this respect is that insurers provide protection which meets the needs of people. This includes disadvantaged groups which insurers should serve as customers, not as solicitants. Or think of customers who find it hard to get coverage due to a pre-existing condition, for example; why not offer protection under the condition that the customer-to-be-helped manages the condition, and thus, increase their insurability? It goes without saying that in order to achieve all this, insurers need to adjust their business models to profitably cater to such needs."

Klaus Mühleder, Head of Strategy, Vienna Insurance Group

"Bringing protection to vulnerable segments of the population is a particularly beneficial contribution insurers can make to promoting social sustainability. It enables people with a low income and little or no savings to continue their lives in the event of calamity. For insurers, key success factors in doing so include low-cost digital distribution (for example, via e-commerce platforms) and end-to-end processing, as well as simple and inexpensive products priced on a portfolio basis. This approach can maximise inclusivity without compromising underwriting discipline and commercial viability."

Federico Spagnoli, Emerging Markets Ecosystems/ Product Head – Latin America Regional President, Prudential Financial

"Integrating ESG into core business units will be a key success factor for sustainability. Regarding sustainable product solutions, the 'sweet spot' is both sustainable and commercially viable solutions."

Silke Jolowicz, Head of Sustainability, Munich Re

"For sustainability strategies to succeed, it is essential to break down mental and organisational walls between corporate sustainability and core business units. A good starting point is a dissection of key business and operational functions, from talent management, underwriting, investments to procurement, with a view to systematically instill a sustainability mindset across the organisation and identify sustainability drivers that make business sense."

Dave Stangis, Senior Partner and Chief Sustainability Officer, Apollo Global Management

138 The Geneva Association 2021b.
139 The Geneva Association 2016. Authors: Kai-Uwe Schanz and Fabian Sommerrock.
140 The Geneva Association 2019. Author: Kai-Uwe Schanz.
141 The Geneva Association 2022.

Build governance for the 'S'

Examples to consider include:

- Embed the 'S' at the top of the company by introducing it to the mandates of sustainability committees of the board of directors, ESG committees of senior executives and regular executive committee and board of director meetings.
- Include the 'S' in operational risk governance.
- Appoint senior 'practitioners' as ESG market leads close to the customer front. Sensitise those leads to the 'S'.
- Enable socially responsible decision-making by promoting diversity and inclusion at the executive and board of director levels.
- Link top management compensation to performance against social sustainability-related targets.

Conclusions

This report's main aspiration was to establish a decision-useful, conceptual framework that captures the insurance industry's contributions to social sustainability. Based on the distinction between benefits inherent to the core business of insurance, additional benefits and the imperative of mitigating potentially negative impacts, we introduce a systematic approach to assessing an insurer's social impact. It applies the GHG Protocol's Three Scope model for carbon emissions to social impacts generated by insurers.

Our analysis deliberately focuses on those areas where we believe insurers can make the most meaningful and lasting contributions to social sustainability: 'business as usual' based on the core purpose of insurance, complemented by commercially viable, additional contributions that help address specific social challenges such as the lack of inclusivity.

The report highlights the enormous social contributions insurers make through their daily risk-taking and investment activities. Every day, billions of dollars are disbursed to policyholders hit by calamity; and billions of dollars are invested long term. Yet, the insurance industry needs to closely monitor evolving stakeholder expectations towards additional, more specific social contributions as well as the avoidance of potentially negative impacts. The report offers some guidance on how this debate can be conducted on the basis of commercial viability.

Overall, our research reveals that, despite insurers' inherent social utility, the industry is still at an early stage when it comes to systematically defining and conceptualising the 'S'. This is particularly true for the underwriting dimension, which the paper prioritises. Against this backdrop, we believe that the proposed social impact assessment framework can effectively assist insurers in increasing both the 'social' and the economic yield on 'business as usual' as well as activities that go beyond.

Having said this, more research is needed to support the insurance industry's current and future efforts to maximise its social utility. Some areas for further investigation from a social sustainability angle include:

- How to build trust with people who have never dealt with insurance?
- How to harness technology to profitably underwrite unserved or underserved segments of the population?
- How to expand the role of insurance beyond financial shock absorption and fully leverage the industry's risk knowledge and expertise?
- How to define meaningful metrics for the 'S'?

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Environmental, social and governance (ESG) considerations have become integral to insurance business models and strategies. Though focus has mainly been on the 'E' and 'G' dimensions until now, crises such as the Ukraine war and the pandemic have contributed to shifting attention to social sustainability. This report explores how insurers can extend their inherent social utility to better address the 'S' dimension of ESG. It proposes a novel assessment framework for insurance companies to evaluate their social impacts on their employees, customers and local communities and provides recommendations for the industry to strengthen its role in promoting social sustainability and resilience.

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