



ESG Strategy and Transformation

One of a series of insightful and instructive papers talking about the impact of ESG in transforming insurance operations

October 2022



Foreword

The Environmental, Social and Governance (ESG) agenda is a key priority for the financial services sector. What was traditionally limited to charitable donations and community engagement under the corporate social responsibility umbrella, is now a boardroom agenda driving and shaping the business strategy at the highest echelons of the organisation. Insurers are able to lead the ESG agenda in the financial services sector and drive positive change, by virtue of providing cover against risks as well as being some of the largest asset owners.

Insurers are increasingly recognising their role in advancing the ESG agenda, not only within their own businesses, but also among their customers and their broader ecosystem. However, there is still more to be done and requires insurers to develop an overarching ESG strategy and transformation plan – one that articulates their ESG ambition, works to a clear set of ESG values, and cascades to every division and function.

It is in this context, that it becomes important for insurers to answer key questions such as:

- What is their current ESG ambition and maturity?
- How do they ensure that their ESG strategy is aligned with their business strategy?
- What are the potential ESG opportunities and risks for their business?
- How can they configure an appropriate ESG strategy? What is the sequence of activity and steps?
- How do they ensure their ESG strategy encompasses all aspects of their business?

KPMG firms are working with clients across a plethora of ESG issues helping them prepare for the future. Our suite of services includes ESG Strategy and Transformation, ESG Reporting and Controls, ESG Data & Analytics, Climate Risk Modeling and Financed and Insured Emissions. We will produce a series of White Papers against each of these ESG propositions. This inaugural edition of the White Paper series puts the spotlight on **ESG Strategy and Transformation**.

I sincerely hope you find these papers insightful and actionable.

Warm regards,

Jacques



Jacques Cornic

Head of Insurance,
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ESG is the all-encompassing lens through which businesses should take every decision to be fit for the future and thrive. Examples of topics under 'E', 'S' and 'G' include:

Environmental



- Air and water pollution
- Biodiversity
- Climate change
- Deforestation
- Ecosystems services
- Energy efficiency
- Hazardous materials
- Land degradation
- Resource depletion
- Waste management
- Water scarcity

Social



- Customer satisfaction
- Data protection and privacy
- Diversity and equal opportunities
- Employee attraction and retention
- Employee engagement
- Human capital management
- Supply chain management
- Indigenous rights
- Labour standards

Governance

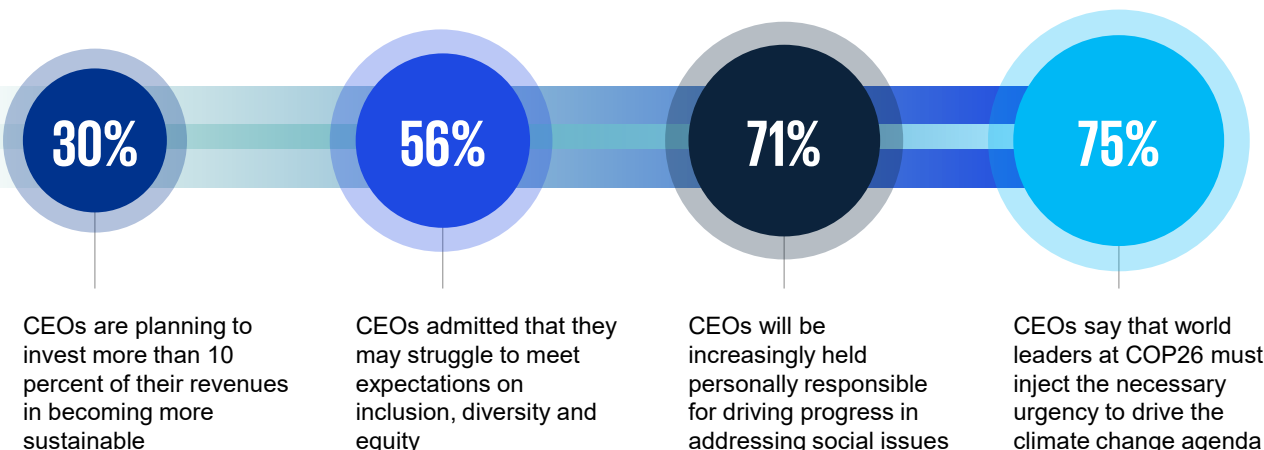


- Accounting standards
- Audit committee structure
- Board composition
- Bribery and corruption
- Business ethics
- Executive remuneration
- Lobbying
- Political contributions
- Risk management
- Separation of chairman and CEO
- Succession planning
- Whistle blower schemes

The above examples are indicative and not exhaustive | KPMG Confidential

The need to have an enterprise wide ESG strategy

ESG principles have risen to the top of the agenda for many insurers. This is against the backdrop of COP 26 and various commitments made on decarbonisation, net zero, etc. The following figures best illustrate this point:¹



Source: KPMG CEO Outlook survey 2022

The ESG world is complex, and many insurers are grappling with multiple topics and challenges – from understanding the impact on climate and biodiversity to figuring out how they are portraying their gender balance to identifying data they have access to for their ESG reporting. Numerous insurers have undertaken such initiatives at a localised level.



Evolution of insurable risks

ESG has spurred new risks that require insurers, without the presence of historic data, to adapt and innovate on how they insure those risks. From the examples below, it is clear to see how the industry is evolving and companies are adapting to address emerging ESG risks and striving to stay relevant and attract clients, employees, and suppliers

Leading insurance companies are recognising the magnitude of biodiversity loss and configuring innovative policies aimed at protecting diverse natural biomes such as mangroves, coral reefs, wetlands, etc. from the aftermath of a storm or a flood.

Some insurers are also expressing increasing interest in covering the risk of possible loss of carbon credits due to natural events like wildfires, which could help spur the growth of carbon credits market.

Within the larger realm of the energy markets, some insurers are coming up with innovative ways of providing insurance cover to hydrogen projects, off-shore wind farms, hydropower and solar projects, etc. all of which can help to stimulate the usage of renewable sources of energy.

¹"KPMG 2021 CEO Outlook", KPMG International, September 2021, [Link](#); accessed on 22 September 2022

However, market leaders, both inside and outside of insurance, take a more joined-up approach to ESG. They have a clear ESG ambition and ESG is fundamental to their vision and mission. Their ESG strategy cascades throughout functions, including proposition development, claims, HR and finance (to name a few) and their values are bought into by all employees and impact the way in which they work.

While organisations are at different stages in their development, it is becoming increasingly important for insurers to think about their ESG strategy at two levels:

How are insurers conducting their own business operations e.g. evaluation of their current business and operating models, their carbon footprint, how are they managing their workforce, their strategy with respect to their supply chain partners, their I&D frameworks, etc.

How are insurers helping their clients in their ESG transition journeys - their product portfolio (product and proposition and development), their claims and UW processes, and so on.

In order to be successful, it is important that the ESG strategy is authentic, integrated, commercial, pragmatic and actionable. However, this is easier said than done.

01 Whilst an ESG strategy is pivotal, it needs to augment and be embedded within the wider business strategy. It is equally important to get the organisation and people onboard. Securing the organisation’s commitment is only half the battle. It is critical to embed this change across the entire organisation; and execute it in a consistent way across different levels. Consequently, what is needed is not a piecemeal change but a holistic transformation entailing a paradigm shift.

02 Any discussion around ESG tends to coalesce around the ‘E’. However, ESG topics are inter-linked and having a standardised, ‘one-size-fits-all’ approach may not yield the best results. For instance, an ‘E’ decision to not insure a particular group or industry might trigger unintended (possibly adverse) ‘S’ consequences. For example, the decision by insurers to reduce / withdraw insurance coverage to coal power plants could adversely impact the company’s operations leading to possible losses, large scale layoffs, etc. Therefore, when setting priorities, insurers need to consider the impacts across each of the ‘E’, ‘S’ and ‘G’ elements.

03 Cost of not doing the ‘right thing’ could be catastrophic – both from a financial and reputational perspective. This could also translate to insurance companies losing out on their competitive advantage and customers, failing to capitalise on new opportunities, losing out on talent, not being able to expand into new geographies and markets, attracting increased regulatory scrutiny, and so on.

04 Following the signing of the Paris Agreement, the last few years have witnessed a slew of ESG regulations. The UK and Europe are leading the way with other countries likely to follow suit. Further, there are also a host of requirements and standards that are in the pipeline. While a jurisdictional working group to align the frameworks from the EU, SEC and ISSB has been setup to reduce the reporting burden, the current ESG reporting landscape remains complex and in a state of flux

A snapshot of regulations across ‘E’ and ‘S’

Jurisdictions	Regulations with respect to E	Regulations with respect to S
The UK	Climate Financial Risk Forum – Series II Guides (Oct. 2021) TCFD for the largest UK companies and financial institutions (April 2022) PRA Supervisory Engagement – 2022 onwards	Reporting/statement requirements for: Gender pay gap, Modern Slavery, Human Rights statement Reporting on Diversity and Inclusion Sustainability Disclosure Requirements
EU / International	EU Taxonomy (from January 2022) Taskforce for Nature Related Financial Disclosures (March 2022) QRT Reporting Amendments	EU Taxonomy – PSF Reporting on ‘S’ Taxonomy

Several insurance companies have taken their first steps on their ESG journeys and there are clearly some industry examples that can be mentioned. The following table illustrates some of the initiatives undertaken by different insurers across different themes ranging from talent management to product and propositions.



Diversified revenue streams -

embracing ESG related initiatives could open additional revenue streams

► Industry example:

In 2021, a leading German insurer generated revenues totaling € 1,484.7 million from 1,623 sustainable solutions through their Sustainable Solutions program.³



Talent management -

attracting and retaining talent by walking the talk

► Industry example:

With the aim of empowering its employees, a leading UK based insurer has introduced the EV Salary Sacrifice Scheme which allows employees to drive electric vehicles by sacrificing part of their salary. In return, the employees will receive a host of benefits such as maintenance, insurance, etc. paid for by the company.²



Product and propositions -

developing innovative products and solutions catering to the broad ESG agenda

► Industry example:

Another Swiss based insurer is offering standalone and traditional motor insurance solutions for hydrogen trucks supporting environment friendly transportation.⁴



Governance -

putting adequate mechanisms in place to measure and review progress

► Industry example:

A leading German insurer has formed ESG task forces led by senior executives and team from different business units for ensuring ESG is embedded across the entire organisation and the business. This reports directly into the C-Suite.⁵



Asset management -

defining a product strategy for ESG, building smart ESG data solutions and in-house methodologies for assessing ESG risks and opportunities for investment purposes,

► Industry example:

A leading Swiss insurance major has been assimilating sustainability risks and opportunities in its investment decisions. They have integrated ESG data on its internal systems, to aid investment decisions and monitor portfolio performance basis ESG parameters. Their overall strategy also includes upskilling its portfolio managers to strengthen their expertise around ESG factors and assess their economic impacts.⁷



Data and Technology -

embedding ESG elements with existing models to develop a consistent framework to underwrite new risks.

► Industry example:

A leading UK based insurer has incubated a catastrophe model COE which helps clients understand their climate risk through physical and financial risk modeling. To make the process truly objective, this COE includes a wide array of specialists such as seismologists, meteorologists, hydrologists, engineers, mathematicians, geographic risk experts, geographers, in addition to actuarial and insurance professionals.⁶

2. "Aviva introduces electric vehicle scheme for UK colleagues", Aviva, 7 December 2021, [Link](#); accessed on 22 September 2022

3. "Allianz Group Sustainability Report 2021", Allianz, [Link](#); accessed on 22 September 2022

4. "Climate Change 2021", Zurich Insurance Group, [Link](#); accessed on 22 September 2022

5. "ESG Integration Framework", Allianz, 29 March 2021, [Link](#); accessed on 22 September 2022

6. "2021 ESG Impact Report: Environmental", Aon, [Link](#); accessed on 22 September 2022

7. "Integrating Environmental, Social and Governance factors", Zurich, [Link](#); accessed on 22 September 2022

How to configure a holistic ESG strategy

A holistic ESG strategy begins with identifying the material ESG factors and incorporates having a suitable roadmap underpinned by measurable KPIs which help to ensure progress. Needless to say, securing commitment from the Board is crucial to having a successful ESG strategy.

The following depicts a five-pronged analytical framework that insurers can consider while developing a holistic, enterprise-wide ESG strategy.



The EST strategy depends on the on the ESG ambition. While achieving regulatory compliance and reporting is a vital baseline, it is also equally important to identify priority areas where the insurer wants to make an impact across the E, S, and G. The ambition does not have to be all-encompassing; it is perfectly reasonable to have a higher ambition for some topics.

Examples of how insurers define ESG targets and initiatives



Committing to achieving net zero

Developing and implementing a Net Zero carbon emission strategy across the organisation's operations

► **Industry example:**

A leading insurer has announced its climate transition goals which includes becoming a net zero company by 2040, reducing the carbon intensity of assets to 60 percent and have net zero operations and supply chain by 2030.⁸



Supporting suppliers transition to net zero

Assisting insureds and suppliers transition towards decarbonisation, reducing overall emissions

► **Industry example:**

A leading insurer has asked 100 percent of its global suppliers to have a public commitment to net-zero GHG emissions in line with 1.5°C path by 2025.⁹



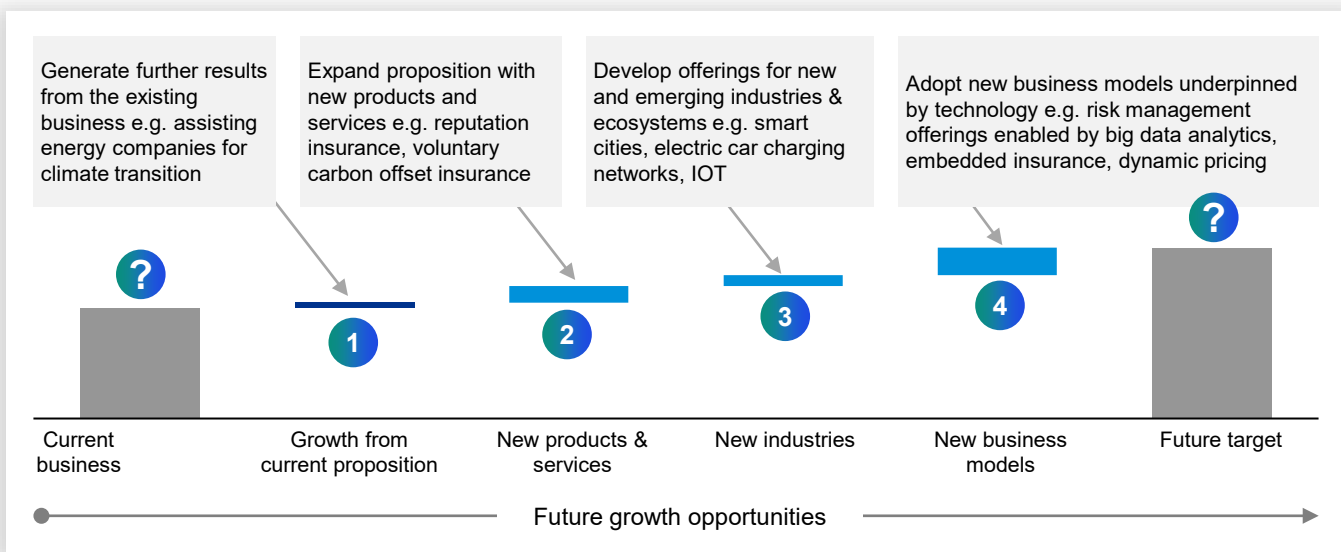
Committing to D&I

Building a fairer & more inclusive workplace. Create an equitable environment for all employees across diverse backgrounds.

► **Industry example:** A leading insurer leverages a forecasting model (underpinned by people analytics) to identify hiring needs and thus increase the ratio of female executives. The company has also set new targets and ambitions for December 2024 that extend beyond gender representation and covers other dimensions such as nationality and ethnicity, LGBTQ+ and disability.¹⁰

Route to value creation from ESG

Prioritising a number of key ESG themes based on capabilities and aspiration could enable insurers to create tangible value from the emerging ESG opportunities.



As insurers increase their maturity over what ESG data they have, what ESG skillsets, knowledge, and expertise they house, and what they want to be known for in the ESG context, they will possess the right toolkit to take advantage of product innovation in the market. This could help in increasing revenue potential and elevating themselves to be in a stronger position to augment traditional revenue streams.

KPMG firms have expertise in helping clients embark upon and deliver on a successful ESG strategic program. KPMG professionals' knowledge of the insurance sector, understanding of the broader ESG ecosystem, access to an extensive range and depth of tools and technology and finally KPMG firms' Global ESG Hub comprising a network of hundreds of specialists delivering ESG engagements has helped to deliver value to clients.

8. "Aviva Sustainability Report 2021", Aviva, 2 March 2022, [Link](#); accessed on 22 September 2022

9. "Allianz reinforces its commitment to net-zero strategy", Allianz, 29 April 2022, [Link](#); accessed on 22 September 2022

10. "Allianz Group Sustainability Report 2021", Allianz, 29 April 2022, [Link](#); accessed on 22 September 2022

Way forward

ESG is the definitive issue of our generation and is becoming even more critical in the short-term and has significant long-term implications for insurance companies. Insurers that do this thoughtfully can add value to their business and can expect stronger competitive positioning and market perception. The ESG journey starts with an ESG strategy and transformation plan, which articulates 'what you want to be known for', 'where are you heading' and sets out an actionable plan. In this context, insurers need to answer some significant questions that can help drive their overall strategy and transformation agenda..

Call to action: questions for CEOs to reflect on

- 01 What are the ESG factors that have the biggest impact on my business and how do I prioritise amongst them?
- 02 Do I have access to the right data set and the optimal analytical tools to gather actionable insights?
- 03 How do I ensure that ESG is embedded throughout by business, divisions, and departments?
- 04 ESG is a journey and not a destination. This transition may drive disruption in the near term. Is my business resilient?
- 05 How do I ensure that my culture, communication strategy and branding align with my ESG related commitments and goals?
- 06 Finally, what should be the governance framework I need to incorporate to measure progress, drive accountability and ensure transparency?

**Clearly ESG is not something you do but everything you do –
and the time to act is NOW!**



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