ESG in insurance: A practical guide to sustainability reporting

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Chirag leads ESG activity for the insurance industry at KPMG in the UK. He brings 14 years of practical experience delivering finance and reporting transformation for insurance groups across the General Insurance and Life sectors. Having led the KPMG delivery team for the Sustainability reporting project with Aviva, discussed in this report, and several other ESG engagements, Chirag combines a wealth of experience in sustainability reporting with his expertise in delivering operating model, controls and technology change to help clients set themselves up for success.

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Dana is an ESG Assurance partner by background, helping insurance organizations to interpret and apply the requirements of sustainability-related reporting frameworks and regulations. Dana also assists companies with the design and implementation of systems, processes and controls required to enable this reporting — with a view to aligning financial and non-financial reporting processes, improving ESG ratings and achieving external assurance. She has worked across various KPMG member firms including Canada, the UK, the US and most recently, China.

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Sean is a Managing Partner and leader in KPMG's Insurance Accounting Advisory practice at KPMG in the US. Sean has more than 30 years of insurance industry experience providing professional services related to technical accounting, ESG reporting, financial due diligence and transaction support, financial statement audits, and audits of internal control. This has included service to insurance companies reporting under US GAAP, IFRS 17, Statutory Accounting Practices and various ESG reporting frameworks.

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Introduction

New sustainability requirements are changing the business landscape, and insurance leaders are increasingly recognizing the environmental, social and governance (ESG) agenda as an indispensable part of their corporate strategy. Investors and stakeholders are shifting their focus on ways in which insurance organizations can run a more sustainable business, support the transition to a low carbon economy, and improve other environmental, social, and people-centered outcomes. Sustainability reporting has become commercially and strategically important in its own right and offers a number of potential benefits to those who can successfully evolve their operating model.

Sustainability reporting does present some challenges. Whereas there are long-established processes and controls in place for financial reporting, the same is not the case for non-financial information. This data comes from across the organization, and for new areas like climate and nature, is notably less mature in terms of quality and completeness — so there is a need for better collaboration and transparency, with new reporting discipline instilled in colleagues for whom this is unfamiliar, to support upcoming disclosure requirements such as the EU's Corporate Sustainability Reporting Directive (CSRD).

KPMG firms have worked closely with insurance organizations around the world to embrace the opportunities of sustainability reporting. In this report, KPMG ESG professionals share key insights and considerations, along with practical steps, to help insurance firms navigate this evolving landscape in a pragmatic and efficient way. The team also shares how leading insurance organizations including Aviva (page 11) and the Talanx Group (page 17) are tackling sustainability reporting.

Read on to discover how KPMG can help to unlock reporting disclosures across the organization.

Roger Jackson
Global Insurance ESG Lead,
KPMG International, and
Partner, KPMG in the UK

96% of G250 companies report on sustainability or ESG matters

Source: Big shifts, small steps — Survey of sustainability reporting, KPMG International, 2022. G250 refers to the world's 250 largest companies by revenue as defined in the Fortune 500 rankings.

50% of digital leaders say expectations of ESG transparency are driving their transformation efforts

Source: KPMG Global Tech Report, 2023

44% of insurance CEOs believe that ESG programs improve financial performance

Source: KPMG 2023 Insurance CEO Outlook

Sustainability reporting matters

An integrated ESG strategy is important for aligning reporting with business objectives

Sustainability reporting matters. It demonstrates how an organization supports a sustainable society, ultimately benefiting investors, customers and employees. The market is increasingly asking for organizations to report on their sustainability policies, and leaders that embrace change now will be well positioned to reap the potential benefits.

In the KPMG 2023 Insurance CEO Outlook, insurance CEOs listed building customer relationships and boosting financial performance as the top two benefits of embedding ESG factors into their business practices.[1] Adopting ESG considerations into business operations can create opportunities of its own, both reputational and financial. Forty-four percent of insurance CEOs believe that ESG programs improve financial performance[2], and are looking at how the reporting approach can be reinforced by credible metrics. Sustainability can help drive competitiveness and increased sales — such as through the large and growing demand from customers for green or ethical insurance and investment products.

At the same time, there are significant risks around non-compliance. Any organization that does not meet its sustainability reporting obligations could be open to regulatory censure and financial penalties. This would be a cost in itself — but the true cost would be in the damage to perceptions of the brand amongst investors, customers and other stakeholders.

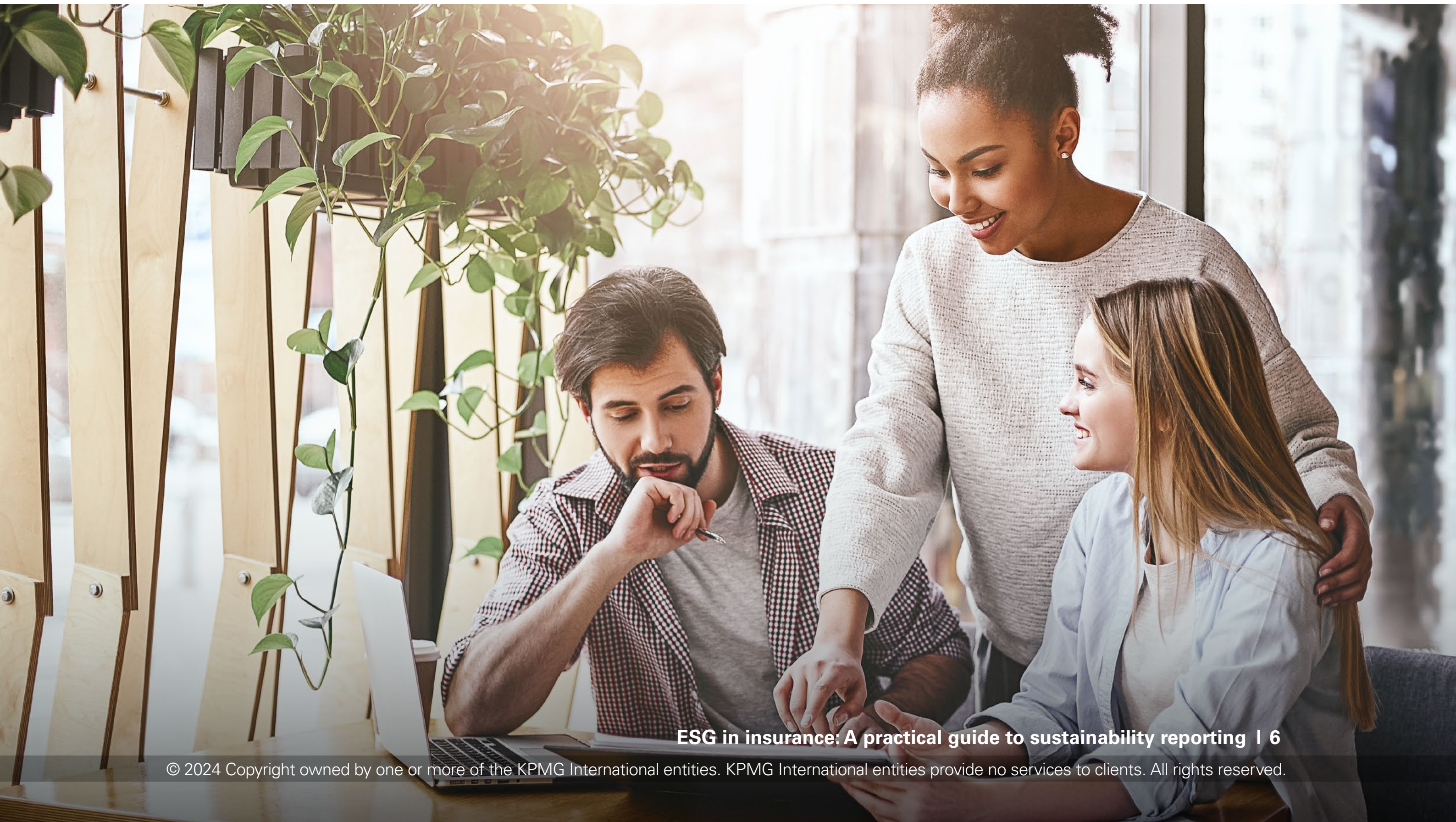
Then there is the risk of 'greenwashing'. Greenwashing implies any dishonest practices used by businesses to represent themselves as more sustainable either by giving a false impression or providing misleading information as to the sustainability of a product/service. Regulators have begun to step up investigations of greenwashing[3], with legal action becoming more prevalent across jurisdictions. In another example, the European Insurance and Occupational Pensions Authority (EIOPA) has recently launched a consultation on strengthening the supervision of greenwashing[4]. KPMG's publication *The crackdown on greenwashing* emphasizes the need for organizations to manage and mitigate their greenwashing vulnerabilities. This includes focusing on education, regulation, risk identification, governance, policy and practice and communication — all of which are essential parts of robust non-financial reporting practices.

However, sustainability reporting is not just about compliance. It's a way to tell the organization's story to the market, and support an organization's share price. It's also a way to demonstrate to investors and rating agencies that the business has a resilient and sustainability-conscious operating model, enhancing its position in sustainability index ratings.

[1, 2] KPMG 2023 Insurance CEO Outlook, KPMG International, December 2023

[3] Australian regulator steps up greenwashing crackdown, Financial Times, January 2024

[4] EIOPA seeks feedback on its proposed approach to tackle greenwashing in the insurance and occupational pension sectors — European Union, December 2023



ESG reporting improvements: Why now?

Commercial

- Global regulation is changing investment behavior
- Sustainability index ratings are becoming a key factor in investment choices
- Rating agencies calculate their sustainability indices in different ways, but all are based on sustainability reporting metrics

Compliance

- Global regulations are being developed with little time to incorporate into existing processes
- Organizations are navigating the sustainability agenda, further demonstrating expertise and improving brand sentiment
- Compliance will be mandatory. Leading insurance organizations are developing a strategic approach and will likely benefit from significant competitor advantage

Competitiveness

- Customers are increasingly sensitive to their perception of your brand
- There is a growing demand from customers for green or ethical insurance and investment products

> *"How do you change the world and keep shareholders onboard? Consider clear and impactful communication on how the ESG program is creating and protecting shareholder value. Whether it's new product development, sustainable investment opportunities or savings from net-zero initiatives — sustainability reporting has become critical."*
>
> **Dana Chaput**
> Co-Head of Insurance ESG, ASPAC
> and Partner,
> KPMG China

Setting up for success

As insurance organizations define their sustainability reporting strategy, it's important to identify and prioritize what is material to the business.

Insurance organizations are experienced with reporting challenges. Global solvency reporting and financial reporting standards overhauls such as IFRS 17[5] have put leaders through their paces in recent years, requiring enormous budgets and sophisticated change projects.

Businesses are at different stages of maturity with sustainability reporting, often driven by how important sustainability is to their corporate strategy and the regulatory jurisdictions they operate in. Many insurance companies will be disclosing some ESG information already, so, as with Solvency and IFRS 17, the challenge to improve sustainability reporting may heavily rely on those already running business as usual. This is where the structure and discipline of a dedicated project can be beneficial to track the delivery of your outcomes while managing the cost and resource demands.

> *Many insurers are "lifting and shifting" their experienced IFRS 17 project teams into equivalent sustainability reporting project structures. These teams are experienced with insurers' reporting processes, technology and controls, which can create valuable efficiencies for insurers' sustainability reporting projects."*
>
> **Will Tipping**
> Partner, Finance Advisory,
> KPMG Australia

However, those without the budget or appetite for another reporting transformation should still act. At a minimum, organizations should proactively define their sustainability reporting strategy, the requisite operating model and roadmap aligned to their broader change priorities. This can put them on the front foot to respond most effectively to the inevitably changing landscape.

[5] IFRS 17 is an International Financial Reporting Standard that was issued by the International Account Standards Board (IASB) in 2017. www.ifrs.org/issued-standards/list-of-standards/ifrs-17-insurance-contracts/

Sustainability reporting strategy

The key starting point is to work out what is material to an organization and design a sustainability reporting strategy aligned to the overall sustainability strategy.

This strategy should focus on getting ahead of the fragmented and evolving regulatory landscape, meeting the needs of priority sustainability rating agencies and grasping the opportunity to proactively shape their messages, building reputation in the market. Bringing this together upfront can help identify the synergies between the different demands, saving time, cost, and the stress of continual fragmented compliance battles.

> *"Sustainability reporting requirements and stakeholder expectations are expected to increase in complexity and importance. Insurers should start by understanding which aspects from the breadth of E, S and G are most material to the business and set the organization up to evolve with the challenges and opportunities that these bring."*
>
> **Chirag Shah**
> Insurance ESG Lead and Director,
> KPMG in the UK

Operating model and roadmap

The unique demands that sustainability reporting can place on insurers mean that the reporting operating model will likely need to change. Insurance leaders should look to adapt their governance, organization, data and technology to deliver on the business sustainability reporting strategy. This operating model should be flexible enough to evolve with requirements.

Designing this up front can give organizations options to embed the requisite operating model: transform quickly, or evolve organically over time, leveraging other ongoing change initiatives such as controls, technology and data improvement projects.

Case study

Sustainability reporting with Aviva

Aviva is one of the UK's leading insurers and a recognized market leader on climate strategy and decarbonization. With new leadership in 2020, there was a renewed and increased focus on its sustainability reporting. To maintain its leadership, Aviva wanted to become one of the first companies to obtain reasonable assurance over some of its climate metrics. It needed an internal transformation to ensure the business was able to deliver on its commitments — and bolster its leading position.

Aviva asked KPMG in the UK to support in delivering transformation across three main aspects. Firstly, its TCFD (Taskforce on Climate-Related Financial Disclosures) reporting. Secondly, to assess Aviva's control environment for its climate and wider ESG metrics. And thirdly, to drive the creation of a new operating model for non-financial reporting (NFR) — a center of excellence approach that would lay the foundation for its NFR for years to come.

The KPMG team helped Aviva reassess its whole approach to TCFD reporting. Prior to then, many organizations took a "risk and compliance" approach that conformed with minimum standards. KPMG integrally informed the thinking and the scope of the project, advising that the report be turned into a strategic opportunity to drive enterprise-wide transformation and create a strong and compelling narrative that shone a light on the positive and progressive work being done to address climate-related issues.

KPMG also performed an end-to-end assessment of Aviva's seven climate metrics and 100+ wider ESG metrics, along with a benchmarking exercise against key peers and market leads, to support the group's non-financial reporting and sustainability strategy. The team drafted a first-of-its-kind 'climate reporting manual' to ensure greater scrutiny on the input data for non-financial reporting. KPMG then focused on embedding climate risk and non-financial reporting into the finance function, and integrated processes and controls to integrate climate risk into their reporting framework.

Aviva's core metrics received reasonable public assurance in their 2021 climate report (the highest possible level of assurance).

Practical considerations when developing sustainability reporting

KPMG ESG professionals have identified seven key challenges that insurance leaders should consider as they review the organization's operating model for sustainability reporting:

1. Disclosing the right information
2. New methodologies and approaches
3. Confidence in reporting and getting ready for assurance
4. Delivering on public targets and commitments
5. Data sourcing and management
6. Technology and automation
7. Developing the workforce

1. Disclosing the right information

For insurance organizations that are already developing their ESG disclosures, the metrics used are likely to have evolved over the last few years to meet the demands of various voluntary sustainability reporting frameworks, such as those from the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI), as well as the varying requests for information from sustainability rating agencies.

The Taskforce for Climate Related Financial Disclosures (TCFD) reporting requirements have been adopted by many regulatory jurisdictions making this mandatory for many global organizations.

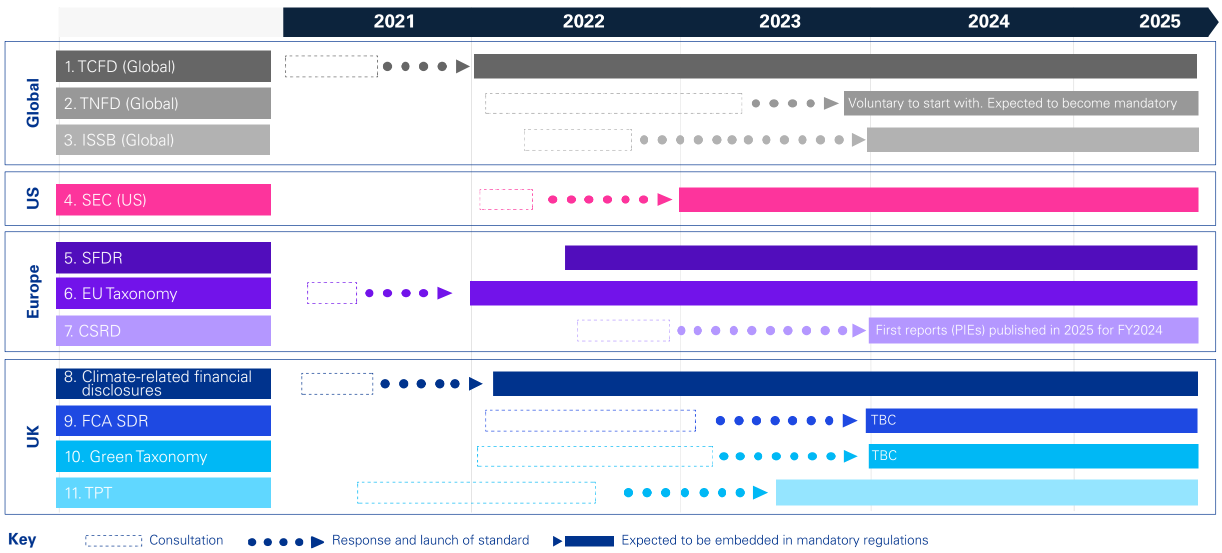
Meanwhile, the alphabet soup of regulatory reporting requirements will likely continue to evolve in several ways:

1) Mandatory regulation such as the EU's Corporate Sustainability Reporting Directive (CSRD)[6] and the SEC's proposed climate disclosure rule;

2) Standards set out by The International Sustainability Standards Board (ISSB) being adopted by local jurisdictions, for example, in Brazil, Canada, the UK and Turkey; and

3) Emerging voluntary frameworks such as the Taskforce for Nature-related Financial Disclosures (TNFD), which are likely to be made mandatory by many regulatory jurisdictions.

The sustainability regulatory landscape is rapidly evolving



TCFD: Taskforce on Climate-related Financial Disclosures
TNFD: Taskforce on Nature-related Financial Disclosures
ISSB: International Sustainability Standards Board
SEC: U.S. Securities and Exchange Commission
SFDR: Sustainable Finance Disclosure Regulation
CSRD: Corporate Sustainability Reporting Directive
FCA: Finance Conduct Authority
SDR: Sustainability Disclosure Requirements
TPT: Transition Plan Taskforce

[6] Corporate sustainability reporting, European Commission. www.finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

Action:

1) **Sustainability strategy:** The overall sustainability strategy for your organization must be aligned to your corporate strategy and operating model. Sustainability reporting should then be aligned to telling this story, to differentiate your position against competitors, and manage the reporting risks such as reputational risk and greenwashing.

2) **Ratings agencies:** Sustainability index ratings are beginning to drive investment decisions, but there is a spectrum of indices, each with varying popularity and focus across the spectrum of ESG. The reporting strategy needs to prioritize which ratings agencies are most important to your organization, and understand in detail which metrics and disclosures will drive a better score.

3) **Regulation and frameworks:** Interoperability between the different regulatory requirements is anchored in the understanding of which sustainability issues are material to your business, and reporting targets and progress against these. The reporting strategy should look ahead across emerging requirements, to futureproof the output.

Once established, adapting the sustainability reporting strategy as the landscape evolves will become a critical part of the ongoing reporting cycle, so building this capability in-house will likely be critical to future success.

> *"Aligning a company's understanding of its global reporting obligations, its own unique sustainability story and commitments, and the opportunities and risks to its business strategy is critically important. With that foundation, implementing an operating model that is scalable and assurance-ready can provide the foundation for reporting that is impactful, reliable and consistent."*
>
> **Sean Vicente**
> Head of Insurance ESG, Americas and Partner,
> KPMG in the US

2. New methodologies and approaches

Climate change presents particular challenges for insurers both in terms of the creation and preservation of value, and the reporting of greenhouse gas emissions and targets. The challenges are very different depending on the types of risk an insurer underwrites.

Value creation and preservation

General insurance: The opportunity to insure climate-related risks for businesses has seen the emergence of specialist sustainability syndicates across the market. Pricing and reserving for electric vehicles and solar powered homes is also requiring new assumptions, modelling capability and data.

Life insurance: Climate risk is impacting long term asset valuations and returns, and changes to assumptions underpinning long term liability and solvency capital modelling. These changes to methodology are requiring updates to models and demand for increased climate-related data.

Emissions measurement and reporting

The measurement of Scope 3 emissions and setting of reductions targets is particularly challenging for insurers.

Insured emissions: Guidance is still emerging on how to calculate insured emissions across the spectrum of insurance products. The Partnership for Carbon Accounting Financials (PCAF) released guidance on measuring insurance-associated emissions for commercial and personal motor lines, which requires insurers to collect vast amounts of data on insured parties, which is often not readily available.

Financed emissions: Calculation of financed emissions presents similar challenges in sourcing data about private and public assets underpinning the investment portfolios of insurance funds. This is particularly acute for life insurance organizations with their large long term investment profile. New metrics such as implied temperature rise (ITR) and portfolio warming potential (PWP) also require new modelling capability.

Climate related value creation/ preservation

General insurance
- New products
- Pricing impacts
- Business strategy and reserving

Life insurance
- Impacts on asset valuations and returns
- Long term assumption changes

Why is this important?
- Underwriting profits
- Investment income
- Solvency

Emissions reporting and targets

Insured emissions
- PCAF — Guidance for commercial and personal motor lines
- Disclosure recommendations under TCFD

Financed emissions
- Clarity for investors and analysts
- Increased data requirements
- More developed proxy methodologies

Why is this important?
- Investor expectations and ESG ratings
- Reputational considerations compared with peers and by policyholders
- Target setting and stewardship

With nature, biodiversity and social impact expected to follow climate in prominence among stakeholder expectation, it is clear that sustainability-related methodologies and approaches for insurers are still emerging. These will drive significant challenges for insurers in terms of calculation and modelling, data requirements and the production of new metrics.

Action:

The following actions are required with respect to new methodologies and policies:

1) **Reporting criteria:** To avoid the reputational risk of greenwashing or misreporting, insurance organizations should be clear about the basis of their external sustainability disclosures and data limitations. Presenting their reporting definitions publicly will allow these to be safely updated as data and calculation approaches evolve.

2) **Data requirements:** Consider the data requirements holistically when looking at sustainability data sourcing from third parties. This will enable economies of scale to simplify the landscape of third-party suppliers.

3) **Adapt reporting policies:** Well-established financial reporting policies such as the Financial Controls policy, Materiality policy and treatment of acquisitions and divestments should be adapted for the purposes of sustainability reporting.

Case study

Implementation of the Corporate Sustainability Reporting Directive (CSRD) at the Talanx Group

The Talanx Group is the third-largest insurance group in Germany and one of the largest in Europe, operating as a multi-brand provider across insurance and reinsurance with a presence in more than 175 countries.

In order to meet the increasing reporting requirements, the organization set up a program to implement the CSRD and ensure the timely publication of an audit-proof CSRD report. The client chose KPMG in Germany to support the company-specific interpretation of the disclosure requirements and to carry out the required materiality analysis.

With the support of KPMG's team of ESG professionals, a CSRD-compliant materiality analysis was carried out. This then formed the basis of the sustainability report, defining the scope of future reporting and necessary implementation activities. The materiality analysis resulted in the first-time application of the 'double materiality principle', a new assessment concept for determining materiality, as well as the involvement of key stakeholders to set the organization up for success.

> *"From the outset, it was important to us that we carry out and document the materiality analysis using an efficient, CSRD-compliant approach and define a standard process for future materiality analyses. Audit security was particularly important to us. Ultimately, we were able to successfully identify the material sustainability issues of the Talanx Group and thus set the course for our future sustainability reporting."*

Maria Sokolnikova
Program Manager, Sustainability Reporting (CSRD)
Talanx Group

3. Confidence in reporting and getting ready for assurance

Increased stakeholder scrutiny over sustainability reporting means that organizations should be increasingly careful about the accuracy and validity of their disclosures. Regulatory requirements reflect this with the CSRD requiring external assurance over sustainability reporting and local jurisdictions adopting the ISSB Standards will likely require similar. KPMG's article on CSRD[7] highlights that the new EU Corporate Sustainability Reporting Directive (CSRD) presents significant challenges — not only for European insurance companies — but also potentially for their subsidiaries located outside the EU. It may also impact certain corporate groups headquartered outside the EU that own a European insurance company and meet the criteria.

Oversight of this typically falls to the audit committee, who often rely on the experience within the finance function to drive a robust disclosure process and ensure appropriate reporting controls are in place. Through implementation projects and provision of external assurance opinions, KPMG professionals see four main risks regarding ESG disclosures:

1. The risk of error in the process of reporting actuals
2. The risk of greenwashing (a perceived intent to mislead)
3. Risks surrounding the availability of quality data, leading to heavy reliance on estimates and third-party providers
4. The risk of future changes to the baseline/previously reported progress due to better data becoming available or the methodology evolving

The KPMG ESG Assurance Maturity Index report[8] identified that many organizations, both inside and outside of the insurance industry, have a long way to go to get assurance-ready. Only 25 percent of businesses feel they have the ESG policies, skills and systems in place to be ready for ESG assurance.

Action:

The path to achieving external assurance over ESG reporting will require careful consideration:

1) **Accountability:** Identify who will be responsible for sustainability reporting within the organization.

2) **Experience:** Explore ways of ensuring that the finance function is integrally involved to drive confidence and control.

3) **Prioritization:** Develop an ESG reporting controls framework, which determines the materiality of each disclosure and metric, and applies the right level of review and control for each, across the four lines of defense.

[7] ESG in insurance: Sustainability reporting, KPMG International (March 2023)

[8] Road to readiness — KPMG ESG Assurance Maturity Index, 2023

4. Delivering on public targets and commitments

Sustainability reporting is fundamentally about delivering progress towards your forward-looking ambitions and targets across each ESG topic. Forward commitments are just as important to stakeholders and ratings agencies.

In the KPMG 2023 Insurance CEO Outlook, 80 percent of leaders admit they may not be fully prepared to withstand the potential scrutiny from stakeholders if they fail to meet their ESG expectations and priorities.[9]

Embedding sustainability targets into robust performance management will likely be key to success. Typically, the financial performance management framework requires an extension to cover ESG targets, including both short-term and long-term planning, forecasting and management information to drive business actions.

Action:

Internal performance management will be key to turning an organization's commitments into action. Consider the following key activities:

1) **Incentives:** Executive remuneration against targets can be an effective mechanism to encourage internal focus and action.

2) **Embed into performance management:** Embed sustainability into the enterprise performance management cycle by defining KPIs, setting clear in-year targets and ensuring there is robust MI and forecasting to enable through-the-year tracking of progress.

3) **Cultural change:** Strong governance processes will likely be needed around this, including executive accountability and training at all levels of the organization to embed sustainability into everyday activities.

[9] 2023 KPMG Insurance CEO Outlook, KPMG International (December 2023)

5. Data sourcing and management

Sourcing and managing ESG data can be particularly challenging for insurance firms. The sheer breadth of ESG means there is a wide variety of data needed from multiple sources, and this comes in many different formats, structured and unstructured, across many domains including climate/carbon, customer, employee risk and more.

Insured and financed emissions measurement for insurance companies are driving new methodologies, and data requirements mean it will also be a mix of internal data and third-party data from suppliers and other specialist providers.

Inadequate access to data was rated as the second highest concern among insurers in getting ready for assurance over ESG reporting, second only to the evolving nature of the regulatory requirements.[10]

Sources of data for ESG — ESG Reporting and Analytics

Data type	Domain	Challenge
Internal data	**Financial, Climate, Nature, Customer, Employee, Risk, Governance**	Data from the company's ERP/CRM/HR/SCM/Risk and other systems will need to be ingested to prepare ESG reporting.
Third-party data	**Climate, Nature, Customer**	Insurance data, investment data, and customer data will likely heavily rely on third-parties to source and enrich to meet ESG reporting data requirements. Third party data is often estimated and is very rarely ready for external assurance.
Suppliers	**Climate, Nature**	Companies may obtain emissions and other ESG data from their suppliers using surveys portals, digital ledgers, integrated supply-chain-management systems, or third-party datasets.
Manual collection	**Climate, Nature**	ESG data may be gathered through survey forms. These labor-intensive methods are prone to human error, formatting issues, delays and misinterpretation of data.
Portfolio companies	**Financial, Climate, Nature, Customer, Employee, Risk, Governance**	Insurers may need to collect financed and insured emissions and other ESG data from companies in their portfolio of assets, investments, loans or insurance policies. The sheer breadth and volume will be challenging to manage.

Action:

A robust data governance framework should be developed, together with a data model that governs how data is managed internally once it has been originated. This may involve creating a data repository where all ESG-related data sits: a singular, golden source of truth. In addition, the data architecture cannot be static. With regulatory requirements evolving and increasing, the data taxonomy needs to be scalable too, and built with the future in mind.

[10] KPMG Road to readiness, KPMG International, (September 2023)

"Leaders should build a solid tech and data foundation to ensure access to accurate, consistent and reliable information from across the business, automated to the extent possible. It can seem daunting — but a range of accelerators and tools are available through which we can help organizations build the sustainability tech and data foundation to meet evolving needs."

Riccardo Altenburg
Insurance ESG Data Lead and Director,
KPMG in the Netherlands

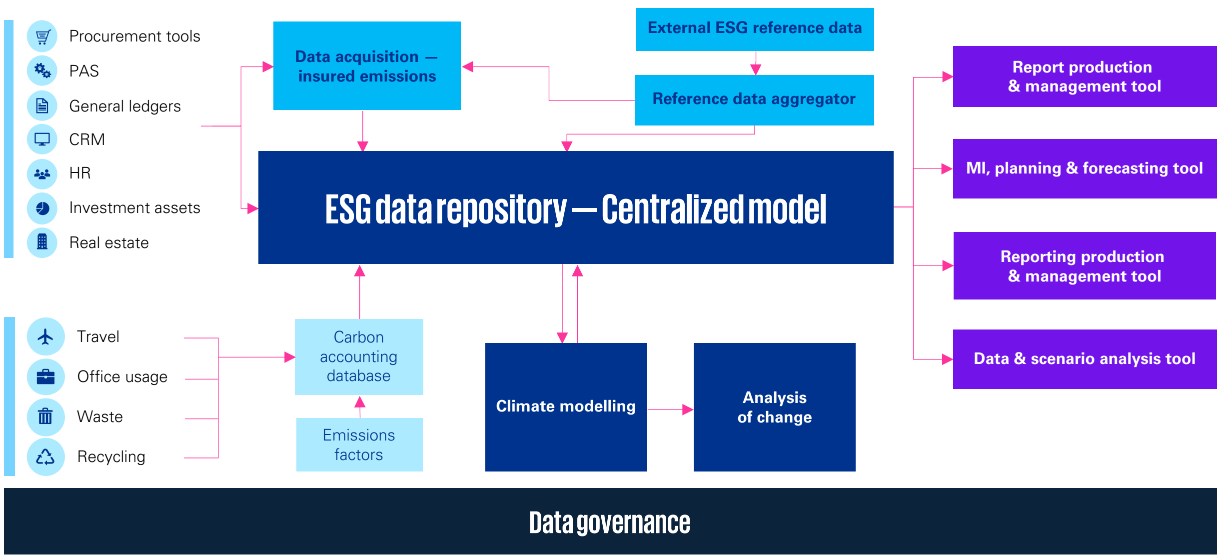
6. Technology and automation

The technology requirements for sustainability reporting directly link to the data challenge: the right technology architecture and solutions are needed for the data to be captured, managed and reported. Technology applications should also be considered for the sophisticated climate modelling and carbon accounting that is required. In addition, appropriate systems will likely be needed for analytics, performance management and reporting. While most organizations have implemented modern finance platforms for their core needs, non-financial information may run on old legacy technology, or be driven through end user computing (EUC)— more agile, cloud-based solutions are likely to be needed to manage the volume and breadth of data, as well as controls and workflow through the organization.

Action:

A technology architecture is needed that enables data to be acquired, held, modelled, reported on and managed. Every organization will have its own existing technology ecosystem and interdependencies. In many cases, there is a 'mix and match' process to be carried out to identify which elements are fit for purpose, the missing capabilities, and elements that can be combined to create the right tool for the right job.

Workflow, process and controls management



7. Developing the workforce

Ever-expanding sustainability reporting means an increased workload — The requirements should be considered carefully with the additional capacity required and pressure on existing teams. It also requires different skillsets and backgrounds to traditional financial reporting — so who owns it and what governance is required? In most cases the finance function will be the current custodian, but as the discipline evolves and matures there is potential for a centrally coordinated responsibility for reporting, supported by a Center of Excellence (CoE) or shared service model. A governance model is needed that is fully operational to board level with clear ESG accountabilities through executive and management layers. New skills will be required for high performing teams — creating the need for training, upskilling and support.

Action:

Insurance firms should look to devise an end-to-end operating model for governance and people, with well-defined roles and responsibilities. This will likely need to be broad in scope — Some non-finance colleagues may need to build a strong grasp of controls, while finance and reporting staff will want to build a good understanding of sustainability and other ESG areas. Actuarial, risk and modelling expertise should also be considered to meet the insurance specific challenges of sustainability reporting.

> *"It's important that organizations develop a model that supports and equips colleagues for the task. We often see businesses develop a large program of upskilling and education to get the best out of team members and optimize collaborative productivity."*
>
> **Viviane Leflaive**
> Head of Insurance and Partner, KPMG in France

In view of the wide range of commercial, compliance and competitive drivers, the importance of non-financial reporting is likely to grow. The way the industry responds to this will have far-reaching implications. Done well, it could be a powerful enabler that helps organizations drive value from ESG by clearly articulating and reporting on their sustainability appetite, drivers and metrics. Done poorly and it could become just another mandatory compliance exercise — adding cost without delivering value.

In order to help minimize disruption to business as usual, and have the time and ability to design and build a flexible and adaptable underpinning structure, insurance leaders should start now. Insurance leaders that get ahead in thinking about their sustainable reporting strategy can capitalize on the opportunity to drive value, design a flexible operating model, and build an efficient yet outcomes-driven roadmap to achieve it.

This design process can help insurers understand where they are on the journey — identifying their material metrics and then assessing the uplift in controls, technology, data and people needed to correctly capture and report on these.

By starting early, insurance organizations can avoid the unwanted scenario of a 'last minute rush' — which can prove significantly more expensive, introduce increased risk of error, and be a heavy drain on already-stretched resources.

Sustainability reporting is an opportunity for insurers. It's a place where they can bring their story together and positively influence a wide range of stakeholders and interested parties. The time has come to build the models and processes that make that opportunity a reality.

How KPMG can help

At KPMG we believe ESG transformation starts with people. Our global network of experienced insurance professionals provides clients with deep industry ESG knowledge, actionable insights and implementation expertise, helping to realize the full potential of their people, processes and technology, working together to achieve successful transformation.

KPMG professionals help clients by breaking the task down to become manageable. Designing and building a target operating model for sustainability reporting doesn't need to be a big bang implementation — leaders can choose their deployment strategy and the associated timeframes (unless driven by specific regulatory deadlines). Insurance organizations can also align this to other in-flight change projects and transition organically — saving money in the long term.

Also key to our approach is the array of accelerators and tools that enable organizations to take control and make progress, faster. This includes:

- ESG reporting functional architecture, performance management, and reporting templates and frameworks
- Data model accelerators for key ESG climate metrics
- Controls frameworks
- Dashboards that capture key metrics and support scenario analysis.
- CoE models and playbooks that support suitable governance and people solutions, including the interplay between key senior roles and the system of executive and steering committees that may be needed.

KPMG member firms have formed strong alliances and relationships with leading technology solution providers, including those covering ESG-specific tools and platforms that can be leveraged to create custom ESG solutions. Combining these technology solutions with our own proven business methodologies, insights and accelerators, the team stand ready to help clients respond efficiently to the emerging challenges of ESG reporting.

Recognized as a leader

IDC MarketScape:
Worldwide ESG Program Management Services Vendor Assessment, 2023–2024

ALM Pacesetter:
ESG — Environment, 2023–2024
Digital Transformation Services, 2023

Verdantix Green Quadrant:
Climate Consulting, 2023

HFS Horizons:
Strategic Finance, 2022

Forbes:
World's Best Management Consulting Firms for Banks, Insurances & Financial Institutions, 2023

How KPMG in Poland can help

Customers, employees, investors, regulators and the public are placing greater focus on Environmental, Social and Governance (ESG) than ever before. This is leading to changes in the options available to corporate borrowers to raise capital – as well as in the way financial services distribute it. Sustainable finance rewards those who perform well on ESG factors, which signal a more resilient and sustainable business. Sustainable finance enables lenders to comply with regulations while offering new products, and it gives more options to borrowers.

The sustainable finance opportunity for lenders, asset managers and insurers

Financial services firms have a unique role to play in driving greater sustainability into the wider economy.

New rules and regulations are forcing the pace of change. COVID-19 has shown organizations can embrace new ways of working faster than we ever thought possible. Making sustainable finance a core part of the investment strategy is no longer a choice: it is an imperative.

We help banks, insurers and asset managers:

- comply with a EU regulations to disclose information about the sustainability of who they loan to, insure or invest in
- transform their business model, including technology, data, capabilities and culture to enable the transition to financing sustainable activities
- develop strategies for customers in the portfolio performing poorly on ESG – for example, through target setting and a more collaborative approach, or through divestment
- design and provide ESG finance options for borrowers that not only incentivise their sustainable activities but are more competitively priced.

The sustainable finance opportunity for corporate borrowers

Incorporating ESG factors into corporate debt transactions provides two principal benefits for borrowers: access to the broadest pools of capital, and tangible debt pricing benefits if they can demonstrate that a positive ESG impact is delivered.

Deal structures are evolving to move beyond looking purely at 'green' initiatives. An increasing number of transactions focusing on social or governance aspects – such as employment practices, board diversity and access to education.

We help corporate borrowers to:

- evaluate and enhance ESG financing options
- identify potential ESG financers
- negotiate commercial terms of ESG financing to align with their strategic objectives
- optimise their credit ratings based on ESG factors.

Further offerings for sustainable finance

Regulatory-driven transformation

We can help the providers and recipients of finance to transform their operating models to comply with the upcoming wave of regulation. We can help them embed ESG into their business for strategic advantage.

Our sustainable finance transformation services include:

- ESG maturity assessment
- ESG regulatory decomposition
- ESG target operating model design and implementation
- ESG learning to upskill your employees
- Portfolio ESG risk assessment and AI-driven bespoke ESG scoring
- ESG valuations and due diligence.

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Designed by Evalueserve.
Publication name: ESG in insurance: A practical guide to sustainability reporting
Publication number: 139118-G
Publication date: February 2024

Document Classification: KPMG Public