



ESG in insurance: A practical guide to sustainability reporting

Executive Summary



Sustainability reporting matters

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

Insurance leaders recognize the ESG agenda as an indispensable part of their corporate strategy. Both regulators and the wider market are increasingly asking for organizations to report on their sustainability policies, and leaders that embrace change now will be well positioned for the potential benefits. But setting the organization up for success for sustainability reporting does present some challenges.

For example, whereas there are long-established processes and controls in place for financial reporting, the same is not the case for non-financial information. In this summary, KPMG ESG professionals explore how organizations can set up for success and help to enable collaboration, transparency and reporting discipline across the workforce.

96% of G250 companies report on sustainability or ESG matters

Source: Survey of sustainability reporting, KPMG Global, 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 programmes improve financial performance

Source: KPMG 2023 Insurance CEO Outlook

Key drivers for sustainability reporting

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



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

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



Setting up for success

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

Whether trying to rationalise existing reporting, or starting with a clean slate, setting your organization's reporting strategy remains the crucial step in finding the synergies and focusing effort in the right place.

Three key areas to review:

- 1) Sustainability strategy and the topics material to your business
- 2) Rating agency requirements and scoring criteria
- 3) Regulation and frameworks, through both a global and local lens

2 New methodologies and approaches

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

Key considerations include:

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 and 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.

3 Confidence in reporting and getting ready for assurance

Increased stakeholder scrutiny means that organizations should be increasingly careful about the accuracy and validity of their disclosures. 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 finance 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 defence.

4 Delivering on public targets and commitments

Internal performance management will likely be key to turning an organization's commitments into action. Insurance leaders can consider the following key activities:

- 1) Embed into performance management:** Embed sustainability into the enterprise performance management cycle by defining KPIs, setting clear in-year targets and ensure there is robust MI and forecasting to enable through-the-year tracking of progress.
- 2) Incentives:** Executive remuneration against targets can be an effective mechanism to encourage internal focus and action.
- 3) Cultural change:** Strong governance processes will likely be needed, including executive accountability and training at all levels to embed sustainability into everyday activities.

5 Data sourcing and management

Sourcing and managing ESG data can be particularly challenging. The sheer breadth of ESG means a wide variety of data is needed from multiple sources in different formats.

A robust data governance framework should be developed, together with a data model that sets out 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.

6 Technology and automation

The technology requirements for sustainability reporting link directly to the data challenge. A technology architecture is needed that enables the data to be acquired, held, modelled, reported on and managed. For many organizations, there may be a 'mix and match' process to identify which elements are fit for purpose, capabilities that may be missing and components that can be combined.

7 Developing the workforce

Ever-expanding sustainability reporting means an increased workload. Insurance organizations should look to devise, or update, an end-to-end operating model for governance and people, with well-defined roles and responsibilities.

How KPMG professionals 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 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

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