

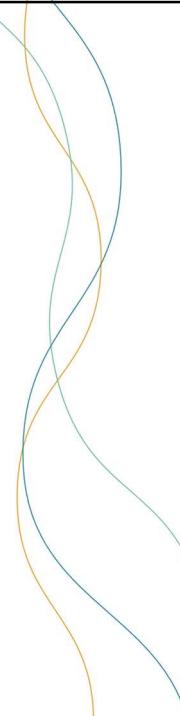


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## Webinar 1: Sustainability risk concepts

28<sup>th</sup> November 2024

Kipkorir Koskei



### Who is WeESG

WeESG offers market-leading sustainable finance training and advisory.

Our founders met at the Cambridge Institute for Sustainability Leadership, where they led initiatives with global financial institutions to integrate sustainability risks and opportunities.

We have delivered training to over 25,000 people across 200 institutions in 35 countries.

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Dr. Tom Herbstein



Clarisse Simonek



Mabel Cline-Cole



Graziela Cuoco



Lucca Tosto



## Adapting the FSD Roadmap for your journey

### **Our approach:**

Customized FSD roadmap for this training series  
Practical implementation support through webinars  
Interactive exercises and valuable resources provided

### **Your journey:**

Initial document provided in this webinar  
Regular updates with each session  
Cumulative compilation of steps and exercises

### **By the conclusion of this webinar series, you will have:**

A robust, tailored action plan  
Clear steps to advance your sustainable insurance journey

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## Meet your trainer: Kipkorir Koskei



**Kipkorir Koskei**

- He is the Director of Policy and Strategic Partnerships at the Insurance Development Forum (IDF).
- Kip has over a decade of experience in international banking, as well as delivering global insurance and risk financing initiatives.
- His career includes managing multi-million-dollar infrastructure projects in East Africa and structuring disaster risk strategies across the continent. He holds an LLM from University College London.

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## Skills you will learn

### This programme will help you to:

- identify the main drivers of sustainability risks and opportunities for the insurance industry;
- understand how to start assessing ESG risks at the firm and counterparty level;
- incorporate ESG criteria into underwriting and investment products/guidelines;
- assess whether data collection, analysis, and reporting mechanisms are robust.



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## Course agenda

### Day 1

- Webinar 1: Sustainability Risk Concepts.



### Day 2

- Webinar 2: Dependencies and Impacts for insurers' clients.

### Day 3

- Webinar 3: Environment and Climate-related Risks and Opportunities for Insurers.

### Day 4

- Webinar 4: Sustainable Underwriting.

### Day 5

- Webinar 5: Sustainable Investments.

### Day 6

- Webinar 6: Sustainable Finance Reporting and Disclosures.

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## Icebreaker: Let's connect with each other



1

**Share** your name and organization with your group

2

**Agree** on 1 goal the group hope to achieve from the course

3

Each group to **identify** one volunteer to report back.

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## Housekeeping



Keep your webcam turned on, it helps everybody to feel engaged!



Ask questions by raising hand



You are the local experts, so provide insight where possible!

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## Skills you will learn

### This webinar 1 will help you to:

- Understand core drivers: gain insights into the sustainability risks and opportunities shaping the insurance industry.
- Evaluate ESG risks: develop the skills to evaluate and address ESG risks across portfolios.
- Define strategic ambitions: establish clear ESG objectives aligned with science-based targets, industry benchmarks, and peer standards.
- Identify and bridge gaps: Analyze your current ESG positioning and implement strategies to achieve your sustainability goals effectively.



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## Agenda



**1 Key concepts and definitions**

**2 Evaluate ESG risks**

**3 Determine ambition level and identify gaps**

**4 Wrap up and Q&A**

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## Basic terms in sustainable finance



'Sustainability'



'ESG'



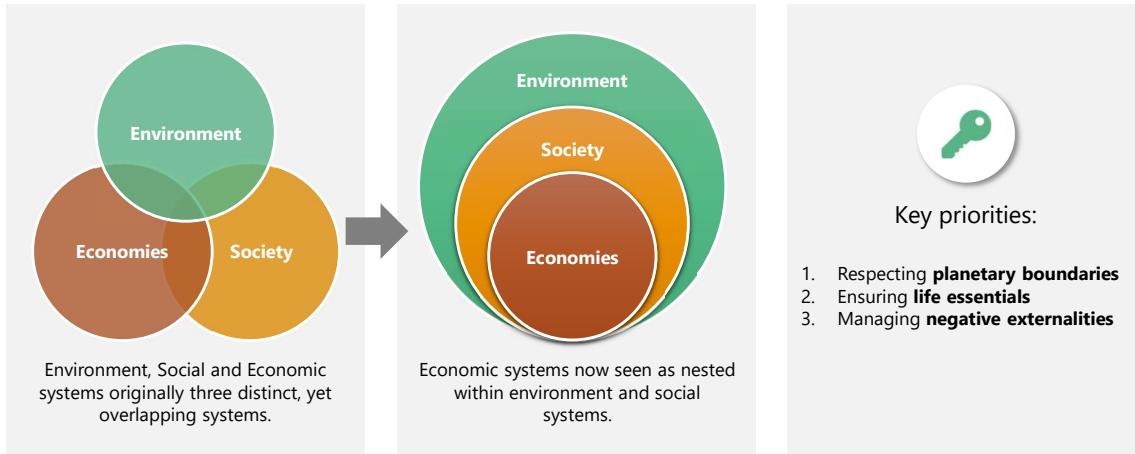
'Responsible insurance'



'Sustainable insurance'

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## How environment and society are linked to the economy

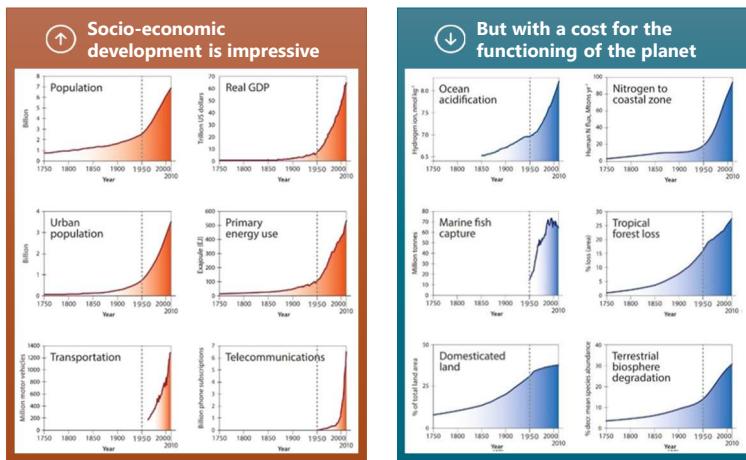


Key priorities:

1. Respecting **planetary boundaries**
2. Ensuring **life essentials**
3. Managing **negative externalities**

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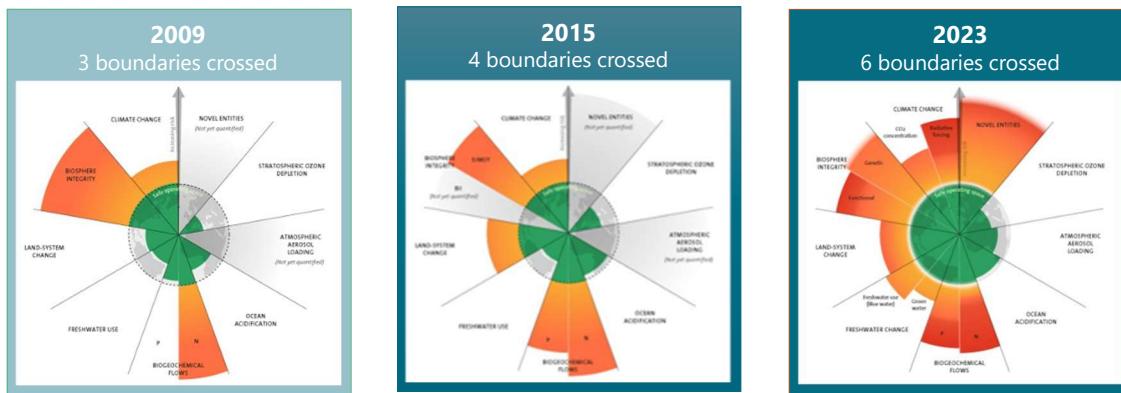
## The Great Acceleration: trends from 1750 to 2010



Source: Steffen, W., Broadgate, W., Deutsch, L., Gaffney, O., & Ludwig, C.

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## Planetary boundaries over time

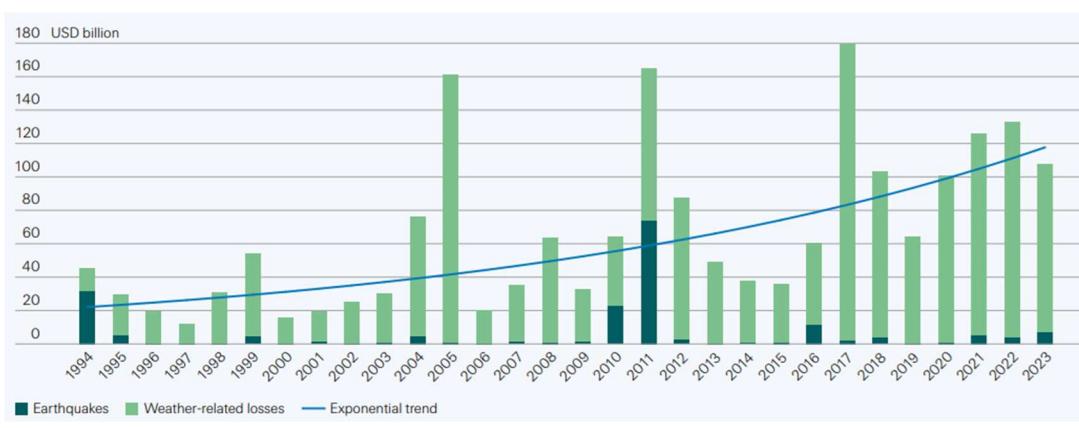


Source: Stockholm Resilience Centre

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## Why does it matter for insurers: environmental

### Growth in global natural catastrophe insured losses

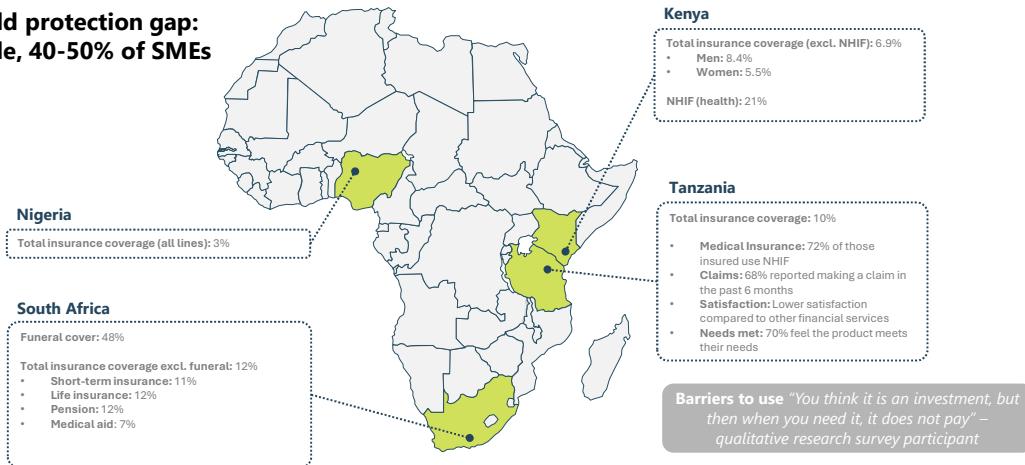


Source: Swiss Re

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## Why does it matter for insurers: social

### Household protection gap: 4bi people, 40-50% of SMEs



Source: A2F, FinScope, FinAccess

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## What is the core of sustainable insurance?



### ENVIRONMENTAL

- Climate change
- Biodiversity
- Resource use and pollution

### SOCIAL

- Health and safety
- Human rights
- Access to basic needs

### GOVERNANCE

- Board independence
- Executive compensation
- Tax and corruption



Acknowledge the relevance of environmental, social and governance factors.

ESG issues are incorporated into:

- Financial decisions
- Product and fund design

ESG issues are considered both in terms of

- How ESG issues impact financials
- The impact that organizations have on the environment and society

Source image: Midas PR

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## Exploring (double) materiality in the insurance sector



Source: CroForum

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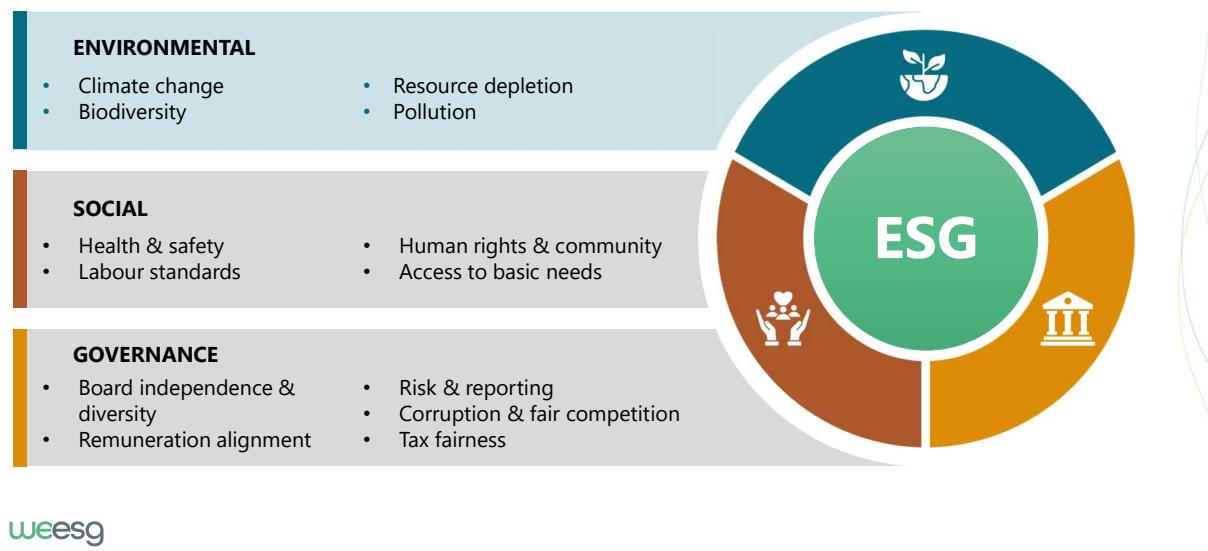
## Looking at impact: the 'Sustainable Development Goals'



Source: United Nations

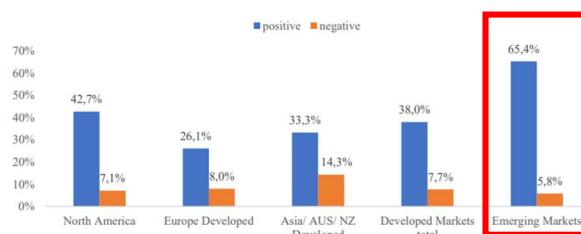
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## ESG issues



## Looking at financial materiality: Meta studies on ESG and financial performance

### Over 2000 studies covering ESG-Corporate Financial Performance relationship



### NYU Stern & Rockefeller Asset Management

- 58% found a positive relationship between ESG and financial corporate performance.

### Univ. of Hamburg & DWS

- 60% found a positive relationship between ESG and financial performance.

### Univ. of Oxford & Arabesque

- 80% found strong sustainability practices have a positive influence on investment performance.

### Beijing University

- 2,200 A-share listed companies in China from 2015 and 2021 showed ESG positively and significantly affects corporate financial performance.

Source: University of Cape Town

## Implementing the FSD ESG Roadmap



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### Step 1: Develop ESG approach



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## Agenda



**1 Key concepts and definitions**

**2 Evaluate ESG risks**

**3 Determine ambition level and Identify gaps**

**4 Wrap up and Q&A**

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## Evaluate ESG risks

**1 Develop ESG approach**

- **Evaluate ESG risks**
  - Establish processes to conduct a materiality assessment of ESG risks at a firm level, considering geographic exposure, business line, coverage type, economic sector, applicable regulation and client characteristics.
- Determine ambition level
  - Define where you want to be in relation to science-based targets, industry best practices and peers.
- Identify gaps
  - Understand your current status in the ESG journey and pinpoint gaps relative to your ambitions.

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 CASE STUDY

## Allianz materiality assessment at insurer level

Assess risks, engage stakeholders, integrate findings into strategy and review regularly



1. **Identify potential ESG topics**, that could help predict risk events.
2. **Define scope and stakeholders**: Key stakeholders are employees, corporate clients, investors, and regulators.
3. **Gather data and engage stakeholders**: get insights by engaging stakeholders and analyzing internal risk data, industry trends, regulations, and client portfolios across sectors.
4. **Assess impact and likelihood** across business lines and client segments.
5. **Create a materiality matrix**.
6. **Validation and results refine** involving senior management, stakeholders and experts in different business areas/locations.
7. **Integrate findings into strategy**.
8. **Report and review regularly**.



## Assessing ESG risks in life insurance

- Mortality: insured dying prematurely
- Longevity: insured living longer than expected and running out of money before dying
- Morbidity: insured developing a condition or contracting a disease
- Hospitalisation: insured requiring private medical treatment

Risk criteria	Mortality	Longevity	Morbidity	Hospitalisation
Air pollution	L+	L-	H+	H+
Regular health checks (e.g. blood pressure, cholesterol)	H-	L+	H-	L-
<b>High positive "H+"</b>				Increases the underwriting risk to a <b>high extent</b>
<b>Low positive "L+"</b>				Increases the underwriting risk to a <b>low extent</b>
<b>High negative "H-"</b>				Decreases the underwriting risk to a <b>high extent</b>
<b>Low negative "L-"</b>				Decreases the underwriting risk to a <b>low extent</b>
<b>Neutral "N"</b>				Neither increase nor decrease the underwriting risk
<b>Not applicable "N/A"</b>				The ESG risk is <b>not applicable</b> in life & health underwriting

Source: UNEP FI



 GROUP EXERCISE

## Identifying risks and impacts

**1** Go into breakout groups and select one person to be notetaker

**2** Each group should discuss and categorize risks based on the table on the right.

**3** Use the Excel spreadsheet that was provided. Rate green, amber, red for each one in terms of 'impact'.

**4** Explain what the impact is and how to integrate it into risk management.

**5** The notetaker will briefly share findings with the plenary.

Group 1: How can E, S and G impact investment

Group 2: How can E, S and G impact nonlife underwriting (nonlife)

Group 3: How can E, S and G impact underwriting (life)

Group 4: How can E, S and G impact operations

Group 5: How can investment impact E, S and G

Group 6: How can underwriting (nonlife) impact E, S and G

Group 7: How can underwriting (life) impact E, S and G

Group 8: How can operations impact E, S and G

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## Exercise answer: Impact of E on underwriting (Life)

ESG factor	Risk criteria	Risk impact				Examples of risk mitigation measures and good practice for life & health insurance organisations
		Mortality	Longevity	Morbidity	Hospitalisation	
Climate change	Air pollution	L+	L-	H+	H+	Environmental & social impact assessment (ESIA) covering negative health impacts, mitigation and decommissioning where relevant, investment focus on green investments or avoidance of coal and oil related investments
	Greenhouse gas emissions	L+	L-	L+	L+	Disclosure of climate-related emissions in operations and/or products, investment focus on green investments or avoidance of coal and oil related investments
	Physical risk - acute (refers to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods)	H+	L-	H+	H+	Share knowledge with the population at risk and support risk prevention. Provide insurance cover in case of the risk materialising
	Physical risk - chronic (refers to longer-term shifts in climate patterns, e.g. sustained higher temperatures that may cause sea level rise or chronic heat waves)	L+	L-	L+	L+	Share knowledge with the population at risk and support risk prevention. Provide insurance cover in case of the risk materialising
	Transition risk	N	N	L+	L+	Decarbonisation transition plan/targets, TCFD disclosures
Infectious diseases	Rapid spread of viruses or bacteria that cause uncontrolled diseases (e.g. vector-borne disease)	H+	H-	H+	H+	Share knowledge with customers about viruses and infectious diseases, vaccine development and rollouts, and on how to keep good personal hygiene. Provide insurance cover in case of the risk materialising

Source: UNEP FI

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## Exercise answer: Impact of S on underwriting (Life)

ESG factor	Risk criteria	Risk impact				Examples of risk mitigation measures and good practice for life & health insurance organisations
		Mortality	Longevity	Morbidity	Hospitalisation	
Customer characteristics	Ageing population (i.e. increase in life expectancy of the population)	H-	H+	L+	L+	Promote active ageing and healthy longevity, provide suitable insurance cover to support the elderly, provide eldercare support/value-added services.
	Biological sex - Male	L+*	N*	L+*	L+*	Apply inclusive gender expression in customer communications. Ensure customers are not denied access to insurance solely because they are transgender. Underwriting for transgender customers is emerging and should continue to be monitored with underwriting completed based on individual customer's transgender transition
	Biological sex - Female	N*	L+*	N*	N*	Apply inclusive gender expression in customer communications. Ensure customers are not denied access to insurance solely because they are transgender. Underwriting for transgender customer is emerging and should continue to be monitored with underwriting completed based on individual customer's transgender transition
	Elderly population (i.e. increase in the relative number of elderly people in the population)	H+	H-	L+	L+	Promote active ageing and healthy longevity, provide suitable insurance cover to support the elderly, provide eldercare support/value-added services.
	Ethnicity	N	N	N	N	Ensure customers are not denied with access to insurance due to their race, colour, descent, national or ethnic origin.
	Family relationship	N	N	N	N	Apply inclusive definition to family relationships (e.g. spouse, partner, children, family).
	Genetic inheritance	H+	L-	H+	H+	Support customers in taking genetic testing to help with diagnosis and treatment where local jurisdiction allows. More information on genetic inheritance should be managed adequately in order to ensure equal access to insurance coverage for all people

Source: UNEP FI

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## Exercise answer: Impact of S on underwriting (Life) (cont)

ESG factor	Risk criteria	Risk impact				Examples of risk mitigation measures and good practice for life & health insurance organisations
		Mortality	Longevity	Morbidity	Hospitalisation	
Health capability/ awareness	Regular health checks (e.g. blood pressure, cholesterol)	H-	L+	H-	L-	Raise awareness of health risk prevention and health protection, provide as a health benefit to insurance policyholders
	Cancer screenings (e.g. mammogram, colonoscopy) as a form of prevention	L-	L+	H-	L-	Raise awareness of health risk prevention and health protection, provide as a health benefit to insurance policyholders. For some Critical Illness products, cancer screening could also increase underwriting risk depending on the specific product design and Critical Illness definitions, more claims could be triggered if screening detects cancer earlier or in more cases
	Genetic screening as a form prevention	L-	L+	L-	L-	Raise awareness of health risk prevention and health protection, provide as a health benefit to insurance policyholders
	Vaccination	H-	L+	L-	L-	Raise awareness of health risk prevention and health protection, provide as a health benefit to insurance policyholders

Source: UNEP FI

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## Exercise answer: Impact of G on underwriting (Life)

Category	ESG factor	Risk criteria	Risk impact				Examples of risk mitigation measures and good practice for life & health insurance organisations
			Mortality	Longevity	Morbidity	Hospitalisation	
Governance	Bribery & corruption	Illegal and unethical payments	These governance risk factors were considered but determined to be 'N/A' (i.e. not applicable for risk impact) to life & health underwriting in relation to mortality, longevity, morbidity and hospitalisation.				Code of conduct and anti-bribery training programme for all employees. Whistle-blower channel to report cases of bribery & corruption
	Insurance fraud	Lack of insurable interest in the act of deception, such as murder, suicide, disappearance of life insured, carried out for unlawful/unfair gain from claims					Anti-insurance fraud training programme for all employees
	Money laundering	Using a life insurance policy to integrate illegal funds into the financial services system					Anti-money laundering and anti-terrorist financing training programme for employees, conduct customer due diligence
	Personal data breach	A breach of data security leading to unlawful loss, alteration and unauthorised disclosure or access to personal data					Personal data protection policy
	Poor corporate governance	Anti-competitive practices, violations of antitrust laws, unethical conduct, unethical tax approach					Code of conduct that outlines corporate governance and compliance
	Poor product or service quality	Mis-selling, unethical conduct or negative health impact on customers					Code of Sales conduct for management of intermediaries, training and product governance
	Tax evasion	Unethical usage of insurance product to avoid tax liability					Tax evasion prevention training programme for employees, conduct customer due diligence
	Tax efficiency	Complexity of using insurance for tax optimisation and lack of knowledge					Improve customer education on how insurance could help improve tax efficiency, distribution training/education

Source: UNEP FI

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## Exercise answer: Impact of E on underwriting (nonlife)

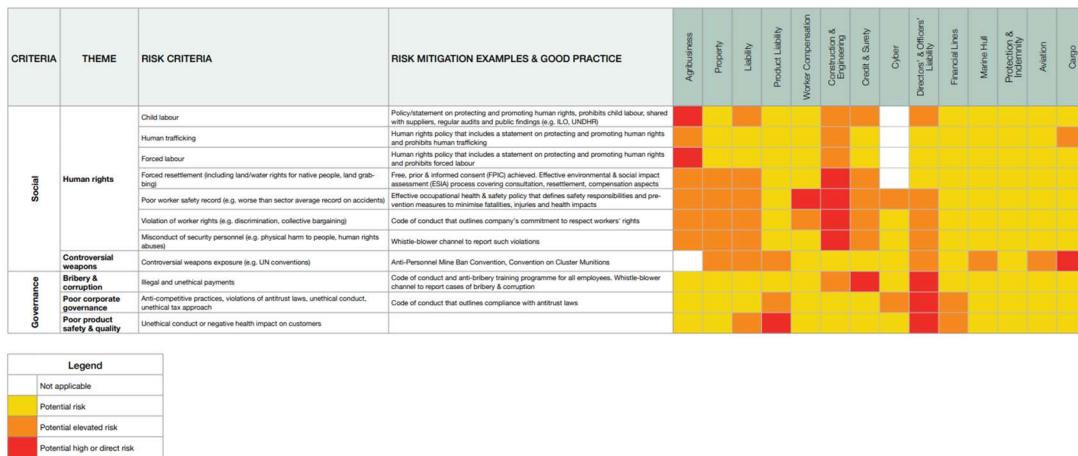
CRITERIA	THEME	RISK CRITERIA	RISK MITIGATION EXAMPLES & GOOD PRACTICE	Agribusiness	Property	Liability	Product Liability	Worker Compensation	Construction & Engineering	Credit & Surety	Cyber	Directors' & Officers' Liability	Financial Lines	Marine Hull	Protection & Indemnity	Aviation	Cargo
Environment	Environmental degradation	Exposure to unconventional mining practices (e.g. mountain top removal, riverine tailings dumping, deep sea mining)	Involvement in initiatives: Extractive Industries Transparency Initiative, International Council on Mining & Metals, Kimberley Process (diamonds)	Yellow	Orange	Red											
		Deforestation or controversial site clearance (e.g. palm oil on peatlands or fragile slopes, illegal fire clearance/logging, biodiversity loss, dam construction)	Certification for palm oil, paper, etc. Dam construction standards: IHA Hydropower Sustainability Assessment Protocol, UNEP Dams & Development, Equator Principles														
Unsustainable practices	Soil pollution		ESIA covering possible negative health impacts, mitigation measures and decommissioning plans and remediation														
		Water pollution / over consumption	Water management practices (e.g. tackling quality, scarcity, overconsumption). Effective ESIA process covering water pollution. External audit/certification														
	Exposure to unconventional energy practices (e.g. Arctic oil, hydraulic fracturing, tar sands, deep sea drilling)		Variety energy initiatives: IEA, IFC EMHS Guidelines, Energy & Biodiversity Initiative for Oil & Gas, Oil & Gas Climate Initiative														
	Illegal fishing vessels, controversial fishing practices or aquaculture techniques		PSI-Oceania guide on illegal, unreported & unregulated (IUU) fishing, IUU fishing lists, Aquaculture/Marine Stewardship Council certification														
	Plastic pollution		PSI guide on the risks of plastic pollution, marine plastic litter and microplastics to the insurance industry														

Legend	
Not applicable	
Potential risk	Yellow
Potential elevated risk	Orange
Potential high or direct risk	Red

Source: UNEP FI

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## Exercise answer: Impact of E on underwriting (nonlife)

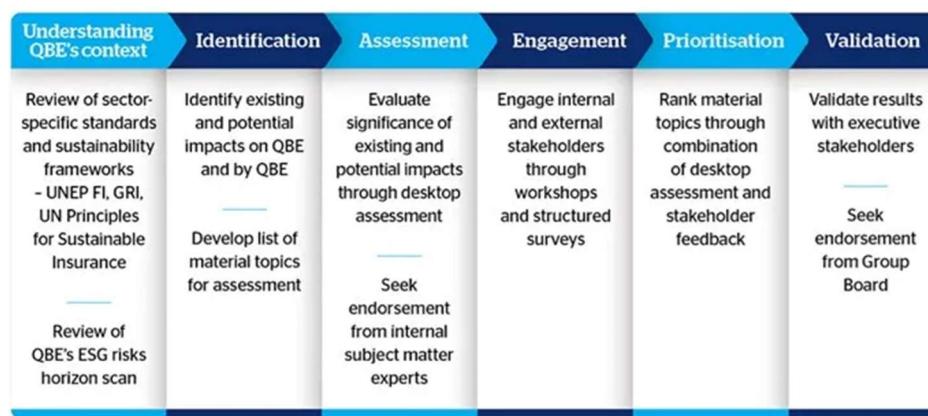


Source: UNEP FI

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## Case study: QBE materiality assessment

### Level 1 - PROCESS



Source: QBE

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## Case study: QBE matrix heat map

### LEVEL 2 - QBE materiality matrix

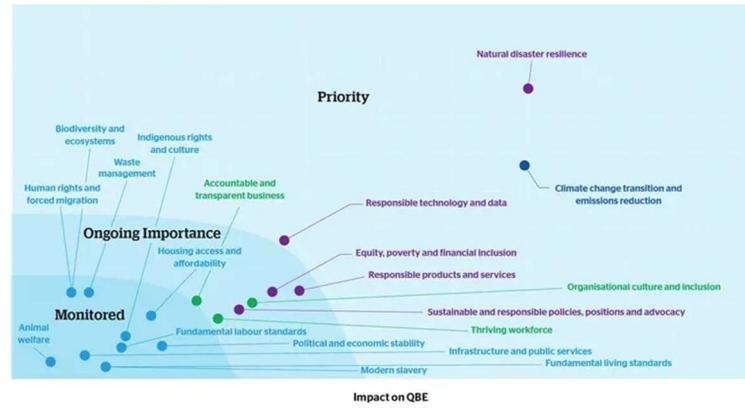
**Key:**

- Focus Area1 - Foster an orderly and inclusive transition to a net-zero economy
- Focus Area2 - Enable a sustainable and resilient workforce
- Focus Area3 - Partner for growth through innovative, sustainable and impactful solutions
- Monitored

**Priority:** high importance to stakeholders, with significant impact on the environment, economy and society. Require significant management and strategic focus

**Ongoing importance:** strategic significance; well-established management processes. Stakeholder interest may vary.

**Monitored:** relevance to stakeholders, not primary priorities. Several will benefit from activities related to Priority and Ongoing Importance topics.



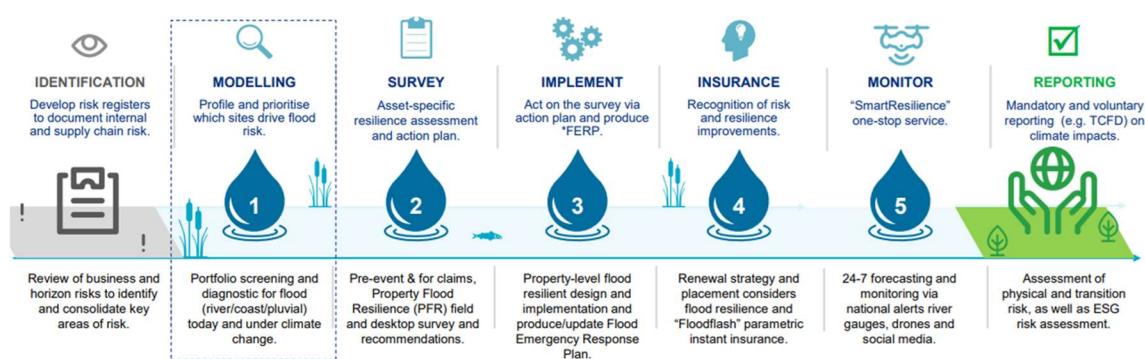
Source: QBE

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## Case study: flood resilience via ESG management

### LEVEL 3 – SPECIFIC ISSUE: FLOODING

#### Holistic ESG management enhances resilience and meets emerging needs



Source: Rob Bailey/Marsh

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## Discussion



How has your insurer integrated ESG in its risk frameworks?

If so, how?

## Potential answers



Source: McKinsey

## Agenda



**1 Key concepts and definitions**

**2 Evaluate ESG risks**

**3 Determine ambition level and identify gaps**

**4 Wrap up and Q&A**

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## Determine ambition level and identify gaps

**1 Develop ESG approach**

- Evaluate ESG risks:
  - Establish processes to conduct a materiality assessment of ESG risks at a firm level, considering geographic exposure, business line, coverage type, economic sector, applicable regulation and client characteristics.
- **Determine ambition level:**
  - **Define where you want to be in relation to science-based targets, industry best practices and peers.**
- **Identify gaps:**
  - **Understand your current status in the ESG journey and pinpoint gaps relative to your ambitions.**

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## The SDGs can be used for target setting

### Why insurance matters to the SDGs?

- **Shields against financial shocks.**
- **Builds resilience**
- **Supports inclusive development**



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## Net Zero Asset Owner Alliance support decarbonization target

Engagement targets	Sector targets
Set at least one KPI in two of the following types of engagement:	<ul style="list-style-type: none"> <li>Intensity-based/absolute reductions on all material sectors.</li> <li>Scope 3 to be included wherever possible.</li> <li>Sector specific intensity KPIs recommended.</li> <li>Sectoral Decarbonization Pathways used to set targets.</li> </ul>
Sub-portfolio (later portfolio) emission targets	Intermediate targets for 1.5°C aligned, net-zero world by 2050 with real-world impacts
<ul style="list-style-type: none"> <li>Corporate—Engage 20 companies with highest owned emissions or those responsible for combined 65% owned emissions in portfolio (either directly or via membership/asset manager/service provider)</li> <li>Asset Manager—Participate in engagements led by the Alliance, or their own internal systematic approach</li> <li>Published Positions—Participate in Alliance position paper creation or write their own</li> <li>Sector/Value Chain: Participate in Alliance sector work or external sector engagement activities</li> </ul>	<p>Financing transition targets</p> <ul style="list-style-type: none"> <li>Reporting climate solution investments to the Alliance and ideally showing a positive trend in climate solution investments over time (no explicit public quantitative progress target is optional)</li> <li>Active contributions to Alliance's Financing Transition working or consultation groups</li> </ul>

Source: UNEP FI

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## Case study: Generali sets financial targets



### Green and sustainable investments

- The Group set a target of € 8.5-9.5 bn between 2021-2025 of new green and sustainable investments in bonds. In 2023 € 9.1 bn was achieved
- In 2023 the Group's total exposure to green and sustainable bond investments amounted to € 16.1 bn



### Real estate investments with high-level sustainability certifications

- ESG criteria are integrated into investment decision-making process, both in the selection and management phases
- In 2023 € 11.3 bn of real estate assets had external high-level certifications<sup>1</sup>



### Sustainable infrastructure investments

- Infrafiny (specialised Group Asset Manager) developed a dedicated methodology to define sustainable investments according to their ESG feature and contribution to United Nations' Sustainable Development Goals
- In 2023 € 3.26 bn of Infrastructure assets were considered as sustainable investments



### Fenice 190

- The Group launched a € 3.5 bn investment plan to support the recovery of the European economies impacted by Covid-19. Investment plan in funds (mainly Private Debt, Infrastructure and Real Estate investments)
- In 2023 € 2.7 bn of commitments for the investment plan were signed by the Group Insurance Companies

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### Group assets with sustainable characteristics as of FY2023: € 33.4 bn



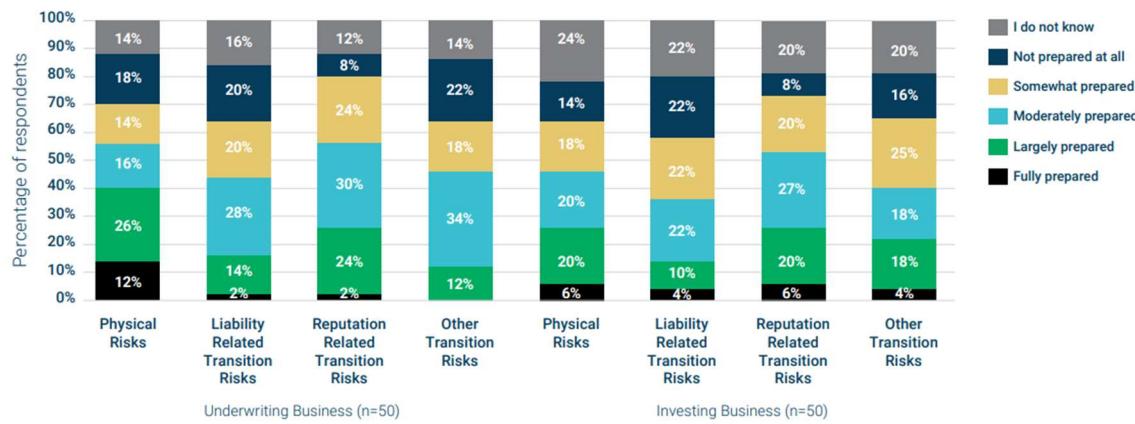
Source: Generali

## Challenges in ESG integration in insurance underwriting



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## Gaps remain in level of preparedness



Source: UNDP/SIF

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### EXERCISE

## Reflect and share

**1** **Individual** reflection (10min): your organisation faces in transitioning to a more sustainable insurance model.

**2** **Impact analysis:** How do these gaps affect your company's performance and customer satisfaction?

**3** **Personal insight:** How does your role relate to these gaps? What changes would you suggest to senior leadership?

**4** Participants should jot down their thoughts and insights in a **structured format**, addressing each prompt clearly

**5** **Group** discussion (10min): each participant will **share** insights on common themes and proposed solutions

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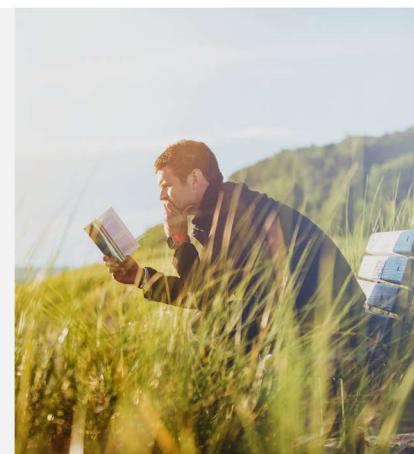
**4 Wrap up and Q&A**

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## Wrap up

### This webinar has looked at

- key sustainability related risk concepts and terminology
- how to develop an ESG approach, evaluating ESG risks, determining ambition levels and identifying gaps



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