



ICMIF Meeting of
Reinsurance
Officials (MORO)
2023

ESG in Reinsurance Underwriting

June 2023

Edward Shen

Director, Head Casualty Product
Underwriting, Peak Re

10 Years **PeakRe** >

➤ ESG Considerations in Business

- **Non-financial risks or opportunities** that have an impact on company's performance
- **ESG criteria and outcomes** can differ based on industry, material issues, and company's mission and objective

Examples of ESG Factors

 <p>Environmental</p>	<ul style="list-style-type: none"> ▪ Climate change ▪ Greenhouse gas (GHG) emissions ▪ Resource depletion, including water ▪ Waste and pollution ▪ Deforestation
 <p>Social</p>	<ul style="list-style-type: none"> ▪ Working conditions, including slavery and child labour ▪ Local communities, including indigenous communities ▪ Conflict regions ▪ Health and safety ▪ Employee relations and diversity
 <p>Governance</p>	<ul style="list-style-type: none"> ▪ Executive pay ▪ Bribery and corruption ▪ Political lobbying and donations ▪ Board diversity and structure ▪ Tax strategy

> ESG Standards are Evolving

ESG Disclosure Frameworks



ESG Reporting and Ratings Agencies



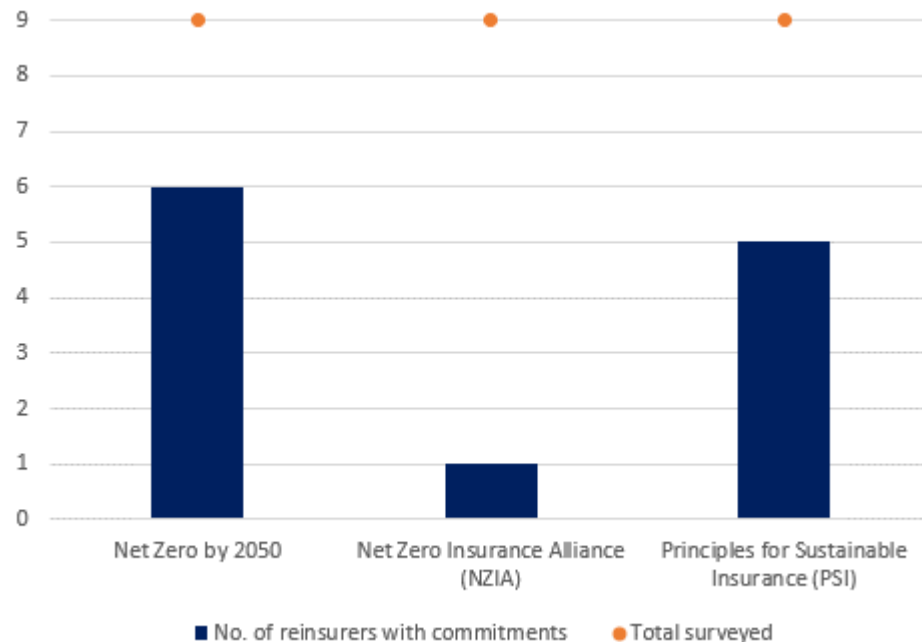
ESG ratings and scores vary significantly. Tesla. Inc Example

Rating agency	Rating Type	E	S	G	Overall	Comments
MSCI	ESG Rating	-	-	-	A	Relative Rating within an industry on a 7-point scale (AAA to CCC), scored by weighted industry-specific material topics
S&P	ESG Score	30	20	32	28	Absolute score on scale of 0-100, with 100 representing best performance. Data collected through survey and other data disclosures - upto 50% of the topics are industry-specific
Refinitiv	ESG Score	71	57	61	63	Bottom-up approach to build ESG score on a scale of 0-100 (higher is better). Data is based on public disclosures. If Refinitiv's ESG controversies score is added, Tesla's rating drops significantly
Sustainalytics	Risk Rating				27.2	Risk rating based on exposure to ESG risks (including daily monitoring of controversies), and how well the company is managing those risks. Risk scored in 5 buckets from 0 to > 40

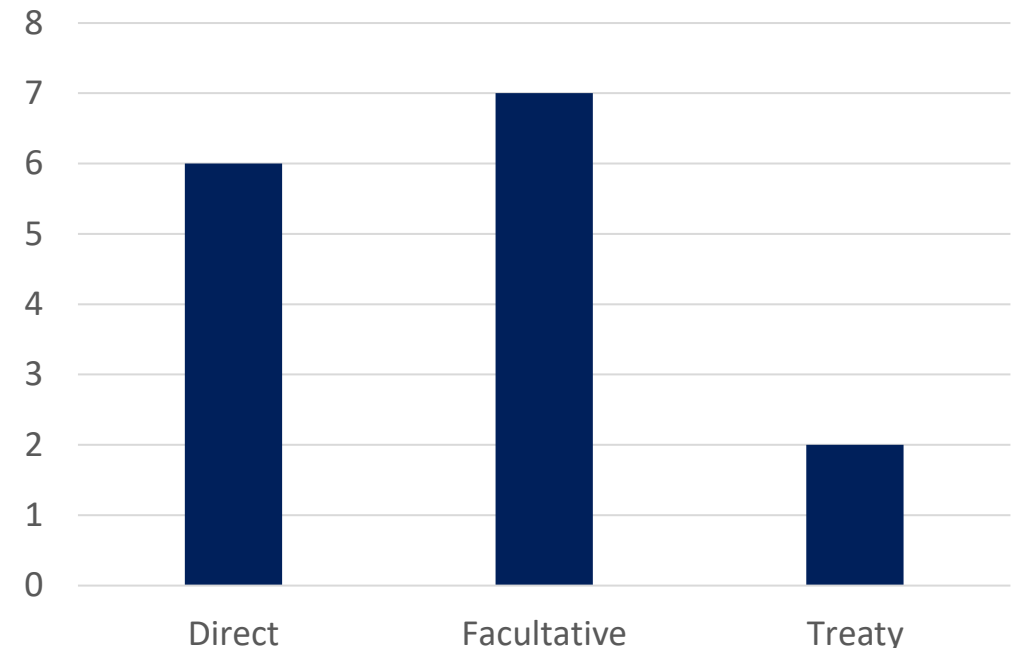
> Current State of ESG in Reinsurance

- Peer benchmarking exercise of **6** major European and **3** North American reinsurers
- Screening and exclusion of ESG risk in underwriting and investment. Engagement policy for 'Just Transition' in emerging markets.

No. of Reinsurers with Net-Zero Commitments



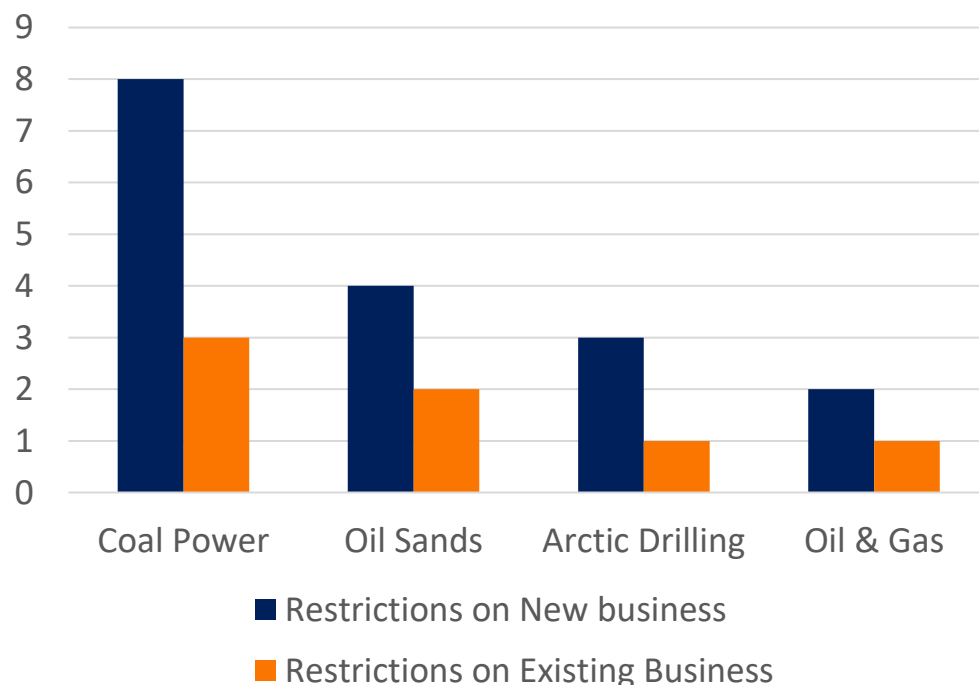
Type of Underwriting Business with ESG Restrictions



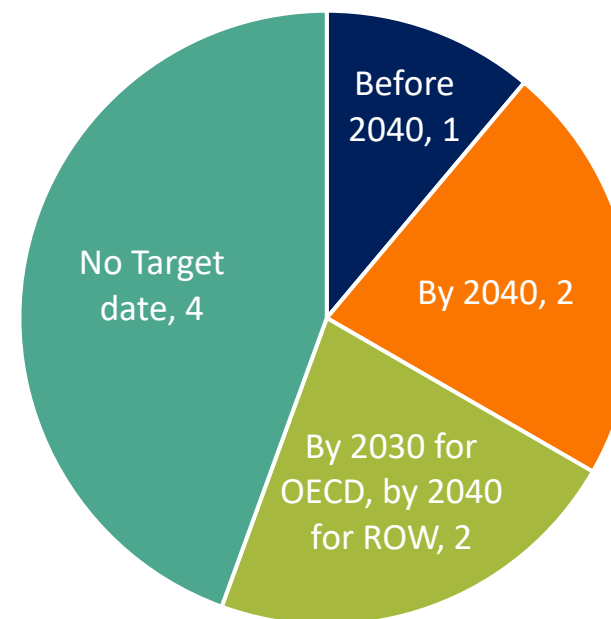
> E factors : Thermal Coal, Oil Sands, Arctic Drilling, Oil & Gas

- Thermal coal is a target for most reinsurers' ESG restrictions, with some exceptions
- Oil Sands, Arctic Drilling, and Oil & Gas are other activities with varying degrees of underwriting restrictions

Underwriting Restrictions on New/Existing Business



Planned Full Phase-out of Coal Coverage



➤ S factors : Diversity & Inclusion, Exclusions based on Company Values

- Underwriting restrictions in Social factors are not as coherent as E factor restrictions
- The S targets/KPIs around diversity and inclusion topics

Underwriting Restrictions on Social Factors

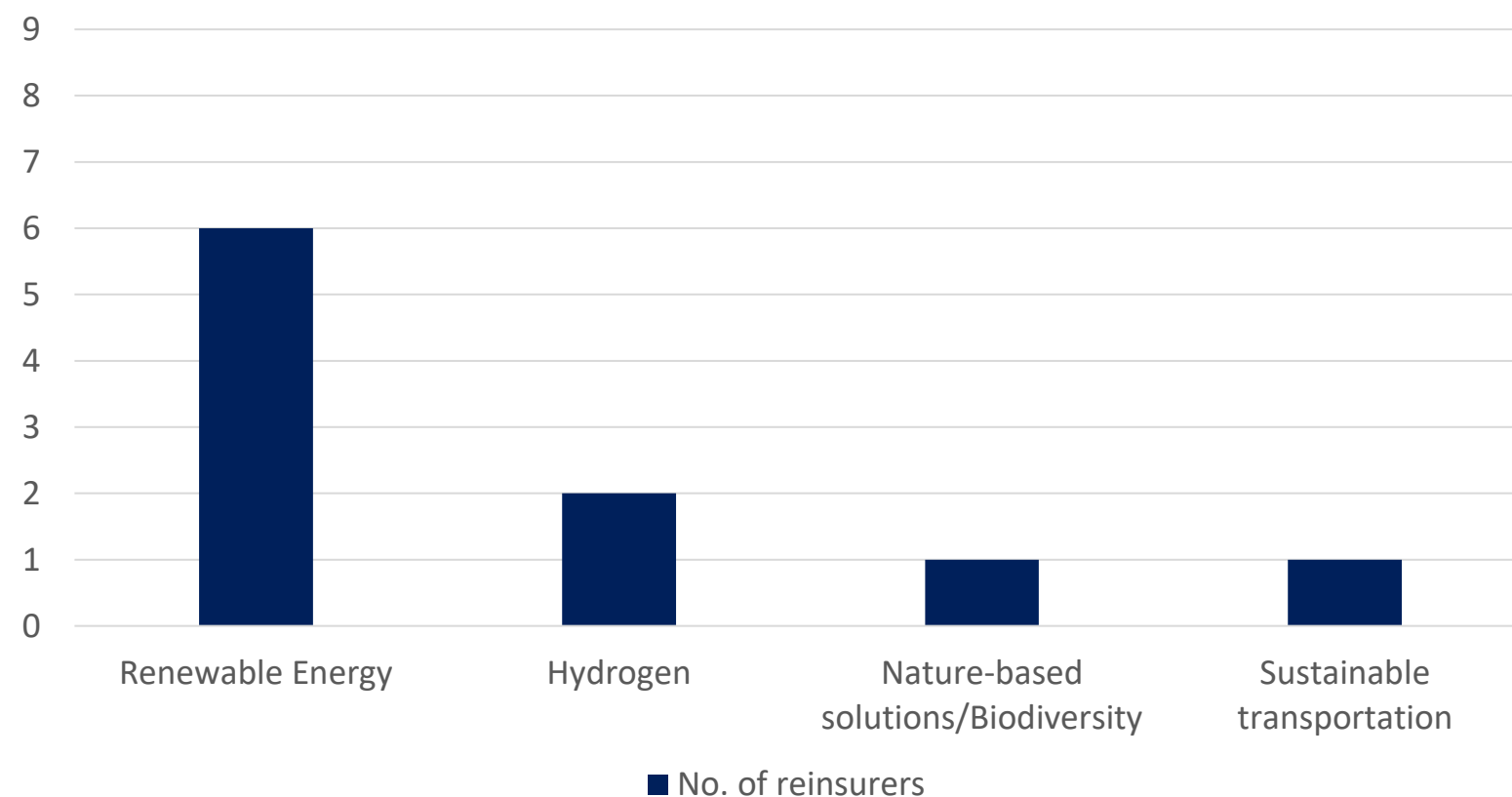
Reinsurer Studied	Controversial Weapons	Tobacco	Casino
A	Avoid	-	-
B	-	-	-
C	-	-	-
D	Avoid	-	-
E	-	Avoid	-
F	Avoid (with conditions)	-	-
G	Avoid	-	-
H	-	-	-
I	-	-	-

Reinsurers' Contributions to UNSDGs



> ESG Opportunities and New Product Innovations

Reinsurers Providing Risk Solutions Supporting a Clean Transition



- > Opportunity in **scaling up of new low-carbon technologies and transition products.**
- > **Lack of loss-history** and limited data on risk exposure for these new technologies makes underwriting complicated.

> ESG in Reinsurance : Real World Examples

Story 1 : Hydropower

- Inexpensive and widely used source of **renewable energy**
- However, new dams **can cause damage to the ecology and regional biodiversity** (life under water & life on land)
- In some emerging markets, there have been social issues such as **relocation of populations** without adequate compensation and water sharing conflicts
- As a result, a reinsurer has taken a stance to exclude underwriting for hydro dams, unless the project undergoes a **social and environmental impact assessment**, and no violent or forced relocations take place



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> ESG in Reinsurance : Real World Examples

Story 2 : Palm Oil/Agriculture

- Employ large populations in emerging markets
- Critical for **food security**
- Palm oil has many applications, including in **biofuels** – which play a role in the green transition
- At the same time, **agriculture can be damaging to biodiversity and environmental systems**. Risk of deforestation and/or population displacements for land use
- Agriculture is a **major contributor to global GHG emissions**
- Hence, one reinsurer has taken a stance to restrict palm oil underwriting. Such activities have to go through an additional layer of risk management, with a view to restrict illegal logging or land conflicts, and to add checks on social and environmental impact assessments and stakeholders' consent



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> The “Why” is Important

- There are often situations where an action that advances some ESG goals may undermine other sustainability goals. This can especially be a challenge, where one ESG goal is measurable, while the other is not.
- The Why is important. In the face of such questions, the **underlying ESG vision and objective of the reinsurer act as its guiding light.**
- **ESG involves a mindset.** Not only does ESG involve understanding the nuances of each business in terms of its impact on society and the environment, but **there needs to be a deep-set understanding of the guiding ESG values throughout the organization,** empowering each underwriter to navigate these difficult and sometimes opposing questions around ESG.

> The Way Forward..

- **Regulations are getting more robust**
- **Vigilance on Greenwashing**
- **Standardized Measurement**

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Thank you

Peak Reinsurance Company Limited
鼎睿再保險有限公司

15/F, WKCDA Tower, No. 8 Austin Road West,
West Kowloon Cultural District, Kowloon, Hong Kong

T +852 3509 6666 F +852 3509 6668

www.peak-re.com