ASA | SVV

Investment

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Anchoring sustainability in insurance companies

By aligning their capital flows with sustainable investments, insurers can directly implement and fulfil their responsibility for sustainability as relevant players in the financial sector *(GRI 103-1)*. This responsibility is broad-based: for example, it comes into play when insurers are required to assess risk correctly and fulfil obligations towards clients, or with the goal of a sustainable positive impact on the environment. As a result, a number of insurance groups started to manage their investments with sustainability criteria in mind and restructure their portfolios accordingly a few years ago. In some areas, such as real estate, insurers have focused specifically on the sustainability aspects for some time now.

In autumn 2018, participating companies affirmed their commitment to taking ESG criteria into account when managing their own investments *(GRI 103-2)*. ESG stands for 'Environmental', 'Social' and 'Governance' and refers to the responsibility of the company to the environment, social issues and corporate governance. Uniform data acquisition on the management of companies' capital flows is made more difficult by the fact that no internationally established standards and norms exist in this area. In preparing this Sustainability Report, the SIA has relied on the sustainable investment criteria and strategies used as standard in the market.

The survey shows that the majority of participating insurers take sustainability criteria and strategies into account when deciding where to invest capital *(GRI 103-3)*. Other smaller and medium-sized insurance companies that were not yet able to report any figures for 2020 are in the process of reviewing their strategic position and focus on responsible investing. The SIA supports the transfer of knowledge on particular topics within its member companies.

In total, 38 companies – and all large and medium-sized companies in particular – took part in the SIA survey. Of these, 33 companies stated that they apply various sustainability criteria and strategies in their investments. In addition, most have implemented internal guidelines. These include, for example, regulations on sustainable investment, the exclusion of certain investments, the exercise of voting rights and engagement[3].

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3 Engagement refers to an active dialogue between shareholders and management teams of investment companies or other relevant stakeholders. The focus is on the integration and application of environmental, social and governance criteria within their sphere of influence. It is also about owners being able to influence the companies in which they invest. Research shows that this strategy is often capable of achieving more than simple avoidance of investment in certain sectors. Source: 'Sustainable Asset Management: Key Messages and Recommendations of SFAMA and SSF'

Integration of ESG criteria

(GRI 103-3)

Of the 38 participating companies, 32 include ESG criteria in the investment decisions they made in 2020. This corresponds to an increase of seven companies compared with the previous year. Based on these criteria, the companies analyse whether and to what extent an investment decision should be made. They also use the ESG criteria in further steps within the investment process (e.g. in the areas of risk monitoring and divestment decisions).

In terms of environmental responsibility, 31 out of these 32 companies focus on climate/climate change and (renewable) energy. Another focus is on investment to prevent environmental catastrophes and in water management. Some companies have also made a commitment to fully decarbonising their balance sheet by 2050.

Social responsibility was also assigned a strong weighting in the ESG criteria applied in investment management in 2020. All 32 companies have made this criterion a firm component of their policies. The spotlight is on human rights issues in particular. Other priority issues include employment rights, health, education and food security (in that order).

Insurers that apply environmental and social criteria when making investment decisions also take governance criteria into account, with equal attention paid to corporate governance and diversity within the company.

The reporting companies manage 80 per cent of investment made by the private insurance industry. ESG criteria are taken into account in the investment process in 83 per cent of these self-managed investments. The following values were achieved in the investment categories listed below, in which at least one of the following sustainability approaches was applied:

- Real estate (96 per cent of the investment volume of the participating companies)
- Fixed-income securities (97 per cent)
- Stocks (82 per cent)
- Alternative investments (86 per cent)[4]
- Mortgages (40 per cent)

For the first time, we looked at which sustainable investment approaches (integration, exclusions, best-in-class, voting, sustainable thematic and impact investment) are used in the various asset classes.

In general, we arrived at the following findings:

- The explicit inclusion of ESG risks and opportunities (integration) is relevant to companies in the areas of real estate, fixed-income securities, stocks and alternative investments.
- Exclusion plays a particularly important role in fixed-income securities, stocks and alternative investment asset classes. Exclusion is understood as the decision to avoid investment that is not consistent with certain standards and values. This can be the case if a certain industry exceeds predefined thresholds (e.g. coal).
- The ‘best-in-class’ approach is less firmly established among companies. This approach is relevant for a third of companies in the case of fixed-income securities and stock transactions.
- The exercise of voting rights in line with ESG guidelines (voting) is a key approach for many companies (26 out of 32) in the stocks asset class.
- Impact investing and sustainable thematic investment play a relevant role for more than half of companies in the areas of real estate, fixed-income securities and alternative investments.

We also analysed for the first time the extent to which the companies exercised the voting rights attached to the shares they self-manage. This revealed that last year 22 companies exercised their voting rights in about 72 per cent of their self-managed shares.

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4 The complex nature of these investments (hedge funds, etc.) makes it difficult to provide clear evidence of sustainability in each fund.

Impact investing and thematic investments

The companies aim to use impact investing to have a positive and directly measurable impact on the environment – for example, climate protection or in social endeavours *(GRI 103-2)*. According to the survey, impact investing plays an important role in the asset classes real estate, fixed-income securities and alternative investments for half the companies that make sustainable investments.

By investing in sustainable infrastructure, insurance companies aim to contribute to the transformation of energy supply or building stock towards a sustainable and low carbon future. Sustainable infrastructure (renewable energies, certified 'green buildings', social infrastructures, etc.) plays a particularly important role in thematic investments. Depending on how they are structured, sustainability bonds have a social (social bonds), ecological (green bonds) or combined (sustainability bonds) focus. Sustainability bonds such as these make up an important part of the investments made by many of the companies surveyed *(GRI 103-3)*.

It is important to note that the regulatory requirements applicable to insurers' investments are extremely restrictive *(GRI 103-2)*. This is true in particular for investments in infrastructure; for example, direct investment in facilities that produce renewable energy cannot be counted towards tied assets. This means that many insurers are severely restricted in terms of alternative investments, although the industry would be very interested in long-term and sustainable investment in general.

Exclusion criteria

When considering ESG criteria in the investment process, exclusion criteria are also an option: if a predefined criterion is not met, either no investment is made or an existing investment is sold *(GRI 103-2)*.

In total, 24 companies exclude investment in companies that generate revenue from thermal coal mining or which use a defined proportion (e.g. 30 per cent) of coal for power generation *(GRI 103-3)*. Thus, coal is a very widespread exclusion criterion for many of the participating companies. The most commonly used exclusion criterion is 'controversial weapons' (28 companies).

Reporting

(GRI 103-2, GRI 103-3)

Those companies that apply ESG criteria in their investments provided explicit information on their sustainability activities and endeavours in their annual reports 2020. Many of the participating companies also stated that they wanted to further expand their previous reporting on this topic. Larger insurers have already published separate sustainability reports in recent years, with others planning to do so in the future. In general, these reports are available on the company's website. In addition, all the companies that are signatories to the Principles for Responsible Investment ((PRI) have made a commitment to ensuring transparency in their sustainability strategy. The corresponding reports are available on the PRI website.