

Sustainability report 2022: Broad understanding of sustainability among insurers

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In its fourth year now, the private insurers' sustainability report has demonstrated that sustainability is understood broadly within the sector and that it is taken into account at all stages in the value chain. While climate change is a risk factor in the insurance sector, the financial and social aspects of sustainability have a major impact too.

The [2022 sustainability report](#) saw the Swiss Insurance Association SIA publish its fourth sector report. While the focus of the first report (2020) was on capital investments, private insurers are increasingly moving towards integrating sustainability at all stages in the value chain. For instance, in addition to investments, the sector has identified three other areas where it can contribute to sustainability – integrating sustainability aspects into risk analysis and underwriting, supporting the economy and society in the transition towards net zero, and transparency and cooperation on sustainability issues. The insurance sector is always mindful here of the guiding principle of leaving the Earth in at least the same state as it is today for future generations.

Sustainability in business

Insurers' core business includes risk analysis and risk management, which form the basis for concluding insurance contracts. Sustainability aspects influence conventional risk categories such as underwriting risk, market risk, liquidity risk and reputational risk in a variety of ways. Climate change has the biggest impact on risk analysis, since the resulting natural and environmental risks have a direct effect on insurers' loss ratios. Effective prevention measures aimed at mitigating the consequences of global warming provide direct support here. Financial and social sustainability risks, such as the pressure to reform pensions, increasing sovereign debt or challenges in the healthcare system are also impacting the work of insurers.

With its extensive risk knowledge, the insurance sector can play an important role in getting the real economy on the road to net-zero. One way it can do this is by addressing decarbonisation targets, strategies and progress with its corporate clients. Whether or not these are implemented, however, is down to the insured companies. Categorisation into "sustainable" and "non-sustainable" business models and practices poses a challenge, as illustrated by the discussions regarding a standardised classification system. An internal survey conducted by the SIA revealed that the majority of participating insurers had dealt intensively with the integration of sustainability criteria into underwriting in the last five years, with corporate clients being the primary focus here.

Real estate investment as a key area for impact investments

In 2022, private insurers managed capital investments worth CHF 570 billion. The handling of these client funds is subject to strict guidelines and regulatory requirements. 90 per cent of the insurance companies participating in the sustainability report indicated having factored ESG risks into their investment activity. The three factors, environment (E), social (S) and governance (G), are weighted equally, which suggests a broad understanding of sustainability within the sector.

The insurers used different methods to implement sustainability criteria in their investments. For

instance, these included actively exercising voting rights and engagement dialogue or negative/exclusion lists. Impact investment allowed for the direct measurement of a positive sustainability contribution for CHF 19 billion worth of capital investments. The most important area for impact investment is real estate investments, where insurers take into account sustainability aspects both in new-builds and renovations.

Reducing carbon footprint in company processes

With its business model, the Swiss private insurance sector, which employed just over 48,000 employees at the end of 2022, is not one of the most energy- and resource-intensive branches of industry. But, regardless of this, the insurance industry acts responsibly in its daily business operations. For instance, in 2022 it succeeded in reducing its carbon footprint per full-time equivalent by 14 per cent to 1.33 tonnes. The energy consumed by the buildings used by the companies fell too.

Cooperation as a key factor

Climate change is a global challenge that affects various different sectors and regions. As such, cooperation and the exchange of knowledge and expertise are indispensable. The SIA and its members are involved in various initiatives and organisations that have set targets such as reduction of CO₂ emissions or the introduction of standardised sustainability criteria. For instance, the SIA is a supporting institution of the Net-Zero Asset Owner Alliance, where organisations have joined forces to pursue the net-zero target in the area of investing. As much as 48 per cent of capital investments by Swiss insurers are already governed by NZAOA membership. The SIA also signed up to the Principles for Sustainable Insurance (PSI) in 2023 with a view to promoting the overall conditions necessary to make Switzerland a sustainable financial centre for the insurance industry too.

Insurers focusing on self-regulation

There has been a lot of movement in the area of the sustainable finance since the last report. December 2022 saw the Federal Council publish its Sustainable Finance 2022–2025 Strategy report and a position paper on avoiding greenwashing. The SIA relies on self-regulation, which has a long tradition in the financial sector of the Swiss economy – and it rejects a culture of prohibitions based on fundamental considerations. The advantages of self-regulation include real-world practicality, flexibility and a high degree of differentiation. This is important because, as of yet, there is still no generally accepted definition of greenwashing. Crucial to the insurance sector here is the fact that insurers' core business (conventional risk products) cannot even be subject to greenwashing. "With risk products, it is the customers who decide whether or not they want to take a risk. It's then down to the insurance sector to check whether they can cover this risk financially," says SIA CEO Urs Arbter.

The challenges faced in the area of sustainability remain diverse. The sector addresses an aspect of financial sustainability which is often underestimated: Its fundamental importance to environmental and social sustainability. For instance, one of the main issues of urgency facing Switzerland, alongside advancing climate change, is pension reform. Particular attention is also to be paid to ensuring an appropriate degree of regulation. In particular, care should be taken to ensure that innovation and the transformation of existing business models into something more sustainable remain possible and that this is encouraged.

Note to editors

The Swiss Insurance Association (SIA) represents the interests of the private insurance industry at national and international level. The association has approximately 70 members, which include many nationally oriented specialist non-life, life and supplementary health insurers, and global primary insurers and reinsurers. The sector is one of the most productive and highest value-added sectors of the economy. The private insurance sector employs about 50,000 people in Switzerland. With its expertise in risk coverage and hazard prevention, it assumes economic responsibility. Private insurers make a significant

contribution to the stability of the economic system and prosperity within Switzerland. With that in mind, the SIA is committed to the sustainable development of the sector and its locations.

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