Sustainability Report 2021

Swiss insurance industry report

ASA | SVV

Contents

Foreword

GRI 102-14
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Security and stability have taken on greater significance over the past two years. They require financial and physical security, legal certainty and security of supply. The private insurance industry is a key pillar of the Swiss economy, with a business model that shields its customers from the financial impact of unforeseen events and bolsters financial security. The industry also considers itself bound by a duty to contribute to resolving socio-political issues. Swiss private insurers are committed to ensuring the successful and sustainable development of the areas in which they operate, both in business and in social and political terms.

Our overarching aim is to ensure that future generations enjoy the same conditions that we have now, if not better. That is why we have placed sustainability at the centre of the Swiss Insurance Association's strategy. The Sustainability Report 2021 is the third edition of this publication. It sets out how the industry is living up to its corporate responsibility and how we are building on our earlier efforts to fulfil our promise to future generations. The report uses consolidated company-level data covering the majority of insurers operating in Switzerland. It explains why our industry is striving to be socially, financially and environmentally sustainable and details the actions that have been taken, their impact and further measures in the pipeline.

The insurance industry is ready and willing to help shape the debate around sustainability, and it has a range of tools at its disposal to do so. Firstly, its core business of taking on risks helps makes the economy more resilient. Having insurance means companies do not need to accumulate as much risk capital, giving them more funds to use to innovate. This means that Switzerland can employ cutting-edge solutions to drive down CO_2 emissions and have an impact that exceeds what would be expected of a country of its size. Secondly, private insurers are key institutional investors, together managing assets of over CHF 545 billion, so they have it in their power to invest these funds in line with ESG criteria. Underwriting is another powerful lever. Our industry can perform an important advisory role for the real economy through its underwriting activities. It can also have a positive impact in its claims processing by opting for sustainable remedial solutions. Like all other industries, our sector is required to make our operations energy-efficient as part of efforts to mitigate our own corporate environmental impact.

Sustainability is not limited to environmental considerations, however. We also bear in mind social and financial sustainability in our work, to ensure that future generations can enjoy the same conditions we have today. As an industry we work for generational equity in pension provision, building on the established three-pillar system. Pension reforms are urgently needed if social sustainability is to be achieved in the near future. This same ethos informs our work in other areas too, such as advancing technology, shaping the world of work and promoting a focus on sustainability within financial policy.

With the war in Ukraine, rising inflation and major risks that include cyberattacks, power outages and earthquakes, our industry's scope is getting broader, not narrower. Our member companies are ensuring that sustainability doesn't slip down the agenda – we owe it to future generations to keep it front and centre.

Dr Rolf Dörig
SIA Chairman

Urs Arbter
SIA CEO

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Management summary

Sustainability is a key concern for Swiss private insurance companies. Back at the start of 2020, the Swiss Insurance Association (SIA) placed sustainability at the centre of its Strategy 2020–2024. Over the course of last year, a number of its committees developed measures to facilitate implementation of the strategy and support efforts to transition to a sustainable way of doing business.

The SIA is publishing its third sustainability report, containing information about the insurance industry's progress and priorities in this area, which is a key concern for the whole of society. This report contains data and information on the social, financial and environmental aspects of sustainability in the industry, showing the advances that Swiss insurers have made and highlighting the challenges they face. The Sustainability Report 2021 drew on the results of surveys of insurance companies and on interviews with industry experts. Structured dialogue with stakeholders including policymakers, academic institutions, NGOs and member companies was carried out for the first time in the run-up to compiling the report, and the findings fed into it.

The economic importance of insurers
2021 was an eventful year for the SIA and private insurers in many respects. Anthropogenic climate change is evident in many extreme weather and climate events occurring across the world. Switzerland, too, was hard hit by summer storms, which caused insured losses of over CHF 2 billion. The country's well-established dual insurance system for natural hazards limited the financial impact on citizens because, unlike in other countries, over 90 per cent of the losses were insured, sparing the cost to the public purse. This single event shows clearly how important insurance is to the economy when it comes to sustainability risks and climate change. By shouldering the financial risks and introducing preventive measures, the Swiss insurance industry plays a crucial role in the economy as a whole.

Restrained regulation
'As much regulation as necessary; as little as possible.' At the SIA, we believe that this basic principle is especially important when it comes to sustainability. As such, the regulatory measures put in place to achieve sustainability goals should be as light-touch as possible. It should be noted that climate change is not a new risk in and of itself; instead, it is an additional risk factor that has repercussions for existing risk categories. The effects of climate change are therefore reflected fully in the existing regulatory capital requirements. This means that, despite the impact of climate change, insurers are in an excellent position from a financial and risk management perspective to fulfil their role as risk carriers for society. International standards on transparency are becoming ever-more important, with international frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations increasingly being adopted in full by national legislators. GRI 102-49
The SIA is committed to transparency, as shown by this report, but it hopes that these international standards will not be subject to a 'Swiss finish' in which requirements are made stricter. It is also worth noting that efforts to ensure transparency across the entire financial sector hinge on similar action being taken in the real economy.

There are questions around the approaches that should be taken in underwriting – the heart of the insurance business – with regard to assuming sustainability risks. Which risks, such as climate impacts, should be covered? And which should be systematically excluded? Within the risk assessment, the insurer evaluates the specific risk presented. To date, this assessment has mainly focused on the acceptability of the risk from the perspective of the GRI 102-11 insurer in question. Reputational risks and the potential for risks to change over the term of the insurance contract are increasingly being factored into these risk assessments. Asa result, certain insurers are drawing up underwriting guidelines for their employees to ensure that they handle sustainability risks in a standardised manner aligned with the company's strategy.

The powerful leverage of investments
Beyond underwriting, insurers can also leverage their investments to promote sustainability. In 2021, 80 per cent of the investments that the companies reported to the SIA were linked to sustainability criteria. Methods that are now widely used include integrating ESG factors, applying exclusion criteria, exercising voting rights and impact investing.

Many insurers have years of experience of incorporating corporate environmental protection into their business operations. Monitoring and reducing a company's own environmental impact are top priorities. Building energy consumption and business travel were once again the main drivers of companies' environmental performance in 2021. The carbon footprint per FTE has been cut by 16 per cent across the whole sector over the last three years, with the Covid-19 pandemic and the subsequent requirement to work from home helping to push these emissions down. The number of companies publicly reporting on their emissions continued to increase.

Lack of generational equity
This report also discusses the lack of generational equity in occupational pension provision, which is a key component of financial sustainability. The current situation not only has a long-term negative impact on future generations, but also affects current policyholders in the short term, as the remedial measures that life insurers will have to take will see solutions become more complex and others be withdrawn from the market.

The industry has implemented more projects around social sustainability that aim to make employers more attractive long-term and to promote support for young talent.

The SIA and private insurers are striving to pave the way to a more sustainable economy and achieve the goals set. To do so, they are working with various players and institutions and becoming members of initiatives and alliances, such as the Net-Zero Asset Owner Alliance. After all, mitigating climate change and its harmful effects calls for concerted teamwork between all stakeholders.

3
Committed to sustainability

GRI 102-19

Sustainability and climate action are increasingly dictating societal and business agendas. Swiss insurers are both a part of the debate around sustainable finance and key players in efforts to meet Switzerland's sustainability targets. This includes managing sustainability risks, mitigating the effects of climate change, encouraging more sustainable investments and using resources responsibly. The insurance industry again faced significant challenges in putting these areas into practice in business operations last year, as the third and fourth waves of the pandemic dominated day-to-day. Despite these difficult circumstances, the industry managed to continue to drive progress in the various areas of sustainability.

3.1 The SIA sustainability strategy

Back at the start of 2020, the SIA placed sustainability at the centre of its 2020–2024 strategy. Over the course of last year, a number of its committees, not least the Sustainability Committee, developed measures to facilitate implementation of the strategy and support efforts to transition to a more sustainable way of doing business.

Efforts to embed sustainability in operations continue to prioritise measures to protect the climate and adapt to the adverse effects of climate change.

‘Sustainability has not yet reached full maturity across the industry and needs to be stimulated.’

Prof. David N. Bresch
Department of Environmental Systems Science, Institute for Environmental Decisions, Weather and Climate Risks Group, ETH Zurich
– Quote from the 2021 stakeholder dialogue

Achieving carbon neutrality by 2050 in order to limit global warming to 1.5˚C is one of Switzerland's most important environmental sustainability goals. The SIA shares this vision. The association became a supporter of the Net-Zero Asset Owner Alliance (AOA)[a] in 2021. The investors comprising this global network are seeking to transition their investment portfolios to net-zero CO_2 emissions by 2050.

Private insurers are concerned about major risks beyond natural hazards, which are covered by property insurance. The Covid-19 pandemic has brought home that risks with a low probability of occurrence but high potential losses are not just theoretical. They can materialise overnight. That is why the SIA committees worked hard last year to address the risk catalogue published by the Swiss Federal Office for Civil Protection in 2020. They formed a working group that analysed each risk and determined its significance for the insurance industry. The group identified three threats that require immediate action: power shortages, cyberattacks and earthquakes. These key risks, which have both direct and indirect consequences for social and environmental sustainability, were followed up within the association and worked on as a matter of priority.

a Net-Zero Asset Owner Alliance (AOA)

The SIA is engaging for the development of a future-proof, sustainable solution for retirement provision. For instance, we supported the raising of the retirement age for women to 65 under the reform of old-age and survivors' insurance (OASI), which was adopted by the Swiss Parliament. This is essential for ensuring a more secure future for the Swiss pension system and a crucial step towards financial sustainability.

The world of work is changing fast. The digital transformation is one of the main drivers behind this, and external factors like the pandemic are accelerating the pace of change even further. Based on the lessons from the Covid-19 pandemic so far, the SIA has worked with its members to identify action areas to prepare for the working world of the future. These include amendments to the legal framework, which can create the conditions for new working models to succeed.

'If insurers evolve in socially, economically and environmentally sustainable ways, they will make a crucial difference for future generations.'

Antonio Hautle
Executive Director,
Global Compact Network Switzerland & Liechtenstein
– Quote from the 2021 stakeholder dialogue

The topics and challenges mentioned illustrate the comprehensive scope of SIA's work around sustainability. Interviews with stakeholders in the year under review confirm that conversations about sustainability need to include social and cross-generational factors in addition to financial and environmental considerations.

3.2 Stakeholder dialogue

The drive to have a more comprehensive materiality assessment arose during work on the Sustainability Report 2020. The insurance industry is engaging with the social, economic and environmental topics that are highly relevant for the sustainable management of individual insurance companies and the entire industry. The systematic stakeholder analysis, which we conducted for the first time in the year under review, helped us to identify which topics needed to be addressed in management and reporting to further develop the SIA sustainability strategy.

'Sustainability is no longer a ground-breaking concept; it has become mainstream.'

Adèle Thorens Goumaz
Member of the Council of States, Green Party of Switzerland
– Quote from the 2021 stakeholder dialogue

In preparation for the stakeholder interviews, the sustainability goals outlined in the association's 2020–2024 strategy were combined with external factors, evaluated and reviewed. These external factors included the relevant regulations, the economic environment and industry-related topics, such as how to deal with the impact of climate change and what NGOs expect from the insurance industry. We took into account standards from initiatives such as the Global Reporting Initiative (GRI)[a], and the UN Global Compacts[b], together with the Sustainable Development Goals[c] and the Principles for Sustainable Insurance (PSI)[d].

GRI 102-46

GRI 102-43

The topics that were compiled were then grouped into nine statements, which were used as a springboard for discussions in the stakeholder dialogue. Stakeholders were asked to reflect on these statements and share their personal assessment of them.

STAKEHOLDER DIALOGUE HYPOTHESES

GRI 102-44

The insurance industry has a keen interest in sustainability, as environmental risks have direct consequences for its core business.

Sustainability in the insurance industry needs to encompass factors beyond just the environment and climate change.

It is incumbent upon politicians, business and citizens of all ages to work together for sustainability, exercising personal responsibility and individual choice.

Insurers can play a major role in the social, environmental and technological transformation through their expertise in risk assessment and management.

The insurance industry's role in promoting sustainability strengthens Switzerland's reputation as a business location.

The insurance industry can play a key role in meeting the targets of the Paris Climate Agreement.

The insurance industry's business model is intrinsically sustainable as it is founded on the principle of solidarity, which is reflected in insurance and retirement provision and is a core component of social sustainability.

Switzerland and its insurance industry have the opportunity to lead the way on sustainability issues and bolster their reputation.

Solutions to sustainability challenges create a need for transformative action and will shift the parameters within which society and the insurance industry operate.

a Global Reporting Initiative (GRI)

b UN Global Compacts

c Sustainable Development Goals

d Principles for Sustainable Insurance (PSI)

We carefully analysed the stakeholder interviews and identified relevant, recurring views. Seven key areas emerged from the stakeholder dialogue. These are (in no particular order):

- **Accountability:** Commitment from the insurance industry to take preventive action and exercise greater care when it comes to conserving resources and handling risks to business, society and the environment.
- **Solidarity principle:** Promotion of a fair and co-operative society and self-determined participation in all relevant aspects of the insurance business.
- **Transformation:** Stakeholders expect the insurance industry to support making its environmental impact net-positive and in so doing promote a carbon-neutral future economy.
- **Integrating sustainability considerations into risk management and the insurance business:** Integrating sustainability standards into insurance products and into underwriting, risk management and loss adjustment processes.
- **Embedding sustainability into investing:** Commitment to have sustainability criteria made an integral part of insurers' investment decisions.
- **Data protection and privacy:** Respecting the right to privacy and data protection, in order to uphold and promote the fundamental rights and values of policyholders, employees and business partners.
- **Attractive jobs:** Developing training and employment policies within the insurance industry so that it offers fair and attractive working conditions and helps (future) employees work in an actively sustainable way.

ABOUT THE STAKEHOLDER DIALOGUE

GRI 102-44

Objective
To analyse and assess sustainability topics that could be relevant for the industry from different angles, so as to gain a full picture of expectations of the insurance industry and how it impacts society, the economy and the environment.

Timeframe
March–June 2021

Scope
Representatives from a variety of groups were interviewed: Swiss public authorities, research and academic institutions, policymakers, member companies, Finma, associations and initiatives, civil society, the media and institutional investors.

GRI 102-40

Interviews
20 one-hour discussions

Method
Interviewees were asked to comment, expand on and evaluate the nine statements.

4
Insurers shoulder risks for the benefit of society

GRI 102-11

Anthropogenic climate change is evident in many extreme weather and climate events occurring across the world. This is borne out by the Sixth Assessment Report published in summer 2021 by the Intergovernmental Panel on Climate Change (IPCC)[a], which compiles key global climate information. The findings reveal that the surface temperature of the planet has risen by 1.09°C since the 1850–1900 period, with increases over land even higher, at 1.59°C. Globally averaged precipitation over land has increased in this period, too. Heavy precipitation has also become more frequent and intense over most land areas. We are also seeing more frequent droughts and heatwaves. The report shows that we are likely to experience more extreme weather events with every further rise in global temperatures. It states that additional global warming will also increase the frequency of some extreme events on a scale never before recorded in the observational data.

a Intergovernmental Panel on Climate Change

In every climate scenario explored, it can be assumed that most regions will experience more frequent and more intense heavy rainfall in the future. Urban areas in particular are expected to record more extreme heat events. From a scientific perspective, CO_2 emissions need to be limited to restrict human-induced global warming. They should be reduced to at least net zero alongside a sharp decrease in other greenhouse gases.

4.1 Climate change in Switzerland

As an Alpine country, Switzerland will be particularly hard hit by climate change and the risks that it brings. The Swiss Federal Office for the Environment outlines these climate impacts in its report 'Climate change in Switzerland'. The average annual temperature in Switzerland has risen by 2°C since 1864. Heavy rainfall is now 12 per cent more intense and 30 per cent more frequent than in 1901. This makes the occurrence of uncontrolled surface runoff, floods, debris flows and landslides more likely, along with the damage to property that these inflict.

Private insurers and cantonal buildings insurers estimate that the country's 2021 summer storms caused insured losses of around CHF 2 billion. This is the largest loss event for private insurers, which bear around half of these costs, since the floods in 2005. The total loss amount is on a similar scale. Beyond buildings and contents insurance, there also were many motor vehicle insurance claims caused by the heavy hail.

Measures to protect against extreme natural disasters need to be taken to prepare for climate-related risks. Annual claim costs are not currently rising as fast as the population, built areas and material assets. This is probably down to the effectiveness of the precautionary measures taken, which proved successful during the intense summer storms in 2021.

4.2 Natural hazards insurance

Hail, storms and floods caused enormous damage in several regions of Switzerland in June and July 2021. Some areas, such as Wolhusen in Lucerne, saw whole neighbourhoods ravaged by hail, while others were more affected by flooding after rivers broke their banks. Flood protection measures that have been in place since 2005 ensured that the damage was not more extensive. While built structures channelled and captured lake and river water, elsewhere portable flood defences prevented the situation from becoming more serious. Ensuring good communications and managing emergency services efficiently also helped mitigate the situation.

‘The natural hazards pool has worked for decades now thanks to the twofold solidarity principle. We should apply this principle to other major risks.’

Michèle Rodoni
CEO, Die Mobiliar
– Quote from the 2021 stakeholder dialogue

With insurance coverage for natural hazards well over 90 per cent, Switzerland is very well-equipped to cope with the financial implications of extreme weather events. The Swiss insurance pooling solution for natural hazards once again proved effective in the country’s heavy storms of last summer. It shows that the federal government, the cantons and the Swiss private insurance industry are putting the right plans in place to tackle the impacts of climate change as effectively as possible.

TIME-PROVEN DUAL INSURANCE SYSTEM

Unlike in neighbouring countries, such as Germany, damage caused by natural hazards is almost fully covered in Switzerland. Switzerland has a dual insurance system here, in which cantonal buildings insurance covers buildings in 19 cantons, while private insurers cover those in the remaining seven. Practically all contents and motor vehicle insurance policies are with private insurers. Insurance is to a large extent mandatory, which ensures that as many people as possible are protected and keeps premiums affordable. The solidarity principle is key: The premium is the same for all buildings covered by private insurance, regardless of the risk situation.

There is also solidarity between private insurance companies, with the claims burden shared across insurers with the natural hazards pool. Acceptance of the twofold solidarity concept is due to a high level of risk awareness formed following painful experiences of major disasters, such as the ‘Winter of Terror’ which brough avalanches in 1950/51. The successful natural hazards insurance model shows that joint solutions by the state and the insurance industry can work, and the Swiss model is so effective that it is repeatedly held up as an example for other countries.

5
Regulation and sustainability

'As much regulation as necessary; as little as possible.' At the SIA, we believe that this basic principle is especially important when it comes to sustainability. We can categorise the different levels of intensity of regulation based on the proposed objectives and mechanisms:

1 Protecting both the individual and the viability of the financial centre by, for instance, introducing transparency and disclosure requirements or banning greenwashing.

2 Encouraging companies to meet sustainability targets without legal sanctions, such as asking for transition plans or disclosing green asset ratios.

3 Regulating / implementing (compulsory) guidelines on sustainability targets with measures that go beyond risk assessment, e.g. by introducing penalising factors.

In accordance with the basic principle set out above, the most moderate (regulatory) measures needed to achieve sustainability goals should be put in place. The priority for the first step is to protect policyholders and the viability of the financial centre. Moderate regulation does not entail compulsory measures unless necessary. Such controls could, for instance, mean insurance companies being forced to withdraw from particular investments that would have supported them with their transition and thus helped speed up the process of building a more sustainable society. Strict regulations in this area could therefore intensify or even cause transition risks. The key is to create the optimum conditions for building a financially and environmentally sustainable economy with minimal disruption.

5.1 Calculating risk is at the heart of the insurance business

With the commitments being made at company and sector level, the insurance industry is proving that the current regulatory framework is incentivising industry players to introduce and drive forward financial and environmental sustainability initiatives. For example, insurers have set themselves the target of achieving net-zero emissions or have joined net-zero partnerships. This is reflected not only in their investment management, but also in their core business of assuming and assessing risks. The impact of climate change on the insurance industry (increasing frequency and intensity of major loss events) requires insurers to address these effects in detail as part of their risk management. It should be noted that climate change is not a new risk in and of itself; instead it represents an additional risk factor that has repercussions for existing risk categories. The effects of climate change are therefore fully reflected in the existing regulatory capital requirements. This means that, despite the impact of climate change, insurers are in an excellent position from a financial and risk management perspective to fulfil their role as risk carriers for society.

GRI 102-11

Additional regulations in this regard would cause risks to be double-counted and would disproportionately push up capital requirements. The extra capital tied up could even be counterproductive for sustainability efforts, as there would be less money available to invest in sustainability initiatives.

5.2 Transparency is key

Measures to encourage or even enforce activities in pursuit of sustainability targets should still only be implemented with caution in the insurance industry. The priority is to protect the individual and the functioning of the financial market, which can be supported and achieved through disclosure and transparency requirements. The work of the State Secretariat for International Finance (SIF) aims for similar outcomes. Current international developments in this area should be monitored closely. International standards, such as those set by the International Association of Insurance Supervisors[a], are becoming ever-more important, with international texts such as the Task Force on Climate-Related Financial Disclosures (TCFD)[b] recommendations increasingly being adopted in full by national legislators. This is strengthening harmonisation across countries. The SIA believes that for the Swiss financial centre to be competitive, it is crucial that Switzerland follows suitable international standards but without a 'Swiss finish' in which requirements are made stricter. It is therefore important for Switzerland to be involved on the international stage and help shape the development of these standards with a market-oriented ethos.

Efforts to ensure transparency across the entire financial sector hinge on similar action being taken in the real economy. Without a robust set of relevant data on sustainability in industries (including CO_2 emissions), disclosures are often based on estimates. Including the real economy in sustainability discussions and activities is essential to ensuring that policyholders and consumers are protected. Christoph Baumann, Head of the SIF's Sustainable Finance Taskforce, came to the same conclusion in the SIA's Annual Report 2021, saying: 'The financial centre relies on data from the real economy to ensure that it can optimise how it supports the transition to a net-zero economy. Transparency from major companies about their environmental impact is essential for a properly functioning market.'

a International Association of Insurance Supervisors

b Task Force on Climate-Related Financial Disclosures (TCFD)

6
Underwriting

Section 5 'Regulation and sustainability' discussed risk management in relation to sustainability risks in the insurance industry. A distinction needs to be made between risk management at a corporate level and underwriting specific risks, i.e. putting risk management into practice in operations. Taking on risks is an intrinsic part of being an insurer. Insurance companies assume risks and compensate individuals for any financial losses using premiums paid by all policyholders, who collectively form a community of the insured.

'Underwriting gives insurance companies a highly effective tool for encouraging companies to be more sustainable.'

Salomè Vogt
Former Head of Avenir Jeunesse at Avenir Suisse
– Quote from the 2021 stakeholder dialogue

When it comes to sustainability, the question arises as to how insurers should take on sustainability risks. Which risks, such as climate impacts, should be assumed? Which should be completely excluded because they are insurable or because insurers are unwilling to take on the risk on ethical grounds or due to reputational risk?

6.1 Awareness of sustainability risks

GRI 103-2

If someone needs to be insured against a risk and the insurance product does not prohibit this risk from being covered, the insurer carries out a risk assessment at the underwriting stage. This assessment evaluates the specific risk presented. To date, this part of the underwriting process has mainly focused on the acceptability of the risk from the perspective of the insurer in question. Insurance companies have become increasingly sensitive to reputational risks in recent decades. Although non-life and reinsurance policies are usually concluded for one year, it is common for them to be extended, meaning insurance companies and their customers can have relationships lasting decades. Given the length of these customer relationships, assessing reputational risk is a challenging task: The decision-making process needs to take into account not only the current societal perception, but also how this might change.

GRI 103-1

Those involved in the underwriting process acknowledge the importance of risk changes and reputational risks. As a result, certain insurers are drawing up underwriting guidelines for their employees to ensure that they handle sustainability risks in a standardised manner aligned with the company's strategy. Within the Swiss insurance industry, a survey of SIA member companies revealed that most of them manage sustainability risks at senior management level as part of their sustainability agendas.

Some sustainability risks are explicitly defined and integrated into existing or additional risk frameworks. Where this is the case, responsibility for sustainability risks is embedded in the company's departments and is a thread that runs through defined governance processes covering different divisions. At these companies, responsibility sits with the boards of directors, the highest level of seniority.

6.2 Integrating sustainability criteria

The insurance industry has different business models. A local insurer specialising in property and asset risks, for instance, will have a markedly different positioning to a global reinsurance company when it comes to climate risks. International insurance companies were therefore quicker to integrate sustainability risks than those that mostly operate on a national scale or on a global scale but within a limited field. These different levels of integration mean that the reporting and systematic checking of defined underwriting processes in relation to sustainability risks can look very different.

International insurance companies with specific reporting are beginning to take a more holistic view of sustainability risks, including direct financial impacts. In contrast, the focus for private insurers that do not operate globally, or do so only in a limited way, and that have already integrated these risks into their business is more on minimising the reputational risks associated with sustainability risks. Besides withdrawing cover for certain business activities that entail high sustainability risks, sharing expertise to support the transition to a low-carbon economy also plays a key role in mitigating reputational risk.

Completely withdrawing from certain business areas remains a last resort that is rarely used. As insurance companies strengthen their expertise in sustainability risks, they can encourage their business partners to change or abandon unsustainable practices and processes. Due consideration must be given to both the risks and the opportunities that this transition presents. For instance, the economic transformation will eliminate jobs in high-risk sectors like those that rely heavily on fossil fuels, while new ones will be created with the development of sustainable business models such as cleantech.

6.3 Industry challenges

GRI 103-2
GRI 103-3

The underwriting and risk assessment process is complex, and the extra focus on sustainability compounds this: Additional aspects need to be factored in to ensure that the risk assessment is comprehensive and takes adequate account of the future. For instance, assumptions must be made about new climate-friendly technologies, and social considerations need to be examined, and the necessary data is not always immediately available. Insurance companies' product management and underwriting departments need to determine how they will integrate sustainability criteria into their strategy and operations. Their responses vary depending on the business model and area, and the insurers develop them individually.

Putting sustainability criteria into practice is one of the biggest challenges currently facing the industry. Compared with the retail segment, which includes buildings and motor vehicle insurance, implementation is generally more straightforward in the corporate customer segment. Here, established guidelines on sensitive sectors and business practices ensure compliance with fundamental human and employment rights and provide guidance on how to approach climate change.

There is support from data providers, which offer sustainability criteria for classifying risks, and knowledge-sharing through international organisations such as the UNEP FI Principles for Sustainable Insurance Initiative (PSI Initiative). Swiss insurance companies have adopted parts of the PSI framework for managing environmental, social and governance risks in the non-life business, and it is increasingly being used in defining risks. This helps insurers to set their risk appetite in terms of industry segment and coverage.

Improved ESG integration in insurance thanks to UN initiative

Commentary by Butch Bacani

The UNEP FI Principles for Sustainable Insurance (PSI) are a global framework for the insurance industry, endorsed by the UN General Secretary and the CEOs of major insurance companies. It is a global collaborative initiative to bolster the insurance industry's role as risk managers, insurers and investors in building resilient, inclusive and sustainable societies and economies on a healthy planet.

Strategic approach along value chain

The PSI sees sustainable insurance as a strategic approach where all activities in the insurance value chain are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues (ESG). Sustainable insurance aims to reduce risk, develop innovative solutions, improve business performance and contribute to social, economic and environmental sustainability.

The PSI published its very first ESG guide in June 2020, addressing the non-life insurance business. It contains examples of sustainable approaches in the insurance industry that cover a wide spectrum of ESG issues, including climate change, environmental degradation and pollution, animal welfare and testing, child labour, controversial weapons, and bribery and corruption. The guide describes eight key areas where insurers can take actions to manage ESG risks in their insurance business, with a focus on underwriting and risk assessment. These cover developing the company's ESG approach, establishing its ESG risk appetite, integrating ESG issues into its organisation, establishing roles and responsibilities for ESG issues, escalating ESG risks to decision-makers, detecting and analysing ESG risks, decision-making on ESG risks and reporting on ESG risks.

Integration of ESG criteria into business model

It also seeks to raise awareness of the potential benefits of integrating ESG into the insurance business model, such as mitigating reputational risks, managing societal expectations, identifying the financial benefits of clients with strong ESG performance, and engaging and supporting clients and employees.

About the author

Butch Bacani is Programme Leader of the UN Environment Programme's Principles for Sustainable Insurance Initiative.

7 Investment

The SIA conducted its third survey of insurance companies operating in the Swiss market, seeking to gather information on sustainability in their investment activities. The survey enables a snapshot of the industry to be captured and changes over time to be charted.

There were some small changes to this year's survey. For instance, the topic of 'CO_2 emissions in the investment portfolio' was added so that future reporting can be made more precise. The survey also included a comparison of key reporting figures as at end-2020 and end-2021.

7.1 Overview of sustainable investments within the private insurance industry

As key players in the financial industry, private insurers can have a big impact on social and environmental sustainability by channelling capital into sustainable investments. As a result, a number of insurance companies started to manage their investments with sustainability criteria in mind and to restructure their portfolios accordingly some years ago.

In autumn 2018, the member companies of the SIA committed to taking ESG criteria into account when managing their own investments. ESG stands for 'environmental, social and governance' and refers to the consideration of sustainability risks and opportunities into decision-making. There is as yet no standardised understanding of what it means to integrate sustainability factors into the investment process, which makes drawing up a common declaration for the industry difficult. In preparing this Sustainability Report, the SIA used sustainable investment criteria and strategies that are applied as standard in the market, such the TCFD and Principles for Responsible Investment (PRI)[a].

'The insurance industry manages a lot of capital, so by its very nature it bears considerable responsibility.'

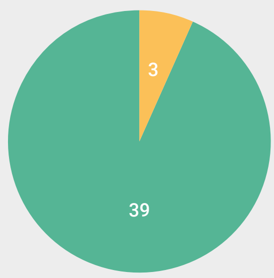
Prof. Alexander Braun
Associate Professor of Insurance and Capital Markets, University of St Gallen
– Quote from the 2021 stakeholder dialogue

A total of 42 insurance companies responded to the survey, which revealed that over 90 per cent of them factor sustainability criteria and strategies into their investment decisions. Smaller insurance companies are increasingly reviewing their strategic positioning and approach to sustainable investing. The SIA supports the transfer of knowledge on particular topics among its member companies. GRI 102-48 GRI 103-3 GRI 103-1

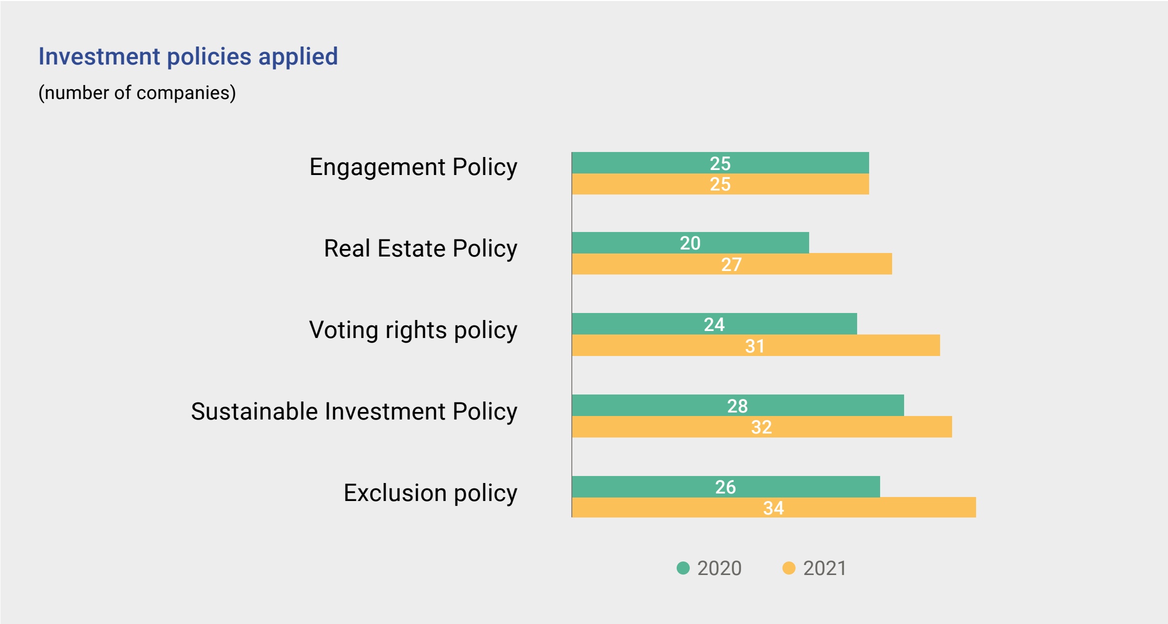
A majority of companies have implemented internal guidelines with stipulations on making sustainable investments, excluding certain investments, exercising voting rights and shareholder engagement[1]. Exclusion policies were the most frequently used approach, with a further eight companies

Sustainable (responsible) investment principles considered in own investments GRI 103-2

(number of companies)



a Principles for Responsible Investment (PRI)



implementing them in 2021. The findings also showed a rise in the use of sustainable investment, voting rights and real estate policies.

The survey looked at which sustainable investment approaches were used (ESG integration, exclusions, best-in-class, voting, and impact and thematic investments) in the various asset classes. Exclusion plays a central role in the fixed income, equities and alternative investments asset classes. Under this approach, investments that do not meet certain standards and values are excluded from the investable universe.

Unlike the other criteria, the best-in-class approach is less firmly established among the insurance companies. This approach is used by a third of private insurers for both fixed income and equities – the same as in the previous year.

Impact investment and thematic investments, by contrast, are used at more than half of the companies for securities and alternative investments, with 15 companies using them in real estate investments. Exercising voting rights in line with ESG guidelines is a key approach for many companies (25 out of 39) when investing in equities. Results showed that these 25 insurers exercised their voting rights in respect of 47 per cent of their self-managed shares.

7.2 Consideration of ESG criteria

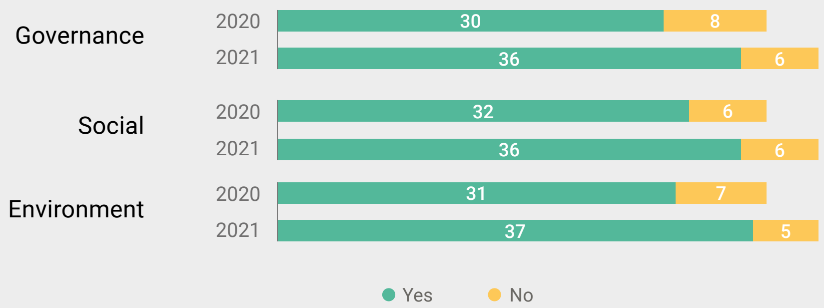
GRI 103-2

We asked private insurers whether they considered ESG criteria in their investment decisions during the year under review. Of the 42 companies that responded, 39 said that they did, which is seven more than the previous year. Based on these criteria, the companies analyse whether and to what extent an investment decision should be made. They also apply the ESG criteria in other steps within the investment process (e.g. in risk monitoring, portfolio management and divestment decisions).

Social responsibility is also a significant part of the ESG criteria used in the investment process. 36 of the 42 insurers surveyed have made this criterion a firm component of their policies, with an emphasis 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, focusing on leadership and diversity.

Use of ESG criteria

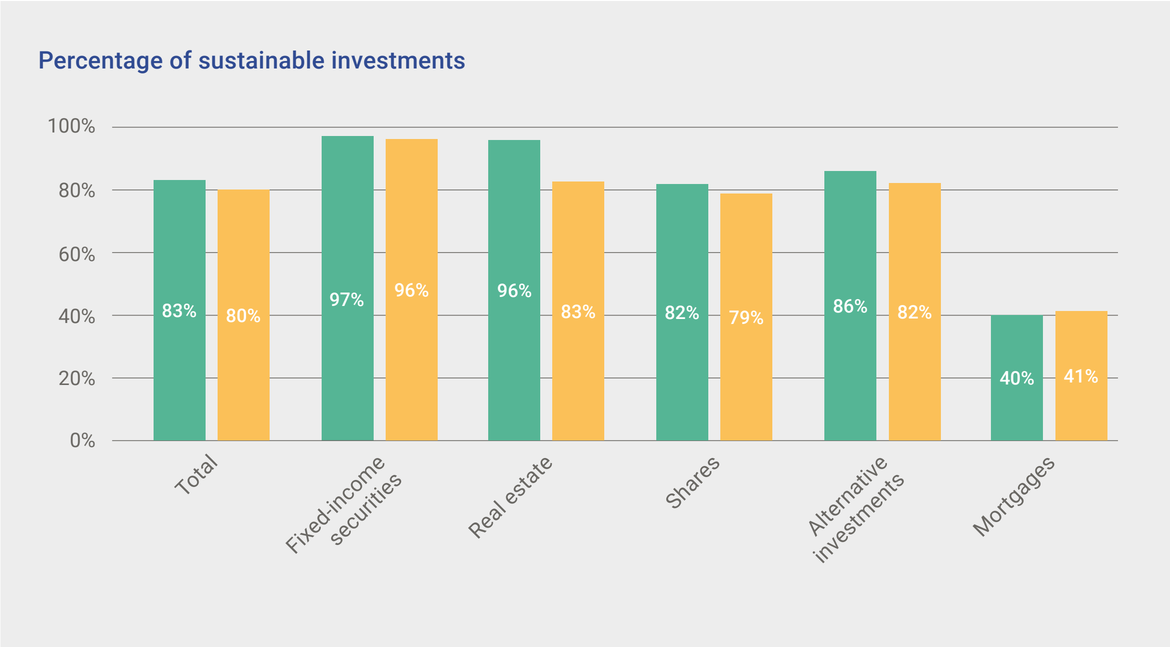
(number of companies)



Of the 39 companies that apply ESG criteria, 37 have an environmental focus in their investment decisions, with key areas being climate change and (renewable) energy. Another focus is on investment to prevent environmental catastrophes and in water management. Some companies have also committed to achieving net-zero emissions by 2050.

GRI 103-3

Based on Finma figures for 2020[2], the companies that responded manage 77 per cent of investments made by the private insurance industry. ESG criteria are included in the investment process for 80 per cent of this self-managed investment volume. The differences versus 2021 in the coverage and the degree of inclusion of ESG criteria are attributable in particular to the time lag between the companies' data collection and that of Finma. As a result, the companies that participated in the previous year's survey show a 6 per cent decrease in investments for the year under review compared with 2020. Another reason is that one insurer was unable to supply its real estate investment figures in time for this year's report.



The explicit inclusion of ESG risks and opportunities is important for companies with regard to their investments in real estate, fixed income, equities and alternative investments. The asset classes with the biggest proportions of sustainable investments are fixed income and real estate, with 96 per cent and 83 per cent respectively classed as sustainable (as a share of total investments in that asset class). Other than in real estate, natural fluctuations are the main driver behind changes in the proportions of sustainable investments.

7.3 Impact investing and thematic investments

The companies aim to use impact investing as a means of exerting a positive and directly measurable impact on the environment and society. For half of the companies that make sustainable investments, impact investing plays an important role in the real estate, fixed income and alternative investments asset classes.

Through their investments in sustainable infrastructure and real estate, private insurers are seeking to play a part in transitioning energy supply and the building stock to an environmentally friendly and low-carbon future. Environmental considerations such as renewable energy and sustainability certifications (e.g. BREEAM Gold or 'Green Buildings' EPC) are also a key part of thematic investments in real estate and infrastructure. In addition to environmental factors, social issues can also be easily addressed through real estate investments. The invested capital can be harnessed to incentivise the creation of community spaces, e.g. by applying a multi-generational model, creating communal areas, and including childcare facilities, local shops, green spaces and recreational areas.

GRI 103-3
GRI SIA-specific disclosure

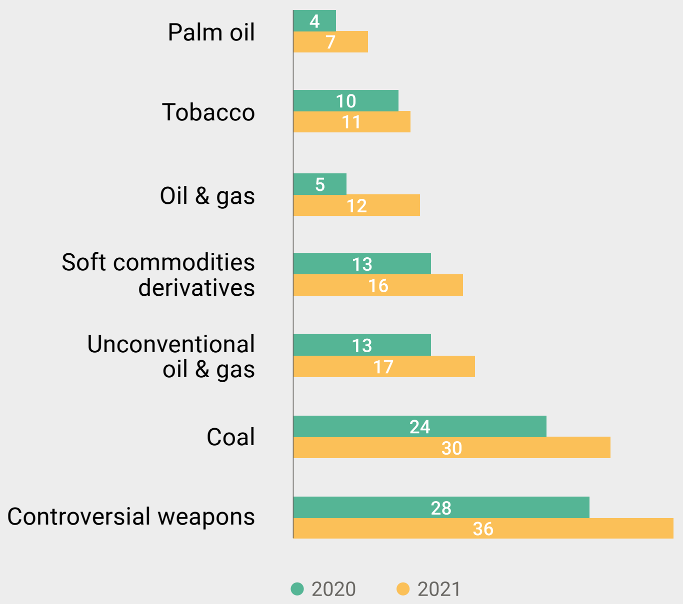
Sustainability bonds were included under impact investing and thematic investments, as, depending on how they are structured, they have a social (social bonds), environmental (green bonds) or combined (sustainability bonds) focus. Sustainability bonds account for a large share of the investments made by many of the companies surveyed.

GRI 103-1

The regulatory requirements for investments made by insurers are very restrictive by international standards. This is true in particular for investments in infrastructure; for example, direct investments in facilities that produce renewable energy cannot be counted towards tied assets. This means that many insurers are restricted in the alternative investments they can make, although there is interest in long-term, sustainable investment.

Exclusion criteria applied

(number of companies)



GRI 103-2

7.4 Exclusion criteria

Exclusion criteria are key to integrating sustainability into the investment process. If a predefined criterion is not met, either no investment is made or an existing investment is sold.

GRI 103-3

In all, 30 of the companies exclude investment in companies that generate revenue from thermal coal mining or that use a certain proportion of coal for power generation, meaning coal is a very widespread exclusion criterion for many insurers. 36 companies exclude investments in the manufacture of controversial weapons, making it the most commonly applied exclusion criterion.

7.5 Reporting

GRI 103-2

More than 70 per cent of the companies surveyed included explicit information about their sustainability-related activities in their 2021 annual reports. Larger insurers have published separate sustainability reports in recent years, with others planning to do so in the future. A number of insurers intend to expand their sustainability reporting activities.

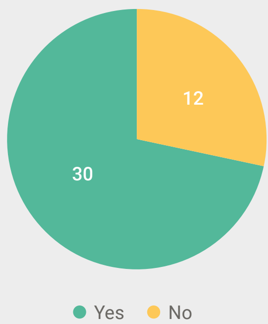
Regulatory requirements and disclosure obligations will increase at both national and international level over the next few years. For instance, the Swiss Federal Council announced on 18 August 2021 that Swiss companies will be required to report in accordance with the TCFD standards from 2024. A consultation on this subject was opened at the end of March 2022.

GRI 103-3

At present, 12 of the 42 companies surveyed report in line with TCFD standards, while another 18 publish information about their sustainability activities but without implementing the TCFD recommendations in full. Beyond regulatory requirements, companies are often required to be more transparent about their sustainability by virtue of being members, supporters or signatories of industry bodies or initiatives such as the PRI. The corresponding reports are available on the PRI website.

Sustainability reporting in annual report

(number of companies)



a Regulation on Disclosures Relating to Sustainable Investment and Sustainability Risks (SFDR)

b Regulation on the Establishment of a Framework to Facilitate Sustainable Investment (Sustainability Taxonomy)

7.6 Increasing regulatory requirements

Companies that operate internationally are subject to a growing number of sustainability regulatory requirements in other countries. This is particularly evident in the EU. Switzerland should make provision for any spillover effects, so an overview of EU regulations and their implications for Switzerland is set out below.

As part of its action plan on financing sustainable growth, the European Commission unveiled a raft of measures in 2018. These aim to redirect capital flows towards sustainable investments, mitigate the impact of climate change and social and environmental challenges on the financial system, and foster greater transparency and long-termism in the economy. Three EU regulations have since been enacted:

– Regulation on Disclosures Relating to Sustainable Investment and Sustainability Risks (SFDR)[a]

– Regulation on the Establishment of a Framework to Facilitate Sustainable Investment (Sustainability Taxonomy)[b]

– Regulation on Low-Carbon Benchmarks and Positive Carbon Impact Benchmarks[c]

A variety of regulations have also been amended, such as the Markets in Financial Instruments Directive (MiFID II)[d] and the Insurance Distribution Directive (IDD)[e]. It is very challenging for market participants to implement these requirements as they are very closely linked and very extensive in their scope, while data availability is also limited.

Regulation on sustainability-related disclosures in the financial services sector (SFDR)

GRI 103-1

The SFDR is the first in a series of regulations and entered into force in December 2019. Some of its key provisions, such as amending prospectuses and drawing up a principal adverse impact statement, needed to be implemented in the EU by 10 March 2021, while others will be mandatory from 1 January 2023. The SFDR is being expanded with further details laid down in draft regulatory technical standards, which have been drawn up by the three European supervisory authorities (ESAs)[3]. At the heart of the regulation is the classification of individual products with regard to sustainability and ESG-specific transparency requirements, which must be disclosed to (potential) investors through various channels (website or pre-contractual documents such as a prospectus). These transparency requirements apply to companies that sell financial products (financial market participants) and those that offer advice on investments and insurance (financial advisors). They contain disclosure requirements to be implemented at both company and product level. It is worth highlighting that these mandatory disclosures require all providers and advisors to have a strategic positioning in their approach to sustainable finance since they need to be transparent about three areas: Sustainability risks, principal adverse impacts (PAIs) and the positioning of their ESG approach.

EU Taxonomy Regulation

The Taxonomy Regulation was published in the Official Journal of the European Union in June 2020. It establishes a classification system that defines the sustainability of products and services. The current version of the Taxonomy Regulation uses a list of predefined criteria to determine whether economic activities are sustainable based solely on how they contribute to climate mitigation and climate adaptation. Social aspects and other environmental factors, such as pollution and biodiversity, will only be integrated into the regulation in the future. For now, it contains a requirement to 'do no significant harm' in these other areas.

c Regulation on Low-Carbon Benchmarks and Positive Carbon Impact Benchmarks

d Markets in Financial Instruments Directive (MiFID II)

e Insurance Distribution Directive (IDD)

From 2022 (in respect of 2021), insurers and other financial market participants that are based in the EU or that operate in EU countries are required to disclose the classification of their assets for the EU taxonomy (taxonomy eligibility). From 2024, financial companies will need to report what proportion of their portfolio is taxonomy-aligned. There are also plans to bring in new reporting standards under the EU Corporate Sustainability Reporting Directive (CSRD) from 1 January 2024.

Besides the issue of exclusively focusing on climate change, there are currently two other questions around the Taxonomy Regulation:

1 How can it be ensured that data is of adequate quality and scope? Some data providers on the market offer companies estimated values based on their revenue for their taxonomy eligibility. These are just estimated, however, as the companies only began publishing the underlying data this year. Since there are no reporting requirements at investment level, there is no distinct data for real estate or other asset classes either.

2 How is the scope defined for the required taxonomy-related information? The EU does give detailed information about the treatment of derivatives and government bonds, but some key guidance has not yet been passed.

Some insurers have dealt with these two questions for the 2021 reporting year by publishing their initial figures in line with the minimum requirements of the Taxonomy Regulation.

Implications for Switzerland

Switzerland has not had an equivalent to the EU taxonomy until now. Finma published guidance[a] on greenwashing in collective investments in November 2021, designed primarily to inform and protect investors in line with the EU Sustainable Finance Disclosure Regulation. The guidance is aimed at all companies that manage or offer sustainability-related collective investment schemes. These companies must meet a raft of requirements concerning the organisation and governance of the asset manager, the fund documents and the point of sale. If they fail to do so, they are prohibited from giving customers the impression that their investment product is sustainable.

Integrating sustainable thinking throughout the entire investment process is key here, including the investment strategy, investment decisions, risk management, controlling and monitoring. For this to work, there needs to be the requisite expertise at every level, starting with the most senior management, which is responsible for drawing up the investment strategy, all the way through to the operational functions and sales. The fund documentation should clearly detail how sustainability is integrated into the investment process. However, the SFDR cannot currently be referenced in Switzerland, which can be an obstacle for asset managers. Swiss asset managers that also operate in the European market are hoping that Switzerland will adopt as many provisions as possible from the EU Taxonomy Regulation and the SFDR so that they can use a uniform system and standardised reports.

a guidance

8
Operational environmental management

As in previous years, the SIA surveyed insurance companies to gather information about their operational environmental management. The results represent benchmarks for corporate environmental management in the insurance industry. In the interests of comparability, the data is presented per full-time equivalent (FTE) employee. This year, a greater number of companies supplied reliable data that could be evaluated, and some were able to provide additional data for 2019 and 2020. This limits comparability with the figures for 2020, but it does enable us to evaluate the previous year's data more effectively and explains the differences versus last year's report.

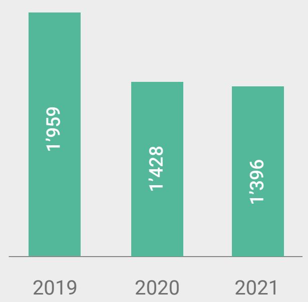
Large companies, which have more staff and tend to operate internationally, have a greater influence on overall performance than their smaller counterparts. It is therefore encouraging to see that the companies participating in the survey for the first time in the year under review come more from small and medium-sized bracket.

Although the biggest impact that the industry can have on mitigating climate change lies in risk management, its core business and its investments, it is also important for insurers to monitor and improve their own environmental footprint. Most companies produce an annual report on their operational sustainability performance as a means of quantifying their environmental impact and measuring progress in a transparent way. In doing so, they apply the standards from the Association for Environmental Management and Sustainability in Financial Institutions (VfU)[a] and the Greenhouse Gas (GHG) Protocol[b]. By contrast, larger companies apply their own group-wide standards. These developments have further professionalised how the industry approaches operational environmental management.

Various parameters are quantified to calculate the carbon footprint, such as heating energy, power, water, paper, waste and business travel distances. The individual companies convert their primary consumption, which is measured in various units (kWh, m^3, km, etc.), into CO_2 equivalents based on predefined criteria. This enables conclusions to be drawn as to how much a specific form of consumption contributes to global warming.

GRI 102-48

CO_2 footprint
(kg/FTE)



GRI 103-1
GRI 103-3

8.1 Carbon footprint

GRI 103-2

The industry's carbon footprint per FTE employee shrank slightly, down 2 per cent year on year. The footprint per FTE has been cut by an average of 16 per cent since 2019, with the trend slowing slightly this year compared with the previous year. This shows that the companies have taken measures to improve their carbon footprints and are striving to contribute to reductions in greenhouse gas emissions. However, the pandemic continued to exert a strong influence in 2021 and, alongside the measures taken by the companies, it was central to the sharp decrease in the figures recorded.

a Association for Environmental Management and Sustainability in Financial Institutions (VfU)

b Greenhouse Gas (GHG) Protocol

Relative figures per FTE for the main areas of consumption affecting operational environmental impact

	Unit	2019*	2020*	2021*	Relative change**
Building energy consumption	kWh	4,377	3,826	3,309	-14%
Heating energy consumption	kWh	1,655	1,591	1,432	-10%
Share of renewable electricity	in %	55	55	58	+3%
Water consumption	in m³	11	8	5	-34%
Paper consumption	in kg	70	60	48	-21%
Volume of waste	in kg	120	93	51	-45%
Business travel***	in km	5'807	3'182	2'426	-24%
of which by air	in %	43	37	19	-17%
of which by car	in %	36	49	61	+12%
of which by public transport	in %	21	14	17	+3%
of which by unknown means of transport	in %	-	-	2	-
CO_2 emissions	in kg	1,959	1,428	1,396	-2%

* One company's figures are based on the previous year, i.e. environmental data from 2020 is used in 2021.
** Change between 2020 and 2021; for percentage amounts, the difference is expressed in percentage points.
*** The percentages for modes of transport do not add up to 100 per cent because the individual figures were rounded.

GRI 302-3 302-4 305-4 305-5

8.2 Building energy consumption

Building energy consumption has decreased by around one-third over the last three years, reaching 3,309 kWh per FTE in 2021. At the same time, the share of renewable energy within purchased power increased slightly, up three percentage points year on year. Although there were more heating days in Switzerland in 2021, heating energy consumption fell by 10 per cent compared with the previous year. One reason for this is that companies are gradually modernising their office buildings and making them more energy-efficient. Another factor is that large companies are increasingly operating of their own power generation facilities to heat and cool their buildings using renewable energy. This self-generated power is only partially included in the companies' environmental performance data.

Compared with 2020, companies continued to make significant reductions in their water, paper and waste levels. There is no data to show the extent to which the move to home working is reflected in the figures. The largest reduction was in the volume of waste produced, which dropped by 45 per cent.

8.3 Business travel

Despite Covid-19 restrictions being eased somewhat in Switzerland, business travel did not return to 2019 levels. It is encouraging to see that emissions continued to fall compared with 2020. The biggest decrease was seen in air travel, where there was a 17 per cent reduction. This was the result of a decrease in international business travel thanks to greater digitalisation. Where companies are based continues to affect which mode of transport is chosen: Businesses with international operations, for instance, have a much higher share of air travel.

The relative shift from air travel to cars and public transport observed in the year under review suggests that employees were increasingly returning to on-site working as Covid-19 restrictions were eased and that sales forces returned to advising customers in person. The companies are putting a variety of measures in place to reduce the CO_2 emissions produced by car travel, such as cutting the number of vehicles used by the sales team, using car clubs such as Mobility, installing electric vehicle charging points and implementing targeted measures to

encourage the use of public transport and cycling. They can cut their emissions even further by offering flexible working conditions that remove the need for commuting.

8.4 Other initiatives

In addition to transitioning to renewable energy sources (e.g. lake water for heating and cooling) and generating power on site, office buildings are increasingly being built to sustainable building standards such as Minergie. Not only does this make them extremely energy-efficient, but it also helps the properties to preserve their value long-term. Many companies are saving resources and reducing waste by giving up plastic and single-use tableware.

Some insurers are now positioning themselves on the market as carbon-neutral because they are offsetting the emissions from their operations, while other companies intend to introduce offsetting measures in 2022. A number of insurers are taking their climate protection efforts a step further by getting involved in foundations and associations such as the Swiss Climate Foundation[a] (Schweizer Klimastiftung) and CEO4Climate[b].

GRI 103-3

a Swiss Climate Foundation

b CEO4Climate

9
Retirement provision

On 23 June 2021, the Federal Council adopted the 2030 Sustainable Development Strategy (2030 SDS)[a]. In national strategic pillar (f) 'Ensuring the long-term stability of retirement pension systems', it states:

> *'The financial stability of Switzerland's retirement pension systems is secure despite demographic trends. The Confederation ensures that the reforms proposed in order to secure the financial balance of retirement pension systems while preserving social protection take due account of the interests of all age groups and safeguard the intergenerational contract. The supreme authority of each social insurance institution is responsible for its investment policy. The Federal Council supports pension plans in their efforts to be mindful also of the goals of the Paris Climate Agreement in managing pension capital.'*

This not only addresses the environmental dimension of pension-related sustainability (being mindful of the goals of the Paris Climate Agreement[b] in investing pension capital), but also the financial and social dimensions that are inextricably linked to this (ensuring the financial stability of the pension system). In terms of sustainable development, this means that one generation cannot live beyond its financial means, as this inevitably translates into losses for future generations. When it comes to pension provision, this is expressed succinctly with the term 'intergenerational equity'.

'Incorporating comprehensive sustainability criteria into retirement provision, and in a way that addresses intergenerational equity, is reasonable and improves credibility.'

Alice Balmer
Co-Head of Sustainability Research at Forma Futura
– Quote from the 2021 stakeholder dialogue

9.1 Occupational pension schemes and intergenerational equity

The law pays almost no heed to intergenerational equity in occupational pension provision. GRI 103-2 The excessively high conversion rate set by the Occupational Pensions Act (OPA) causes huge pension conversion losses for pension funds, leading to pressure from outside the system for redistribution from active insured persons to pensioners. Taken together with the strengthening of the actuarial reserves of current pensions due to lower technical interest GRI 301-1 rates and the longer periods over which pensions are drawn, the Occupational Pension Supervisory Commission (OPSC) estimates that financing the pension conversion losses results in a redistribution of around CHF 6.3 billion per year, averaged over five years (2016–2020). This includes pension conversion losses of around CHF 1.4 billion per year.

Pension conversion losses are being reduced because the OPA reform contains provisions on lowering the OPA conversion rate from 6.8 to 6 per cent. It will also be possible to fund any further losses transparently with the introduction of a contribution to compensate for pension conversion losses (Article 17 para. 2 (g) Vested Benefits Act, VBA) and a corresponding premium (Article 37 para. 2 (b) Insurance Oversight Act, IOA).

a 2030 Sustainable Development Strategy (2030 SDS)

b Paris Climate Agreement

9.2 Private life insurance providers and occupational pensions

Private life insurance providers have always been heavily involved in occupational pension provision. As at end-2020, insurance companies supervised by Finma insured 250,000 SMEs with 1,865,000 employees (out of a total of 4,401,000 people covered by occupational pensions). This breaks down into around 115,000 SMEs with 726,000 employees which had full insurance, and around 135,000 SMEs with 1,139,000 employees which had risk insurance, most commonly under semi-autonomous collective models[4]. There currently remain five private life insurers that offer full insurance solutions, after all other companies withdrew from this business area due to an increasingly challenging environment.

The last few years have seen hardly any change in the number of people covered by private life insurers as part of occupational pension provision. However, there is evidence of a huge shift away from full insurance towards risk insurance. Between 2016 and 2020, the number of people actively insured by full insurance collective foundations fell by around a third, while the number of people covered by semi-autonomous collective foundations more than doubled over the same period[5].

GRI 103-3

GRI 103-2

GRI SIA-specific disclosure
GRI 103-2

In group life insurance, private life insurance providers managed investments totalling CHF 186 billion as at end-2020[6]. For information about the investment of these funds, see section 7 'Investment' of this sustainability report.

The semi-autonomous collective foundations set up by private life insurers held assets of over CHF 60 billion at end-2020. Each institution's board of trustees sets the pension scheme's investment strategy. Life insurance providers play a key role in the investment of pension capital and help these collective foundations to be rated relatively well for sustainability (see the rating from Klimaallianz Schweiz, for instance).

The full insurance solutions offered by life insurers have always been based on the split model. This means that retirement assets from both mandatory OPA retirement savings and supplementary retirement savings are managed for every insured person. To calculate the old-age pension (including survivor's pension entitlements), the former is multiplied by the OPA conversion rate and the latter by an actuarial conversion rate, and the two part-pensions are then added together.

The scale of insured persons' losses through pension conversion depends mainly on the value of the retirement assets and the conversion rates, the age structure of the portfolio in question and the withdrawal rate. To limit pension conversion losses in the interests of existing customers, full insurance providers have for years been subject to restrictions on the age structure of new affiliations. In practice this means that in many cases SMEs with a high proportion of older employees can no longer negotiate full insurance solutions.

Another measure announced by the full insurance providers was the application of the imputation principle in the split model ('modified split model'), which they have partially implemented. In this model, the regulatory conversion rates on mandatory retirement savings are lower than the OPA conversion rates, currently 6.5 or 6.2 per cent, for example. There is an actuarial conversion rate of 4.5 per cent, for example, for supplementary retirement savings. The regulatory pension is calculated by multiplying the mandatory and supplementary retirement savings by the applicable conversion rate for each and adding the two part-pensions together. This approach is permissible under the imputation principle provided that it results in a higher pension than the product of multiplying the OPA retirement savings by the OPA conversion rate. If this is not the case, the benefit must be brought at least into line with the OPA. Pensions already being drawn are not affected by this change.

The lack of generational equity in occupational pension provisions does not just have a long-term negative impact and affect future generations. The unavoidable remedial measures put in place by life insurers will also bring short-term disadvantages that impact people who are currently insured, as solutions become more complex or products are withdrawn.

10
The world of work

In addition to the environmental and financial dimensions, sustainability includes social components that are equally important for private insurers. Insurers are tasked with upholding the attractiveness of the industry for employees and helping to shape the working world of tomorrow. They provide jobs for 49,902 people and train more than 2,000 young people in various occupations every year. The industry association's annual employment statistics[a] show the composition of the workforce and the changes compared with previous years.

Together with other stakeholders, the SIA conducted different projects around the topics of sustainability and the world of work in 2021. These include the 'Skills of the future'[b] study for the insurance industry, InsurSkills – an initiative to raise awareness of one's employability and lifelong learning – and the finalisation of the startsmart.ch[c] platform for young people.

'Sustainability in the insurance industry also means being responsible for the future of our employees and for preserving jobs in Switzerland.'

Juan Beer
CEO, Zurich Switzerland
– Quote from the 2021 stakeholder dialogue

10.1 InsurSkills

GRI 103-1
GRI 103-2

The SIA worked with the Institute of Insurance Economics (I.VW) at the University of St Gallen and the Swiss Federal Institute for Vocational Education and Training (SFIVET) to produce the 'Skills of the future' study in 2021. The study set out to evaluate existing trends and changes in the insurance industry out to 2030 and use these insights to analyse the skills that will be required in the industry in the future. The study helps insurance companies to establish targeted vocational education and training for their employees. Interviews with various institutions at all levels of the education system showed how the transversal skills identified in the study, which will gain in importance going forward, could be incorporated into training courses and degree programmes.

GRI SIA-specific disclosure

GRI 103-2

The SIA is using the study's results to develop InsurSkills, an online self-assessment tool enabling users to review their own skills. InsurSkills will give employees in the industry the opportunity to analyse their basic skills in light of trends and what the future world of work will look like. This will enable them to start taking steps to maintain and develop their employability under their own steam, encouraging lifelong learning.

The Association for Professional Insurance Education (VBV-AFA) has taken on board these findings and is incorporating them into current reform projects such as 'Kaufleute 2023' and into the further development of vocational training and the VBV insurance intermediary examination.

a employment statistics

b 'Skills of the future'

c startsmart.ch

ASA | SVV

2021 employee statistics

+6.1%
vs 2020

49’902
employees in Switzerland

+12.11%
vs 2020

12’498
part-time employees

25%
+1.2%
vs 2020

Women
44,7%
44%
in 2020

Men
55,3%
56%
in 2020

83.3%
in 2020

81,1%
Swiss nationals

16.7%
in 2020

18,9%
other nationals

+5.4%
vs 2020

15’753
customer consultants

-1%
vs 2020

2104
trainees and apprentices

10.2 Supporting young talent

As companies that offer training and apprenticeships, insurers are supporting the next generation. They are playing an active role in vocational training and positioning themselves as attractive employers. The insurance industry offers a wide range of options for advanced vocational training which encourage the transfer of knowledge from training to university degrees and strengthen diversity in everyday work. The SIA coordinates closely with the VBV-AFA on this.

The SIA is also undertaking ongoing work to optimise the startsmart.ch platform to help young people start their careers in the insurance industry. The 'Berufsfinder' tool and its apprenticeship platform help young people find a suitable apprenticeship in the insurance industry.

10.3 Skills shortages

The insurance industry is working hard to ensure it attracts enough talent now and in the future. This sector is known for having a high number of skilled jobs, and it needs people trained in specialist areas. The Swiss job market has a skills shortage across the board, so harnessing existing capabilities and tapping extra potential is extremely important for the insurance industry.

The SIA works with the Competence Centre for Diversity and Inclusion at the University of St Gallen (CCDI-HSG) on this and commissions a regular benchmarking report. The association also works with Compasso, a portal for employers that provides information around professional reintegration. It offers guidance and assistance to help companies deal with employees facing debilitating health problems. Among other things, Compasso shows employers how exits from the primary labour market can be avoided as far as possible. The SIA also supports the focus50plus initiative, a project of the Swiss Employers' Association. It seeks to support companies in helping their older employees with occupational mobility and in creating a progressive approach to generational management. GRI 103-1

10.4 Modern working environment GRI 103-2

The pandemic has shown how quickly and effectively the insurance company has made the move from office working to home or remote working. This change has led many member companies to establish new and innovative ways of working, with hot-desking, flexi office and hybrid working options now commonplace for many SIA members. This is also changing how employees work together and the concept of leadership. GRI 103-2 GRI 103-1

The SIA worked with the Kaufmännischer Verband in 2021 to update and modernise its recommendations on employment conditions[a] in the insurance industry. They now feature an explicit commitment to developing and strengthening employability.

GRI 103-2

a employment conditions

11 Collaboration for sustainable development

In order to make the insurance industry more sustainable, the SIA and the individual insurance companies work with various partners in areas including knowledge development, political advocacy and public relations.

11.1 SIA activities

The SIA sits on all Economiesuisse's committees that deal with (environmental) sustainability issues. Together with this umbrella organisation for the business community, the SIA supports the Swiss CO_2 Act and the Federal Council's efforts to achieve net-zero emissions by 2050.

As a network partner of Swiss Sustainable Finance (SSF), the SIA works to strengthen Switzerland's position in the global sustainable finance market. To achieve this goal, the association is focusing on measures to inform, raise awareness and promote sustainability. The SIA became a supporter of the UN-convened Net-Zero Asset Owner Alliance (AOA) in 2021. The investors comprising this global network are seeking to transition their investment portfolios to net-zero CO_2 emissions by 2050.

Dr Gunthard Niederbäumer, a climatologist and Head of Non-Life and Reinsurance at the SIA, attended the COP26 Climate Change Conference in Glasgow in November 2021 as a representative of Swiss business and part of the official Swiss delegation.

The SIA works with the University of St Gallen and its Institute of Insurance Economics (IVW-HSG) on various topics – both on sustainability and on issues relating to the future world of work (including the 'Skills of the future' study).

11.2 Industry activities

GRI 102-12 102-13

Swiss insurers are mindful of their economic responsibility and endeavour to play a role in the Swiss economy that is consistent with the sector's contribution to GDP of over 4 per cent. They strive to continually improve their positive social, economic and environmental impact in their work with others and take it upon themselves to add value to the places where they operate.

'Insurers can get even more involved in the public debate and shape the climate discourse.'

André Müller
Economics Editor, Neue Zürcher Zeitung
– Quote from the 2021 stakeholder dialogue

The following table provides a non-exhaustive overview of the major global sustainability initiatives and main industry networks on sustainable finance and sustainable development to which the survey respondents (42 companies) have signed up:

Member companies (SIA or company level)
- United Nations Principles for Responsible Investment (UN PRI) [27 exponents]
- Task Force on Climate-Related Financial Disclosures (TCFD) [19 exponents]
- Swiss Sustainable Finance (SSF) [18 exponents]
- United Nations Environment Programme Finance Initiative Principles for Sustainable Insurance (UNEP FI PSI) [18 exponents]
- UN Global Compact [17 exponents]
- Net-Zero Asset Owner Alliance (AOA) [11 exponents]
- Global ESG Benchmark for Real Assets (GRESB) [9 exponents]
- Forum Nachhaltige Geldanlagen [4 exponents]
- Swiss Association for Responsible Investments [4 exponents]

Some insurance companies are founding members of the Net-Zero Insurance Alliance (NZIA)[a], which was formed at the International Conference on Climate Change in Venice in July 2021.

Although working on and signing up to global goals and standards marks a significant step for these companies, this does have its limits. Most announcements and pledges, especially on climate issues, are focused on future targets, even though there is a pressing need to act now. That means the commitments usually focus on the ultimate goal without addressing the more difficult and complex question of how we get there. The insurance industry still believes that there will need to be decisive action and support for transformation in the next few years if the SDGs and targets under the Paris Climate Agreement in particular are to be achieved.

a Net-Zero Insurance Alliance (NZIA)

About the SIA and this report

The Swiss Insurance Association (SIA) represents the interests of the private insurance industry at the national and international level. The association comprises about 70 primary insurers and reinsurers and employs a workforce of 47,000 in Switzerland. Overall, the member companies of the SIA account for about 85 per cent of insurance premiums generated in the Swiss market. This makes the insurance industry and thus the SIA a major force in the Swiss economy. Private insurers are therefore committed to the successful and sustainable development of the areas in which they operate, both in business and in social and political terms, and thus assume economic responsibility.

The SIA has reported on the sector's sustainability performance annually since 2020. This report relates to the activities of the SIA and the insurance industry in 2021. It was produced in line with the Global Reporting Initiative (GRI) standards. It is the combined, consolidated, non-financial report for the association and the vast majority of the Swiss insurance companies involved in the SIA. It describes the results achieved in key economic, environmental, social and governance areas. The report centres around the topics that were identified as being particularly important for the industry's business activities and stakeholders in the materiality assessment conducted in 2021 (see section 3.2 'Stakeholder dialogue' for more information).

The consolidated data in this report was collected at company level, and as with the 2020 sustainability report, it relates to the majority of Swiss insurance companies. This scope applies to all areas of the report unless explicitly stated otherwise in relation to a particular section.

GRI 102-1 102-2 102-4 102-5 102-6 102-7 102-45

GRI 102-51

The data collected on investments, occupational environmental management and cooperation for sustainable development relates to the period 1 January 2021–31 December 2021 (except for Scor and Swiss Re, which have a different financial year). The reference date for the employment statistics cited in the section 'The world of work' was 31 December 2021. The following table shows the number of reporting entities or companies, the period in which the data was collected and other relevant notes on the respective sections.

GRI 102-50

GRI 102-52

GRI 102-54

Section	Title	Number of reporting entities/companies	Data collection period	Remarks
7	Investment	42 of 58 entities surveyed	December 2021 to March 2022	The reporting companies together manage 77 per cent of all investments made by the private insurance industry.
8	Operational environmental management	37 of 56 entities surveyed	January 2021 to February 2022	For subject areas for which no quantitative information is available from the member companies, qualitative information is provided on the challenges and measures in the insurance industry. Not all companies included their sales forces.
9	The world of work	93 companies	31 December 2021 (reference date)	The employee information is based on the SIA's employment statistics for 2021, as published in May 2022.
11	Collaboration for sustainable development	42 of 58 entities surveyed	December 2021 to March 2022	

The Sustainability Report 2021 is available in German, French and English. More information about the Swiss Industry Association for private insurers can be found at svv.ch[a]. GRI 102-8

a svv.ch

Appendix

GRI content index

The following table contains an overview of GRI references. The placement of the GRI labels should be seen as a navigation aid. GRI labels are placed within the report as soon as information is provided on the corresponding key metrics or on management approaches – irrespective of whether the information provided is complete from the view of GRI reporting. Additional information has to be provided in particular in relation to reporting on material topics.

A determination of the material issues in terms of the greatest impact of the SIA or the Swiss insurance industry on the environment, society and the economy has not yet been defined, and a comprehensive situation analysis is not available. The issues that have been identified as material, i.e. reportable, include:

- Underwriting
- Investment
- Operational environmental management
- Retirement provision
- The world of work

Other issues at the same level (e.g. insurers shoulder risks for the benefit of society and collaboration for sustainable development) should be considered as more of an approach. As a result, no GRI disclosures have been made on these issues in the report.

GRI = Left-hand column GRI = Right-hand column

GRI Standard	Name	Page	Additional information and omissions
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
Organisational profile			
102-1 Name of the organisation		38	Swiss Insurance Association SIA
102-2 Activities, brands, products and services		38	
102-3 Location of headquarters			Zurich
102-4 Location of operations		38	SIA operates in Switzerland
102-5 Ownership and legal form		38	
102-6 Markets served		38	SIA operates in Switzerland
102-7 Scale of the organisation		38	
102-8 Information on employees and other workers		39	Information[a] on employees
102-10 Significant changes to the organisation and its supply chain			none
102-11 Precautionary principle or approach		6, 12, 15	
102-12 External initiatives		36	
102-13 Membership of associations		36	

a Information on employees

GRI Standard	Name	Page	Additional information and omissions
Strategy			
102-14	Statement from senior decision maker	4	
Ethics and integrity			
102-16	Values, principles, standards and norms of behaviour	8	
Governance			
102-19	Delegating authority	8	Sustainability report 2020[b], page 9
Stakeholder engagement			
102-40	List of stakeholder groups	11	
102-42	Identifying and selecting stakeholders		Sustainability report 2020[b], page 9
102-43	Approach to stakeholder engagement	10	
102-44	Key topics and concerns raised	10, 11	
Reporting practice			
102-45	Entities included in the consolidated financial statements	38	
102-46	Defining report content and topic boundaries	10	
102-48	Restatements of information	20, 27	
102-49	Changes in reporting	6	The topic ‘Underwriting’ was added to this year’s report.
102-50	Reporting period	38	
102-51	Date of most recent report	38	
102-52	Reporting cycle	38	
102-53	Contact point for questions regarding the report	43	
102-54	Claims of reporting in accordance with the GRI Standards	38	
102-55	GRI content index	40	

b Sustainability report 2020

Material topics

GRI Standard	Name	Page	Additional information and omissions
Underwriting			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	17	
	103-2 The management approach and its components	17, 18	
	103-3 Evaluation of the management approach	18	
Investment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	20, 23, 25	
	103-2 The management approach and its components	20, 22, 24	
	103-3 Evaluation of the management approach	20, 22, 23, 24	
SIA-specific disclosure	Percentage of sustainable investments	23	
Operational environmental management			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	27	
	103-2 The management approach and its components	27	
	103-3 Evaluation of the management approach	27, 29	
GRI 302: Energie 2016	302-3 Energy intensity	28	
	302-4 Reduction of energy consumption	28	
GRI 305: Emissionen 2016	305-4 GHG emissions intensity	28	
	305-5 Reduction of GHG emissions	28	
Retirement provision			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	30	
	103-2 The management approach and its components	30, 31, 32	
SIA-specific disclosure	Extent of investments in group life insurance managed by private life insurers	32	
The world of work			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	33, 35	
	103-2 The management approach and its components	33, 35	
SIA-specific disclosure	Employment statistics for the industry association	33	

Endnotes

1 Engagement refers to active dialogue between shareholders and management teams of investees 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 often achieves more than simply avoiding investment in certain industries. Source: 'Sustainable Asset Management: Key Messages and Recommendations of SFAMA and SSF'
to the document

2 The Finma figures for 2021 not yet published, so the 2020 data was used as the basis for comparison.

3 The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA)

4 Sources: Swiss Federal Statistical Office, pension fund statistics 2020; Finma, 'Operating statement of occupational pension schemes 2020'

5 Source: VPS, index of collective and cooperative foundations

6 Source: Finma, 'Operating statement of occupational pension schemes' 2020

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