Commentary
ESG Takes Center Stage as Insurers Set Sustainability Goals and Restrict Cover to High Polluters

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Key Highlights

- Insurers are setting ambitious emissions targets and restricting cover and investments in the oil and gas sectors.
- An increasing number of insurers are signing on to follow the UNEP FI's Principles for Responsible Investment.
- With more than $36 trillion in assets, the global insurance industry will play a key role allocating investments to economic sectors that better align with long-term sustainability goals.

Overview

With Environment, Social, and Governance (ESG) awareness on the rise, insurance companies are starting to respond more decisively. They are setting ambitious emissions targets for themselves and restricting cover for some industries like high polluters in the energy and oil and gas sectors, notably the tar sands in Canada and coal. Many of the largest global insurance providers have signed up to comply with climate friendly frameworks for sustainable insurance and are investing with the support of the United Nations. The growing momentum of sustainable investment among insurers will facilitate the transition toward a low-carbon economy globally, which will help mitigate the effects of climate change. DBRS Morningstar expects that many insurance companies will adapt such frameworks in the future with the trend accelerating in the near term.

Insurers Set Ambitious Individual Emissions Targets and Restrict Cover to Oil and Gas Sectors

The United Nations Environment Programme Finance Initiative's (UNEP FI's) Principles for Sustainable Insurance are part of the drivers leading to insurers setting strong carbon emissions targets. One of the most recent companies to set targets is UK insurer Aviva plc (Aviva), which announced that it intends to become a net-zero carbon emissions company by 2040, making it one of the first major insurers to make such a commitment. Aviva's targets are aggressive and include "a cut of 25% in the carbon intensity of its investments by 2025 and of 60% by 2030" (ahead of the 50% cut required by the Paris Agreement), and "Net Zero carbon emissions from its own operations and supply chain by 2030." Zurich Insurance Group (Zurich) also set similar targets, although further out, by planning to fully decarbonize its investment portfolio by 2050 and helping avoid the emission of 5 million metric tons of carbon dioxide.

Exhibit 1 Principles for Sustainable Insurance

Principles	Description
1	We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.
2	We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.
3	We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.
4	We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

Source: UNEP FI Principles for Sustainable Insurance Initiative.

Insurers in general have started placing restrictions on their exposure to the oil and gas sector. It was reported that AXA, AXIS Capital, Generali, Munich Re, Swiss Re, The Hartford, and Zurich have limited their insurance cover for the Canadian oil sands projects.[1] On March 16, 2021, Swiss Re announced a 35% carbon reduction target for its investment portfolio to be achieved by 2025. Swiss Re is also moving ahead with the full phase-out of thermal coal insurance cover. It has also introduced a triple-digit real internal carbon levy for its own operations.[2]

More Insurers Are Becoming Signatories to the Principles for Responsible Investment

Another framework driving change is the Principles for Responsible Investment (PRI), developed by a United Nations-supported international network of investors (including insurers) that have set six aspirational principles (Exhibit 2). The intention is to incorporate these principles when making investment decisions. By adhering to the PRI, an organization demonstrates its commitment to responsible investment. This shows the institution's support for the ongoing global movement toward establishing a more sustainable financial system. It also influences the reduction in greenhouse gas emissions, which helps in the fight against climate change and its adverse effects on the environment. By abiding by the PRI, signatories contribute to the achievement of global sustainability goals. In addition to the Principles for Sustainable Insurance, both Zurich and Aviva are signatories of the PRI, which may have influenced their decisions to set clearly defined sustainability targets.

Exhibit 2 Principles for Responsible Investment

Principles	Description
1	We will incorporate ESG issues into investment analysis and decision-making processes.
2	We will be active owners and incorporate ESG issues into our ownership policies and practices.
3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4	We will promote acceptance and implementation of the Principles within the investment industry.
5	We will work together to enhance our effectiveness in implementing the Principles.
6	We will each report on our activities and progress towards implementing the Principles.

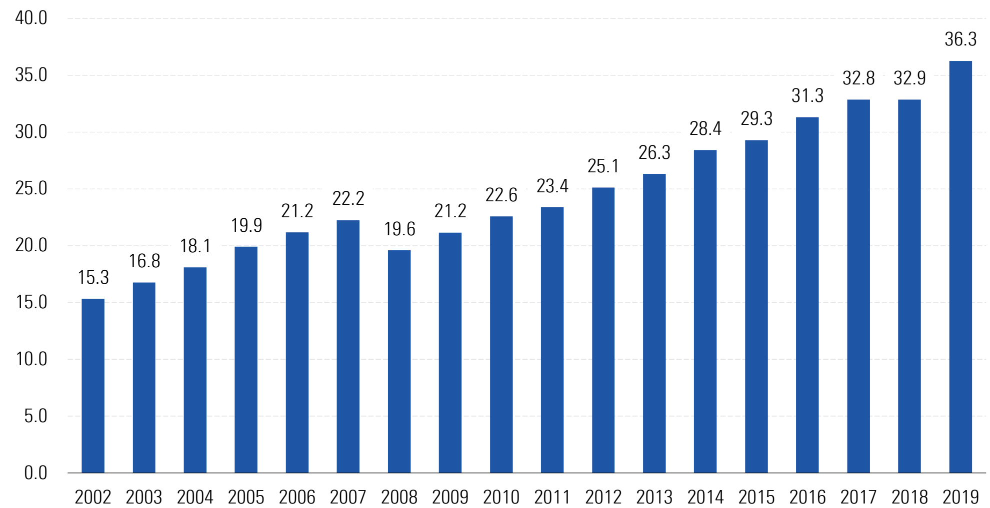
Source: UN Principles for Responsible Investment.

BlackRock’s 2018 Global Insurance Survey indicated that 59% of North American insurers have implemented sustainability investment policies. The survey also determined that the percentage of North American insurers that consider climate to be the most serious macro risk to their investment strategy over the next 12 to 24 months, increased to 21% from 9% in one year. However the report found that European insurers are still in the forefront when it comes to ESG integration.

With the continued interest in the adverse effects of climate change and the need for concrete action, investors, regulators, and customers are beginning to appreciate the relevance of ESG factors in fostering a sustainable global financial system. Insurance companies are major investors, with estimated total global assets of about $36.3 trillion dollars in 2019 (Exhibit 3). This gives the industry significant influence in the movement toward encouraging the adoption of PRI and sustainable investment in general. In the near term, more insurance companies will adapt the PRI as way to incorporate ESG into their investment portfolios.

1. Paul Lucas/Insurance Business Canada, Talanx Group dropping support for Trans Mountain pipeline, 2020.
2. Swiss Re, Swiss Re announces ambitious climate targets; accelerates race to net zero, 2021.

Exhibit 3 Total Assets of Insurance Companies Worldwide from 2002 to 2019 (USD Trillions)



Sources: DBRS Morningstar and Financial Stability Board.

Related Research.

- *Italian Non-Life Insurance - Incorporating Climate Change into Risk Management*, May 17, 2021.
- *P&C Insurance: Regulatory Oversight Essential for Broad Adoption of ESG Reporting Principles*, April 27, 2020.

Notes:
All figures are in U.S. dollars unless otherwise noted.

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