ESG IN BERMUDA: THE RISING TIDE

The maturity of ESG on the island and what it means for the (re)insurance industry

BUSINESS DEVELOPMENT AGENCY **BERMUDA**

Oxbow Partners

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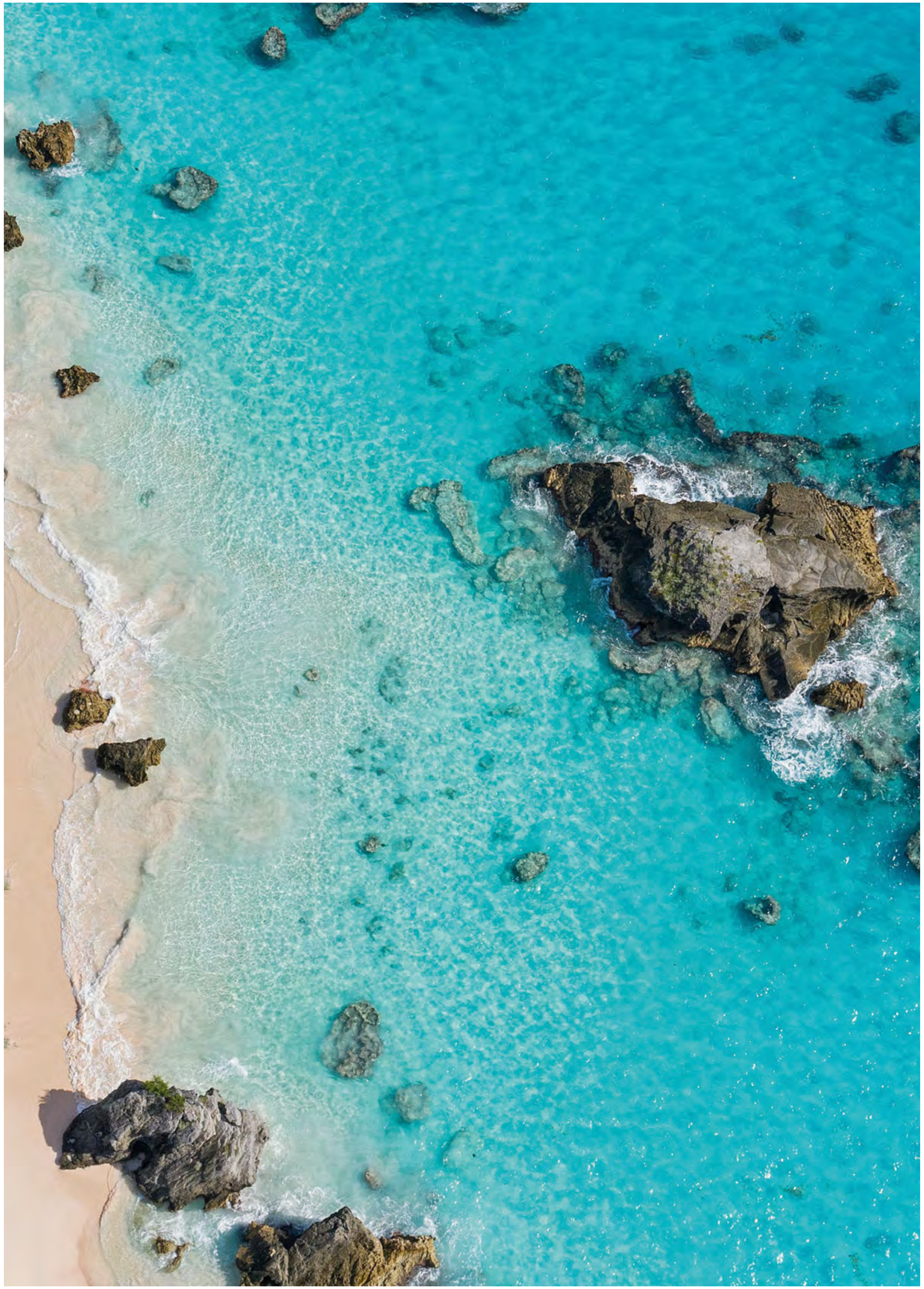


Foreword

Stephen Weinstein, Chair, Bermuda Business Development Agency

To a casual observer, it might seem that Bermuda first embarked on its voyage to become the world's climate finance capital about a year ago, on Earth Day 2021.

For on April 22, 2021, the Bermuda government announced its climate initiatives which focused on: Reducing Bermuda's carbon footprint; protecting our fragile ecosystem; increasing adaptability and resilience; and investing in climate-focused efforts such as playing a leading role in climate risk finance – news that was enthusiastically lauded by our business and community leaders.

On closer inspection, these commitments are rooted in four centuries of sustainable practices and a culture of conservation, starting with potentially the Western world's first conservation law to protect young turtles from being overfished. Bermuda's ESG practices and values pre-date the recent widespread adoption of the acronym.

In the last 50 years, Bermuda has established itself as the world's risk capital, particularly with respect to climate-driven (re)insurance, and as the leading global issuer of Insurance Linked Securities (ILS). Bermuda's track record in global risk transfer, its sophisticated regulatory regime, and its extraordinary human capital relating to climate finance, science & regulation, are the ideal foundation for Bermuda to emerge as a global hub of climate finance and resilience collaboration.

Over the last year, the Bermuda Business Development Agency (BDA) and its partners have travelled the world – from COP26 in Glasgow to Silicon Valley and several major US cities – to tell Bermuda's unique ESG story, particularly in relation to climate finance.

As we progressed on our ESG journey, we realised how significant it was to gather data about ESG practices, developments and aspirations in our market. That has resulted in the publication you now see before you. We are gratified to be able to share this important work with you.

Bermuda has long since punched above its weight class on the world stage in global risk transfer markets. For example, Bermuda's commercial (re)insurers have paid out over half a trillion dollars to policyholders and cedants in the US, EU and UK since 1997. These achievements are rooted in leadership and vision. We now hope to make a similarly outsized contribution towards the most pressing challenge of our time, climate change, and the other aspects of ESG important to communities, investors, businesses and employees worldwide. This report is an excellent tool to assess the current state of our market's ESG journey. It serves as an invaluable benchmark against both the achievements Bermuda will contribute to in the future and the new challenges we will encounter along the way.

On behalf of the stakeholders, board of directors and team of the BDA, I would like to thank Oxbow Partners, UK, for their collaborative efforts in generating this report. In particular, Miqdaad Versi, Head of ESG at Oxbow Partners and his team who dedicated their expertise to this project. We also extend our thanks to our survey participants, ranging from leaders in the Bermuda Government to the private market, for sharing their valuable time and insights. And finally, we thank you for your interest in these issues and the Bermuda market.

Introduction

Environmental, Social and Governance (ESG) issues have stormed onto the boardroom agenda across the insurance industry in the last year. Systemic global issues, from climate change to COVID and Russia's invasion of Ukraine, mean that ESG is a topic that is here to stay.

The topic is complex for (re)insurers. For consumer goods companies such as Unilever, who integrated ESG into their strategies early on, the benefits are obvious: Reduce your production inputs and risk and you create a lower cost, more resilient business, with a nice brand story to boot. But for (re)insurers the topic is less clear-cut. Insurance is not a heavily polluting industry and its employees do not work in dangerous conditions. Clearly, plenty can be done on issues such as gender, but insurance's direct contribution to issues such as carbon emissions is negligible.

Does that mean the industry can stand aside? Certainly not.

Insurance and ESG are inextricably linked, but in complex ways. Insurance is an enabler of every industry in the world and (re)insurers are increasingly expected to nudge good ESG behaviour in others. Only recently, Lloyd's of London was briefly closed as an activist group staged a protest outside its building.

For many, it is not obvious what a robust ESG strategy looks like in (re)insurance. Going too far could create balance sheet risks without any benefit to the world, whilst going too slowly risks reasonable accusations of foot-dragging.

So how far should (re)insurers go in their nudging? Should (re)insurers focus on aspirations like closing the protection gap even if this will take years, or on shorter-term opportunities like finding ways to finance better reconstruction after natural catastrophes? Should they focus on nudging their clients to net-zero through, say, underwriting policies, or on the impact of climate change on their own portfolios? This report shines a light on what the Bermudian reinsurance industry in doing in these areas in section 3.

In section 4 we argue that (re)insurers should in fact make proactive decisions on the above questions as they develop their strategic approach to ESG, complemented by concrete action plans supported by adequate resources to achieve their ambitions. The most effective outcomes, however, will only be achieved in concert with other market participants, including the regulator, brokers, trade bodies and public bodies, both nationally and internationally.

Located between the US and Europe with strong links in both directions, and with 1,200 carriers on the island writing net premiums of over US$150 billion, Bermuda is integral to the world's ESG response. The island is an important player for climate risk finance and, increasingly, other areas of systemically important risk such as cyber and casualty.

As Bermuda looks to its future, the Bermuda Business Development Agency and Oxbow Partners have jointly coordinated this study in the belief that greater transparency over ESG activity in the market will allow all members of the Bermudian ecosystem to refine and accelerate their strategies. We hope you find the report valuable.

About this report

Benchmarking methodology

This report seeks to assess the overall maturity and direction of ESG in the Bermudian (re)insurance market. (Re)insurers, brokers and ILS funds were invited to take part in the study by the Bermuda Business Development Agency. 21 firms agreed to participate, representing a total GWP of more than $100bn and a combined investment portfolio of over $550bn. In addition, seven government and industry leaders contributed with individual interviews on the wider context of ESG and its implications for the Bermudian market.

Oxbow Partners conducted interviews with participants during February and March 2022 using a bespoke framework of questions based on global ESG standards which were tailored for the Bermudian (re)insurance landscape. Topics included their view of the market, their current and proposed approach to ESG and a deep-dive into each of E, S and G. The role of various stakeholders, the impact of ESG on underwriting & investment strategies, internal policies, data & disclosure, and outreach & advocacy were all covered.

Participants' responses (both qualitative and quantitative) were aggregated and analysed by Oxbow Partners. Most responses have been anonymised and references to specific points not in the public domain are made with the participant's permission.

Use of this report

This report is written for three main audiences:

- **(Re)insurers, brokers & ILS funds:** To help them understand their relative maturity in ESG and to identify actions which may be necessary given industry norms and best practice
- **Regulators & policymakers:** To understand the views of the (re)insurance industry on ESG, their direction of travel and their expectations from regulators. Also to identify areas of particular risk where further guidance may be required
- **Trade bodies:** To determine the best way to support the industry given the identified risks and challenges

Acknowledgements

Oxbow Partners and the Bermuda Business Development Agency would like to thank both the interviewees who provided their perspectives on ESG in the global and Bermudian context. We would also like to thank the 21 companies who participated in the study for their generous time and insights which have made this report possible.

Thank you in particular to Deputy Premier Walter Roban and BMA CEO Craig Swan for their participation in this report, as well as Premier David Burt and members of his government for Bermuda's ESG efforts, which have helped inform this report.

Participants

Disclaimer: This list includes all (re)insurers and ILS funds who were willing to disclose their participation in this study

AEOLUS | AIG | Ariel Re
AXA | African Risk Capacity | ARGO GROUP
Aspen | AXIS | EVEREST
FIDELIS | Global Atlantic Financial Group | HAMILTON
HISCOX | INTEGRAL / ILS | kettle
NEPHILA | RenaissanceRe | SiriusPoint
SOMPO | VANTAGE

Executive summary

Context: The Bermudian insurance market (Section 1)

Bermuda is one of the world's premier risk capitals and is traditionally quick to adapt to new opportunities that arise in its markets. Our study, which was based on interviews with executives from 21 companies on the island, shows that 72% of companies have started engaging with ESG concerns and are at the early stages of their ESG journey, with a further 14% having a developed ESG approach. However, 14% had not taken any formal action on ESG. Companies were roughly equal in their desire ultimately to be a leader in ESG or a "second-quartile" follower.

Participants highlighted many strengths of the Bermudian market that can be leveraged to push forward the ESG agenda. For example, the Bermudian industry is at the forefront of discussions at the Insurance Development Forum (IDF) about how to improve resilience in developing markets. 86% of participants believed Bermuda's expertise in natural catastrophe risk transfer would allow the industry to drive environmental issues forwards. Many also commented on the long history of corporate philanthropy on the island including charitable, voluntary and educational schemes. The Bermuda Monetary Authority's (BMA) pragmatic approach to regulation was also cited as a strength.

It is therefore no surprise that 43% see ESG as an opportunity, whereas only 19% see it as a risk.

Drivers and barriers of ESG (Section 2)

Investors and shareholders were cited as the main driver of ESG (mentioned by 86% of participants), closely followed by employees (81%). 38% mentioned internal management, ahead of regulators at 29%. Whilst most believe that Bermuda is ahead of the US in ESG maturity, 76% of companies recognised that the maturity of Bermudian regulation is behind Europe. As a result, almost all participants expect to see greater regulation in the future, including a shift in focus from guidance to mandated action. Rating agencies are not currently a driver, despite ramping up their ESG coverage in ways we describe later.

We also asked participants about barriers to advancing their ESG journeys. 71% see resource as the limiting factor and 67% of those with ESG resource had less than two FTE working on this. 43% also cited the lack of reliable ESG data (including a lack of data standardisation) as material issues. Furthermore, many firms expressed concern about disclosure because of the reputational and increasing legal risk that it attracts.

We took away a strong view from interviews that the industry genuinely wants to make an impact on ESG matters rather than just ticking the boxes or responding to outside pressures.

Where is the Bermudian market on ESG? (Section 3)

We considered this question in five areas: Insuring more of the world's risk; influencing others; improving internal ESG credentials, international collaboration and advocacy; and ESG disclosures.

Insuring more of the world's risk
Global markets face a protection gap of $1.4 trillion. Some of the larger (re)insurers around the world, particularly global players headquartered in Europe, are working actively on solutions for developing markets, including microinsurance and parametric triggers. Only a limited number of Bermudian market players have thus far been prominent players in these developments. What is clear from the study, however, is that most Bermudian carriers have the technical capability to understand and underwrite risk around the world and that Bermuda has traditionally (and successfully) focused on shorter-term opportunities and in-year underwriting performance rather than public engagement, policy initiatives and extensive regulation, where Europe is seen as the global leader. Should these ESG-driven initiatives mature without more comprehensive participation from Bermuda players, the Bermuda market as a whole, while ahead of many global markets such as the US, risks falling further behind.

Influencing others
When it comes to influencing others, Bermuda is also at the beginning of its ESG journey. 32% have integrated ESG into underwriting and in most cases, this is as a simple exclusion to risk appetite. For example, 45% are actively reducing exposure to certain lines of business such as thermal coal. Only 32% have started to source ESG-specific data for their underwriting processes, and most are still trying to understand what to do with this data, partly because of the non-predictive and inconsistent nature of the data. 92% of participants who had not done so already said that they intended to integrate ESG into their underwriting approaches in the future.

ESG is more embedded in investments – 47% of participants saying they had integrated it in some way, recognising many do not manage their own investments. Some (re)insurers are using third party data providers such as MSCI to assess the carbon footprints of their portfolios, with some of the same caveats about the quality of this data as their underwriting colleagues.

Improving internal ESG credentials
All participants are seeking to improve their internal ESG credentials – to 'walk the walk'.

On environmental, a majority of firms (76%) have implemented environmental policies, with office impact reduction and recycling the most typical. 19% have specific carbon offset policies in place. A smaller proportion (38%) have had made at least one environmental pledge, of which a net-zero target is the most common. There was a lack of consensus about whether ESG would reduce the amount of travel that companies would sanction.

On social, participants highlighted the work they were doing on DEI and employee engagement, alongside the various volunteering charitable, voluntary and education schemes they run. 76% of (re)insurers and ILS funds had put a DEI policy in place. Of those with a policy, 81% tracked these metrics internally. However, fewer had gone on to publish these (44%). Many (re)insurers highlighted how they have set up employee resource groups (especially around DEI) alongside other career development programmes to support employees.

On governance, a majority of (re)insurers' ESG structures (71%) were embedded within the pre-existing governance structure while 14% have established ESG as a separate function alongside. 43% of participants have a Head of Sustainability or equivalent, whilst 57% have ESG-specific committees and forums which include participation from various fields. Only 38% of participants (typically at larger companies) had dedicated resource with the majority of participants (67%) having under two FTEs on ESG-related issues. 29% have linked executive compensation to ESG targets or included ESG-related factors within their values, which form a part of all employees' remuneration.

International collaboration and disclosures

Progress in ESG adoption within the insurance industry globally cannot be made without international collaboration. 12 out of the 21 interviewees were members of at least one initiative with the most popular of these being the Principles for Sustainable Insurance (PSI) and UN Principles for Responsible Investment (PRI) (38%). 76% of participants had published ESG thought leadership and 81% felt they were influencing their network on ESG issues. However, most (re)insurer participants had not invested significantly in external engagement given they were in the early stages of their ESG journey and feared venturing into the public eye.

ESG disclosures

Transparency allows for greater accountability and ultimately success in the fight against climate change and as such plays a central role in any ESG strategy or framework. As far as external reporting is concerned, 71% of Bermudian (re)insurers have ESG pages on their website, but only 52% have published an ESG or sustainability report in line with at least one recognised industry standard. Of those not yet disclosing, 30% were planning to release an aligned report in the coming year.

What to do now (Section 4)

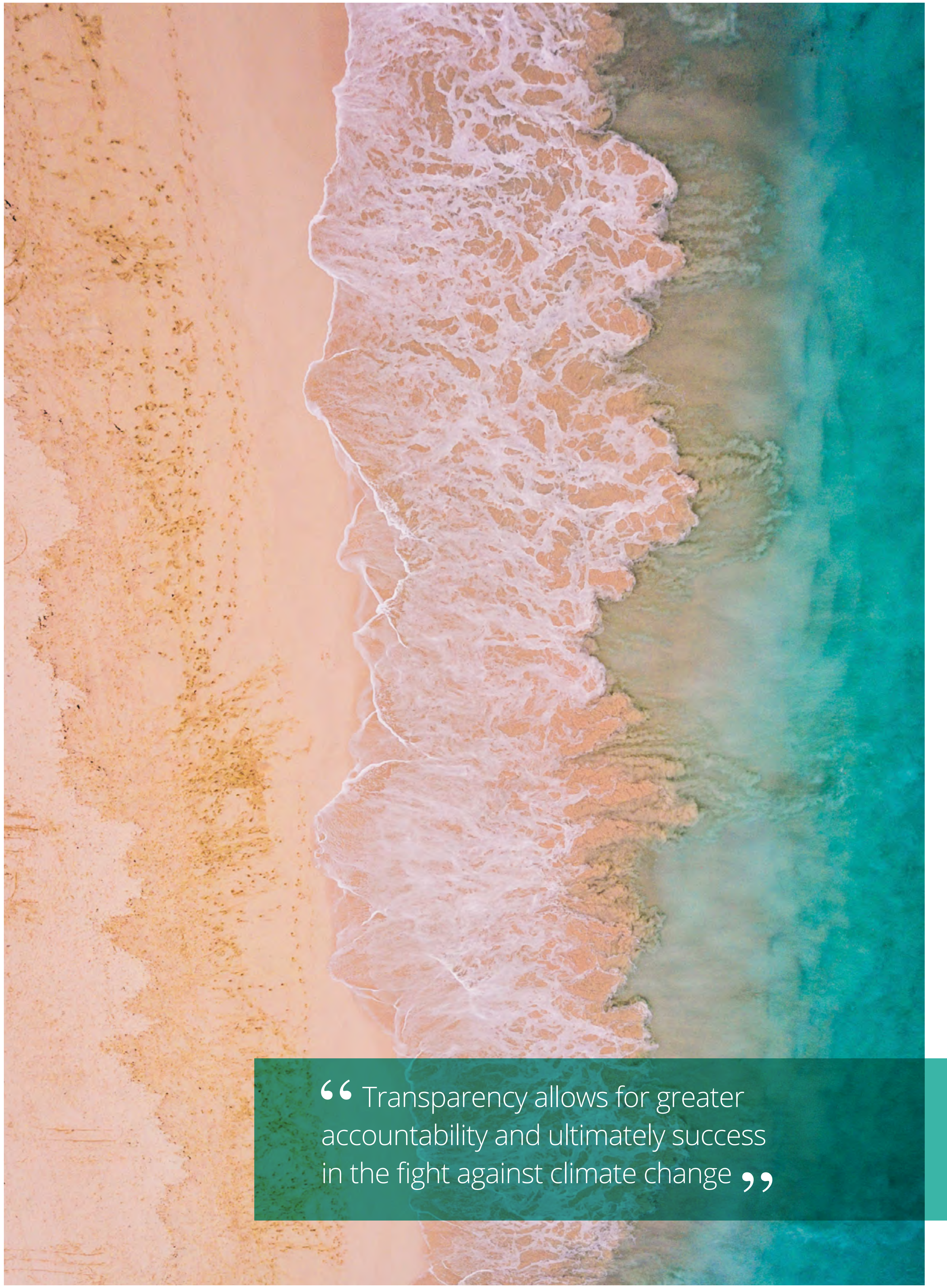
ESG is no longer an optional side project for large companies' sustainability teams. Every (re)insurer on the island needs to consider its ESG positioning – initially by using the detailed benchmarking that sits behind this report – and then consider how it can achieve its target state.

For (re)insurers and ILS funds, the objective is to embed ESG across their business (rather than to see it as a stand-alone objective). They should consider action in the following areas:

01 Document current activity
02 Create a vision and ambition
03 Develop a strategy & action plan (with resources) to embed ESG and tell their story
04 Develop an ESG data strategy
05 Improve collaboration

Other market participants should:

01 Disclose their ESG plans
02 Facilitate collaboration and cross-industry alignment
03 Update regulatory requirements and industry standards on ESG



Perspectives on ESG from industry leaders

Hon. Walter Roban
JP, MP, Deputy Premier, Minister for Home Affairs, Bermuda

What is your vision for the future of Bermuda with regards to ESG?
The reality is we have no choice but to tackle the environmental challenges posed by climate change given how susceptible we are as an island to its impact. We can't eliminate climate threats entirely, but we can build a more sustainable future and resilient system that properly mitigates the risks.

What does this mean? Over the last hundred years we have increased our dependency on food imports and fossil fuels. We need to transform to a sustainable future with more on-island agricultural innovation, environmental preservation and renewable energy transition. I also see a more tech-focused future, pushing our people to be more technologically minded as part of a resilient and diversified economy. We want to be a test bed for innovation in addition to mitigating climate risk.

However, it's not only about the environmental issues. Bermuda also faces broader social issues such as diversity & inclusion, social mobility & racism and a high cost of living. Too often these issues are brushed under the carpet. That is not an option anymore. Tackling these issues is vital for me and I hope to better the social cohesion of Bermuda to ensure a high quality of life for all.

How do you see the role of politicians in driving this forward?
Politicians have a responsibility to ensure all groups are properly represented in sustainability and we are receptive to advice that facilitates effective legislative action.

However, government alone is not an answer to the challenge. Private institutions, universities and industry all have a role to play. In my view, COP26 was an example of the future as governments came together joined by thousands of industry and climate leaders who brought concrete ideas about financing and engineering the transition to net-zero.

How do you see the role and performance of insurance across ESG?
The (re)insurance industry in Bermuda is a real partner for us and is well placed to support our vision for a sustainable future. They have had the foresight to be at the cutting edge of understanding and modelling climate risk, leading to Bermuda becoming one of the world leaders in ESG. Their accumulated data and expertise have already been instrumental in fostering partnerships such as our continued work with the WAITT foundation.

However, there is a lot more that can be done to drive progress – like with all industries. For example, there is the opportunity to attract more human and financial capital to climate change, whether this is supporting technological innovation or funding academic research. Our advice is for (re)insurers to continue the great work they have been doing and keep Bermuda ahead of the ESG curve.

Do you feel Bermuda is leading in ESG?
In general, Bermuda has not sought to be a leader but has acted out of necessity and become an example for others. Our historic leadership of the Sargasso Sea Commission, a conservation initiative for the sea around Bermuda, was pioneering but driven by our position as the only landmass within the area. We are proud of the continued work we are doing, from our efforts around invasive species to the Bermuda Ocean Prosperity Programme. What happens to us due to the climate will eventually happen to other jurisdictions so we must bring international focus to our specific needs in climate change.

What are your future plans with regard to ESG?
The government is consistently supporting efforts in climate risk mitigation and taking steps to address issues such as environmental conservation. We are also implementing our Integrated Resource Plan as part of our transition to renewable energy. The climate study we are currently embarking on will be huge and inform much of our future decision-making. There are big decisions for the government to make in areas such as infrastructure, some of which may not be popular but will be critical to safety and a well-protected environment for all in the future.

> “We want to be a test bed for innovation in addition to mitigating climate risk”

Butch Bacani

Programme Leader, UN Environment's Principles for Sustainable Insurance (UNEP-FI)

The UN Environment Programme Finance Initiative (UNEP-FI) works with banks, insurers and investors to create a sustainable finance sector. They are responsible for creating the Principles for Sustainable Insurance, to which a handful of Bermuda (re)insurers are signatories.

What has UNEP-FI done on ESG for the (re)insurance ecosystem?
We coined the term ESG at the UNEP-FI as a better way of understanding factors which were not traditionally included in financial decision making. Since then, there have been a number of important initiatives which remain the cornerstones of our approach on ESG for the (re)insurance ecosystem.

The Principles for Responsible Investment (PRI) addressed the problem that sustainability meant different things to different investors and demonstrates the materiality of ESG as a legitimate risk input for financial markets. The higher-level set of Principles for Sustainable Insurance (PSI) has been developed for the industry, which is often misinterpreted as being just for underwriting. The ESG guide for non-life insurers took years to develop and is a comprehensive view of how to systematically embed sustainability into insurance.

What do you see as the role of insurance in ESG?
Many people see insurance primarily as a financial shock absorber when it comes to ESG, but the expertise around risk and resilience is an undervalued asset in the industry. The PSI have helped develop the narrative from merely dealing with the impact of climate change to actively closing the protection gap, promoting resilience and understanding of how insurers can influence and mitigate against the root causes.

Insurers cannot just think about insured risks but must also develop products such as microinsurance. They need to help facilitate decarbonisation by stewarding the transition of portfolios in the real economy and develop methods to incentivise resilience.

How do you see Bermuda's role in driving ESG forward?
What Bermuda says, matters. Any major risk capital like Bermuda has significant influence and should, by default, be a leader in championing the sustainable insurance agenda. It has promoted a very positive narrative on resilience – an area where it can be a world leader.

However, like all risk capitals, there is room for improvement. Bermuda lags Europe on many areas related to ESG and much more can be done. Regulators and policymakers, including the BMA, must drive the discussion forward and support the important ESG leadership demonstrated by many (re)insurers in the market.

What is next for UNEP-FI's engagement with the insurance industry?
In June we celebrate 10 years of the PSI. This is the make-or-break decade for climate change and our next steps will be to amplify the agenda of sustainable insurance while building on the core strengths of the industry. Our previous guide for non-life insurers was just the beginning and we are building towards defining what a sustainable insurance business is. In this pursuit, we are setting out our strategy for sustainability in life and health insurance and we are producing a guide for managing ESG risks in life & health.

The Net-Zero Insurance Alliance (NZIA), convened under the auspices of the PSI, has also partnered with the Partnership for Carbon Accounting Financials (PCAF) to develop the first global standard for measuring insured emissions. We will be launching a target-setting protocol in the first quarter of 2023.

What would your advice be for the insurance industry on ESG?
The industry should adopt and embed the Principles of Sustainable Insurance. (Re)insurers need to establish their ESG risk appetite and systematically embed the negative externalities associated with ESG into their risk management framework. To hit emissions and other ESG targets, a total balance sheet approach is needed in line with the UN's Sustainable Development Goals. Waiting for carbon capture technology simply won't cut it.

> "Any major risk capital like Bermuda has significant influence and should, by default, be a leader in championing the sustainable insurance agenda"

Craig Swan
CEO, Bermuda Monetary Authority (BMA)

How do you see your role as a regulator regarding ESG?
The regulator is one part of the overall insurance ecosystem which includes governments, trade bodies and leading (re)insurers all working together to support the transition to net-zero. Our specific mandate is protecting policyholders and ensuring the financial stability of Bermuda now and in the future. This means we need to be comfortable that all risks are managed proportionately and, where appropriate, capitalised.

Therefore, when it comes to ESG our 2022 business plan shows how we are integrating ESG considerations, particularly on climate change, into our regulatory and supervisory approach. This will include risks, opportunities and innovation. For example, we may need to see changes to risk models due to climate change or a new approach to risks that are harder to quantify such as reputational risk. We are also providing the insurance sector with comprehensive guidance on the governance aspects of climate change, ensuring that companies consider all climate-related risks.

The "financial stability" part of our mandate also provides a potentially broader scope to work with the market in the long-term to ensure an orderly transition process.

Do you see a difference between Bermuda and regulators in other geographies?
We recognise that there are regulators who put greater emphasis on the overall transition to net-zero and others who are very restrictive in their mandate. However, there is tremendous collaboration and sharing of information and experience among regulators. For example, regulators are working on different aspects of ESG which will combine to form global standards. We see ourselves as taking a balanced view of the regulator's role in climate transition while engaging actively with the global regulatory and corporate community.

How are you encouraging innovation in resolving the challenges posed by climate change?
Given the complex nature of climate risk we understand that innovation is key. We have two parallel innovation tracks that may be used to facilitate innovation in the transition to net-zero: Regulatory Sandboxes and Innovation Hubs which are available to all BMA-regulated sectors. These spaces can be used to explore innovative business models that pursue solutions to climate change and address the protection gap in instances where the proposals do not currently fit under our traditional classes.

What are your long-term expectations for ESG in Bermuda and the insurance sector?
The Bermuda insurance market is extremely agile and we are positive but realistic in our expectations of (re)insurers' capacity to achieve a successful orderly transition to net-zero. We want to preserve the stability of the Bermudian market as it has the potential to significantly contribute to global climate change solutions. We expect Bermuda's commercial, captive and ILS markets to continue to be key players in the development of new technology and supply chains.

What would your advice be for the insurance industry on ESG?
We think it is important that companies are good global citizens while also recognising the need for proportionality and working towards the transition to net-zero in an orderly and pragmatic way. For example, while disclosure on climate risk will grow, companies should focus on pragmatic steps to understand and manage the risk rather than searching for the most sophisticated solutions. This will be an important step in iterating and improving the insurance risk management framework, as well as determining the future opportunities in this space.

" Our specific mandate is protecting policyholders and ensuring the financial stability of Bermuda now and in the future "

Gregory Wojciechowski

President and CEO, Bermuda Stock Exchange (BSX)

What is the role of the Bermuda Stock Exchange?
Our role is to ensure transparency of information and to give investors the ability to make informed decisions though a set of standards all listed companies must meet. This now extends to ESG as some investors are looking for companies that meet specific ESG criteria and some companies wish to showcase their ESG credentials.

How is ESG affecting the exchange?
The velocity of discussion around ESG is truly incredible. ESG is an issue that has floated to the top of company agendas worldwide and is now discussed in the boardroom. More and more investors not only care about returns and the bottom line, but also about broader ESG considerations.

The increased severity of storms, concerns about social issues in the US in particular, and the importance of diversity and inclusion are just some of the topics of discussion amongst investors.

How important are ILS funds?
Bermuda is a centre of excellence for ILS which presents an innovative way to make complex insurance risk (often climate risk) more consumable for investors. The more capital that supports climate risk, the more climate and other insurance protection gaps close – a real-world benefit from these structures and a good example of a niche served by the BSX.

> “Our advice is to encourage as much disclosure as possible and ensure clarity in corporate communications relating to ESG issues”

What are your current and future plans around ESG?
The BSX launched its ESG initiative in 2019, embracing the World Federation of Exchanges' five Sustainability Principles. These provide a clear statement of our intent and direction of travel.

As investor interest in ESG increases, disclosure of information will become more important. Furthermore, as Bermudian companies' ESG maturity develops and ESG frameworks standardise around the globe, ESG disclosures and information sharing will increase. This will likely form a necessary component of listing at the BSX, mirroring other global exchange rules. However, as it stands the BSX does not mandate any ESG disclosures or exclude companies from listing based on any ESG-specific criteria.

In the shorter term, we are in the process of developing guidance around ESG to help inform companies who wish to be categorised on a specific ESG board at the BSX. This will make it easier for investors to identify ESG-compliant investments.

The BSX is also a Partner Exchange in the United Nations (UN) Sustainable Stock Exchanges (SSE) initiative. The SSE fosters peer-to-peer learning and explores how exchanges, in collaboration with investors, regulators and companies, can enhance corporate transparency – and ultimately performance – on ESG issues and encourage sustainable investment.

There is certainly more work to be done in this area and as the maturity of the market develops, I expect that we will create more products for investors and encourage ESG-focused companies to list at the BSX.

What would your advice be for the insurance industry on ESG?
Our advice is to encourage as much disclosure as possible and ensure clarity in corporate communications relating to ESG issues and initiatives.

John Huff

President & CEO, Association of Bermuda Insurers and Reinsurers (ABIR)

What are some of the highlights of Bermuda's ESG activities to date?
Bermuda has been at the forefront of delivering resilience and closing the protection gap for decades. Insurance has always had a really positive ESG impact: We can see, for example, how the penetration of insurance within any community accelerates rebuilding after a catastrophe – a win for policyholders, governments and communities.

Bermudian firms have also been embedded within efforts such as the Insurance Development Forum (IDF), Smarter Safer Coalition, Insurance Institute for Business & Home Safety and more collaboration since their inception. The IDF collaboration in open-source modelling is an example of the future and will have meaningful impact, especially in developing countries.

We also see diversity, equity and inclusion (DEI) as an area of focus given our majority black population. There is still a long way to go, but we have seen improvement from firms and especially ABIR members where the Bermudian share of employees has grown to 70%. This proves the long-term value of the education programmes and scholarships such as those supported by ABIR and its members through the Bermuda College, St. John's University and more broadly.

How do you see the opportunities and challenges facing the industry in ESG?
The primary opportunity for the insurance industry on the island is making companies aware of the systemic risk that climate change creates and offering innovative risk transfer products to mitigate it. Insurers not only have to define the risks but also have to offer solutions in the areas with the most impact. In some ways, this is the same as ensuring we continue our leadership in building resilience in communities.

From a regulatory standpoint, the BMA is known to be both a strong regulator and pragmatic in its collaboration with the industry which is likely to be a strength for us long-term. Given that the direction of travel on ESG is clear, we are hopeful that any guardrails put in place are guidelines and do not constrict companies unreasonably or impact companies' speed-to-market which makes Bermuda such an attractive location.

How is Bermuda set for this next chapter of ESG?
Bermuda has a rich history of work on climate and catastrophe risk transfer. The experience and talent we have on the island will be invaluable for advancing the climate and broader ESG agenda over the coming decade. Outside Bermuda many insurance companies are still talking about what they're doing and testing the waters with disclosure; meanwhile in Bermuda some insurance companies are doing a lot on ESG but are hesitant to promote their progress. In the coming year, the industry will progress on sharing their story whilst avoiding reputational risk.

What would be your advice for the industry around ESG and the opportunity it presents?
We emphasise the power of collaboration. Given the scale of the challenge, responding to climate change will ultimately be a public-private partnership, where capital and expertise are brought together by private companies, backed, and facilitated by public bodies. (Re)insurers should move beyond a narrow view of the opportunity and challenge and seek partners for a bigger vision.

> "Given the scale of the challenge, responding to climate change will ultimately be a public-private partnership"

Dr Bronwyn Claire

ClimateWise Lead, University of Cambridge Institute for Sustainability Leadership

ClimateWise brings together the insurance industry and related organisations with world class academic expertise and global sustainability leaders to collectively and innovatively tackle climate change.

How do your view the development of ESG and the climate change response in the insurance industry?
What is striking for me is the varying levels of understanding and response to climate change amongst insurance companies.

On one hand, many (re)insurers, including long-standing members of ClimateWise, have been doing lots of work in this space, often quietly without making big announcements. As we move towards Task Force on Climate-Related Financial Disclosures (TCFD)-aligned reporting, more of this will become public. On the other hand, there are some with little climate-related activity for whom any action will be driven by regulators.

Those further ahead in their journey have an opportunity to shine but also to help those at the beginning of their thinking on climate and ESG.

What is ClimateWise's role in supporting the response to climate change?
Our role is to encourage greater ambition and a wider range of activity amongst insurers in response to climate change. I completely understand why insurers have been hesitant to make net-zero commitments. First, unlike for banks, it is not clear how this commitment will be achieved and second, many are fearful of being accused of greenwashing. At ClimateWise, we are working with the industry to help establish a pathway to net-zero for insurers and demonstrate what is possible with guidance on product innovation in transition risk and setting and achieving net-zero commitments. The goal is to frame these opportunities in a way that helps the industry move forward.

Importantly, we will also continue to use the principles disclosures process to inform our research and help highlight where insurers are doing well and where there are gaps. In our 2021 report the focus was on promoting collaboration across the insurance value chain and giving examples of good practice.

To what extent do you think insurers should be thinking more broadly about resilience and 'building back better'?
Resilience is vital to reduce long-term risk exposure and maintaining a viable insurance industry. We raised this at COP26 with our 'Risk sharing in the Climate Emergency' report, which is also relevant for insurers. The recent Intergovernmental Panel on Climate Change (IPCC) report also reflects the growing importance of resilience, with projections for changes to the climate.

There are many current examples of how insurers can support resilience and there is an opportunity for innovation by the industry. This may require a shift in thinking towards collaboration and partnering along the insurance value-chain as well as reorganising internally to achieve this goal.

However, there are structural challenges that make building resilience less straightforward. These include the short-term view of many insurers thanks to policies which are typically one year and quarterly reporting for public companies.

We are looking for an honest conversation on how to introduce longer-term contracts that incentivise risk reduction and might be a better way to build resilience against the damage of climate change.

How do you see regulators and disclosure requirements developing?
Regulators' responses have varied across the globe. In the UK, the focus started with an analysis of climate risk; in the EU, it has included integration into risk management and solvency; in Japan and Hong Kong, disclosure has been the focus in the belief that this will enable change.

Given our foundation of reporting against the ClimateWise Principles (aligned to the TCFD), we believe in the importance of disclosures and promote alignment of disclosures to the extent reasonably possible.

However, disclosure for disclosure's sake will not solve the problem even though it may aid understanding. For example, the UK's gender pay reporting has not closed the gap but has allowed firms to understand the size of the problem and has provided data to address the issue.

The quality of disclosures matters. We are already seeing the move from qualitative narratives to verifiable data, for example greenhouse gas emission disclosures. I look forward to the next stages and the establishment of the International Standards Sustainability Boards.

What are the next steps for ClimateWise and what is your advice for the industry on ESG?
We are now looking to expand our work on climate into other elements of ESG such as a primer on nature-related risks for insurance and integrating nature-based solutions into products. For net-zero you don't want to see firms taking one step forward on climate but two steps back on biodiversity. This is where the Taskforce on Nature-related Financial Disclosures (TNFD) comes in and the Centre for Sustainable Finance, Cambridge Institute for Sustainability Leadership is also looking at labour equality and gender issues in investments and how these can be reported against the UN's Sustainable Development Goals.

Insurers will need to review their longer-term strategies and consider how to prepare for various scenarios for 2030. A positive step forward would be to establish learning and development programmes to ensure underwriters are sufficiently educated and the workforce has the skillset to enable the necessary product development and ESG improvements.

Insurance Development Forum

Ekhosuehi Iyahen

Secretary General, Insurance Development Forum (IDF)

The Insurance Development Forum is a public-private partnership led by the insurance industry and supported by international bodies. Their role is to help tackle development challenges, proactively contribute to the UN's Sustainable Development Goals (SDGs) and build resilience

How do you see the IDF's role especially in ESG and climate change?
As a public-private partnership led by the insurance industry and supported by international bodies, our role is to help tackle development challenges, proactively contribute to the UN's Sustainable Development Goals and build resilience.

This involves facilitating the industry's engagement with the public sector on resilience with a focus on closing the protection gap; sensitisation of decision makers on the breadth and value of insurance; building trust between the public & private sector and communities to ensure people have the protection they need and financing reaches those in need quickly in the event of a disaster.

An example of our work is the programme we recently launched in Mexico to develop a sovereign parametric insurance solution for climate-vulnerable smallholder farmers, supported by investments in long-term risk finance and insurance market development – this is a great example of what we need to do more of.

Our goal is for the insurance industry to be able to offer solutions that governments, businesses and individuals can plug into as part of strengthening their risk management capabilities. We also want to make sure that insurance is viewed and understood as part of the solution that will be needed to tackle some of the major challenges society is already having to contend with.

What are the barriers to achieving your goals?
The ultimate beneficiaries of our work are people who at the moment have the least access to the kind of risk management solutions that could have a profound impact in helping to drive their resilience. Our key stakeholders are also the insurance industry, international public bodies and humanitarian agencies, and governments in the developing world.

Historically, there has been significant challenges we have faced: Some of the most vulnerable communities have had trust issues with the insurance industry; and many humanitarian agencies have not prioritised risk management. There is also always the question of affordability.

However, there has been a remarkable shift in willingness and appetite for meaningful collaboration with the industry. In addition, COVID and other events have re-emphasised the importance of risk management, including within humanitarian agencies. There is a real movement from impact management to a more mainstream consideration of risk management and its powerful role in improving the overall resilience of society.

Another key barrier has been the length of time needed to set up these solutions. Again, there is movement in the right direction, in particular when learnings from solutions provided elsewhere can be used to accelerate progress. Setting up risk pools in the Caribbean and Africa took decades; the latest programme in Mexico took only two years. We are now pushing against a door that is increasingly open, in part due to a lot of work and resource by the insurance industry in collaboration with our public sector partners. It is also positive to see developments such as the Smart Premium and capital support policies being developed by institutions such as the InsuResilience Global Partnership to guide development institutions and countries on issues related to premium financing/subsidies and which is of course linked to the issue of affordability.

What are the next steps for the IDF?
We have different working groups focused on topics which speak to the value proposition of the industry and each focused on delivering meaningful change. These are (i) risk modelling, (ii) law, regulation and resilience policies, (iii) sovereign & humanitarian, (iv) inclusive insurance and (v) investments.

At COP26 we made some significant commitments. In terms of what next - we need to deliver. This will include:

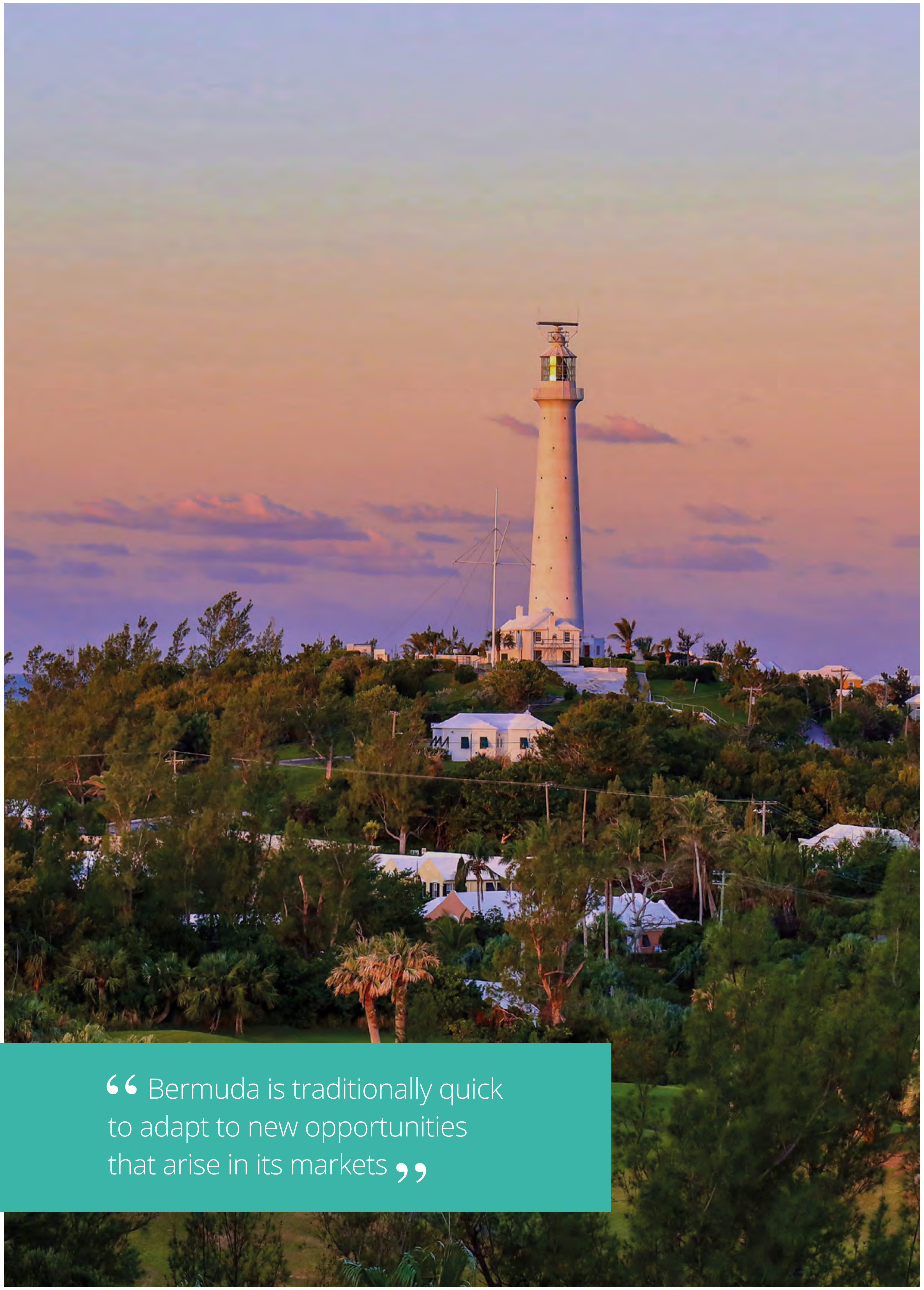
- Operationalising our agreement with the V20 — which as the name doesn't explain, groups 55 of the most vulnerable countries in the world — on the creation of a global public-private partnership programme on risk and resilience analytics and which is to be known as the Global Risk Modelling Alliance
- The launch of the Global Resilience Index (GRII) which will provide reference data on climate and natural hazard risks to inform and protect populations and economies, particularly in emerging and developing countries, and form a basis for mobilising the trillions of investment needed to meet the Paris goals on climate-resilient development. This information will be open, accessible to all using shared standards and consistent metrics at local to global scales
- Scale up our partnership with the German Government and UNDP to provide technical assistance and risk financing solutions to 20 countries vulnerable to climate change by 2025
- We will also seek to deliver a significant programme focused on inclusive insurance

As part of this, we will also continue our advocacy for greater investment in ex-ante financing as part of a more effective and efficient global disaster risk financing architecture and mobilise our stakeholders in line with these objectives.

What would your advice be for the insurance industry and Bermudian (re)insurers in particular?
There are few industries as well organised as the insurance industry, with initiatives like the IDF and Principles for Sustainable Insurance to draw on. However, we are hoping more within the industry recognise the value of public-private engagements and how developing markets with large protection gaps offer potential opportunities for growth with the right solutions.

When it comes to Bermuda, we have seen the leadership of Bermudian reinsurers working with others in an effective way in the risk modelling part of the IDF's work. This is essential as without a base understanding of risk that is shareable, it is not possible to effectively demonstrate the true value that is being brought to the table.

Overall, we have seen very meaningful progress, but there is still a long way to go for the insurance development community. Collaboration across the key stakeholder groups will be our path to success.



> “Bermuda is traditionally quick to adapt to new opportunities that arise in its markets”

The maturity of ESG on the island and what it means for the (re)insurance industry

1. Context: The Bermudian insurance market

Bermuda is one of the world’s premier risk capitals with a (re)insurance market consisting of around 1,200 carriers writing net premiums of over US$150 billion and holding capital and surplus of over US$300 billion.

Bermuda is unique in that it is one of the world’s top three global (re)insurance markets, specialising in property catastrophe (re)insurance, and also the world leader for Insurance Linked Securities (ILS), for which it enjoys 90% market share for global issuances, as well as a premier captive domicile.

Over the decades, an unprecedented level of intellectual capital has developed in the City of Hamilton, including the consolidated financial services regulator, the Bermuda Monetary Authority. This shows why Bermuda’s (re)insurance market is known to offer innovative solutions to some of the world’s most complex risks.

Bermuda is traditionally quick to adapt to new opportunities that arise in its markets. In this report, which is based on 21 interviews with executives in the Bermudian market, we show that most Bermudian (re)insurers are early in their ESG journey but that the market has many strengths it can leverage if it grasps the nettle.

1.1. What is ESG?

Environmental, Social and Governance (ESG) refers to three pillars of a set of standards which guide corporate behaviour with a view to companies becoming better global citizens. ESG is relevant to any company in any country and in any sector.

Environmental (“E”) considers how a company impacts the environment around it, and includes issues such as climate change, biodiversity, nature, carbon emissions, waste and pollution.

Social (“S”) considers how a company impacts people, and includes issues such as working conditions, diversity, equity and inclusion (DEI), charitable giving, human rights infringements, modern slavery, sourcing of goods and services, product liabilities, privacy concerns, consumer protection and data security.

Governance (“G”) considers how a company functions ethically across its corporate culture, its board and management, and its disclosures.

ESG is complex because it covers such a wide range of topics. Furthermore, it covers both a company's own behaviour (e.g. how much carbon it emits itself) and implies an obligation on companies to nudge good ESG behaviour in others (e.g. encouraging suppliers to reduce their carbon footprint). Some ESG responses will likely be charitable (i.e. no direct financial benefit) whereas others will be commercial (e.g. a reinsurer understanding climate risk better).

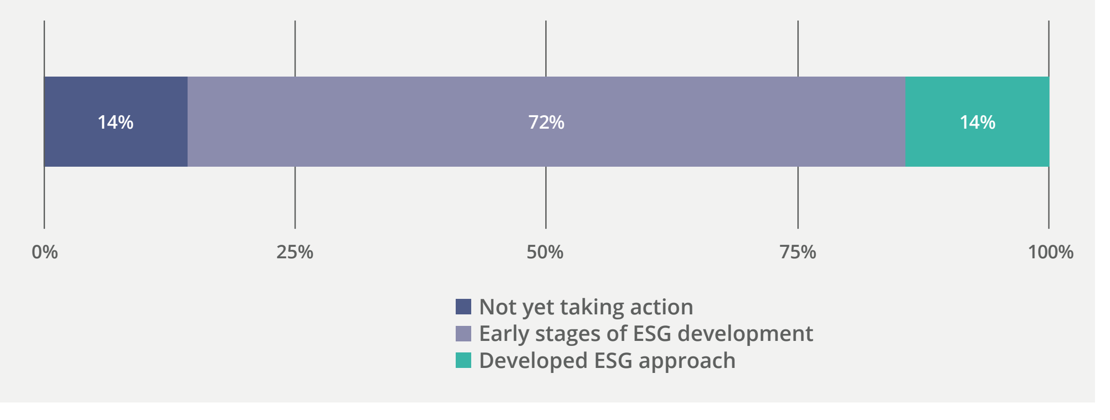
Investors are increasingly focused on ESG, both as a vector of risk analysis and opportunity in target and current investments, but also as part of their own effort to demonstrate good corporate citizenship by improving the sustainability of their portfolios.

1.2. Bermudian (re)insurers' current position

Our assessment suggests that most Bermudian (re)insurers and ILS funds (72%) are in the earlier stages of their ESG journey. 14% of interviewees had not yet taken formal action on ESG so far and the same proportion had a developed ESG approach, with this latter group being mostly larger international companies.

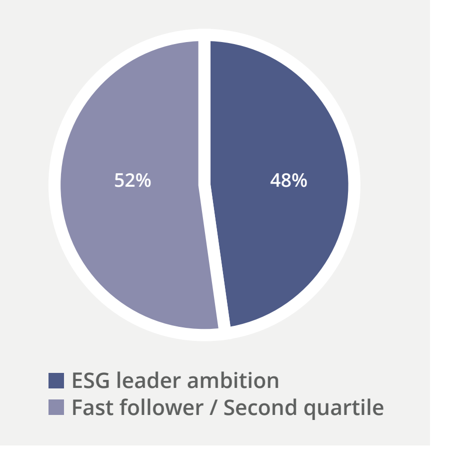
Of course, this does not mean that companies who had not yet taken action are not doing anything to support the global ESG agenda. As one participant said, *"Reinsurance and climate change are inextricably linked"* and any property cat activity could be argued to be ESG-relevant. Rather, these companies had not yet pulled their activities into a dedicated strategy and had not actively engaged in embedding ESG across their activities.

Figure 1.1. Participant stages of ESG journey:



Just under half of companies expressed a desire to be a future leader in ESG whilst the other half wanted to be "front of the middle" or "second quartile". One interviewee described it as being *"firmly in the peloton."*

Figure 1.2. Do you aim to be a leader in ESG or a fast follower?



1.3. Strengths of the Bermudian (re)insurance industry for ESG

When it comes to ESG, Bermuda's (re)insurance market and its companies are not yet leading the world. However, the market has many strengths it can leverage and catch up if it grasps the nettle.

1.3.1. Environmental: Stabilising the impact of climate change

As studies show, the frequency and severity of natural catastrophes is trending upwards.[1] Whilst mitigation efforts seek to arrest this trend, it is highly likely that there will be greater climate-driven uncertainty and disasters in the future.

Bermuda has a long history of supporting communities to get back on their feet after natural disasters and innovating to close the protection gap. For example, the Bermudian industry is at the forefront of discussions at the Insurance Development Forum about how to improve resilience in developing markets.

Bermudian (re)insurers are leaders in climate science. Modellers and meteorologists have been on the island for decades, continuously building and re-calibrating models that inform the global disaster finance system. As one participant said, *"We're really good at this stuff. We understand climatological risks more than almost any other industry. We are uniquely placed to help the transition to net-zero and supporting mitigation against climate change."*

It is therefore no surprise that 86% of participants felt the Bermudian insurance industry had the ability to drive environmental issues forward, as well as an opportunity to market the utility of insurance and grow profitably by closing the numerous protection gaps. In the words of one interviewee, *"Fundamentally, insurers are well set up to adapt to ESG, which involves tweaking their current approach, rather than wholesale change."*

[1] Munich Re. Risks posed by natural disasters.

1.3.2. Social: Supporting the community and DEI

Social issues have been a consideration for Bermudian (re)insurers for as long as the industry has been on the island. The history of the island means that race has been particularly in focus.

The industry has not shied away from these issues and has a long tradition of corporate philanthropy. 86% of companies said they have charitable and voluntary schemes or foundations. As one interviewee said, *"There are serious racial issues on the island and we know the importance of playing our part in being as inclusive as possible."* Schemes and foundations include support for local schools, scholarships to US and UK universities for local students and internships for local graduates. (*"Because of the nature of the zero-corporation tax there is a real history of charitable giving and investing back into local communities, including scholarships. What we do in Bermuda, given its size, is very impactful."*) Interviewees also noted that the majority of employees in the industry are now Bermudian-born, although that does not seem to be the case in senior roles.

The industry has also pushed hard to address the gender balance and several interviewees pointed to the fact that their top leadership positions are held by women. *"Our industry is built on having the right talent, and we need that talent, regardless of their background – that's why DEI is so important."*

That is not to say that diversity and social issues have been resolved. Participants recognised there was a long way to go. However, there was a staunch desire to support communities and create diverse workplaces accessible for all. The Association for Corporate Racial Equality (ACRE) is one such example. Supported by (re)insurers on the island, ACRE was founded in 2021 to advance the cause of racial equality within Bermuda's International Business space.

1.3.3. Governance: A strong regulatory foundation

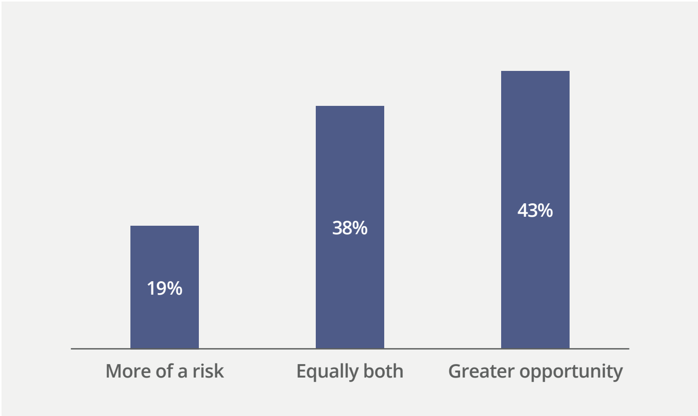
Governance is well established across the (re)insurance ecosystem: *"Governance is really already dealt with just by insurance being a highly regulated industry by jurisdictions, including the BMA."*

Bermuda is seen as a strong jurisdiction to do business in, especially given its reciprocal jurisdiction status with the US' National Association of Insurance Commissioners (NAIC) and regulatory equivalence with Europe's Solvency II.[2] Moreover, many participants praised the Bermuda Monetary Authority's collaborative approach to the industry and regulation.

1.4. Outlook for ESG in the Bermudian market

Overall, Bermuda has many of the capabilities required to be a global leader in ESG. It is therefore not surprising that our interviewees were generally positive about its future impact: 43% saw it as an opportunity for the industry and only 19% saw it as "more of a risk".

Figure 1.3. Do you view ESG as more of an opportunity, risk or equally both?



For example, some interviewees commented that ESG could be an opportunity to provide insurance into new insured risk pools (often called "closing the protection gap"), although this would require significant work internally and with partners and other market participants to realise. In section 3 we talk about some of the initiatives Bermuda carriers are already pursuing.

Others talked about the exciting role that insurance has played in shaping the world and the part it can play in supporting the transition to net-zero. As one participant said, *"Insurance has the best ability to carry this mantle, we should be driving this."*

Some interviewees also talked about using ESG as a way to differentiate themselves in a competitive market. For example, ESG leaders will have an edge in recruiting and retaining employees with *"more and more graduates asking what your position on climate change is."*

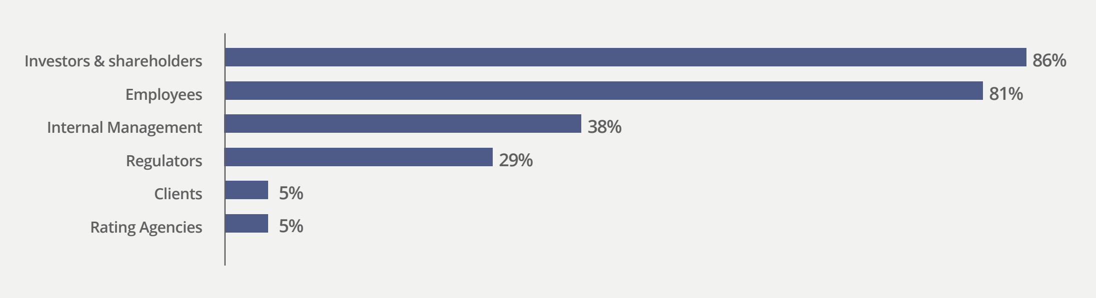
[2] Bermuda Monetary Authority. (2016, April). Solvency II Equivalence FAQs.

2. Drivers and barriers of ESG

2.1. Drivers of ESG

The Bermudian (re)insurance market is facing pressures from a range of stakeholders. Our interviewees suggested that pressure was primarily coming from investors/shareholders and employees, followed by internal management then regulators.

Figure 2.1. Who are the key stakeholders pushing ESG forward?



2.1.1. Investors and shareholders

86% of interviewees mentioned investors as a source of ESG pressure. Scrutiny is beginning to ramp up (*"We've had a pass from our investors so far – but we know that's not going to last."*) as investors themselves are coming under the microscope on ESG. However, there was a notable variation. Some privately held and public companies with a predominantly US investor-base were not experiencing as much investor-driven pressure to date as companies with predominantly European investors.

Shareholders are currently asking for relatively generic information such as internal policies and guidelines. However, there is an expectation that demands will become more specific in the future. *"Some investors started with a box-ticking exercise and are now asking more sophisticated questions."* In some cases, investors are using third party data to track their own ESG performance, meaning that interview participants need to perform well on these: *"Our investors use the MSCI across their portfolio so we need to ensure that we improve our MSCI score. This has involved improving our disclosures on a number of areas. We did have to consider the trade-off between disclosing some items that might have increased our reputational risk but also improved our MSCI score."*

Some participants reported that they were already being asked for specific information about internal operations and that it was prudent to get "ahead of the curve": *"Our investor has asked us to assess our internal carbon footprint and sustainability. That's why we are starting to measure this."*

Understanding the current and future ESG needs of investors will be essential for any (re)insurer or ILS fund in the future.

2.1.2. Employees

Employees are engaging with ESG-related topics more and more.[3] 81% of our survey participants cited employees as one of the main drivers of their ESG initiatives. One participant said that their *"employees are hyper-focused on ESG and it's one of the biggest reasons they joined the company."*

Many participants pointed to ESG as an increasingly important component of talent retention and acquisition. This is supported by research from Marsh's 2020 ESG workforce report which found that "companies with highly satisfied employees have, on average, 14% higher ESG scores".[4]

More mature firms noted how empowering employees on ESG had been a benefit to employee engagement.

However, some interviewees stressed that ESG is not done just for their staff but for a broader range of reasons: *"We consistently listen to our staff but it's not because of them that we have acted on ESG."*

2.1.3. Regulators

When regulators say jump, the industry jumps. Regulators around the world have beefed up their oversight over ESG in recent years and there was a recognition by 76% of participants that Bermuda is now behind Europe and the UK in terms of regulatory oversight of ESG. For example, the UK's Prudential Regulation Authority (PRA) has introduced climate stress testing to monitor and support the transition to a net-zero economy. At the same time, interviewees overall felt that Bermuda was in line with, and perhaps slightly ahead of, the US. However, this could soon change as the SEC has recently announced the introduction of climate-related disclosures which will include material impact to businesses and disclosure of GHG emissions.[5]

Over the last few years, the Bermuda Monetary Authority (BMA) has taken a different tack and not mandated any ESG actions, which many of our interviewees thought was appropriate. There was however disagreement about who should be setting standards. One interviewee said: *"The reality is that the BMA should not be the ones setting standards – that should be the industry"* whilst another said, *"I'm not sure [ESG mandates] should be coming from regulators, it's more appropriate from legislators."*

In any case the tide is turning. In its 2022 business plan the BMA announced that it planned to integrate *"ESG considerations, particularly climate change, into the regulatory and supervisory approach"* in 2022.[6] For some it's high time: *"The BMA are talking a good game, but so far not doing much about it."*

Unsurprisingly, almost all participants (90%) expect new regulations, including a shift from guidance to mandated action, especially around disclosures. Given the direction of travel in the US in particular these expectations seem well founded.

Fortunately for the Bermudian market, there was general consensus that the BMA is more pragmatic than other regulators and better at working in partnership with investors and the industry. This could lead to the BMA *"nudging, rather than mandating"* which *"will be better in ESG."* The implication was that several European regulators had been more heavy-handed in their rule-setting, which could be counterproductive and encourage greenwashing.

The industry seems confident that the BMA will take a balanced approach, and that this will be to the benefit of genuine progress in ESG: *"We want to be seen as thoughtful [in our ESG approach] and be doing the right thing."*

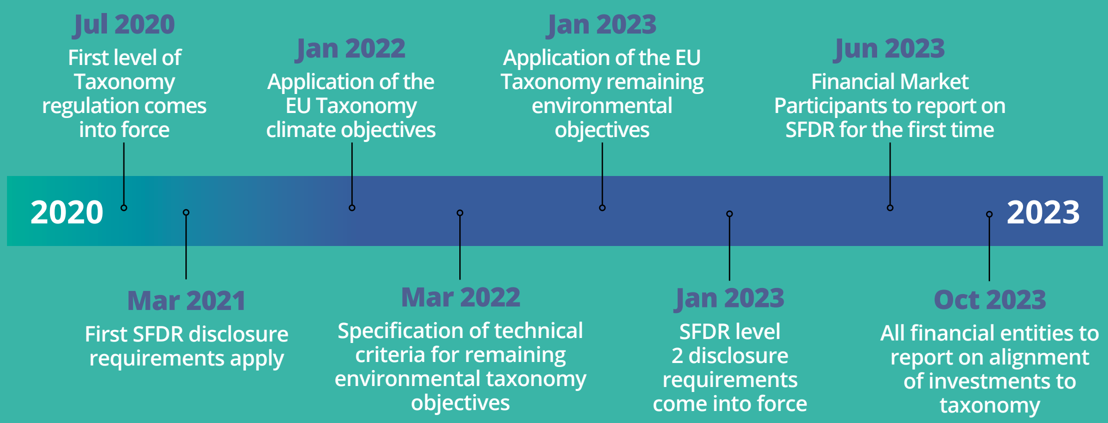
3 Herbert Smith Freehills. (2021). Remote/Controlled: The Future of Work Report 2021.

4 Marsh McLennan. (2020). ESG as a workforce strategy.
5 SEC. (2022, March). SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors.
6 Bermuda Monetary Authority. (2022, January). Business Plan 2022.

How are other regulators responding to ESG?

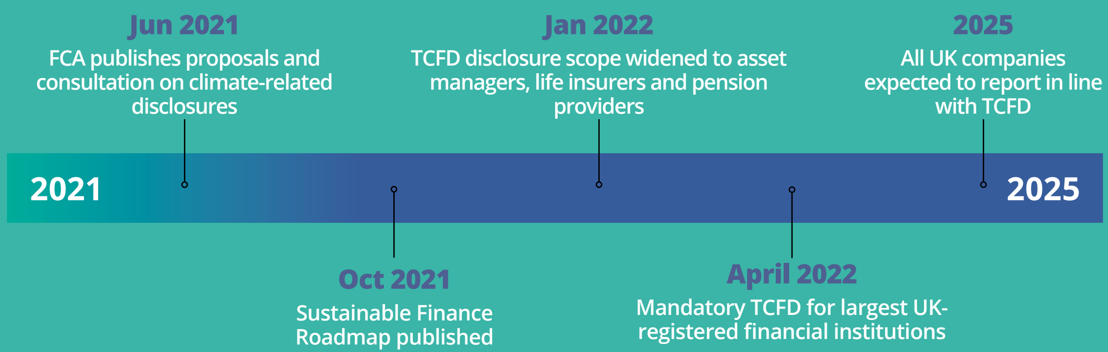
European Union

The EU is generally regarded as the toughest jurisdiction on ESG with a growing body of regulations. This included the EU taxonomy classification system (aimed at preventing greenwashing) and Sustainable Finance Disclosure Regulation (SFDR) concerning environmental impact.



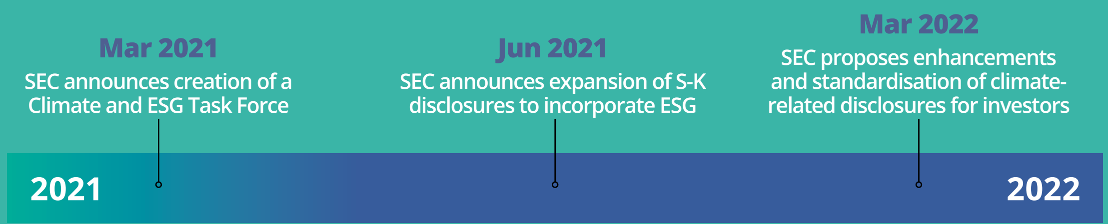
United Kingdom

The UK's FCA and PRA have been following the direction of European regulators with somewhat less stringent measures than SFDR. The UK is also expecting companies to publish their net-zero plans by the end of 2022 and to align to the Task Force on Climate-Related Financial Disclosures (TCFD) by 2025.



United States

While the SEC has not yet implemented ESG disclosure regulation it has recently announced plans to expand current reporting to cover areas such as climate impact and diversity.



2.1.4. Activists

Larger (re)insurers are beginning to find themselves in the crosshairs of activist groups and investors. This has undoubtedly contributed to various policy decisions: For example, many (re)insurers have reduced their appetite for hydrocarbon projects and some ventures have found it increasingly difficult to obtain insurance in the private market. Well-known examples are the Adani mine (Australia) and the Trans Mountain pipeline (Canada).[7]

One participant described activists as *"subject matter experts"* but most expressed frustration and scepticism about their approach (*"You can't satisfy their demands; we're always going to be playing catch up trying to play into their hands"*) and their lack of understanding (*"I'm not sure they really understand what they are talking about"*).

Sometimes interviewees felt like activists were simplistic about where they applied their efforts. For example, one participant wanted to highlight the challenges in assigning responsibility: *"It's nuanced. Do you blame the match company for starting a fire in the woods?"*. Another highlighted the trade-offs between stopping the underwriting of fossil fuels and harming the lives of those working in those industries where there are no alternatives: *"On the one hand they want us to cut coal, but do they think we are the only ones responsible? What about the coal workers in the developing world?"*

In particular, interviewees pointed to a lack of support for transition approaches, given some activists' focus on exclusionary policies for fossil fuels.

Interestingly, concern over reputational risk was raised by 71% of participants as a factor in their hesitancy to commit to disclosure on ESG. One participant noted: *"We don't want to put a target on our back. We are happy following others."*

Larger institutions are now feeling the brunt of environmental activism which is likely to intensify as ESG focus increases. The industry needs to find better ways to communicate the genuine good of their proposition – and there is a strong view within the industry that activists need to understand the complexities faced in (re)insurers' policymaking.

2.1.5. Rating agencies

Rating agencies are now buzzing around ESG. Some participants felt that they could become a real driver of ESG in the future given their "bells and whistles" approach to analysis: *"Especially for investors, rating agencies are often more strict than regulators."* However, it was also pointed out that they are playing catch-up: *"Rating agencies are just trying to keep up but are not close to the front of the line."*

While participants' views of rating agencies differed, all participants agreed that ESG was likely to become a standard rating input factor in the future (*"The materiality of ESG risk will become part of rating agencies' assessments."*). However, many questioned the appropriateness of this until data around ESG becomes more consistent.

[7] Insure Our Future. (2021, August). 15th Insurer rules out coverage for the Trans Mountain Pipeline.

Rating agencies scoring approach

Moody's

Moody's ESG Solutions scoring is divided into two categories:

- **Issuer Profile Score (IPS)**
- **Credit Impact Score (CIS)**

IPSs are separate environmental, social and governance scores that assess an entity's exposure to ESG risks. CISs reflect the impact of ESG considerations on the credit rating of an entity. Both scores use a five-point scale. Moody's is also developing a data driven ESG scorecard in partnership with global specialty (re)insurer, Chaucer.

S&P

S&P Global Ratings ESG Evaluation Reports are based on two inputs:

- **ESG Profile Score**
- **Preparedness Opinion**

The ESG Profile Score summarises the current and near-term effectiveness of the entity's ability to manage ESG risk exposure and uncover ESG opportunities relative to peers. The Preparedness Opinion is a qualitative view of an entity's capacity to anticipate and adapt to long-term disruptions. The evaluation is a single score on a 100-point scale.

Fitch

Fitch Ratings offers ESG Relevance Scores to support credit decision making. Each entity is assessed using one of 100 sector-specific templates. Within the template, 15 subfactors are scored individually on a scale of one to five, with higher scores indicating greater materiality to the credit decision. The results feed into an overall ESG Score alongside individual Environmental, Social, and Governance scores.

AM Best

AM Best considers Environmental, Social and Governance factors as part of their credit rating for (re)insurers. In rating analysis, AM Best considers ESG factors only if they are believed to have an impact on financial strength within a time horizon, usually 36 months.

Sources: Moody's, Four components to MIS integration of ESG, Chaucer announces new collaboration

2.2. Barriers to accelerating ESG activity

2.2.1. Practical barriers

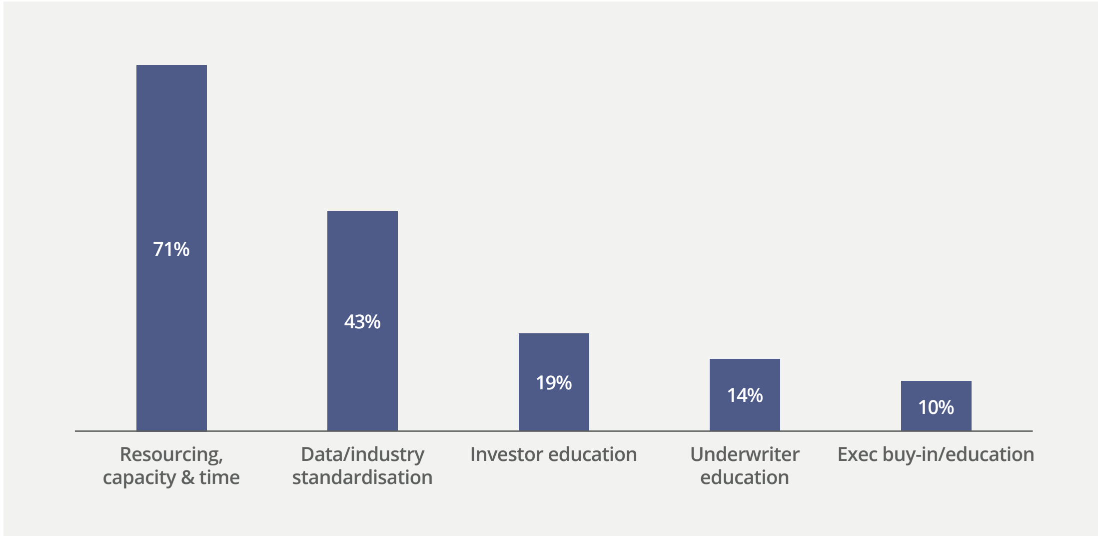
Participants noted various practical barriers to overcome in furthering their ESG goals. For 71% of participants, internal resourcing, capacity and time were major barriers to accelerating ESG, with some expressing that, *"We just don't have enough time with our current resources to do what we need."*

A significant proportion (43%) also cited the availability of reliable ESG data and lack of standardisation as an industry as factors holding them back.

Whilst most participants appeared to have the strong backing of senior management, a minority were still grappling with executive buy-in with one participant noting that it is *"not a priority for us at the moment."*

However, a greater number believed that advancing ESG needed greater education for both investors and underwriters, with an education roll-out programme highlighted by one participant as a key feature of their ESG strategy.

Figure 2.2. What are the primary barriers to you accelerating ESG?



> "We just don't have enough time with our current resources to do what we need"

2.2.2. Reputational and litigation risk

The companies in our survey were roughly equally split between wanting to be ESG leaders and "second quartile". This can be explained by a concern about the scrutiny that attaches to any company pulling ahead or falling.

71% of participants considered reputation risk as a concern due to ESG. However, for most smaller and medium-sized (re)insurers, whilst the ESG impact on reputation risk was considered, it was not deemed a major concern.

There is a view that any unusual performance – whether good or bad – will be noticed and possibly challenged by stakeholders including activists. As one participant noted, *"If you do stick your head out you need to be completely convinced you're doing the right thing and be able to back this up with evidence and metrics."*

There has been an increase in ESG controversies, which rose 62% overall in 2021 and 300% for climate-related controversies.[8] There are also examples of high-profile controversies such as activists response to Lloyd's ESG strategy.

However, some interviewees also noted that if they were going to push the ESG agenda forward they wanted to do it properly, *"We would rather be punished for not having done something than seen to be greenwashing."*

There is a similar concern about litigation risk from ESG disclosures.[9] As these are not yet common, there is limited attention, but one participant captured the concern: *"We aren't 100% sure about our greenhouse gas emissions which is why we aren't disclosing it externally – what if we get sued if we get it wrong?"* However, another noted that reserve calculations are also *"just a best estimate"* and therefore dismissed this concern.

We took away a strong view from interviews that the industry genuinely wants to make an impact on ESG matters rather than just ticking the boxes or responding to outside pressures.

Spotlight: Lloyd's & activism

Context: Lloyd's published its first ESG report in 2020. In October 2021 the market produced new ESG guidance for managing agents, alongside its commitment to net-zero as part of the UN's Net-Zero Insurance Alliance. This includes transitioning its Central Fund to net-zero.

Response: The response from activists to Lloyd's ESG strategy has been bruising:

- Campaign group, Insure our Future, initially leaked Lloyd's guidance for managing agents in December 2021 and criticised the Corporation for rolling back many of the ESG commitments made in its 2020 report. The group also staged a protest outside Lloyd's using an advertising van which accused the market of greenwashing.
- Environmental charity, ClientEarth, also published an open letter to Lloyd's in December 2021 stating that the guidelines were "wholly inadequate to set the Lloyd's market on a science-based pathway to net-zero". It noted that the guidance was not binding on managing agents, did not set meaningful targets and lacked transparency.
- Most recently in April 2022, Extinction Rebellion staged a protest blocking the entrances to the Lloyd's building in London which forced the corporation to close its headquarters

Sources: Insure Our Future, ClientEarth, Lloyds 2020 ESG Report, Lloyds ESG guidance for managing agents, Extinction Rebellion

> "We aren't 100% sure about our greenhouse gas emissions which is why we aren't disclosing it externally – what if we get sued if we get it wrong?"

> "We would rather be punished for not having done something than seen to be greenwashing"

[8] Moody's ESG Solutions. (2022, February). Rising incidence of ESG controversies.
[9] Fitch Sustainable. (2022, February). ESG Litigation Risk Report.

3. Where is the Bermudian market on ESG?

We have considered our analysis across five broad categories:

- **Insuring more of the world's risk:** Understanding what companies are doing to improve global resilience and close the protection gap
- **Influencing others:** Understanding what policies have been adopted to drive good ESG behaviour in clients
- **Improving internal ESG credentials:** Understanding what is being done across E, S and G to improve one's own performance
- **International collaboration and advocacy:** Understanding how companies are partnering to address the 'bigger picture'
- **ESG disclosures:** Understanding how companies are communicating about ESG

3.1. Insuring more of the world's risk

Swiss Re estimates that the world protection gap for health, mortality and natural catastrophe risks reached $1.4 trillion in 2020.[10] It estimates only 24% of protection needs against natural catastrophes are insured.[11]

Arguably the greatest opportunity for the industry from ESG is considering how more of the world's risk can be insured and closing the so-called "protection gap".

Two areas will help close the protection gap: Building resilience to decrease the need for protection; and new and improved products combined with better marketing and distribution to increase penetration.

3.1.1. Building resilience

Some participants (primarily at the larger end of the spectrum) have invested in research initiatives to make communities more resilient to perils such as floods, wildfires or hurricanes. For example, the Insurance Development Forum's Risk Modelling Steering Group (RMSG), of which 33% of participants are a member, promotes a more open, transparent and collaborative approach to modelling climate risk in the hope of building resilience and mitigating some of the impact of climate change.

Another way to promote resilience is to include "Build Back Better" benefits into policies. Whilst some participants have led the structuring, modelling and financial commitments to close the protection gap (e.g. UK's Flood Re, Cal Wildfire, NFIP Flood, Florida hurricane), and engaged with the concept of "Build Back Better", products do not yet include this as standard. Notable barriers are customers' unwillingness to pay for the extra protection and the lack of regulation to mandate it.

10 Swiss Re Institute. (2021, June). Resilience Index 2021.
11 Swiss Re Institute. (2021, July). Natural catastrophe resilience.

3.1.2. New and improved products

While 81% of interviewees said they were considering or working on products that enhance their ESG agendas, few had done this at a significant scale. Some (re)insurers expansion of renewable books to dipping their toes into parametric covers often in collaboration with international initiatives. However, the challenges of finding profitable new niches are clear: As one interviewee noted: *"Are we a leader in renewable insurance? Absolutely not. It loses money hand over fist."*

However, we do see that Bermuda is the domicile for protection gap closing facilities like the African Risk Capacity facilities. Furthermore, Bermuda's globally dominant ILS market is also playing an important role.

Internationally, parametric insurance and microinsurance are currently areas of focus. Our analysis suggests that this is an area where Bermuda is significantly behind some markets.

For example, Swiss Re is actively working on advanced ESG propositions in developing countries. This includes both microinsurance for Egyptian women with small businesses and parametric agricultural covers in India and Vietnam.[12]

Blue Marble, which provides microinsurance solutions to smallholder farmers in developing markets, is supported by a consortium of five carriers and brokers (although currently none that are domiciled in Bermuda); and FloodFlash, which provides parametric commercial flood insurance in Europe and the US, is supported by Munich Re.

Spotlight: Blue Marble

BLUE MARBLE MICROINSURANCE

Index-based Impact Insurance
Blue Marble designs and launches microinsurance solutions to bridge the protection gap in developing countries. By using index-based climate protection, Blue Marble aims to create socially impactful, commercially viable insurance protection for the underserved.

Impact
Under the venture, 'Café Seguro', Blue Marble collaborated with Nespresso to provide weather insurance for thousands of smallholder coffee farmers in Colombia. By using index-based insurance, Blue Marble could closely match payout performance with actual loss experience. Café Serguro has delivered consistent year-on-year growth in number of farms and hectares protected.

Implications
In the Café Seguro and similar ventures, by providing financial stability to smallholder farmers, Blue Marble encourage farmers to invest in sustainable agronomy, improving supply chain resilience.

Sources: bluemarblemicro.com

12 Swiss Re. (2022). Sustainability report 2021.

The benefits to society (or "social returns") are clear, as are the potential geographic and product diversification benefits to (re)insurers. These benefits may attract a different source of capital and may, in some cases, justify a lower financial return.

However, it is also true that these products and schemes will take time to mature. (*"Everyone talks about parametric products and how they are going to become standard but we are not there yet. Parametric has a lot of applicability, especially in developing countries where hazard data is available, but reliable claims data is tougher to get."*) Volumes are still insignificant compared to the established global programmes. It will require vision, conviction about the opportunity size, and investment and long time-scales for these opportunities to be prioritised.

Overall, our view is therefore that Bermuda is behind when it comes to addressing the protection gap through proposition innovation, with the exception of some market leaders (e.g. RenaissanceRe Mitigation Leadership Forum). The market's instinct has traditionally (and successfully) been to focus on shorter-term opportunities and in-year underwriting performance. In contrast, several of the global peer group have repositioned their focus on a broader view of global resilience.

3.1.3. Modelling climate risk

Property-related climate risk is embedded within all participants' risk management frameworks and actuarial models, with model parameters consistently being reviewed.

The billion-dollar question for the industry is whether these models are appropriately calibrated for climate change.

Most participants (90%), have not fundamentally changed their modelling approach due to climate change. They make three arguments:

- Climate change is already sufficiently taken into account as they adjust the vendor RMS or AIR models with an in-house view of risk: *"We have been adjusting the models for long-term factors (e.g. climate change) for decades since 2004/5 (US hurricane) – we understand that history is not indicative of the future."* In addition, the vendor models are adapting – for example, RMS has recently launched new climate change models in response to changing catastrophe risk.[13] Furthermore, the BMA noted in its 2020 Climate Survey that many insurers had already begun stress testing for the impact of climate change on their portfolios.[14]
- Contracts are short-term (often one year) so there is frequent opportunity to make any necessary adjustments.
- The recent losses were part and parcel of the volatility of this market according to their scientists.

Some have engaged with specialist vendors such as Bermudian InsurTech Kettle on wildfire.

A small number of Bermudian (re)insurers have retreated from the property cat space entirely due to the losses they have faced and not having sufficient confidence in the models, to focus on higher margin and lower volatility areas. For example, one participant noted, *"The trouble with the models is they're using 20th century data for 21st century weather."*

13 RMS. (2021, March). RMS Launches New Climate Change Models.
14 Bermuda Monetary Authority. (2021). 2020 Climate Survey Report.

Spotlight: Kettle

kettle

Kettle's new approach to Underwriting

Compared to traditional reinsurance, Kettle takes a very different approach to underwriting. Rather than relying on historical models, which do not account for the nonlinear increase in the severity and frequency of climate events, Kettle utilizes deep-learning and artificial intelligence to analyze data from 73 sources, including NASA's MODIS and LIDAR satellites.

Impact

For its California wildfire product, Kettle generated seven billion rows of data and applied its proprietary deep-learning technology to build state-of-the-art wildfire models that combine wildfire physics and modern deep learning. Kettle's wildfire model was then able to map out the predicted wildfires in half-square-mile resolution across California. Of all the largest fires in the state in 2017, 2018, 2020, and 2021, the model predicted 89% of the half-square-mile grids that burned.

Implications

For the reinsurance industry, Kettle's approach would facilitate a more accurate and sophisticated view of risks, allowing carriers to understand the risk and hazard at a very granular level, price appropriately and optimize the portfolio.

Sources: Kettle, Oxbow Partners Impact 25 (2021), Oxbow Partners Magellan

"The trouble with the models is they're using 20th century data for 21st century weather"

3.2. Influencing others

3.2.1. Underwriting

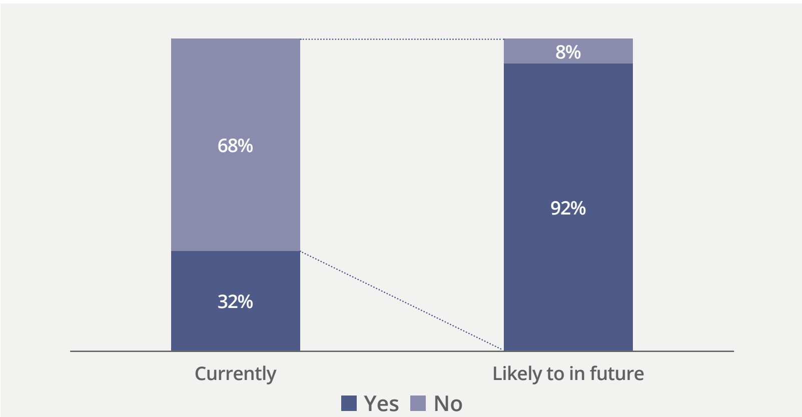
A number of global (re)insurers have made claims about transitioning to net-zero in underwriting. However, these ambitions are often without a published detailed explanation of how they will achieve this goal given the challenges with data and lack of global alignment on the right approach of embedding ESG within underwriting.

Overall, (re)insurers can push for different levels of sophistication, which will all be a trade-off between risk appetite and underwriting profit. Methods of achieving this laid out by the CRO Forum and more recently the Partnership for Carbon Accounting Financials and Carbon Disclosure Project appear to be becoming seen as the gold standard for the largest European (re)insurers and acting as a long-term ambition for most of the rest of the industry.[15]

Most participants in the survey, however, are at the beginning of their journey; only 32% have sourced any specific ESG data for underwriting and have limited understanding of what to do with any data they do obtain. For example, one participant said, *"We are still learning and it's a good challenge to understand what we will do with these ESG scores"*, whilst another said, *"When we get more data then we might use it in exclusions, nudging or even pricing."*

Nonetheless, there was a strong consensus that ESG will become a standard input for underwriting in the future. This is akin to credit ratings or Know Your Customer (KYC) processes, where every deal is supplemented with specific data direct from the insured.

Figure 3.1. Is ESG integrated into underwriting beyond physical climate risk or likely to be in the future?



15 PCAF. (2022, February). Towards net-zero buildings: the Partnership for Carbon Accounting Financials (PCAF) launches European building emission factor database

A reason that people had not made more progress was an absence of reliable ESG data, or access to that data on the reinsurance front. One participant said, *"Quantifying portfolio performance on ESG is much more complicated on the reinsurance side but we are working towards this,"* and another said, *"There is no tech currently out there that lets us understand and track the scope 2 and scope 3 emissions of our clients."*[16]

Others highlighted the lack of consistency between different scoring mechanisms and a general lack of coverage for private and unlisted private companies. This view is backed up by academic research on the subject, but while one participant commented that *"there were certainly use cases for company level ESG scores"*, another noted that the *"lack of uniformity and lack of clarity [in data] creates an inefficient process."*[17]

Despite these data challenges, a number of (re)insurers have taken action on areas such as thermal coal and oil sands. 45% are actively reducing exposure to certain lines of business or had put exclusions in place, typically based on carbon intensity.

However, there was a general reticence among (re)insurers to use hard exclusions, *"We are careful not to be exclusionary to avoid unintended consequences on communities by simply pulling out."* Many highlighted the complex social implications of withdrawing cover: *"We can't just pull the plug and lead to a lot of job losses and people reliant on that type of power. It impacts "S"…in the end, it's nuanced."*

Many commented on their desire to support a transition, *"Should we just divest from companies with poor ESG scores, or is the goal to change the real economy through conversations and improving their ESG activities?"* To do this, companies feel that they need to work in partnership with their policyholders: *"We want to partner with insureds, understand their transition pathways and how we can help them achieve this."*

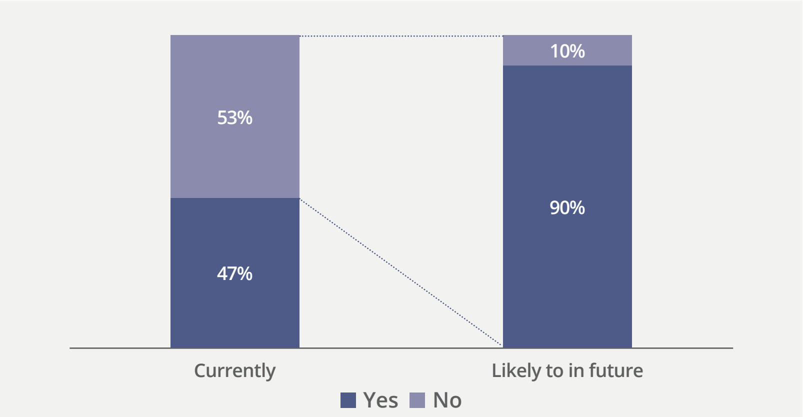
16 Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain.
17 Berg, F., Kölbel, J., Rigobon, R. (2019, August). Aggregate Confusion: The Divergence of ESG Ratings.

3.2.2. Investments

The UNEP-FI's Principles for Responsible Investment (PRI) has 4,375 signatories as of December 2021, including a number of prominent global insurers and reinsurers. To date, 12 Bermuda domiciled (re)insurers and ILS funds have joined the PRI, though many more who operate in Bermuda are signatories at their group level.[18]

47% of participants in our survey have already integrated ESG into their investment strategies. Of those who have not, 90% indicated that they planned to in the future or were in the process of doing so already.

Figure 3.2. Is ESG integrated into investments or likely to be in the future?



However, many participants have outsourced investment models or are primarily invested in US treasuries (given the need for short-term liquid investments), adding a layer of complexity to the integration of ESG.

Some firms had already employed data sources such as MSCI or Sustainalytics to assess the carbon intensity of their portfolios but, as with underwriting, many (re)insurers were wary of strict exclusion policies.

Unsurprisingly, divestment plans of (re)insurers primarily centred around reducing specific assets with a high carbon intensity rather than looking at broader ESG issues.

Some firms were engaging in impact investment although many highlighted how ESG-aligned investments were often more expensive and less liquid: *"Some of the sustainable investments are just not very liquid."*

[18] UN Principles for Responsible Investment. (2022). Signatory Directory.

3.3. Improving internal ESG credentials

ESG is not just about identifying business opportunities or influencing others: It is important that (re)insurers 'walk the walk' themselves. This is true not only to avoid charges of hypocrisy, but also because (re)insurers are themselves scored by the same agencies whose data they use and are subject to the same nudges from their investors which they give their policyholders.

In addition, there is a reputation and risk management point: ESG is one of the top flashpoints for employee activism and most participants (81%) cited employees as a key stakeholder in their ESG journey.[19]

3.3.1 Environmental

The majority of companies reviewed (76%) have implemented environmental policies, with office impact reduction and recycling the most common. 19% have specific carbon offset policies in place.

A smaller proportion (38%) had made at least one environmental pledge. In most cases this was a net-zero target for internal operations by 2050 (19%), with many also making other sub-pledges and targets as part of an overall carbon emissions reduction strategy.

A majority of participants (62%) actively track and monitor their internal emissions but only 29% of those who track their environmental footprint publish them. Many participants highlighted that, as a service industry, insurance's direct emissions are relatively limited compared to other industries: *"We are a small reinsurance company. Most of us work from home especially given COVID and we've hardly travelled. We didn't think our direct carbon footprint was that important and we instead focused on impacting others with far worse ESG scores."*

Indeed, there was also a general view that travel was a necessary part of the business and that it is reverting back to pre-pandemic levels. For example, one participant said, *"We are a global company; we aren't going to discourage people from travelling in policy as we want to have a one-company feel"* and another said *"there's still people flying around in private jets; it had improved due to the pandemic but it's slowly reverting back to pre-pandemic levels."*

There was a minority view that there was going to be a systemic change in the amount of travel due to the rise of hybrid working. One participant said, *"We are already seeing far less travel even as we open up again"* and another said they had been *"helped by the increase in hybrid working, lack of commuting and lack of travel following COVID."*

3.3.2. Social

Alongside the strong charitable and volunteering contribution of Bermudian firms to the island highlighted in section 1.3.2, participants highlighted their efforts on Diversity, Equity and Inclusion (DEI) and employee engagement:

- DEI: 76% of (re)insurers and ILS funds had put a DEI policy in place. Of those with a policy, 81% tracked these metrics internally. However, fewer had gone on to publish these (44%)
- Employee engagement: Many (re)insurers highlighted how they have set up employee resource groups (especially around DEI) alongside other career development programmes to support employees

[19] Herbert Smith Freehills. (2021). Remote/Controlled: The Future of Work Report 2021.

Some (re)insurers are engaging with grassroots organisations to improve access and be more inclusive. One such example is the Association for Corporate Racial Equity (ACRE) which was created in response to "the historic and present under-representation of Black Bermudians in International Business."

Beyond internal considerations, some (re)insurers are looking to put in place procurement policies assessing supplier ESG credentials (particularly "E" and "S"). There was an expectation that this will become a norm within a few years as data and tools improve. For example, Zurich launched its supplier code of conduct in 2021, measuring targets across ESG with the aim of 75% of procurement spending to be with suppliers meeting or exceeding this code by the end of 2022.[20]

3.3.3. Governance

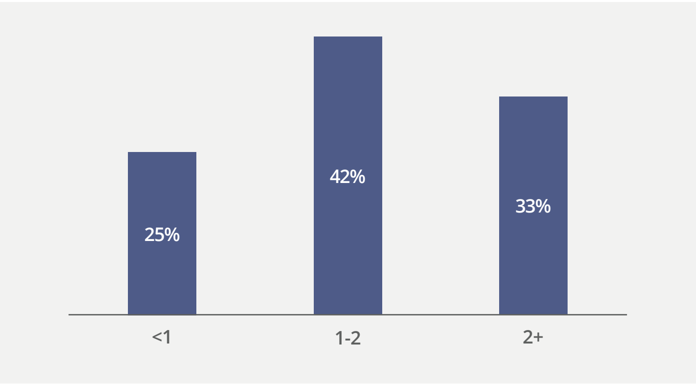
The approach to ESG governance varies substantially across the (re)insurance space.

A majority of (re)insurers' ESG structures (71%) are embedded within the pre-existing governance structure, while 14% have established ESG as separate function alongside. One participant said: *"Our goal is for ESG governance to be truly embedded within current structures so it is a standing item on the board agenda, the underwriting agenda and across the business."*

43% of participants have a Head of Sustainability or equivalent, whilst 57% have ESG-specific committees and forums which include participation from various functions (including underwriting, investments and modelling). However, some had a very different approach: *"We didn't want a Head of Sustainability or for ESG to be seen as something separate. We wanted to integrate it fully within the business. This was intentional and not about refusing to spend money."*

The ability to execute on any ESG strategy depends on the resources dedicated to sustainability. As it stands, only 38% of participants (typically at larger companies) had dedicated resource with the majority of participants (67%) having under two FTEs on ESG-related issues.

Figure 3.3. How many FTEs do you have working on ESG? [21]



20 Zurich. (2021, May). Sustainable Sourcing.
21 Where FTE estimates were given

To further board ESG accountability, a minority of firms (29%) have also linked executive compensation to ESG targets or included ESG-related factors within their values, which form a part of all employees' remuneration. While the current link between ESG and remuneration is rare, 33% of companies who had taken no action so far expected to do so in the future. One of those noted: *"I would be astonished if we had this conversation in three years' time and ESG was not a specific point in exec comp."* Another noted that it was only a matter of time: *"We haven't yet linked executive compensation to ESG KPIs, in part because we aren't yet sure which KPIs align with our strategy and ambition. But our investors want this to happen so we are thinking how to best make this work."*

This would follow in the footsteps of European firms such as Allianz Global Investors which recently announced the introduction of a policy (due to take effect in 2023) to vote against companies that do not link executive compensation to ESG targets.[22]

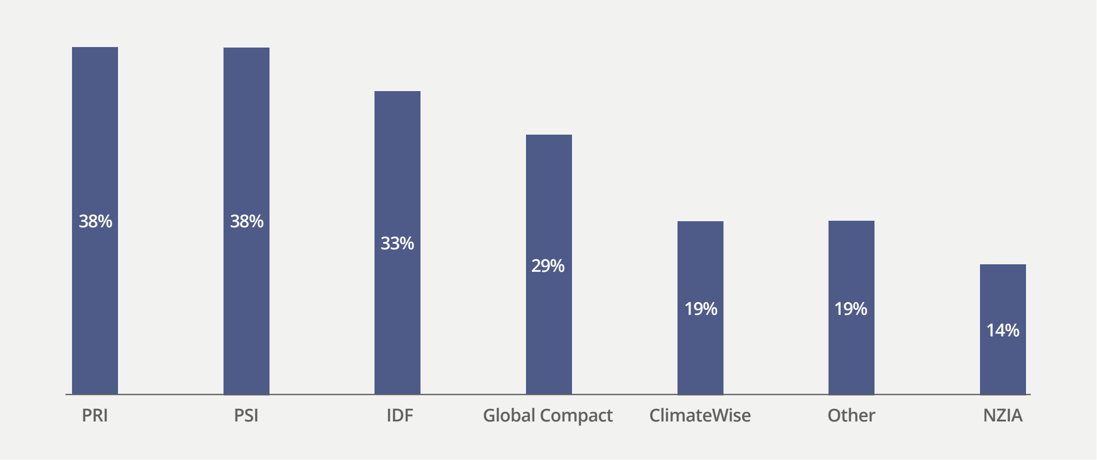
3.4. International collaboration and advocacy

Progress in ESG adoption within the insurance industry globally cannot be made without international collaboration.

There have been a number of international efforts to coalesce around key principles and commitments related to ESG in insurance. These include the Principles for Sustainable Insurance (PSI), the Principles for Responsible Investment (PRI), the Net-Zero Insurance Alliance (NZIA) and the Global Compact.

These efforts are ongoing. Many (re)insurers globally have led in their creation and development over the past few years and Bermudian (re)insurers have been following suit. 12 out of the 21 interviewees were members of at least one initiative with the most popular of these being the PSI and PRI (38%).

Figure 3.4. Distribution of participant membership in international ESG initiatives:



22 Segal, M., ESG Today. (2022, February). AllianzGI to Vote Against Companies That Fail to Link Exec Pay to ESG Goals.

(Re)insurers have a key role to play in promoting action on ESG issues related to insurance (as the Principles for Sustainable Insurance lays out[23]), especially given their risk management and risk transfer expertise.

Participants in this study were willing to voice strong opinions on well-intended but counterproductive actions, including by government bodies: *"There are challenges with government programmes like the National Flood Insurance Program. It's great that they subsidise reinsurance premiums to ensure homeowners are covered but this doesn't solve the problem. What we really need is the building of resilience: Either build back better or build in other locations. We can play a role in helping make that happen."*

76% of participants had published ESG thought leadership and 81% felt they were influencing their network on ESG issues with examples such as RenRe's Risk Mitigation Leadership Forums.[24]

However, most (re)insurer participants had not invested significantly in external engagement given they were in the early stages of their ESG journey and feared venturing into the public eye. One participant, for example noted this was done by other more mature parties: *"Swiss, Munich and RenRe are really the ones at the forefront of thought leadership."*

However, participants also pointed out that advocacy in international collaboration (along with building resilience and general thought leadership) was not adequately recorded in ESG scores increasingly used by investors. This is a source of frustration: *"This [international collaboration, thought leadership and advocacy] is the stuff that really matters - it not only shows we care but can make the most difference. But some of the ESG scores care more about ticking boxes than what really works."*

3.5. ESG disclosures

Principle 4 of the PSI states: "We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles." Transparency allows for greater accountability and ultimately success in the fight against climate change and as such plays a central role in any ESG strategy or framework.

Many participants further along in their ESG journey noted how disclosure had often been a helpful first step in engaging disparate aspects of the business to showcase and document their ESG story – potentially useful advice for those earlier on in their ESG journey.

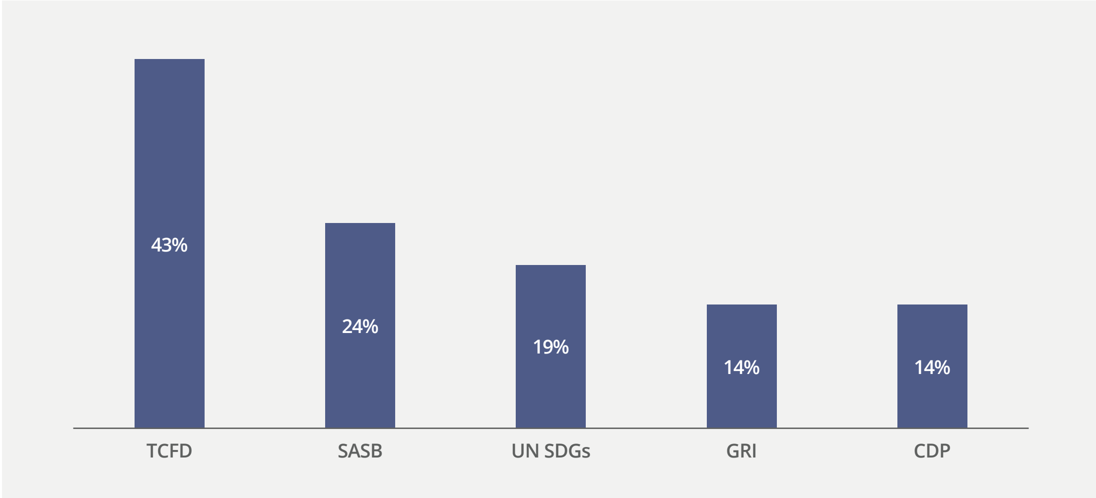
As such, an understanding of the Bermudian (re)insurer disclosure approach, gives an insight into the ESG maturity of the industry.

As far as external reporting is concerned, 71% of Bermudian (re)insurers have ESG pages on their website, but only 52% have published an ESG or sustainability report in line with at least one recognised industry standard.[25] Of those not yet disclosing, 30% were planning to release an aligned report in the coming year. This means almost a third are not disclosing any information about their ESG approach and almost half are not aligned to any standard currently.

23 UNEP-FI's PSI, Principle 2
24 RenaissanceRe Website. Risk Mitigation Leadership Forum.
25 As of 1st April 2022

The TCFD appears to be emerging as the disclosure of choice for many insurers (43%) but others had begun their journey with SASB or aligned to the UN's Sustainable Development Goals (SDGs). Some also reported to multiple standards. The distribution of these can be seen below.

Figure 3.5. Distribution of disclosure standards across participants with aligned reporting:



As the ESG maturity of Bermudian (re)insurers increases there is an expectation that disclosures aligned to industry standards will grow and see greater alignment to one another. The alignment of the IFRS Foundation and the GRI on sustainability disclosure standards is likely to be the first of further collaborations.[26]

Some participants were in the process of preparing disclosures in line with an industry standard but many expressed a reticence to "pull the trigger" on any one standard due to the evolving nature of the space. For example, one participant highlighted *"it started with GRI, then certain shareholders wanted SASB, now its TCFD"*, another that *"every year it seems that someone comes out with a new framework."*

A lack of standardisation between frameworks and the resource associated with adding each new standard were commonly cited as reasons why firms had not yet moved further ahead with disclosures. For example, one participant said, *"We need a more agreed upon global standard framework."*

> "I would be astonished if we had this conversation in three years' time and ESG was not a specific point in exec comp"

26 IFRS. (2022, March). IFRS Foundation and GRI to align capital market and multi-stakeholder standards.

4. What to do now

ESG is no longer an optional side-project for large companies' sustainability teams. Every (re)insurer on the island needs to consider its ESG positioning – initially by using the detailed benchmarking that sits behind this report – and then consider how it can achieve its target state.

4.1. Next steps for (re)insurers and ILS funds

Overall, we believe (re)insurers starting on their journey to embed ESG across their business, should consider action in the following areas:

4.1.1. Document current activity

The first step for any (re)insurer or ILS fund is understanding all the activities already underway, and building this into a narrative. Many participants already further along in their ESG journey, started with this step, and uncovered they were doing far more than they had previously realised.

4.1.2. Create a vision and ambition

Companies need to understand the commercial opportunity and risk that ESG presents and build a bold vision. Insurance and reinsurance management teams have a tendency to view their market as largely ex growth, aside from inflationary and cycle-driven impacts.

Further to the minimum regulatory requirements, companies now have an opportunity to look at the market and their company through the ESG prism and identify areas where they can make a bold move. For example, they could identify new areas of systemic risk and work with international partners such as governments to develop risk transfer solutions, or they could focus on the 'S' and introduce a new management model to deliver a new employee experience.

Critical to this is setting up ESG in the organisation in a way that preserves a necessary balance on in-year underwriting performance, but also frees up the right resources to think longer-term and bigger picture. Communication is critical to engage both employees and external parties.

4.1.3. Develop a strategy & action plan (with resources) to embed ESG and tell their story

Once the vision and ambition are defined, every company needs a clear strategy and action plan to embed ESG. This needs to cover its approach across each of the dimensions considered in this report:

- How to use ESG as a prism to find new business opportunities
- To what extent and how to influence others
- How to improve one's own ESG credentials across E, S and G
- How to collaborate with partners and to what end
- What to disclose and how to tell your story

The strategy should include clear targets and accountabilities, with an associated action plan. For a minority of Bermudian (re)insurers with a well-defined strategy, the sophistication of the response will increase year-on-year, including improving the quality of disclosures, finding new innovative products to engage with.

It is likely that any strategy will further spin out a number of sub-strategies. For (re)insurers early on in their journey, this may involve an updated investment policy, or those with a more mature strategy, this may involve setting up a working group to consider how to embed net-zero goals into underwriting.

Some of these opportunities – in this latter case methodology development – might push companies into unfamiliar territory and require capabilities that have not traditionally been part of the reinsurer skillset.

Overall, the objective of an ESG strategy is to embed ESG into the end-end strategy and operations of the business. This is likely to include setting up new internal governance procedures such as employee representation councils. For many companies this would likely imply an increase in the number of employees working on ESG; for most, this would require telling their story better to the public.

4.1.4. Develop an ESG data strategy

ESG data is currently poor both in accuracy and coverage. Many of the market sources are considered superficial at best and uncorrelated to performance at worst. However, given the growing number of ESG data providers and the increase in disclosures as regulation tightens, it is likely that a market solution will eventually emerge for ESG risk.

Nonetheless, (re)insurers should push forward their data strategy independently for two reasons. First, interested parties including investors and activists will not wait with their disclosure requests for a market solution to emerge, and second, companies need to build familiarity with sources and their implications. In particular, it is important to work out what is underwriting risk-relevant and what is merely a measurement point.

4.1.5. Improve collaboration

Much of the international ESG collaboration has been amongst the largest and most well-resourced (re)insurers. For Bermudian (re)insurers, becoming more prominently and actively involved in advocacy is a necessary next step. For laggards, this is in order to raise awareness and develop their strategies, and for leaders, it is to be at the forefront of discussions and participate in opportunities.

Examples of types of collaboration include knowledge sharing, disclosing methodology challenges, and instituting reforms which seek to standardise the ESG landscape in terms of ESG scoring, divestment approaches, greenwashing and reporting standards.

4.2. Next steps for the broader (re)insurance industry

Individual (re)insurers and ILS funds cannot tackle ESG issues by themselves. There are also important roles for regulators, industry bodies, brokers and other participants. We see their action plan as follows:

4.2.1. Disclose their ESG plans

To embed ESG into the (re)insurance industry successfully, all participants need to move in the same direction and publicly share their plans. It is particularly important that brokers and regulator(s) are open as their plans will likely shape the actions of other market participants.

4.2.2. Facilitate collaboration and cross-industry alignment

Financial returns are likely to be insufficient to attract (re)insurers to certain early-stage opportunities: Public-private partnerships may be necessary to unlock some ESG benefits and social returns.

Trade bodies and international alliances are well placed to facilitate solutions to industry-wide and structural challenges, including the development of ESG (and net-zero) standards and approaches for investment and underwriting. For example, these bodies could focus on the ESG data challenge where we see four areas in which they could help:

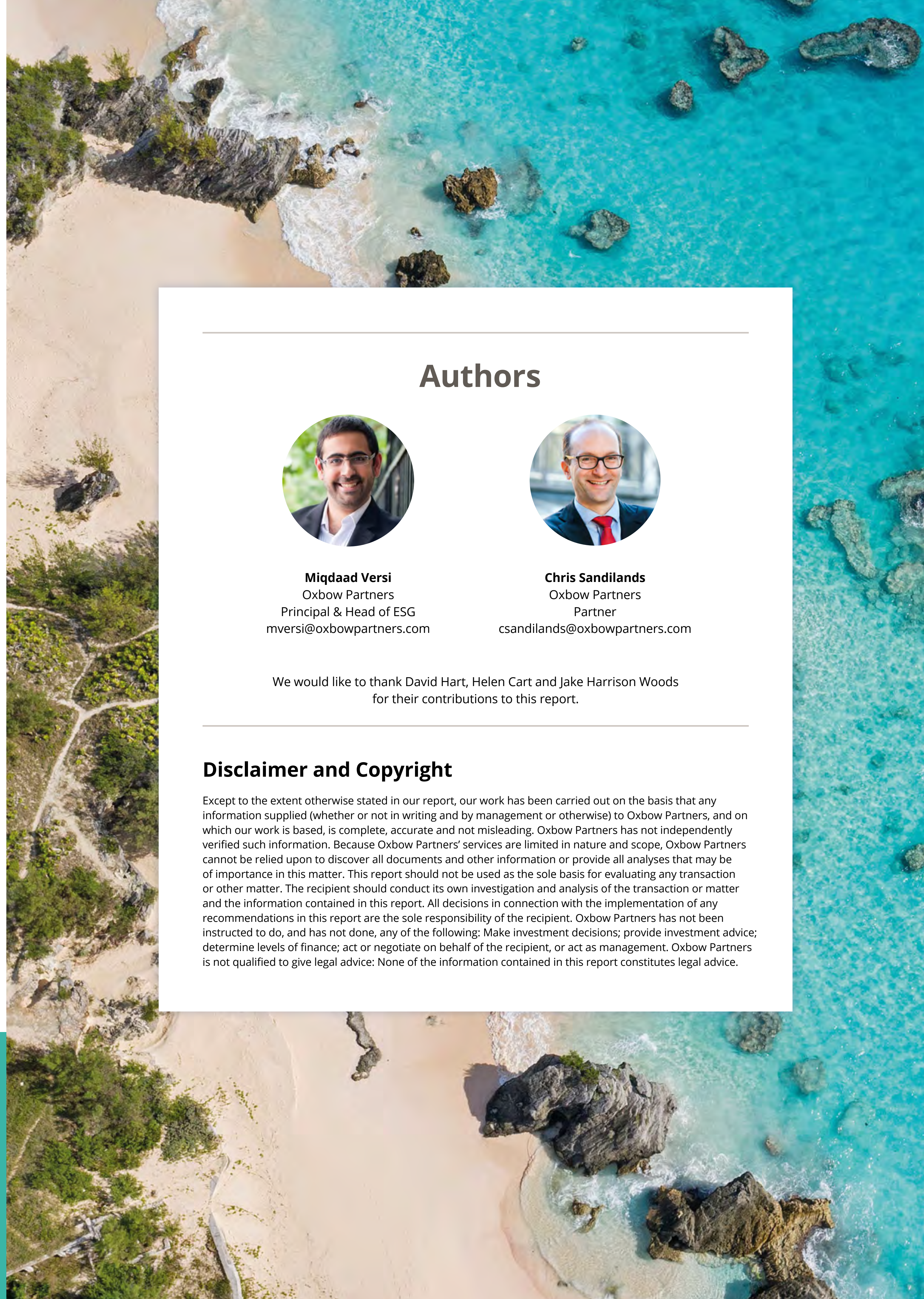
- Encourage better data from policyholders through higher quality and more consistent mandated public disclosures
- Encourage better insurance-specific ESG data from policyholders through a consistent stance to disclosure by brokers and insurers
- Support development of improved tools to leverage the growing data available
- Advise on internal systems within (re)insurers to ingest the external and internal data sources

None of these areas will be solved by any institution in isolation.

4.2.3. Update regulatory requirements and industry standards on ESG

Some (re)insurers are waiting for the regulator to act, and many policyholders will not disclose ESG data unless forced. Regulators and industry bodies therefore have an important role to play, and must navigate a path between pragmatism and achieving the world's ESG objectives.

> "Regulators and industry bodies therefore have an important role to play, and must navigate a path between pragmatism and achieving the world's ESG objectives"



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Our consulting engagements span growth, operations, technology and M&A. We have also built cross-industry expertise in ESG across the insurance sector, with an in-depth understanding of the ESG strategy of (re)insurers across the globe. We are uniquely placed to use this expertise in our engagement with (re)insurers on their approach to ESG.

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