21 January 2025

04
Unsustainable progress towards a sustainable world

09
The role of insurance

12
Business and policy implications

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Insuring the future : The virtuous cycle of insurance and sustainability

Executive Summary

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• **The world is still far from achieving the full set of Sustainable Development Goals (SDGs) by the 2030 deadline.** The UN's midpoint analysis marked a significant portion of goals in red – denoting "stagnation or regression" – which suggests that many goals are not only off track but are worsening in some regions.

• **One of the reasons for this dismal progress – besides wars and the pandemic – is the accelerating climate crisis.** Climate resilience is crucial to advance the SDGs. The interdependencies between environmental degradation and sustainable development emphasizes the insurance industry's potential to contribute to safeguarding the progress towards the SDGs.

• **However, insurance is only directly mentioned in one SDG target (SDG 8.10 on financial access) – which is a gross understatement of the insurance industry's role.** There are numerous direct and indirect linkages between the insurance sector and the 17 SDGs. For example, the insurance industry can play a pivotal role by providing financial protection against climate risks, directly affecting 30% of the SDG targets. Furthermore, by integrating resilience-building measures, such as nature-based solutions, into their product offerings, the insurance industry has the potential to safeguard progress towards 81% of the SDG targets.

• **This positive correlation between insurance and SDGs can be measured.** Countries that spend more of their economic output on insurance tend to show better progress on the SDGs, reflecting the critical role of risk mitigation in sustainable development. For example, for every 1% increase in P & C insurance penetration, the SDG Index increases by an average of 5.8 points.

• **We propose that a virtuous cycle of profitable insurance and resilient sustainability can be created.** Realizing this potential will require overcoming obstacles such as short-term financial pressures, although in the long run, financial stability and environmental stewardship are mutually reinforcing, rather than competing priorities. Thus, regulators should provide frameworks that make sustainability a competitive advantage in the insurance industry, for example by implementing firm caps on insured and financed carbon emissions to support the achievement of net-zero goals.

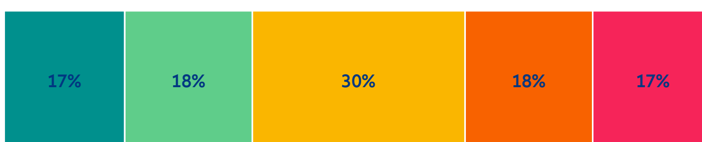
• **The insurance industry itself can greatly amplify its contribution to sustainability by prioritizing resilience-focused products, promoting inclusive access to financial protection, fully integrating ESG criteria and strengthening measurement and reporting standards.** Each of these strategies not only strengthens the sector's alignment with SDGs but also reinforces insurers' long-term value proposition as essential partners in building a resilient and equitable future.

Unsustainable progress towards a sustainable world

United Nations Sustainable Development Goals (SDGs) present a comprehensive framework for addressing the world's most pressing challenges. These 17 interconnected goals, ranging from climate action to zero hunger, provide a clear roadmap for governments, businesses and civil society to work together toward a more sustainable and equitable future for all. The SDGs cover a wide range of critical issues, from ensuring access to clean water and affordable clean energy to promoting gender equality and reducing income inequality, all with the ultimate aim of improving the well-being of people and the planet[1] (see box).
While significant progress has been made in certain areas, such as reducing poverty and expanding access to education, the world is still far from achieving the full set of SDG targets by the 2030 deadline (Figure 1).

The UN's midpoint analysis presents a rather grim depiction of global progress toward achieving the 17 SDGs. A significant portion of the goals is marked in red – denoting "stagnation or regression" – which suggests that many goals are not only off track but conditions are even worsening in some regions. For instance, goals like SDG2 (Zero Hunger), SDG8 (Decent Work and Economic Growth) and SDG16 (Peace, Justice, and Strong Institutions) show a particularly concerning amount of regression, indicating deep-rooted challenges that hinder progress. Equally concerning is the prevalence of goals in yellow ("marginal progress"). This indicates that while some progress is being made, it is happening at a pace far too slow to meet the targets by 2030. Key goals such as SDG1 (No Poverty), SDG5 (Gender Equality) and SDG13 (Climate Action) remain stuck in this middle ground, requiring much more urgent and substantial efforts to reach their targets.
In summary, the overall picture is one of insufficient progress, where a troubling combination of stagnation, regression and inadequate data threatens the realization of these critical global goals.

Figure 1: Progress across the 17 SDGs at midpoint (% of total goals)



Sources: LSGE Datastream, Allianz Research

1. UN. (2015). Transforming our world: The 2030 Agenda for Sustainable Development. United Nations. https://sdgs.un.org/2030agenda

The benefits and pitfalls of sustainability frameworks

The UN Sustainable Development Goals (SDGs), the UN Global Compact (UNGC) and Environmental, Social and Governance (ESG) criteria form an interconnected suite of frameworks that play a pivotal role in guiding both global initiatives and corporate strategies toward sustainable development objectives. In 2015, under the banner of the 2030 Agenda for Sustainable Development, the United Nations launched the SDGs. Comprising 17 interlinked goals (Figure 2), this agenda serves as a comprehensive plan to tackle a broad spectrum of global challenges, including severe issues such as poverty, inequality, climate change, environmental degradation, peace and justice. The overarching mission of the SDGs is to foster an inclusive global partnership dedicated to shared prosperity and a sustainable future for the planet and its inhabitants.

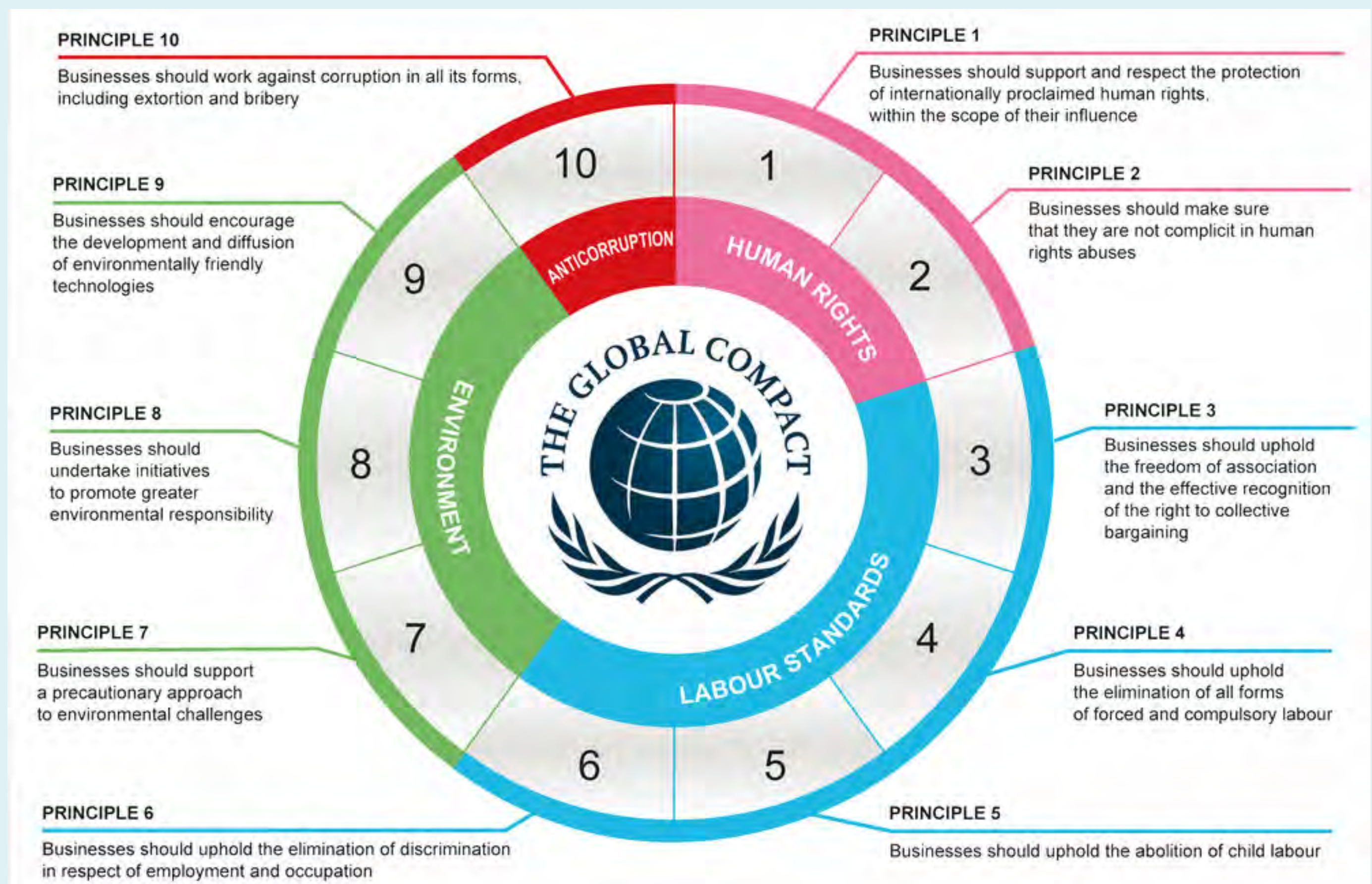
Figure 2: The 17 UN Sustainable Development Goals

Source: UN (2015)

The SDGs are articulated through 169 specific targets aimed at addressing the various aspects of social, economic and environmental issues that each goal encompasses. These targets provide actionable objectives relevant across diverse sectors, ensuring a holistic approach to global development. For effective implementation, the SDGs require proactive engagement from all societal sectors, including governmental bodies, the private sector, civil society and individual citizens. The universal nature of the SDGs is designed to encompass an extensive range of developmental priorities, thereby striving to include and benefit every community globally, adhering to the principle of "leaving no one behind" (UN, 2015).

Concurrently, the UN Global Compact is a voluntary initiative that encourages businesses to align their strategies and operations with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption measures. Initiated in 2000, the UN Global Compact aims to inspire businesses worldwide to adopt sustainable and socially responsible policies and to engage in reporting their progress. The Compact is founded on ten principles (Figure 3) that are derived from various United Nations conventions. The initiative encourages companies to align their operations and strategies with these principles, promoting an ethos of universal responsibility (Kell, 2017).

Figure 3: The 10 Principles of the UN Global Compact



Sources: Schmoch et al. (2021), Allianz Research

As the world's largest corporate sustainability initiative, the Global Compact plays a significant role in enhancing community engagement and fostering responsible business practices across the globe. It has successfully attracted participation from thousands of companies, which engage through local networks spanning over 160 countries, demonstrating the widespread corporate commitment to the Compact's ideals[2].

In fact, ESG was first mentioned in a UN Global Compact publication in 2004. Since then, ESG criteria have evolved over time to offer a comprehensive set of standards and guidelines that socially conscious investors use to evaluate potential investments and manage their portfolios with a focus on ethical practices, sustainable growth and societal welfare. These criteria provide a structured framework for assessing a company's approach to managing its environmental impact, social relationships and governance structures. By integrating ESG considerations into investment decisions, firms and investors are able to develop a more holistic understanding of a company's long-term value and risk profile[3].

The significance of ESG criteria has grown considerably, influencing investment decision-making processes and leading to the development of various reporting standards. Organizations like the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) provide structured frameworks that companies can use to disclose their adherence to responsible and sustainable practices. Within the International Financial Reporting Standards Foundation (IFRS), an International Sustainability Standards Board (ISSB) has also been established more recently to develop a comprehensive global baseline of sustainability-related disclosure standards, further underscoring the increasing importance of ESG in the investment landscape.

2 Kell, G. (2017). The Global Compact. Routledge, pp. 225–232. https://www.taylorfrancis.com/chapters/edit/10.4324/9781351284202-19/global-compact-georg-kell

3 Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. Review of Financial Economics, 5(4), 210–233. https://doi.org/10.1080/20430795.2015.1118917

Interrelation among SDGs, UNGC and ESG

These frameworks are intricately linked, with each supporting and enhancing the objectives of the others. The SDGs lay out specific targets that guide not only national policies but also private sector initiatives towards sustainable outcomes. The Global Compact leverages corporate leadership to promote these goals, advocating for business practices that are consistent with both the SDGs and ESG criteria. This collaboration enhances corporate governance, strengthens reputations and often leads to increased profitability.

By integrating these frameworks, corporations make considerable progress toward sustainable development. They address pressing global challenges such as climate change, inequality and injustice – central themes of the SDGs. This unified approach not only helps in achieving the specified goals but also contributes to the broader agenda of fostering a sustainable and equitable global environment.

Aligning these frameworks can be difficult due to their divergent focuses and scopes. The SDGs target broad developmental changes across nations and organizations, while the UN Global Compact focuses on corporate actions aligned with specific principles, and ESG criteria are mainly used by investors. This variability often leads to inconsistencies in priorities and practices across sectors and regions. Furthermore, the broad and sometimes ambiguous language of the SDGs and Global Compact principles allows for varied interpretations, which can influence how companies incorporate ESG criteria. This lack of alignment may hinder uniform progress toward sustainability. Measurement and reporting add to these challenges as there is no global standard for evaluating and reporting on ESG, making it difficult to assess impacts relative to the SDGs or Global Compact principles. Collecting relevant data is complex and resource-intensive, particularly for smaller enterprises, which may lack the means to manage and disclose comprehensive information.

The financial burden of implementing these frameworks is significant, especially for small and medium-sized enterprises. Sustainable practices require substantial investments in technology, training, system modifications and continuous reporting. For companies in developing economies, limited financial support and infrastructure create additional barriers to effective participation.

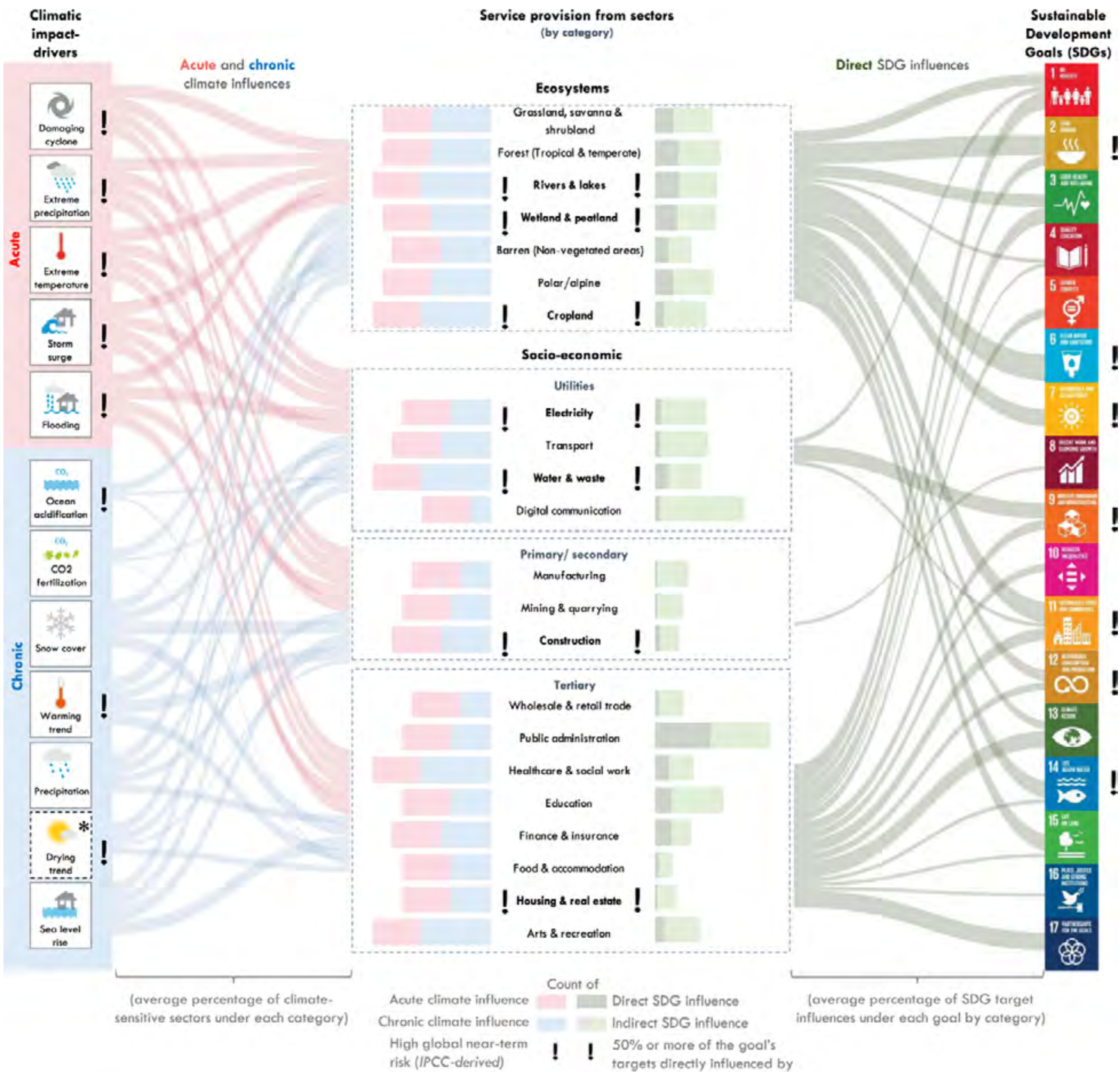
A rising risk of greenwashing, where companies overstate their commitment to sustainability, threatens the integrity of these frameworks. As ESG becomes more popular for attracting investors, some companies may exploit it for public relations without real commitment. Moreover, the reliance on self-reporting and the lack of stringent enforcement in both ESG and the Global Compact create opportunities for companies to claim compliance without genuinely adhering to these principles.

Balancing diverse stakeholder expectations, including those of investors, consumers and regulators, adds complexity, and the need to meet multiple requirements can lead to engagement fatigue, shifting focus from impactful actions to mere compliance. Additionally, the long-term goals of sustainable development may at times clash with immediate business objectives, leading companies to prioritize short-term gains over sustainability.

Despite these challenges, the combined SDG, Global Compact and ESG framework offer a comprehensive structure for advancing sustainability. Addressing these issues requires stronger collaboration, standardized reporting and enforcement to ensure these commitments translate into meaningful actions.

One of the reasons for this dismal progress – besides wars and the pandemic – is the accelerating climate crisis. Climate resilience is crucial to advance the SDGs as climate risks significantly influence the achievement of the SDGs. There are complex interdependencies between environmental degradation and sustainable development (Figure 4).
These connections between the impacted ecosystems and sectors on the one hand, and specific SDG targets on the other, highlight the insurance industry's potential in achieving the SDGs. Fuldauer et al. (2022)[4] , for example, indicate that the finance & insurance industries can play a pivotal role by providing financial protection against climate risks, directly affecting 30% of the SDG targets across 15 different goals. Furthermore, by integrating resilience-building measures, such as nature-based solutions, into their product offerings, the insurance industry has the potential to safeguard progress towards 81% of the SDG targets.

Figure 4: Sectoral risk from climatic impact-drivers on SDG target achievement



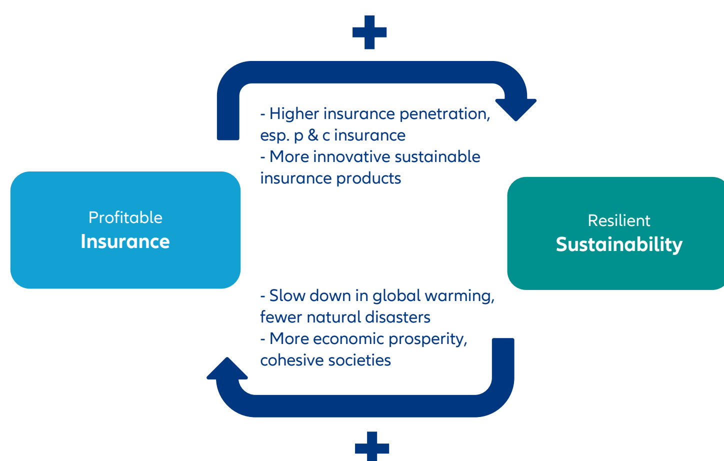
Source: Fuldauer et al. (2022)

4 Fuldauer, L. I., Thacker, S., Haggis, R. A., Nerini, F. F., Nicholls, R. J., & Hall, J. W. (2022). Targeting climate adaptation to safeguard and advance the Sustainable Development Goals. Nature Communications, 13(1). https://doi.org/10.1038/s41467-022-31202-w

The role of insurance

Given their critical role in risk management, insurers have both a responsibility and a business imperative to foster sustainability. Climate change increases the occurrence of natural disasters with growing costs that will put the business model of insurers under pressure. As the frequency of extreme wildfires, for example, has more than doubled over the last two decades (Cunningham et al., 2024)[5], the global damages due to climate change are estimated to be at USD38trn per year in the future, according to a recent study in Nature (Kotz et al., 2024)[6] . What makes matters worse is that the current situation is still marked by a vicious cycle of suboptimal insurance coverage and a lack of sustainability, which negatively impact each other. Low levels of insurance penetration in many countries, resulting in huge protection gaps[7], lead to a lack of SDG progress. This in turn contributes to frequent and severe natural disasters from global warming, which cost trillions and cause significant damage to economic prosperity and the social fabric. The result is a continuous loop where the challenges in one area exacerbate the issues in the other, creating a destructive cycle that hinders both insurance profitability and sustainability resilience. As a solution, stakeholders should work towards a virtuous cycle of profitable insurance and resilient sustainability (Figure 5). Wider insurance penetration, especially in property & casualty (P&C) insurance, together with the development of more innovative, sustainable insurance products, may lead to resilient sustainability. By integrating resilience into their strategic frameworks, insurers can help mitigate the impact of climate risks on critical ecosystems and socio-economic sectors, ultimately fostering more sustainable development outcomes.

Figure 5: The virtuous cycle of profitable insurance and resilient sustainability



Source: Adapted from Kroll (2025)[8]

5 Cunningham, C. X., Williamson, G. J., & Bowman, D. M. J. S. (2024). Increasing frequency and intensity of the most extreme wildfires on Earth. Nature Ecology & Evolution, 8 (August), 1420–1425. https://doi.org/10.1038/s41559-024-02452-2

6 Kotz, M., Levermann, A., & Wenz, L. (2024). The economic commitment of climate change. Nature, 628(8008), 551-557. https://doi.org/10.1038/s41586-024-07219-0

7 According to the Global Federation of Insurance Associations (GFIA), combined global protection gaps reached USD2.8trn in 2020. See GFIA (2023)

8 Kroll, C. (2025) The Virtuous Cycle of Profitable Business and Sustainability: Transforming Sustainability into a Competitive Advantage. SSRN Working Paper.

It therefore seems a little strange that insurance is only directly mentioned in one SDG target (SDG 8.10 on financial access). This gross understatement does no justice to its potential role as the industry has the potential to impact many of the 17 other goals through innovative approaches and strategic investment. Holliday et al. (2021)[9] propose three ways in which insurance can positively impact the SDGs: (1) risk management and underwriting; (2) investment and asset management and (3) corporate citizenship and social responsibility

1 Risk management and underwriting

Insurers play a fundamental role in managing risk, particularly in high-impact areas like natural disaster response, health crises and financial stability. Through innovative underwriting policies, insurers can mitigate the effects of climate change, pandemics and other crises, thus supporting resilience-building efforts that align with multiple SDGs.

- Climate resilience: Insurance policies can promote climate adaptation by incentivizing clients to invest in resilient infrastructure, especially in regions prone to natural disasters.
- Healthcare and economic stability: By insuring health- and income-related risks, insurance can reduce out-of-pocket expenses for individuals and stabilize communities, aligning with SDGs 3 (Good Health and Well-being) and 8 (Decent Work and Economic Growth). Risk transfer mechanisms for low-income populations help protect vulnerable groups, directly supporting SDG 10 (Reduced Inequalities).

2 Investment and asset management

Insurers are powerful institutional investors, managing billions of dollars in assets worldwide. By integrating environmental, social and governance (ESG) criteria into investment decisions, the insurance industry can direct substantial capital flows into sustainable initiatives, from renewable energy projects to green infrastructure

- Accelerating the energy transition: Insurers can invest in renewable energy projects, contributing to SDG 7 (Affordable and Clean Energy) and SDG 9 (Industry, Innovation, and Infrastructure). By financing clean energy solutions, insurers help reduce reliance on fossil fuels and foster sustainable economic growth.
- Green bond investments and impact funds: The insurance industry's substantial assets can be channeled into green bonds and impact funds, which finance projects that generate positive social and environmental outcomes. Such investment strategies reinforce insurers' commitment to long-term sustainability, supporting SDG 11 (Sustainable Cities and Communities) and SDG 15 (Life on Land).

3 Corporate citizenship and social responsibility

Insurers can contribute significantly to the SDGs through corporate social responsibility (CSR) initiatives that address local and global challenges. By promoting sustainable practices within their organizations and communities, insurers demonstrate leadership in advancing social and environmental goals.

- Community Resilience and Education: CSR initiatives can include community resilience programs, such as disaster preparedness training and financial literacy education. These efforts empower communities to better manage risks and make informed financial decisions, advancing SDGs 4 (Quality Education) and 16 (Peace, Justice, and Strong Institutions).
- Promoting social equality: Insurance companies can create inclusive policies that extend coverage to marginalized groups, supporting SDG 5 (Gender Equality) and SDG 10 (Reduced Inequalities). By ensuring equitable access to insurance, the industry strengthens societal resilience against economic shocks and personal crises.

These are not only theoretical considerations but hard empirical facts. There is a stable, positive relationship between insurance penetration and the SDG Index[10] , as shown by figures 6 & 7 which plot the SDG index (y axis) over insurance penetration (x axis).

Life insurance penetration: The correlation coefficient with the SDG Index was found to be $r = 0.3$, ($p = 0.061$), indicating a moderate positive relationship. For every 1% increase in life insurance penetration, countries move on average 1.7 % closer to SDG achievement (the SDG Index increases by an average of 1.7 points)[11]. This suggests that countries with higher life insurance penetration tend to have better SDG Index scores, although the relationship is not very strong.

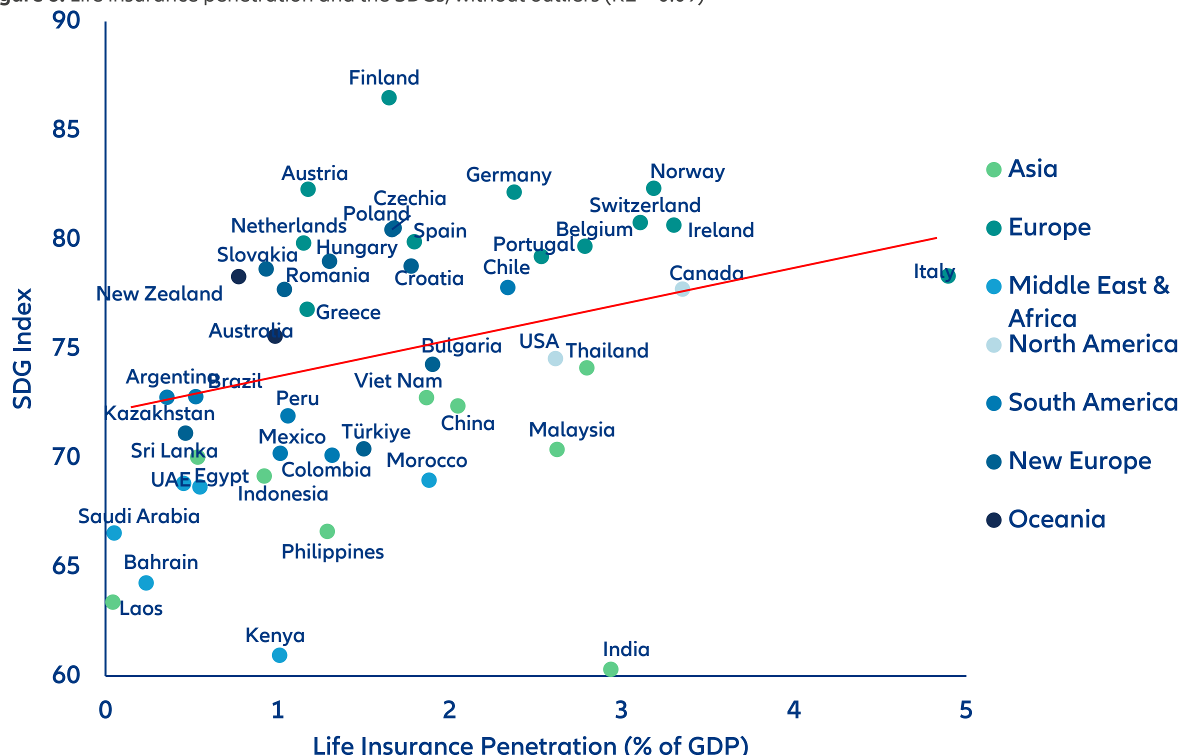
9 Holliday, S., Remizova, I., & Stewart, F. (2021). The insurance sector contribution to the SDGs. World Bank.

10 For the dataset and methodology see Sachs, J., Lafortune, G., Kroll, C., Fuller, G., & Woelm, F. (2022). From crisis to sustainable development. Sustainable Development Report 2022. Cambridge: Cambridge University Press.

11 While positive correlations suggest a link between higher insurance coverage and improved SDG outcomes, correlation alone cannot establish a causal relationship. This limitation indicates a need for further research that employs causal inference methods, such as longitudinal studies or quasi-experimental designs, to explore how specific insurance practices contribute directly to sustainable development.

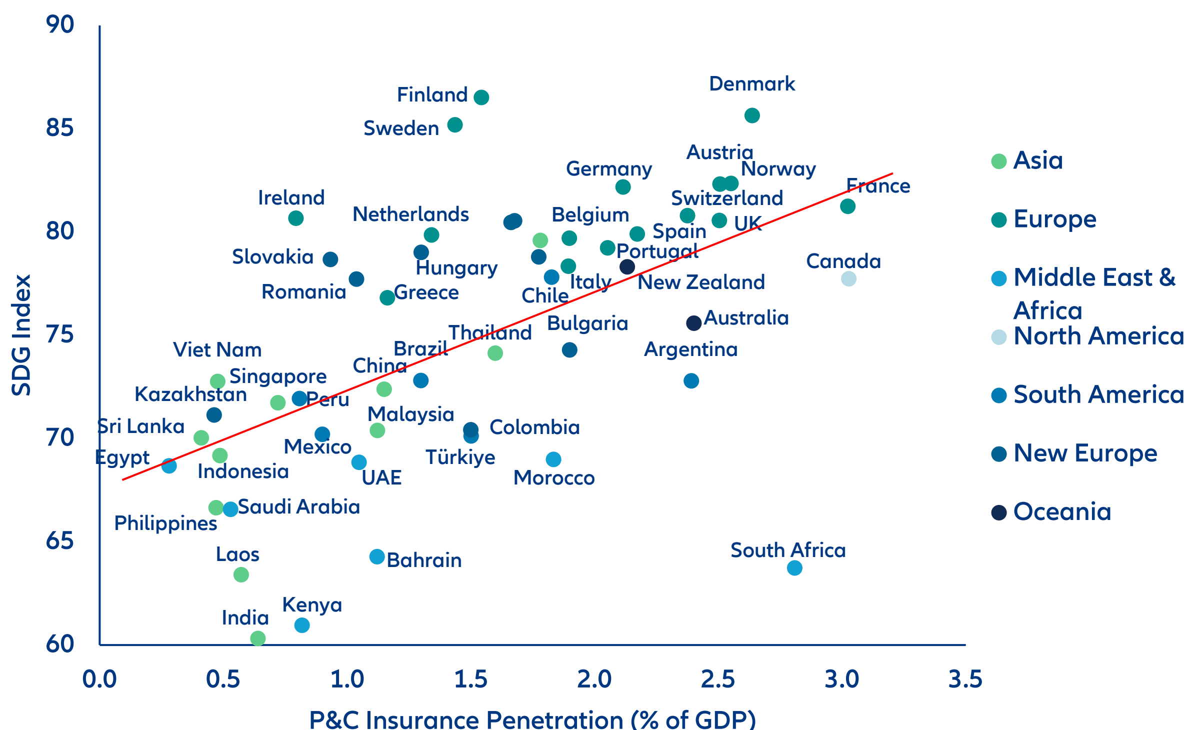
P&C insurance penetration: The R score for P&C insurance penetration was 0.62 (p < 0.001), demonstrating a strong positive correlation with the SDG Index. For every 1% increase in P & C insurance penetration, countries move on average 5.8 % closer to SDG achievement (the SDG Index increases by an average of 5.8 points). This indicates that countries with higher P&C insurance penetration are more likely to achieve higher SDG Index scores, suggesting a close connection of P&C insurance in sustainable development.

Figure 6: Life insurance penetration and the SDGs, without outliers (R2 = 0.09)



Source: Allianz Research

Figure 7: P&C insurance penetration and the SDGs, without outliers (R2 = 0.38)



Source: Allianz Research

Business and policy implications

While the insurance sector holds significant potential to advance sustainable development, several challenges remain. Firstly, the financial burden associated with integrating ESG criteria and meeting sustainability standards can be substantial for insurance companies and clients, especially for smaller firms. Secondly, the risk of greenwashing and a lack of stringent enforcement mechanisms weaken the integrity of ESG commitments. Additionally, differing stakeholder expectations and potential conflicts between short-term profitability and long-term sustainable investments may impede insurers' commitment to the SDGs.

On the other hand, the strong impact of insurance on SDGs calls for concerted action from both policymakers and industry leaders to capitalize on the insurance sector's untapped potential to support the SDGs. Policymakers can incentivize insurers to invest in sustainable projects through regulatory frameworks, tax incentives or public-private partnerships. For example, regulators should provide frameworks that make sustainability a competitive advantage in the insurance industry, by implementing firm caps on insured and financed carbon emissions to support the achievement of net-zero goals.

For the insurance industry, adopting a more proactive approach by integrating resilience-building measures and ESG principles across their operations could enhance long-term profitability and societal impact. Here are four key recommendations for aligning insurance practices with sustainability goals.

First, insurers should develop resilience-focused products that actively promote climate adaptation and social resilience. Insurers should explore innovative products like index-based insurance for agriculture, which pays out based on environmental indices (such as rainfall levels or temperature extremes) rather than direct damage assessment. Investment in digital and data-driven solutions, such as remote sensing and AI, can enhance insurers' ability to assess and mitigate risks. This approach

is particularly valuable for smallholder farmers who might face crop failures due to drought or flooding. Similarly, insurance products that incorporate climate resilience, such as flood insurance tied to resilient infrastructure investments, can create positive spillover effects for both insurers and communities.

Second, expanding access and inclusion within insurance offerings is essential for addressing social and economic disparities. Many underserved communities, especially in developing regions, lack access to basic financial protection, leaving them vulnerable to sudden shocks like natural disasters, health crises or economic downturns. Insurers can design accessible, affordable products that cater specifically to these populations, aligning with goals to reduce inequality and promote inclusive economic growth. Microinsurance, for example, is a growing field that provides low-cost coverage tailored to the needs of low-income individuals, offering them financial protection they otherwise might not afford.

Third, insurers should continue to integrate ESG criteria into the core of insurance business practices, moving beyond past commitments. Insurers can embed ESG considerations in investment and underwriting decisions, which allows them to directly influence the sustainability of the assets they support. For instance, insurers could prioritize investments in companies with strong environmental and social practices, creating a financial incentive for sustainable behavior in the broader economy. Additionally, by incorporating ESG into underwriting criteria, insurers could limit coverage for high-risk environmental sectors while rewarding businesses that actively mitigate their carbon footprints.

Fourth, it is crucial to enhance measurement and reporting standards across the insurance industry. Transparent reporting allows stakeholders to accurately assess insurers' contributions to the SDGs and provides a safeguard against greenwashing – a growing concern as insurers increasingly market themselves as sustainability-focused. Standardized metrics and benchmarks are necessary to validate claims of sustainable impact and to compare achievements across the industry (see appendix). In summary, the insurance industry can greatly amplify its contribution to sustainability by prioritizing resilience-focused products, fully integrating ESG criteria, strengthening measurement and reporting standards and promoting inclusive access to financial protection. Each of these strategies not only strengthens the sector's alignment with global sustainability goals but also reinforces insurers' long-term value proposition as essential partners in building a resilient and equitable future.

Appendix: Overview of frameworks to assess corporate impact on SDGs

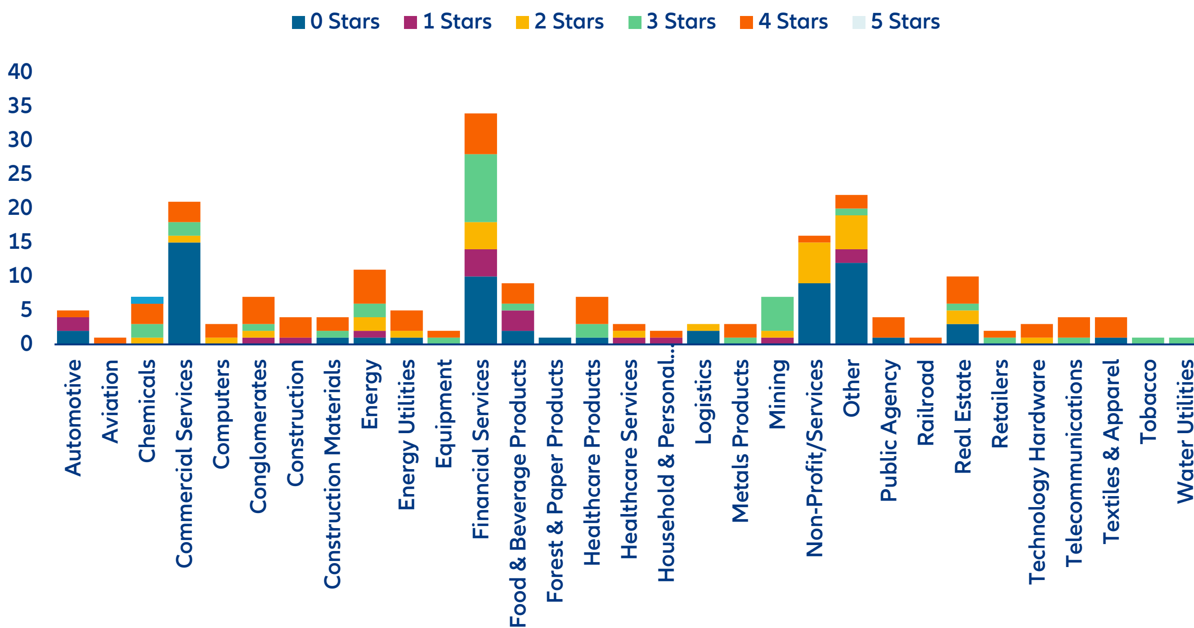
Several frameworks were developed to assess corporate impact in the areas of ESG and SDGs. The following overview presents some widely used frameworks that capture most aspects found elsewhere.

Global Reporting Initiative (GRI)

The overview report "State of Progress: Business Contributions to the SDGs" by the Global Reporting Initiative (GRI) employs a detailed methodology to analyze how businesses contribute to the SDGs. The study analyzed a sample of 206 GRI reporters, collecting data from publicly available sustainability reports and company websites. Companies were evaluated based on five criteria: plans, commitments, actions, progress and supplier involvement. A traffic light system (green, amber, red) rated each criterion, with green indicating explicit support or measurable actions, amber for general support or indirect actions and red for a lack of support. A green rating earned a company a star, with a maximum of five stars available. The study included a breakdown of ratings by industry, geography and company turnover, allowing for trend analysis and sector comparisons.

The study aimed to clarify how businesses disclose their SDGs support and actions, providing recommendations to strengthen corporate SDG communication and performance. This structured methodology provides a clear assessment of business contributions to the SDGs, highlighting achievements and areas for improvement. While the report lists financial services and features a top ranking for this industry, it does not provide specific information on the insurance sector (Global Reporting Initiative, 2022).

Figure 8: Business contributions to the SDGs



Sources: Global Reporting Initiative, Allianz Research

GRI (2022). State of progress on the Sustainable Development Goals (SDGs). Global Reporting Initiative. https://www.globalreporting.org/media/ab5lun0h/stg-gri-report-final.pdf.

The figure presents a stacked bar chart that visually illustrates the distribution of star ratings across various industries. The rating system ranges from 0 to 5 stars, with each color in the bars corresponding to a specific level. The x-axis displays different industries, such as automotive, aviation, chemicals and financial services, and the corresponding stacked bars reflect the distribution of companies or entities within each industry based on the star rating system. The y-axis represents the number of entities in each industry, with a maximum value of 30.

The financial services and non-profit/other services industries stand out as having the highest number of entities receiving star ratings. However, a significant portion of these entities, particularly in non-profit/other services, are concentrated in the lower rating tiers. Industries like chemicals and public agencies exhibit more balanced distributions across the rating categories, while sectors such as healthcare services and textiles and apparel have fewer entities and lower overall star ratings. Conversely, the aviation industry shows a relatively higher proportion of 4-star and 5-star ratings compared to other sectors (Global Reporting Initiative, 2022).

UNEP FI Impact Radar

The UNEP FI Impact Radar, created by the United Nations Environment Programme Finance Initiative (UNEP FI), is a holistic tool designed to identify and manage impacts in three domains: environmental, social and economic (UNEP 2022). It provides financial institutions with a broad understanding of their potential impacts across the entire value chain.
This framework emphasizes systems thinking and interconnectedness, offering a macro-level perspective that aligns with the SDGs. While the UNEP FI Impact Radar excels in fostering alignment with global sustainability standards, its generalist nature makes it less actionable for sector-specific needs. For insurance companies, whose impacts are often indirect – manifesting through underwriting policies, investment portfolios and client behavior – the framework does not offer industry-specific metrics or benchmarks.

Figure 9: UNEP FI impact radars

Source : UNEP (2022). The Impact Radar. A resource for Holistic Impact Analysis. Retrieved from Impact Radar 2022 – United Nations Environment – Finance Initiative

ESG rating agencies

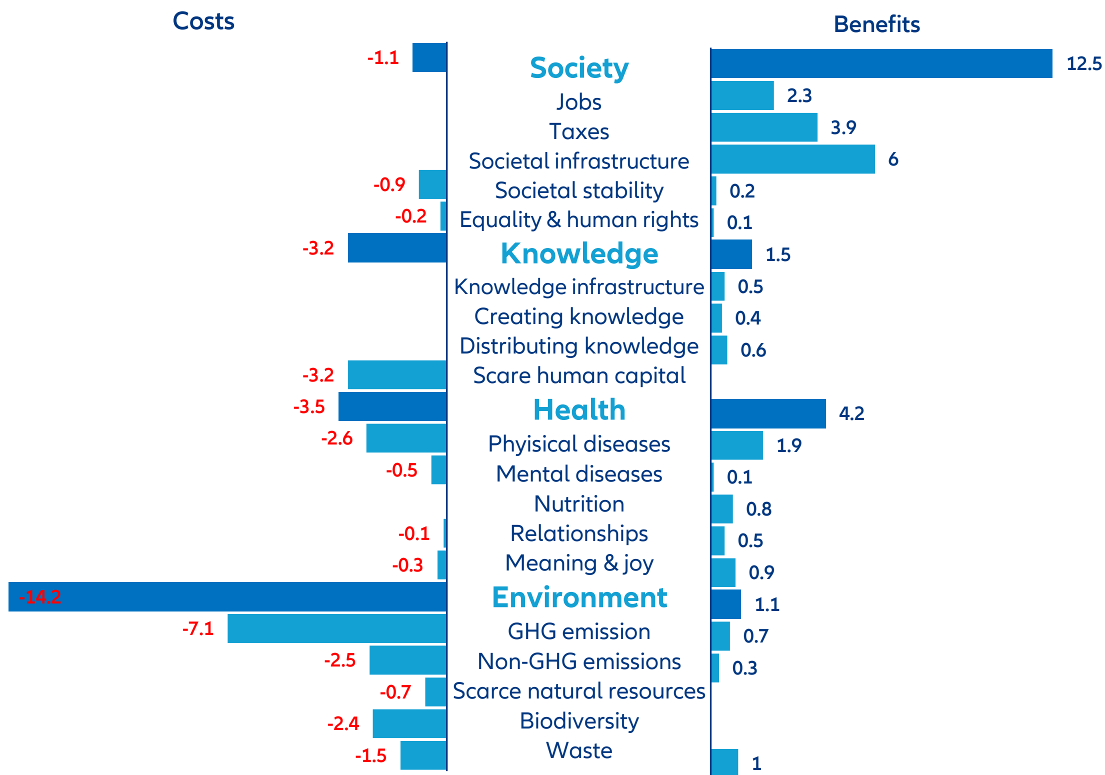
ESG rating agencies have gained prominence for providing standardized assessments of companies' ESG performance. Among the most widely used ESG ratings are MSCI, Sustainalytics, Refinitiv, FTSE Russell and S&P Global ESG Ratings. These agencies use proprietary methodologies to evaluate how companies manage risks and opportunities related to ESG factors. However, inconsistencies in ESG ratings have been widely criticized. Berg et al. (2022), in their study Aggregate Confusion: The Divergence of ESG Ratings, highlight significant discrepancies among ratings provided by different agencies. These inconsistencies undermine the reliability of ESG ratings as a basis for decision-making.

Regulatory pressure, particularly in the European Union (EU Council 2024), is about to force greater transparency in ESG rating methodologies. While this represents progress, the lack of industry-specific metrics remains a significant drawback. For the insurance sector, which deals with systemic risks such as climate change, ESG ratings often fail to capture the indirect and long-term impacts of underwriting and investment decisions. The ESG rating providers established in the Union will soon need to seek authorization by the European Securities and Markets Authority (ESMA). Moreover, they will have to disclose their methodology and sources of information which will make it possible to analyze their robustness and compare their analytical value.

Upright Net Impact Model

The Upright Project has developed a Net Impact Model that calculates the balance between positive and negative impacts of a company's operations. It evaluates contributions to society, knowledge, health and the environment, aiming to provide a quantitative assessment of a company's overall net impact. By focusing on trade-offs, the Upright Net Impact Model provides insights into how businesses can maximize their net positive effects while minimizing harm (Upright Project 2020).

Figure 10: The Upright Project Net Impact Model, here: aggregate net impact profile for Fortune Global 500 companies



Source: Upright Project, Allianz Research
Upright Project. (2020). Quantifying the net impact of companies – White paper. Retrieved from https://uprightproject.com

Planet A Impact Framework

The Planet A Impact Framework (Planet A Ventures 2023, 2024) emphasizes life cycle assessment (LCA) as its primary methodology. By focusing on the full environmental impact of materials, energy use and waste across a product's life cycle, this framework provides a rigorous, science-based approach to quantifying environmental impacts. Planet A has gained recognition for its transparency and data-driven approach based on the planetary boundaries framework.

Social Return on Investment (SROI)

Social Return on Investment (SROI) is a framework designed to measure and account for the social, environmental and economic value created by an organization relative to the investments made. By converting outcomes into monetary terms, SROI offers a unique perspective on the value of initiatives, allowing stakeholders to understand their broader impacts in quantifiable terms. SROI employs a systematic process to map, measure and calculate impacts. The methodology begins with defining the scope of the analysis and identifying stakeholders whose input is essential to understanding the outcomes. Stakeholders' insights help map the relationships between activities, outputs and outcomes, which are crucial for creating a logic model. This model illustrates the pathway from an organization's activities to its impacts, connecting financial investments to tangible and intangible results[12].

The next step involves evidencing outcomes and assigning monetary value to them. This is often the most challenging part of the process as it requires converting qualitative outcomes into financial figures. For example, increased mental well-being might be monetized using costs avoided in mental health treatment, while environmental benefits could be valued using carbon offset pricing. Once these values are established, adjustments are made to account for external factors such as attribution (the proportion of the outcome directly caused by the initiative), deadweight (what would have happened anyway), and displacement (negative effects elsewhere). After isolating the net impact, SROI calculates a ratio, such as 3:1, meaning that for every USD1 invested, USD3 of social value is generated. This ratio is a powerful communication tool, conveying the efficiency and effectiveness of resource use in creating value[13].

Each of the frameworks discussed above offers valuable insights into sustainability and impact measurement. The UNEP FI Impact Radar provides a broad, systems-level perspective, while ESG rating agencies offer comparative benchmarks.

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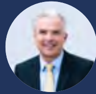

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