Insurers should benefit of a first-mover advantage to integrate ESG.

Underwriting activities are exposing insurers to a wide range of risks. In particular, the risk to the industry posed by the environmental consequences of climate change has long been recognised in Hong Kong.\(^1\) As a result, insurers have started integrating ESG and sustainability-related metrics within their pricing and risk management process in a ad-hoc and disparate manner.

From an investment perspective, the long term horizon of ESG opportunities is attractive for insurers to fulfill their own long term investment needs. For instance, as the governor of the Bank of England, Mark Carney, stated in 2015, "de-carbonisation of our economy is a major opportunity for insurers as long-term investors."\(^2\)

In 2012, seven years before the release of a similar banking initiative, the United Nations launched ‘the Principles for Sustainable Insurance’. The following four principles (also referred as the ESG principles) have been adopted by insurers worldwide including 14 insurers operating in Hong Kong.\(^3\)

1. **Embed ESG in the decision-making process**
2. **Work with clients and partners to raise ESG awareness**
3. **Promote action on ESG across society**
4. **Regularly disclose progress in implementing the Principles**

Insurers should benefit of a first-mover advantage to integrate ESG.

As of 2019, **48% of insurers in Asia had dedicated ESG investments, and 60% implemented negative screening.** GSAM Insurance Survey 2019.\(^4\)

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This apparent gap in the implementation may be due to the extensive scope of the ESG principles, which covers:

- **Company strategy**
- **Risk management and underwriting**
- **Claims management**
- **Sales and marketing**
- **Product and service development**
- **Investment management**

and the lack of guidance on practical steps for effectively and efficiently integrating ESG in their service offering and investment decisions.

A holistic approach to ESG integration that leverages the insurer’s values as well as its business strategy will help insurers provide better financial security to their clients.

Integrating ESG into the value chain is not an easy task. The recent announcement of a cross-agency regulatory steering group demonstrates that the financial industry as a whole is coming to terms with ESG and the related Green and Sustainable Finance themes.

In order for insurers to implement the ESG principles **consistently, effectively and efficiently** across their value chain, a **holistic approach** will need to be adopted that builds on existing values and strategy.

With ESG now recognised as a risk mitigation tool by insurers and investors alike, insurers have an opportunity, via a successful ESG integration, to **achieve enhanced risk adjusted returns**.

In this time of heightened global tension and market volatility, insurers should apply ESG integration to develop a **valuable proposition** for a risk-averse clientele turning to insurance market for resilient and robust returns.

Hong Kong regulators adopt a cross-sectoral approach


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Four fundamentals to consider for your holistic approach to ESG integration

We recommend the following four fundamental actions for insurers to consistently and effectively integrate ESG across business lines. By focusing on these action areas, insurers can address the interdependencies and impact across the scope of the ESG principles shown in the below illustrative:

1. Leverage your vision and values
   Your vision and values are the keys to achieve your long term objectives and grow your business.

2. Optimise your data
   Cross-usage of data between underwriting and investment process is a source of synergy.

3. Provide transparency
   Developing suitable ESG disclosures at company and product level, including meaningful ESG metrics for your investment process, will help demonstrate the quality of your integration.

4. Build Awareness
   From internal staff to clients, the ESG integration will need to be combined with extensive education & training programme.

How PwC can support you in your ESG journey

We can support you by adopting a tailored approach to the framework outlined above or focus on individual areas you are looking into. Your journey should be tailored to your needs and objectives. We have illustrated below potential areas and examples of how we can help you and it is NOT an exhaustive list of our services.

Vision & Strategy
- Corporate ESG strategy and messaging formulation
- Product offering strategy including market intelligence and research
- Impact assessment – transforming the current operating model to successfully integrate ESG
- Benchmark analysis (peer/product comparison)

Transparency & Reporting
- Draft public disclosures on the ESG philosophy and methodology adopted
- Define key risk and performance indicators required to measure the ESG performance and risks within the investment portfolios
- Board and management reporting on ESG initiatives

ESG Implementation
- Integrate ESG strategy in the end-to-end operating model including, investment process
- Develop or enhance ESG policies and procedures
- Product due diligence testing – investment linking product prospectus and actual product offered to clients
- Enhance the mandate management framework to include ESG considerations
- Conduct due diligence over the ESG processes of external managers

Awareness & Assurance
- Employee training & workshops
- Client education and awareness building
- ESG implementation health check
- ESG process effectiveness review
- Assurance on reporting for listed issuer and corporate responsibility reports
- Assurance on ESG implementation

What can your business achieve in ESG? Contact us and learn more.

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