Guernsey International
Insurance Association

Environmental, Social and Governance Framework for Insurers

in association with

WE ARE GUERNSEY
WE ARE CONNECTED

United Nations Sustainable Development Goals 1 to 9 of 17

1. NO POVERTY:
No poverty in all its forms everywhere

2. ZERO HUNGER:
End hunger, achieve food security and improved nutrition and promote sustainable agriculture

3. GOOD HEALTH AND WELL-BEING:
Ensure healthy lives and promote well-being for all at all ages

4. QUALITY EDUCATION:
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

5. GENDER EQUALITY:
Achieve gender equality and empower all women and girls

6. CLEAN WATER AND SANITATION:
Ensure availability and sustainable management of water and sanitation for all

7. AFFORDABLE AND CLEAN ENERGY:
Ensure access to affordable, reliable, sustainable and modern energy for all

8. DECENT WORK AND ECONOMIC GROWTH:
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

9. INDUSTRY, INNOVATION AND INFRASTRUCTURE:
Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Contents

Introduction

With the growing global concern surrounding the achievement of the Sustainable Development Goals (SDG) by 2030, financial market players are increasingly interested in understanding how organisations manage their material environmental, social and governance (ESG) opportunities and risks, and how they deliver positive ESG impact. Covid-19 has accelerated this global drive.

Insurers recognise that proper understanding and integration of ESG factors is increasingly critical to the long-term viability of their businesses. Views in this area have matured significantly. The lack of transparent and comparable standards is the cause of a lag between recognition of the importance of ESG risks and action within the insurance sector.

ESG-related criteria have moved from a ‘peripheral’ concern to a ‘core’ issue, across all sectors and this includes insurance. AM Best, the world’s largest rating agency specialising in insurance, surveyed nearly 100 insurance and reinsurance companies and reported that the majority of insurers now recognise that proper understanding and integration of ESG factors is increasingly critical to the long-term viability of their businesses.

Guernsey is at the forefront of dialogue on how to embed ESG into the strategic decision making processes of insurers and reinsurers. Guernsey is a member of the UN’s Sustainable Insurance Forum and the Guernsey International Insurance Association is a signatory to the UN’s Principles for Sustainable Insurance. Recognising that globally we are far from agreement on a single standard for ESG, this Framework developed by the Guernsey International Insurance Association (GIIA) seeks to recognise the work Guernsey insurers do towards achieving the SDGs and ensuring ESG is at the heart of their governance structures.

The UNs’ Sustainable Development Goals provide a standout signpost for ESG: They are used by the European Commission as the base reference for its ESG benchmark legislation. They are placed centrally within this ESG framework for insurers and governance requirements follow UN principles.

The framework comprises four clear pillars.

The Framework

This Framework follows the UN's recommended approach of incorporating ESG processes at the system level with the alignment of SDGs with the outcomes of financial services products, services and investments made by the Insurer. The Framework for insurers has requirements set out in four pillars. It is necessary to fulfil the requirements of each of the pillars to achieve compliance with the Framework.

PILLAR 1: GOVERNANCE

ESG is embedded within decision making and the governance structures of the insurer

The governance and decision-making processes of the Insurer must consider how the Insurer contributes to achieving the SDGs.

The insurer or its appointed insurance manager must be a member of a representative body that is a signatory to UN's Principles of Sustainable Insurance or is a member itself.

PILLAR 2: RISKS UNDERWRITTEN

Risks underwritten contribute to achieving the SDGs.

The insurance policies sold by the Insurer either directly or indirectly support the achievement of the SDGs. The six SDGs most commonly supported through the issue of insurance policies by Guernsey Insurers are meeting basic needs, well-being, decent work, resource security, healthy ecosystems and climate stability.

PILLAR 3: INVESTMENTS HELD

Investments held contribute to achieving the SDGs.

Investments of the Insurer must be held or managed by a financial institution with a good or better ESG rating.

PILLAR 4: REPORTING

Principle: transparency is at the heart of ESG.

The Insurer must disclose publicly, at least annually, how it has met the requirements of the Framework.

Pillar 1: Governance

Principle: ESG is embedded within decision making and the governance structures of the insurer

The governance and decision-making processes of the Insurer must consider how the Insurer contributes to achieving the SDGs. The Insurer must adopt a process to take into account the likelihood of negatively impacting the achievement of the SDGs, the probability of occurrence and severity of adverse impact. The Insurer must embed ESG into everyday business activity.

The insurer or its appointed insurance manager must be a member of a representative body that is a signatory to UN's Principles of Sustainable Insurance or is a member itself.

Endorsed by the UN Secretary-General and insurance industry CEOs, the Principles for Sustainable Insurance serve as a global framework for the insurance industry to address ESG risks and opportunities. It is a global initiative to strengthen the insurance industry's contribution, as risk managers, insurers and investors, to building resilient, inclusive and sustainable communities and economies. Launched at the 2012 UN Conference on Sustainable Development, the UN Principles for Sustainable Insurance serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.

The principles are as follows:

Principle 1 — We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.

Principle 2 — We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

Principle 3 — We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

Principle 4 — We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

Pillar 2: Risks Underwritten

Principle: Risks underwritten by the Insurer must contribute to achieving the SDGs either directly or by supporting policyholders to indirectly achieve the goals.

Over half the insurance business written by the Insured must be related, to a reasonable degree, to achieving an SDG. The process for calculating half of the insurance business, by premium most commonly, must be documented by the Insurer along with the SDG's aligned to, and the factors behind this conclusion. The minority of other risks underwritten by the Insurer must "do no harm" to achieving the SDGs and the process behind this assessment must be documented by the Insurer.

Risks underwritten by Guernsey Insurers will usually contribute to achieving social SDGs or environmental SDGs, which can be grouped as follows:

SOCIAL

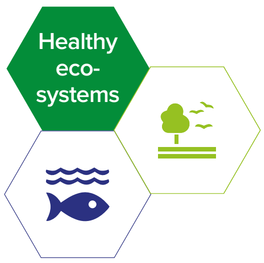
Food, water, energy, shelter, sanitation, communications, transport, credit and health for all.

Enhanced health, education, justice and quality of opportunity for all.

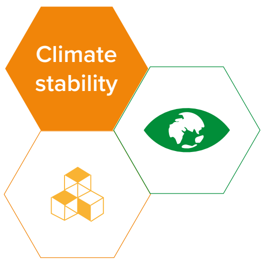
Secure, socially inclusive jobs and working conditions for all.

ENVIRONMENTAL

Preserve stocks of natural resources through efficient and circular use.



Maintain ecologically sound landscapes and seas for nature and people.



Limit Greenhouse Gas levels to stabilise global temperature rise to under 2 degrees.

Examples of commonly written insurance policies that may meet the Pillar 2 requirements			
RISK	**SDG**		**COMMENT**
GENERAL PROPERTY	**SDG 3** **SDG 1** **SDG 6** **SDG 11**	Good Health and well being No Poverty Clean Water and sanitation Sustainable cities and communities	Rebuilding of homes and businesses promote well being Rebuilding of homes reduces poverty caused by damage to property. A rebuilt home will provide safe and secure sanitation Insuring property means that when rebuilt, new standards of sustainability and best practice can be applied.
LIABILITY / CASUALTY	**SDG 10** **SDG 3**	Reduced inequalities Good health and well-being	Public liability policies protect members of the public from negligent practices and processes Personal liability claims support a just and fair society and help address inequality.
PROFESSIONAL INDEMNITY	**SDG 3** **SDG 11**	Good health and well-being Sustainable cities and communities	Protects both businesses and members of the public against the risk of poor professional advice. Often a mandatory requirement for businesses so this is integral to the operation of small communities.
MARINE	**SDG 14** **SDG 6** **SDG 8**	Life below water Clean water and sanitation Decent work and economic growth	Environmental pollution protection is one of the obvious examples as to how marine insurance can support SDGs. Most marine policies contain some form of pollution liability cover as well as protecting the hull of the ships themselves. The marine industry is a fundamental part of the world's economic infrastructure and ensures that growth through trade is possible.
AVIATION	**SDG 10** **SDG 9** **SDG 8** **SDG 3**	Reduced inequalities Industry, innovation and infrastructure Decent work and economic growth Good health and well-being	Affordable transport reduces inequalities and the aviation sector supports innovation and provides work and economic growth with a growing reliance on sustainable fuels. Aviation liability cover supports health and well-being through payment of financial benefits in the event of accidents.
TRADE CREDIT	**SDG 8** **SDG 9**	Decent work and economic growth Industry, innovation and infrastructure	Trade Credit insurance is a key component of the international trading ecosystem. Without it many businesses could not sell on credit terms disruption supply chain disruption and harming economic welfare particularly in emerging economies.
EMPLOYERS LIABILITY	**SDG 10** **SDG 3**	Reduced inequalities Good health and well-being	Financial protection of employees is fundamental to their health and well-being, and is a statutory cover in most countries. By ensuring an economic floor for all workers in case of accident or mistreatment, it also ensures greater equality for all.

Pillar 3: Investments Held

Principle: Investments held contribute to achieving the SDGs.

The Insurer must place its capital in investments held or managed by a financial institution which itself has a good or better ESG rating.

It is understood that a proportion of the Insurer's assets may be held as tangible assets and that there is a need for the insurer to hold working capital which may vary widely with the need to pay claims. The Insurer must document how its Investment Guidelines allow it to comply with the requirements of Pillar 3. The Insurer must also document the process to ensure the Investment Guidelines are followed.

ESG ratings measure a financial institution's resilience to long-term, industry material environmental, social and governance risks. Published by various private companies they typically rate firms according to their exposure to ESG risk and how well they manage those risks relative to peers in the market.

There are many firms that now publish ESG ratings of financial institutions which are of sufficient quality, but it must be recognised that these rating companies are not regulated. The choice of the rating company remains at the discretion of the Insurer but it is presumed that a recognised market leader is chosen for example Sustainalytics, MSCI, S&P (this list is not exhaustive).

The choice of the rating company and the factors in selecting that company must be documented by the Insurer. Insurers are not experts in rating companies and therefore a 'benefit of the doubt' approach may be applied, subject to this being clearly disclosed and documented. To comply with the Framework the Insurer must document the minimum rating they will consider acceptable and document the rationale for that choice.

The minimum rating must be "good" or better, some examples of how this may be assessed include:

MSCI ESG ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). The expectation would be that a firm achieves BBB or greater meet the requirement of 'good'.

Sustainalytics rate firms on two factors exposure to ESG issues and management of ESG risks. Ranking exposure as low, medium or high and management as strong, average or weak.

The expectation may be that medium and average conforms to meeting the requirement of 'good'.

Pillar 4: Reporting

Principle: transparency is at the heart of the framework.

It is necessary to fulfil the requirements of all of the pillars to be considered compliant with the Framework.
An annual public disclosure must be made describing how the requirements have been met.

The disclosure must include the following:

1. A statement clearly showing the purpose of the public disclosure, the date of it and that it is made at the instruction of the board of directors of the Insurer.

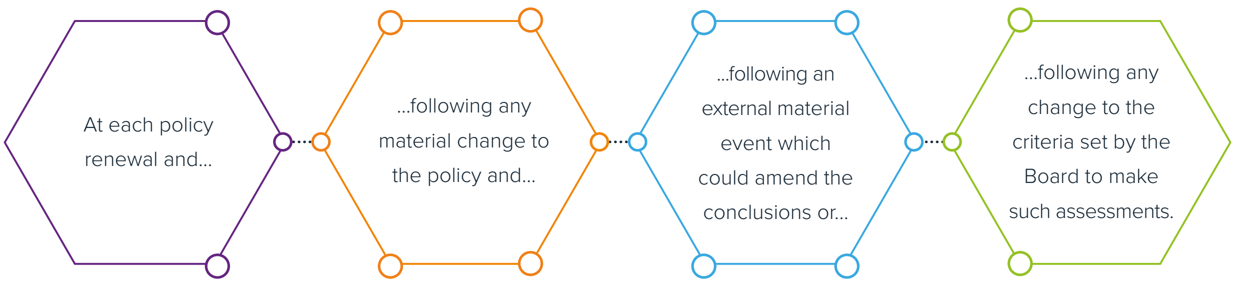
2. Confirmation that Pillar 1 has been complied with

- **a.** A statement confirming how the Insurer has demonstrated alignment to the UN Principles of Sustainable Insurance either through itself being a signatory or itself or appointed Insurance Manager being a member of a representative body which is a signatory.
- **b.** A description of the Insurer's ESG policy, the date of its adoption and of any subsequent revisions.
- **c.** A confirmation and summary of the process by which the risk of negatively impacting the achievement of the SDGs is assessed.
- **d.** If not commercially sensitive, details of engagement, collaboration or advocacy in line with the second and third Principles of Sustainable Insurance.

3. A confirmation that the risks underwritten have been assessed by the Insurer as contributing to the achievement of the SDGs and that Pillar 2 has been complied with.

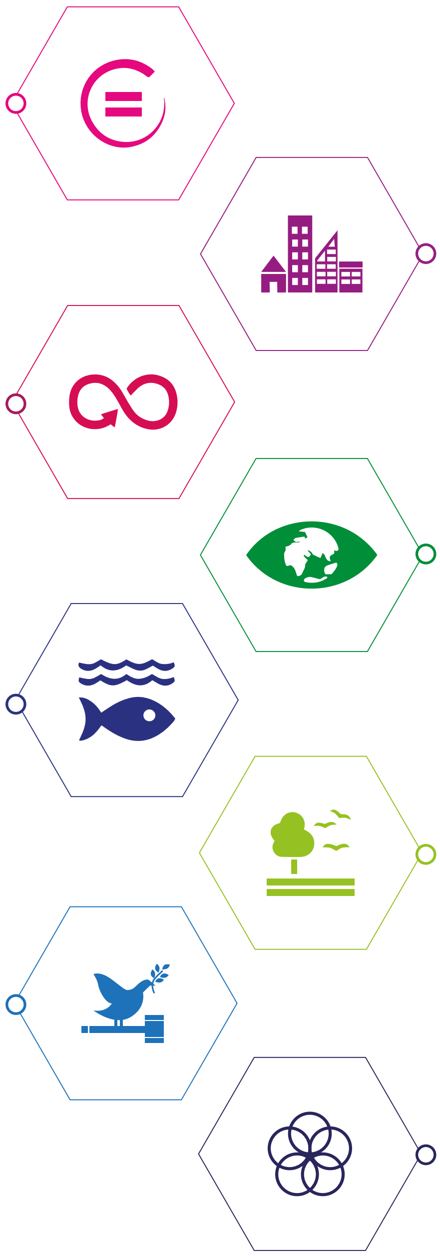
4. A confirmation that the investments held are in an institution with a good or better ESG rating, the indices used and any updates within the year. Confirmation that Pillar 3 has been complied with.

Documentation must be approved at a board level and be reviewed and updated:



Disclosures must be made publicly to satisfy Pillar 4 but need not disclose the full detail of what is required.

United Nations Sustainable Development Goals 10 to 17



10. REDUCED INEQUALITIES:
Reduce inequality within and among countries

11. SUSTAINABLE CITIES AND COMMUNITIES:
Make cities and human settlements inclusive, safe, resilient and sustainable

12. RESPONSIBLE CONSUMPTION AND PRODUCTION:
Ensure sustainable consumption and production patterns

13. CLIMATE ACTION:
Take urgent action to combat climate change and its impacts

14. LIFE BELOW WATER
Conserve and sustainably use the oceans, seas and marine resources for sustainable development

15. LIFE ON LAND:
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

16. PEACE, JUSTICE AND STRONG INSTITUTIONS:
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

17. PARTNERSHIPS FOR THE GOALS:
Strengthen the means of implementation and revitalize the global partnership for sustainable development

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