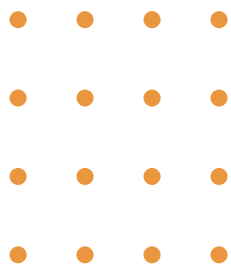




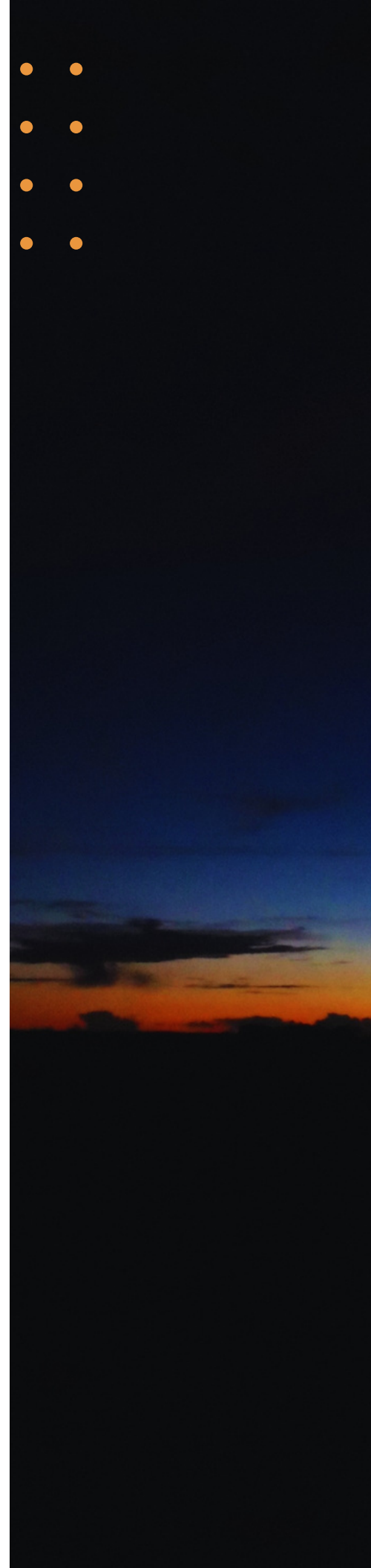
WHAT'S KEEPING ESG EXPERTS AWAKE AT NIGHT?

THE BIGGEST ESG CHALLENGES
FACING THE UK P&C INSURANCE
INDUSTRY, 2022

PART 1 OF A TWO-PART SHEFFIELD HAWORTH
SPECIAL REPORT ON ESG



SHEFFIELDHAWORTH



INTRODUCTION

ESG (Environmental, Social, and Governance) has become a significant priority for the insurance industry in recent years. Despite this fact – and the fact that ESG is not a new phenomenon – many within the industry seem to be struggling to get to grips with it. Many firms are largely focused on the challenges and implicit negatives of ESG rather than the potential opportunities for competitive advantage, brand reputation, and increased customer loyalty.

That's why my team and I set out to better understand the industry's attitudes towards ESG. We began with this survey of industry experts to get a range of expert opinion on ESG challenges. This is part one of a two-part study. Part two will be a deep dive with selected experts from InsurTechs, carriers, and brokers to look at the potential opportunities and emerging market opportunities within ESG.

This survey is very much geared towards regulatory challenges, both in terms of compliance and reporting. Some of the trends highlighted in this report are likely to have a major impact on hiring trends for ESG talent in the years to come. I hope you find this report both useful and thought-provoking.

Best regards,



Ben Johnson
Managing Director & Global Head of Insurance & InsurTech at Sheffield Haworth

KEY FINDINGS

Of the 46 respondents to our survey, 30 were insurance experts with ESG experience (65%) while 16 were insurance experts with an interest in ESG, but no direct experience of working in ESG-related roles (35%).

Experts see internal roadblocks as bigger issues than external ESG-related challenges

Across the board, when asked to cite the biggest ESG-related challenges facing the P&C insurance industry, our experts cited internal roadblocks such as lack of leadership, lack of genuine commitment or prioritisation, difficulties integrating ESG into their business models, and even a lack of understanding of ESG.

Lack of leadership a more common complaint of those without ESG experience

Lack of leadership was cited as the biggest challenge twice as often by respondents without ESG experience than those with. Those with ESG experience were more likely to cite the biggest challenge as business model-related – such as developing new ESG-themed products, or following more sustainable investment practices – or the lack of common reporting or regulatory standards.

ESG data capture and reporting need to improve

The common thread cited equally by those with and without direct ESG experience was the need to improve data accuracy, data capture, and reporting capabilities.

Quantifying and modelling climate change impact is the biggest external challenge

When asked about the most commonly talked-about external ESG challenges facing the sector, our experts ranked quantifying and modelling the climate change impact of their value chains as the biggest by far. Asked to rate the scale of various external challenges out of 10, 91% of respondents cited this as a 7/10 challenge or more.

External ESG challenges ranked from highest to lowest

The following ranking calculates which external challenges our respondents ranked as most challenging by calculating how many of them rated the challenge as a 7/10 or higher:

- 91%** Quantifying and modelling the climate change impact of the insurance value chain.
- 73%** Quantifying and modelling the financial risks of climate change to their businesses.
- 70%** Keeping up with ESG-themed regulation.
- 65%** Refocusing underwriting away from harmful activities.
- 56%** Redirecting capital towards sustainable investment.
- 56%** Complying with TCFD reporting requirements.
- 41%** Being more socially responsible.

SECTION 1: THE TOUGHEST ESG-RELATED CHALLENGES ARE INTERNAL, EXPERTS SAY

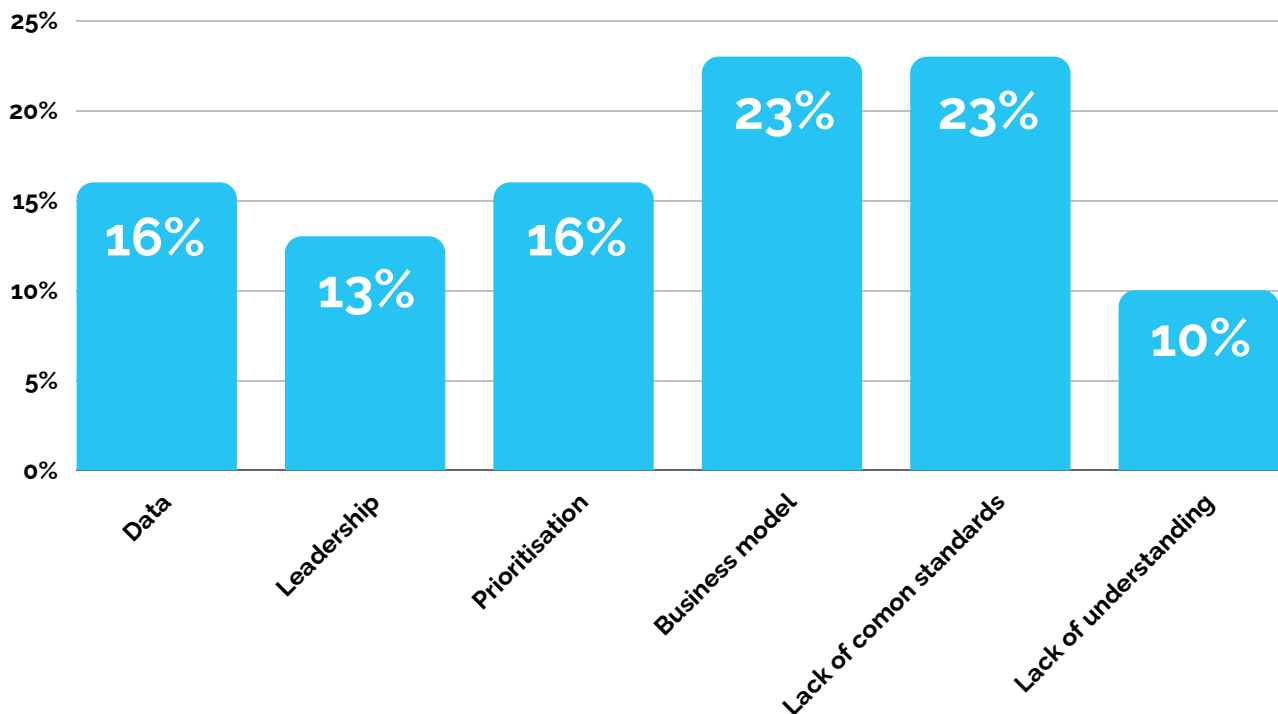
Most businesses – insurers, brokers, MGAs, and InsurTechs included – face external ESG-related challenges, including:

- Firms being able to quantify climate change-related financial risks
- Understanding and reporting on their climate change impact throughout their value chain
- Becoming better able to price and underwrite more sustainable business
- Investing more sustainably
- Becoming more diverse and inclusive, both socially and cognitively

However, when we asked experts to state what they saw as the single biggest ESG-related challenge facing the P&C insurance industry in 2022 in their own words, almost all cited internal challenges within their businesses that they believe are hampering ESG adoption.

This is somewhat surprising. However, in speaking to several ESG experts, we believe this may be explained in the fact that our survey sample was drawn from those within the industry who are most passionate about ESG, and therefore more likely to feel frustrated with internal barriers.

Biggest ESG-related challenge facing the P&C insurance industry in 2022



EXAMPLES

Examples of answers related to... **business model challenges:**

From someone with ESG experience:

“*The biggest ESG challenges include transition risk for clients and the need to create innovative, profitable ESG solutions.*”

From someone with no ESG experience:

“*The business case to invest in the current climate.*”

Examples of answers related to... **lack of common standards:**

From someone with ESG experience:

“*Which ESG framework to adopt among the increasing proliferation of scoring providers.*”

From someone with no ESG experience:

“*Having realistic standardised measurements.*”

Examples of answers related to... **data:**

From someone with ESG experience:

“*Accessing and understanding the data in order to make useful change.*”

From someone with no ESG experience:

“*Capture and share ESG-related data.*”

Examples of answers related to... **prioritisation:**

From someone with ESG experience:

“*Turning objectives into delivery.*”

From someone with no ESG experience:

“*Prioritising ESG among all the other challenges a business faces. This is a medium/long term issue which rarely gets higher up the radar because of other challenges.*”

Examples of answers related to... **leadership:**

From someone with ESG experience:

“*Commitment.*”

From someone with no ESG experience:

“*Lack of genuine leadership with green issues.*”

Examples of answers related to... **lack of understanding:**

From someone with ESG experience:

“*Understanding and change.*”

From someone with no ESG experience:

“*Understand and mitigate climate change impact.*”

SECTION 2: QUANTIFYING THE CLIMATE CHANGE IMPACT OF THE VALUE CHAIN IS THE MOST DIFFICULT REPORTING CHALLENGE

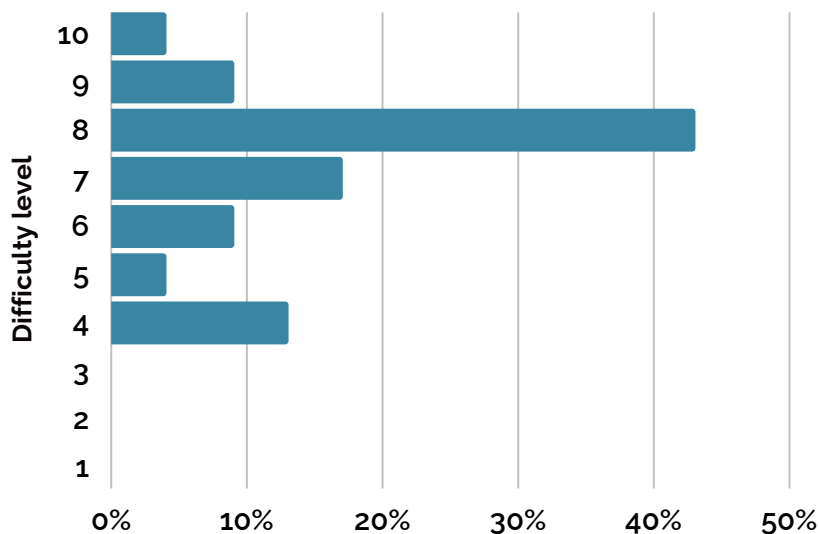
Quantifying and modelling climate change

Solvency II sets out regulatory requirements for insurance firms covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure.

It's increasingly regarded as good practice for insurers to consider how environmental risks will impact them financially. Climate change specifically has a quantifiable impact on insurers' physical risks, transition risks, and liability risks – both their own and those of their clients.

We wanted to know how challenging our ESG experts found quantifying the impact of climate change on those risks that they had to report on as part of their Solvency II compliance:

On a scale of 1 – 10, how difficult is modelling/quantifying the impact of climate change on physical, transition, and liability risks as part of Solvency II stress-testing exercises for the P&C industry?



Our experts rated this the second-most difficult ESG-related external challenge facing the industry right now.

Quotes relating to this challenge in answer to the question "In your own words, what do you see as the biggest ESG-related challenge facing the P&C insurance industry in 2022?":

From someone with no direct ESG experience:

“Capturing and sharing ESG related data.”

From someone with direct ESG experience:

“The biggest ESG challenges include transition risk for clients and the need to create innovative, profitable ESG solutions.”

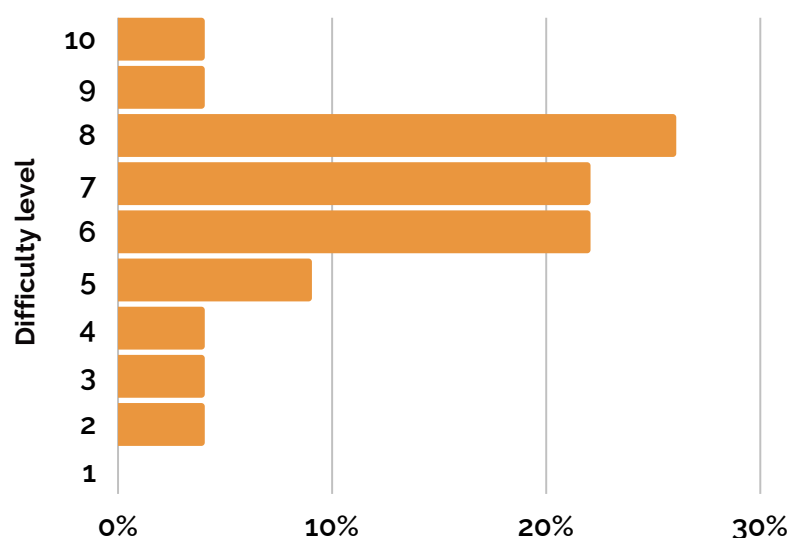
Complying with TCFD reporting requirements

The Taskforce on Climate- Related Financial Disclosures (TCFD) is an industry-led group which helps investors understand their financial exposure to climate risk and works with companies to disclose this information in a clear and consistent way.

As of April 2022, c. 1,300 of the largest UK-registered companies and financial institutions must disclose climate-related financial information in line with TCFD recommendations. Many in the industry believe this reporting – not just in the UK, but around the world – will increase transparency around the climate impact of businesses, including insurance firms themselves and their largest commercial clients.

We wanted to know how well the industry is coping with compliance to date:

On a scale of 1 – 10, , how difficult is aligning with the recommendations/best practice of the Task Force on Climate-related Financial Disclosure (TCFD) for the P&C industry?



Our respondents rated this one of the least difficult external ESG-related challenges, ranking it joint 5th out of seven.

Quotes relating to this challenge in answer to the question "In your own words, what do you see as the biggest ESG-related challenge facing the P&C insurance industry in 2022?":

From someone with no direct ESG experience:

“ Having realistic standardised measurements.”

From someone with direct ESG experience:

“ Somewhere between monitoring and improving our own operations and ensuring our risk selection and our investment portfolio supports more sustainable futures.”

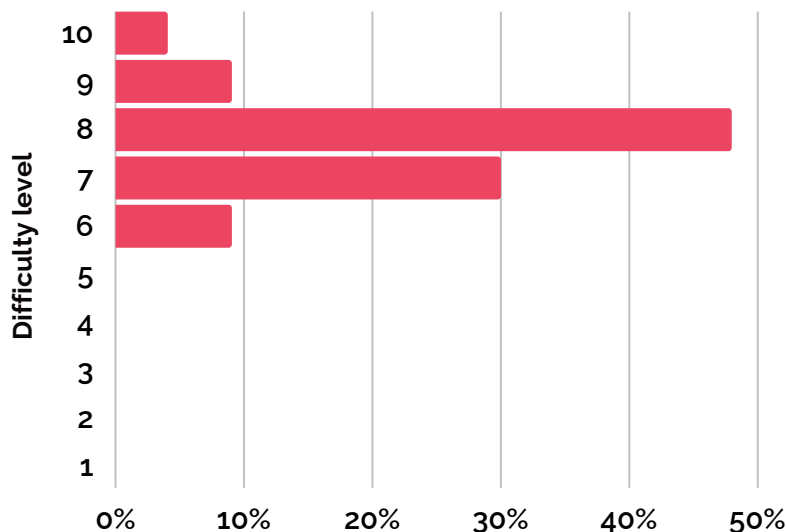
Quantifying and modelling the climate change impact of the insurance value chain

The insurance value chain includes product and service development, marketing and sales, policy administration, claims and benefits management, and asset management. This includes partners and other 3rd parties such as price comparison websites, brokers and carriers, contractors that are used to repair damage, and so on.

Each component of this chain has a climate change impact. One of the key issues that insurance firms face is being able to accurately measure and quantify that impact. There are multiple standards in the market they can choose to apply, most of which are potentially helpful but none of which are compulsory.

We wanted to find out if this lack of accepted common standards for measuring the climate change impact of the value chain was making this more challenging:

On a scale of 1 – 10, how difficult is modelling/quantifying the climate change impact of material parts of the insurance value chain under recognised standards (e.g. those of the Sustainability Accounting Standards Board (SASB) or the Value Reporting Foundation) for the P&C industry?



Our respondents ranked this as the most difficult external ESG-related challenge by far.

Quotes relating to this challenge in answer to the question "In your own words, what do you see as the biggest ESG-related challenge facing the P&C insurance industry in 2022?":

From someone with direct ESG experience:

“Consistency in approach cross industry and sector.”

From someone with direct ESG experience:

“Which ESG framework to adopt among the increasing proliferation of scoring providers.”

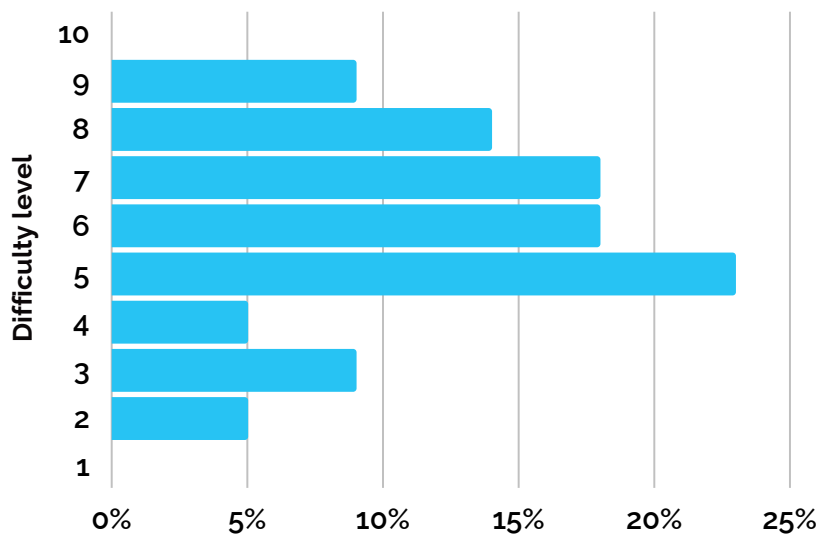
SECTION 3: SOCIAL RESPONSIBILITY

Along with environmental concerns, responsibilities, and obligations, insurance firms also have social responsibilities and obligations. In the UK these are perhaps summarised most succinctly in the Financial Conduct Authority's (FCA) focus on Treating Customers Fairly (TCF) – a principle shared by EU financial services regulators.

As part of this drive towards TCF in the UK insurance industry, in 2021 the FCA banned the practice of price walking within P&C insurance. Industry insiders expect that we will see more FCA regulation aimed at embedding the principle of Fair Value into insurance products, services, and business models.

Given this increasing regulatory pressure towards consumer protection, we wanted to know how insurers viewed the challenge of implementing such initiatives:

On a scale of 1 – 10, how difficult is implementing material initiatives relevant to social capital such as selling practices and product labelling for the P&C industry?



Our respondents cited this as the least difficult external ESG-related challenge, ranking it 7th out of seven. Reading between the lines, this may be because most respondents are less focused on the social aspect of ESG as they are on the environmental side, meaning that this simply isn't as much of a priority for them right now.

Quotes relating to this challenge in answer to the question "In your own words, what do you see as the biggest ESG-related challenge facing the P&C insurance industry in 2022?":

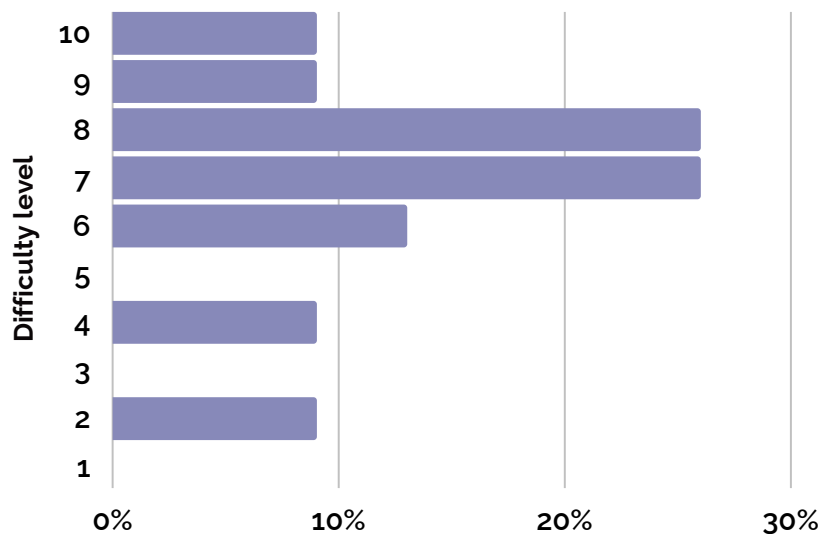
From someone with direct ESG experience:

“ I think we are very focused on how to deliver on the E, but the S and G are not as clearly defined or discussed. We need a way to proactively address all 3 in tandem.”

SECTION 4: KEEPING ABREAST OF REGULATION IS 3RD BIGGEST ESG CHALLENGE

The insurance industry often struggles to comply with new regulation. Given that climate-related reporting became a legal obligation for most large firms this year, that Solvency II is currently being revised in the UK and updated in the EU, and that a multitude of reporting frameworks now exist, we wanted to see how much of a challenge it was to keep up with ESG-related regulation:

On a scale of 1 – 10, how difficult is keeping up with ESG-themed regulation from the UK PRA / EU Commission for the P&C industry?



Our respondents ranked this as the 3rd most difficult external ESG-related challenge. This is not surprising when one in ten of them also cited "lack of understanding" as the biggest challenge facing the industry in 2022. Some respondents said existing rules could be confusing, while others suggested that the current regulatory environment is one reason for the current lack of common data reporting standards across the industry.

Quotes relating to this challenge in answer to the question "In your own words, what do you see as the biggest ESG-related challenge facing the P&C insurance industry in 2022?":

From someone with direct ESG experience:

“Understanding and change.”

From someone with direct ESG experience:

“Governance, priority, confused regulation and data.”

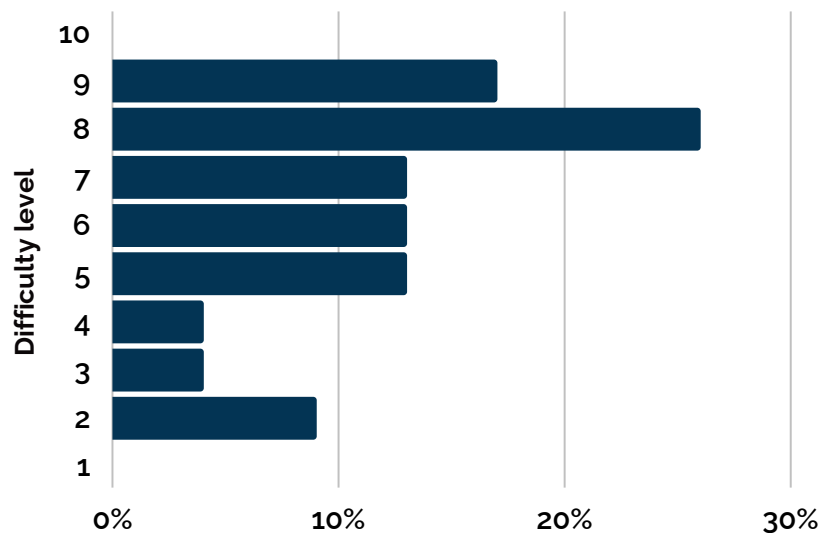
SECTION 5: INCORPORATING ESG INTO THE BUSINESS MODEL

Redirecting capital towards sustainable investment

Focusing more on sustainable investment is one of the biggest areas where insurers can have a positive impact on environmental factors. Yet one [2021 survey](#) has found no evidence of board-level involvement in responsible investment and underwriting for half of the insurers in Europe, and that most boards have not received any relevant training or incentives.

Because of this, we wanted to know how difficult our ESG experts thought sustainable investment was in the industry:

On a scale of 1 – 10, how difficult is redirecting capital towards sustainable investment, or to act as a responsible asset owner with thorough investment stewardship processes for the P&C industry?



Our respondents rated this one of the least difficult external ESG-related challenges, ranking it joint 5th out of seven.

Quotes relating to this challenge in answer to the question "In your own words, what do you see as the biggest ESG-related challenge facing the P&C insurance industry in 2022?":

From someone with no direct ESG experience:

“Balancing long-term ESG targets and strategies with near-term geopolitical dynamics.”

From someone with no direct ESG experience:

“Lack of genuine leadership with green issues. Climate change will have enormous consequences for our industry and insurance has much stronger levers to effect change.”

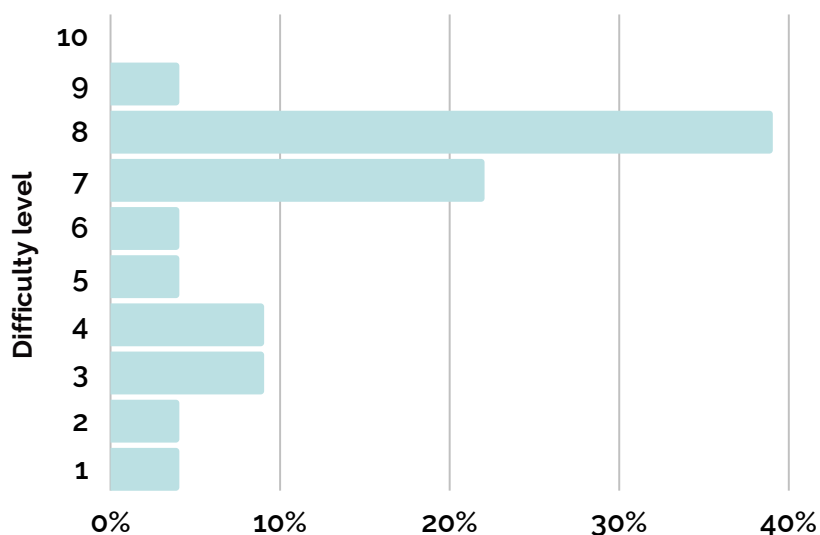
Refocusing underwriting away from harmful activities

Many insurers and reinsurers are refusing to underwrite fossil fuel projects altogether, with coal-fired power plants of all types now off limits for many. Other firms apply strict ESG performance criteria when underwriting mining and power generation classes of business.

With pressure from climate change activists, shareholders, and business clients, P&C carriers and reinsurers are increasingly looking to refocus their underwriting activities. However, anecdotal evidence suggested this may be more difficult – or may face more internal opposition – than making the switch towards sustainable investing.

Because of all this, we wanted to know what our respondents thought about the difficulty of this challenge:

On a scale of 1 – 10, how difficult is refocusing underwriting away from fossil fuel projects or other environmentally harmful activities for the P&C industry?



Respondents ranked this challenge as solidly mid-tier when it came to external ESG challenges, placing it 4th out of seven. This is inline with the findings of a [2021 ranking](#) of the world's 70 largest insurers, which showed that "ESG performance in their underwriting processes is consistently poorer than in their investment activity."

Quotes relating to this challenge in answer to the question "In your own words, what do you see as the biggest ESG-related challenge facing the P&C insurance industry in 2022?":

From someone with direct ESG experience:

"We should be doing more to make more accessible insurance products for under-served niche segments."

From someone with direct ESG experience:

"Implementing ESG criteria into our existing product models and processes."



Study Methodology

In May 2022, Sheffield Haworth sent a series of targeted email invitations to a select group of senior insurance professionals across the UK P&C insurance industry with experience of and/or a passion for the environmental aspects of ESG (Environmental, Social & Governance). During a three-week period, we received a total of 46 responses. Participation was anonymous.

Respondents to the survey represent a broad cross-section of organisations in terms of size and average annual GWP or annual revenue. Some worked within incumbent insurance firms, brokers and MGAs, while some were co-founders of InsurTechs. Respondents' companies were based primarily in the UK.

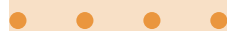
Rather than attempt to get views of hundreds of people from across the industry, we targeted individuals we knew had experience or a genuine interest in environmental issues, with the aim of gaining a qualitative, expert view of current ESG-related industry trends.

Study Objectives

The first objective of this study is to uncover and analyse attitudes towards a variety of ESG-related challenges facing the broader UK and global P&C insurance industry, covering:

- The relationship between climate change risk and stress-testing.
- Aligning with the TCFD recommendations.
- Modelling/quantifying the climate change impact of the insurance value chain.
- Keeping up with new ESG regulation.
- Sustainable investment.
- Refocusing underwriting towards more sustainable projects.

With a view to establishing which challenges are seen as most difficult overall over the next 12 – 18 months.



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Our vision is to be the leading global consultancy in people and transformational change. We specialise in executive search and interim placements, leadership advisory, change management, and information and data services. Clients benefit from deep industry insights, our wide-ranging networks and high standards of delivery from our global team. We work with private and public companies across financial services, professional and business services, high-growth technologies, and multinational corporates.

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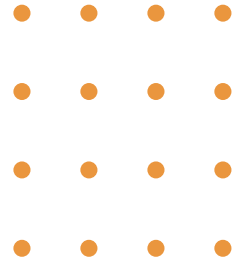
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CONTACT US

Ben Johnson
Managing Director & Global Head of Insurance
e. b.johnson@sheffieldhaworth.com
t. +44 (0) 207 213 0786

Sheffield Haworth
The Forum
33 Gutter Lane
London
EC2V 8AS

www.sheffieldhaworth.com

