



Version: June 2022, PSI ESG Underwriting Guide for Life and Health Insurance (version 1.0)

Title: Managing environment, social and governance risks in the Life and Health insurance business

Sub-title: The first ESG guide for the global Life and Health insurance industry developed by UN Environment Programme's Principles for Sustainable Insurance Initiative

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This PSI project was co-sponsored and co-led by HSBC Life.

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1. About UN Environment Programme’s Principles for Sustainable Insurance Initiative

Endorsed by the UN Secretary-General and insurance industry CEOs, the Principles for Sustainable Insurance (PSI) serve as a global framework for the insurance industry to address environmental, social and governance (ESG) risks and opportunities—and 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 on a healthy planet.

Developed by UN Environment Programme’s Finance Initiative, the PSI was launched at the 2012 UN Conference on Sustainable Development (Rio+20) and has led to the largest collaborative initiative between the UN and the insurance industry. As of March 2022, more than 200 organisations have joined the PSI, including insurers representing about one-third of world premium and USD 15 trillion in assets under management, and the most extensive global network of insurance and stakeholder organisations committed to addressing sustainability challenges. The PSI also hosts the Net-Zero Insurance Alliance and the Sustainable Insurance Facility of the Vulnerable Twenty Group of Finance Ministers (V20).

Learn more at:

unepfi.org/psi

“The Principles for Sustainable Insurance provide a global roadmap to develop and expand the innovative risk management and insurance solutions that we need to promote renewable energy, clean water, food security, sustainable cities and disaster-resilient communities.”

UN Secretary-General (PSI launch, 2012 UN Conference on Sustainable Development)

2. Acknowledgements

We are indebted to all the individuals and organisations worldwide who contributed invaluable insights to the development of this pioneering guide through interviews, a global survey, a public consultation, and various meetings and events.

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3. Executive Summary

[Section to be included after public consultation]

DRAFT

4. Developing the guide

Developing this insurance industry ESG underwriting guide for the Life and Health insurance business directly supports the aims of the Principles for Sustainable Insurance.

Work commenced in quarter four of 2021 with the development of a PSI member survey focusing on sustainability for the Life and Health insurance industry. Co-led by HSBC Life, the survey was the first step to understand the key ESG issues, challenges and opportunities faced by the industry, and what support Life and Health insurance organisations want on this topic. The survey output led to the recommendation to create and publish the inaugural ESG underwriting guide for Life and Health insurance organisations.

Co-led by HSBC Life and the PSI Secretariat at the UN Environment Programme (UNEP) as listed in section 2, a project team comprising interested PSI members was formed.

The Life and Health survey findings were presented to PSI members. PSI member organisations were encouraged to participate in the project team. The project team was keen to ensure input included comprehensive global coverage and project members represented a broad range of insurance businesses.

In creating this guide, the project team has made reference to the previously published PSI ESG Guide for Non-Life insurance. The ESG Factors and Risk Criteria were enhanced following extensive collaboration, calling upon company subject matter experts. Once the initial guide was drafted, the PSI carried out a comprehensive global public consultation process to obtain input from the insurance industry and key stakeholders.

As a result of the steps listed above, this guide is designed to assist Life and Health insurance organisations in linking ESG and Business impact.

5. Aims and scope of the guide

The aims of this guide are to:

- a. Provide recommended guidance to insurance industry participants in developing approaches to evaluate the potential impact of ESG risks on underwriting risks in Life and Health insurance business from Individual and Group Business perspectives
- b. Highlight the potential materiality of certain ESG risks on the underwriting risks in Life and Health insurance business, and provide examples for consideration to mitigate such risks
- c. Address growing concerns by stakeholders across society (e.g. NGOs, investors, governments) on ESG risks and articulate the peculiarities of the insurance business
- d. Demonstrate the valuable role the insurance industry plays in the global economy and society, and strengthen the industry's contribution to sustainable development through enablement of collective coverage for individuals

This guide is not intended as a formal standard which insurance organisations are required to comply with or follow directly. Each insurance organisation is unique due to factors such as its business model, specific lines of business, size, and geographic scope. The guide is an optional support tool to help insurance organisations, particularly those with limited ESG knowledge. It is set in the context of the Life and Health insurance industry and is based on existing good practices.

The guide is not intended to be exhaustive but is a reflection of the consensus of the project team based on the global consultation process described in Section 4 above.

6. Life and Health ESG Risk Heat Map

The following section provides an explanation of the ESG risk heat map in the context of underwriting Life and Health insurance portfolios. The heat map is designed to be applicable for both Individual and Group Business, i.e. where coverage is for the benefit of employees of a specific business.

ESG considerations for insurance organisations have been increasing in recent times and are expected to further increase over time as more risk data relating to ESG emerges. ESG risks can vary by country or region, line of business, type of coverage, client characteristics or preferences, and other factors. This guide aims to draw attention to this complex range of considerations and how some industry participants may integrate ESG risks into Life and Health underwriting.

This guide includes a heat map that breaks down ESG risks into specific themes and risk criteria that are deemed relevant to the Life and Health insurance business. The heat map indicates the potential impact of different ESG risks on four key Life and Health underwriting risks, namely (1) mortality, (2) longevity, (3) morbidity and (4) hospitalisation, which are defined as follows:

1. Mortality: the risk of the insured dying prematurely
2. Longevity: the risk of the insured living longer than expected and running out of money before dying
3. Morbidity: the risk of the insured developing a condition or contracting a disease
4. Hospitalisation: the risk of the insured requiring private medical treatment

The four key Life and Health underwriting risks are identified based on the key risks associated to underwriting different types of Life insurance and Health insurance products. For example, mortality risk is related to the underwriting of Life insurance products, such as Universal Life, Whole of Life and Term Life. Longevity risk is related to the underwriting of insurance annuity products. Morbidity risk and Hospitalisation risk are related to the underwriting of Health insurance products, such as Critical illness, Long Term Care, Disability and Medical (sickness). Noting the exact product type and what is defined as Life insurance or Health Insurance will vary from market to market.

The potential impact of each ESG risk against each of the Life and Health underwriting risks is captured using the methodology as follows with different colour codes:

High positive "H+"	increases the underwriting risk to a high extent
Low positive "L+"	increases the underwriting risk to a low extent
High negative "H-"	decreases the underwriting risk to a high extent
Low negative "L-"	decreases the underwriting risk to a low extent
Neutral "N"	neither increase nor decrease the underwriting risk
Not applicable "N/A"	the ESG risk is not applicable in Life and Health underwriting

This methodology is derived based on quantitative and qualitative input from the PSI project team, as well as insights from underwriting and sustainability experts. It serves as an indication only — it is neither exhaustive nor definitive to all ESG risks nor underwriting models. It is expected that companies will amend or use parts of the heat map in accordance with their own risk appetite, underwriting assessment and risk portfolios. It is also worth noting that this document is not intended to cover broader ESG regulatory requirements that may otherwise apply to each company in its own right as a regulated institution, e.g. disclosure of "ESG risk indicators" under the EU Sustainable Finance Disclosure Regulation.

The heat map has been designed to be applicable for underwriting Individual and Group Business. Where additional consideration is needed for Group Business, this is highlighted within this guide. Each organisation should determine their own risk appetite and risk management approach to these ESG risks, amending or using parts of the heat map as it sees fit. An organisation may choose to develop its own heat map.

A few examples will help explain the application of the underwriting risk rating for each ESG risk. For example, the project team assessed air pollution will potentially increase the underwriting risks of mortality, morbidity, and hospitalisation. Therefore, the risk impacts of air pollution on all three underwriting risks are captured as positive (i.e. "+") in the heat map. The project team also recognised the extent of the risk increase could vary and therefore the high positive and low positive classification is introduced. A high positive (i.e. H+) on the underwriting risk of mortality and hospitalisation imply air pollution increases those two underwriting risks to a high extent as compared to a low positive (i.e. L+) where air pollution increases the underwriting risk of mortality to a lower extent.

Similarly, on regular health checks, its potential risk impact is assessed as decreasing the underwriting risk of mortality, morbidity and hospitalisation. Therefore, they are all captured as negative (i.e. "-"). However, the project team considered the extent of decrease is higher on the underwriting risks of mortality and morbidity than on hospitalisation. Therefore, it is a high negative (i.e. H-) risk impact on mortality and morbidity as compared to a low negative (i.e. L-) on hospitalisation.

Risk criteria	Mortality	Longevity	Morbidity	Hospitalisation
Air pollution	L+	L-	H+	H+
Regular health checks (e.g. blood pressure, cholesterol)	H-	L+	H-	L-

As the project team assessed the risk impact, there are ESG factors and risks that were considered as either neutral or not applicable. Examples of these include Governance factors, such as insurance fraud and money laundering. Although they are important factors, they are not applicable in the context of Life and Health underwriting in relation to mortality, longevity, morbidity or hospitalisation.

Furthermore, examples of risk mitigations and good practice are included for consideration by insurance organisations in the heat map for each of the ESG risk criteria identified. These examples are not intended to be exhaustive but designed to ignite discussion and consideration within the insurance organisation to support decision making. The business model of private Life and Health insurance is based on the concept of risk-based pricing in order to counteract adverse selection appropriately. Counteracting adverse selection is important in order to make insurability generally possible, especially in the interest of exposed risks. Risk criteria and mitigation measures thus should not point towards the omission of differentiation which constitutes a key element of private Life and Health insurance. Based on the collective approach, differentiation guarantees the insurability of high risks per se. Without differentiation, pricing will in the long-term increase for the overall collective, leading to (a) disadvantages and disincentives for less exposed customer groups (low risks), (b) exclusions of low-income groups and in the most extreme event (c) the complete exclusion of exposed customer groups (high risks). Thus, all mitigation measures which counteract ESG risk criteria by the means of inclusion need to be carefully assessed with regards to their impact on the overall collective and insurability in general.

There were also ESG factors identified by the project team where circumstances are not adequately mature or sophisticated to robustly assess its related underwriting risk impact. Examples of these include the increased encouragement for society to move towards a more plant-based diet and neurodiversity. The project team was not aware of formal scientific evidence to support the underwriting risk impact related to these ESG factors, and therefore this area needs to be monitored as insights evolve over time.

Another example is on the risk of poor financial literacy which the project team has rated as neutral. Although the project team was not able to cite empirical evidence of the direct impact of poor financial literacy on the underwriting risk of mortality, longevity, morbidity or hospitalisation, the project team acknowledged the importance for insurance organisations to support customers in building financial literacy through work such as creating easy-to-understand product materials, tools and resources; and organising customer financial education programme.

The following is a description of the columns and rows of the heat map:

Category:	The risks are identified from Environmental, Social and Governance aspects
ESG factor:	A specific theme which is associated with Environmental, Social or Governance issue
Risk criteria:	A specific risk which might have a potential impact to the Life & Health underwriting risks. The operating assumption is mid-term to long-term time horizon in relation to Life & Health ESG risks. Generally, mid-term refers to time horizon between 3 years to 10 years, and long term is beyond 10 years, subject to each individual insurance organisation's internal definition
Examples of risk mitigations and good practice:	Further information which could be sought, checked or undertaken to help mitigate the risk
Risk impact colour codes:	These are used to classify the potential impact of each risk criteria on each of the Life and Health underwriting risks

				4 Key underwriting risks for Life & Health insurance business			
				Mortality	Longevity	Morbidity	Hospitalisation
Category	ESG factor	Risk criteria	Examples of risk mitigations and good practice for Life & Health insurance organisations	Risk Impact			
Environment	Antimicrobial and antibiotic resistance	Bacteria or virus change over time and no longer respond to medicines	Share knowledge to customers about viruses and infectious diseases, vaccines development and rollouts, and on how to keep good personal hygiene. Provide insurance cover in case of risk materializing	H+	H-	H+	H+
	Climate change	Air pollution	Environmental & social impact assessment (ESIA) covering negative health impacts, mitigation and decommissioning where relevant, investment focus on green investments or avoidance of coal and oil related investments	L+	L-	H+	H+
		Greenhouse gas emissions	Disclosure of climate-related emissions in operations and/or products, investment focus on green investments or avoidance of coal and oil related investments	L+	L-	L+	L+
		Physical risks (e.g. wildfire, flood, windstorm, tropical cyclones, sea level rise)	Share knowledge with the population at risk and support risk prevention. Provide insurance cover in case of risk materializing	L+	L-	L+	L+
		Transition risk	Decarbonisation transition plan/targets, TCFD disclosures	N	N	L+	L+
	Ecosystem imbalance	Biodiversity loss	Share knowledge with the population at risk, and support risk prevention. Provide insurance cover in case of risk materializing	L+	L-	L+	L+
	Environmental degradation	Deforestation or controversial site clearance (e.g. palm oil on peatlands or fragile slopes, illegal fire clearance/logging)	Share knowledge with the population at risk and support risk prevention. Provide insurance cover in case of risk materializing	L+	L-	L+	L+
		Exposure to unconventional mining practices (e.g. mountain top removal, riverline tailings dumping, deep sea mining)	Share knowledge with the population at risk and support risk prevention. Provide insurance cover in case of risk materializing	L+	L-	L+	L+
		Soil pollution	Share knowledge with the population at risk and support risk prevention. Provide insurance cover in case of risk materializing	L+	L-	L+	L+
		Water pollution	Share knowledge with the population at risk and support risk prevention. Provide insurance cover in case of risk materializing	L+	L-	L+	+

				4 Key underwriting risks for Life & Health insurance business			
Category	ESG factor	Risk criteria	Examples of risk mitigations and good practice for Life & Health insurance organisations	Mortality	Longevity	Morbidity	Hospitalisation
				Risk Impact			
	Infectious diseases	Rapid spread of viruses or bacteria that cause uncontrolled diseases	Share knowledge to customers about viruses and infectious diseases, vaccines development and rollouts, and on how to keep good personal hygiene. Provide insurance cover in case of risk materializing	H+	H-	H+	H+
	Unsustainable practices	Exposure to unconventional energy practices (e.g. Arctic oil, hydraulic fracturing, oil sands, deep sea drilling)	Share knowledge with the population at risk, and support risk prevention. Provide insurance cover in case of risk materializing	L+	L-	L+	L+
		Plastic pollution	Eco-design, reduce the use of plastics on customer materials, use recycled plastics	L+	L-	L+	L+
	Algorithmic underwriting	Artificial intelligence (AI) bias	Establish corporate governance for responsible AI and internal policy to detect and mitigate bias	L+	N/A	L+	L+
	Customer characteristics	Ageing population (i.e. increase in life expectancy of the population)	Promote active aging and healthy longevity, provide suitable insurance cover to support the elderly, provide eldercare support / value-added services	H-	H+	L+	L+
		Biological sex - Male	Apply inclusive gender expression in customer communications. Ensure customers are not denied with access to insurance solely because they are transgender. Underwriting for transgender customer is emerging and should continue to be monitored with underwriting completed based on individual customer's transgender transition	L+	N	L ⁺¹	L ⁺¹
		Biological sex - Female	Apply inclusive gender expression in customer communications. Ensure customers are not denied with access to insurance solely because they are transgender. Underwriting for transgender customer is emerging and should continue to be monitored with underwriting completed based on individual customer's transgender transition	N	L+	N ¹	N ¹
		Elderly population (i.e. increase in the relative number of elderly people in the population)	Promote active aging and healthy longevity, provide suitable insurance cover to support the elderly, provide eldercare support / value-added services	H+	H-	L+	L+

				4 Key underwriting risks for Life & Health insurance business			
Category	ESG factor	Risk criteria	Examples of risk mitigations and good practice for Life & Health insurance organisations	Mortality	Longevity	Morbidity	Hospitalisation
				Risk Impact			
Social		Ethnicity	Ensure customers are not denied with access to insurance due to their race, color, descent, national or ethnic origin	N	N	N	N
		Family relationship	Apply inclusive definition on family relationships, such as spouse, partner, children and family	N	N	N	N
		Genetic inheritance	Support customers with taking genetic testing to help with diagnosis and treatment where local jurisdiction allows. More information on genetic inheritance should be managed adequately in order to ensure equal access to insurance coverage for all people	H+	L-	H+	H+
		Hazardous occupation	Ensure underwriting is fair on customers who are engaged in hazardous occupation	H+	H-	H+	H+
		Long term health impairment	Ensure underwriting is fair, provide suitable insurance cover, wellness support / value added services	H+	H-	H+	H+
		Mental disability	Ensure underwriting is fair, provide suitable insurance cover, wellness support / value added services	H+	H-	H+	H+
		Neurodiversity	Accessible insurance product design and customer experience. Neurodiversity is broad in scope, and therefore the risk impact will vary based on individual customer's diagnosis. This is an emerging area and needs to be monitored.	N	N	N	N
		Physical disability	Ensure underwriting is fair, provide suitable insurance cover, wellness support / value added services	H+	H-	H+	H+
	Financial capability	Affordability as a result of medical cost inflation	Lower minimum premium or use more cost-effective distribution channel to enhance the product accessibility. Provide benefit feature or coverage that support customer's temporary vulnerability circumstance, e.g. payment holiday, when loss of employment or temporary health condition	N	N	N	N

				4 Key underwriting risks for Life & Health insurance business			
Category	ESG factor	Risk criteria	Examples of risk mitigations and good practice for Life & Health insurance organisations	Mortality	Longevity	Morbidity	Hospitalisation
				Risk Impact			
		Poor financial literacy	Develop easy-to-understand financial product materials, tools, resources and customer financial educational seminars / program	N	N	N	N
	Health capability/ awareness	Regular health checks (e.g. blood pressure, cholesterol)	Raise awareness on health prevention and protection, provide as a health benefit to insurance policyholders	H-	L+	H-	L-
		Cancer screenings (e.g. mammogram, colonoscopy) as a prevention	Raise awareness on health prevention and protection, provide as a health benefit to insurance policyholders. For some Critical Illness products, cancer screening could also increase underwriting risk depending on the specific product design and Critical Illness definitions, more claims could be triggered if screening detects cancer earlier or in more cases	L-	L+	H-	L-
		Genetic screening as a prevention	Raise awareness on health prevention and protection, provide as a health benefit to insurance policyholders	L-	L+	L-	L-
		Vaccination	Raise awareness on health prevention and protection, provide as a health benefit to insurance policyholders	H-	L+	L-	L-
	Human Rights	Poor worker safety record	Effective occupational health & safety policy that defines safety responsibilities and prevention measures to minimise fatalities, injuries and health impacts. Monitoring on labour accident rate	L+	L-	H+	H+
		Violation of worker rights (e.g. discrimination)	Code of conduct that outlines company's commitment to respect workers' rights.	L+	L-	L+	L+
	Lifestyle behaviour	Alcohol abuse	Develop underwriting guideline to assess the risk of lifestyle factors / behaviour, provide wellness support / value added services	H+	H-	H+	H+
		Drug abuse	Develop underwriting guideline to assess the risk of lifestyle factors / behaviour, provide wellness support / value added services	H+	H-	H+	H+

				4 Key underwriting risks for Life & Health insurance business			
Category	ESG factor	Risk criteria	Examples of risk mitigations and good practice for Life & Health insurance organisations	Mortality	Longevity	Morbidity	Hospitalisation
				Risk Impact			
		Dynamic underwriting based on healthy activity (e.g. number of steps, workout duration)	Develop underwriting guideline to take into consideration of healthy activity and behavior	H-	H+	H-	H-
		Hazardous sports and pastimes (e.g. aviation, diving, motor car racing)	Develop underwriting guideline to access the risk of hazardous sports and pastimes	L+	L-	L+	L+
		Obesity	Develop underwriting guideline to access the risk of lifestyle factors / behaviour, provide wellness support / value added services	H+	H-	H+	H+
		Smoking (include e-cigarettes, vaping)	Develop underwriting guideline to access the risk of lifestyle factors / behaviour, provide wellness support / value added services	H+	H-	H+	H+
Governance	Bribery & corruption	Illegal and unethical payments	Code of conduct and anti-bribery training programme for all employees. Whistle-blower channel to report cases of bribery & corruption	These governance risk factors were considered but determined to be 'N/A' (i.e. not applicable for risk impact) to Life and Health underwriting in relation to mortality, longevity, morbidity and hospitalisation.			
	Insurance Fraud	Lack of insurable interest in the act of deception, such as murder, suicide, disappearance of life insured, carried out for unlawful /unfair gain from claims	Anti-insurance fraud training programme for all employees				
	Money laundering	Using a life insurance policy to integrate illegal funds into the financial services system	Anti-money laundering and anti-terrorist financing training programme for employees, conduct customer due diligence				
	Personal data breach	A breach of data security leading to unlawful loss, alteration and unauthorised disclosure or access to personal data	Personal data protection policy				
	Poor corporate governance	Anti-competitive practices, violations of antitrust laws, unethical conduct, unethical tax approach	Code of conduct that outlines corporate governance and compliance				
	Poor product or service quality	Mis-selling, unethical conduct or negative health impact on customers	Code of Sales conduct for management of intermediaries, training and product governance				

4 Key underwriting risks for Life & Health insurance business					Mortality	Longevity	Morbidity	Hospitalisation
Category	ESG factor	Risk criteria	Examples of risk mitigations and good practice for Life & Health insurance organisations	Risk Impact				
	Tax evasion	Unethical usage of insurance product to avoid tax liability	Tax evasion prevention training programme for employees, conduct customer due diligence					
	Tax efficiency	Complexity of using insurance for tax optimisation and lack of knowledge	Improve customer education on how insurance could help improve tax efficiency, distribution training/education					

Footnote

¹ The impact of biological sex on underwriting risk cannot be illustrated here in a generally valid way. It depends strongly on the specific product, market and age group.

7. Possible actions to manage ESG risks during the underwriting process

7.1 Establishing ESG risk appetite

When establishing the ESG risk appetite in underwriting, Life and Health insurance organisations should consider the impact of ESG risks on the four key Life and Health underwriting risks, i.e. Mortality, Longevity, Morbidity and Hospitalisation, as detailed in section 6 - Life and Health ESG Risk Heat Map.

In addition, insurance organisations should also take into consideration perspectives such as regulatory, investor, reputational, ethical, geographic location, financial and strategic objectives, as described below:

There are a number of **regulatory**, associational and supra-national commitments that should drive each insurance organisation's strategic ESG focus (e.g. Net Zero or signatory to industry organisation, such as the UNEP FI PSI, NZIA, Tobacco-Free Finance Pledge etc.). Regulatory focus on ESG matters is increasing rapidly and in many jurisdictions. It is important to consider how (and if) Life and Health insurance organisations can leverage from ESG regulatory requirements already enacted in one jurisdiction or region (e.g. EU) which could serve as guidance for the ESG underwriting approach to be adopted in the insurance organisation's jurisdiction.

Since Life and Health insurance organisations are also institutional **investors**, with many also operating investment management subsidiaries, it is important for them to consider consistency in managing ESG issues across their insurance and investment activities and the policies they have in place to support this alignment.

From a **reputational** perspective, insurance organisations must stay on guard against the risks of adverse publicity as a result of ESG inactivity (or even against the emerging risk of perceived "greenwashing"). Such publicity will impact employee morale as well as customers' and investors' perceptions. Rating agencies and ESG data providers are increasingly assessing the performance of insurers across a range of areas. Insurers may want to focus on how the United Nations Sustainable Development Goals, or a subset of these goals, can guide their underwriting appetite and be aligned to their ESG ambition and priorities.

From an **ethical** perspective, the risk appetite in underwriting should be driven by the culture and norms that the insurer aspires to. The location of the insurer's headquarters may define a set of ethics that investors, clients and/or the public will expect the insurer to conduct itself across other countries of operation or lines of business. This may create a challenging environment for insurers that operate across different geographies, cultures and societal norms and traditions. NGOs and campaign groups also play a role in signalling where ESG risks and concerns might arise. These concerns should be taken into account by insurers when establishing ESG risk appetite and risk appetite statements. NGOs are often open to constructive collaboration and engagement with the ability to provide in-depth knowledge on ESG risks. In some cases, this can provide an important societal lens to help determine the appetite and approach to ESG risks. Moreover, it is important to consider the fact that insurers provide Life and Health coverage for both individual clients as well as Group Business clients. Thus, when considering ESG risks that are especially relevant in Group Business (e.g. exposure to unconventional mining or energy practices), these risks should also be considered for the company's employees when acting as individual clients, since they are equally exposed to the same risks.

Alongside the location of the insurance organisation, it must also be noted that the **geographic location** of the actual risk being underwritten may have an influencing factor on the severity of the ESG risk. This can have a bearing on, for example, whether violation of human rights risk is more likely, or whether environmental legislation is actively enforced.

At the same time, each insurance organisation must consider their **financial and strategic objectives**. Some ESG risks are supported by a legal/regulatory framework (e.g. UK Modern Slavery Act) and some are increasingly being recognised to be potentially financially material (e.g. climate change, ecosystem degradation, pollution), which can require a more stringent response. This must be taken into account to ensure appropriate identification and codification of ESG risks that the insurer is unwilling, or unable, to underwrite. Ultimately, each insurer must make a decision on balancing these objectives.

Key questions that Life and Health insurance organisations should consider when establishing their ESG risk appetite in underwriting include:

- Are there specific reputational or ethical issues or businesses that the insurance organisation wishes to avoid, or exclude, or manage in a particular manner?
- Are there specific ESG risks that the insurance organisation needs to collaborate on as an industry in the context of life and health underwriting (e.g. genetic screening)?
- What is the senior leadership's appetite on ESG risk exposure? Has the insurance organisation determined which ESG risks are most meaningful across its lines of business, including those which have enhanced regulatory and supervisory focus, or are recognised to be potentially financially material to its customers and/or shareholders?

7.2 Integrating ESG risks

The results of the PSI Global Survey on ESG underwriting highlighted that there is no “one size fits all” approach to the governance of ESG underwriting.

Various examples on how to approach ESG integration into underwriting strategies are listed below:

- a. Some insurance organisations might wish to develop a unique ESG governance policy framework or similar structure which details roles, responsibilities and processes. This can allow a well-defined approach (e.g. using RACI methodology), but there might be a greater effort needed to develop guidance and subsequent internal implementation.
- b. Integrating ESG risks into the existing risk framework of organisations is common, sometimes within reputation and investment risk policies. At the minimum, organisations will be able to show cross-linkages to the core risk framework of the organisation. By integrating into an existing risk framework, it allows for a quicker implementation route, but the ESG underwriting appetite and processes may require greater customisation to fit into those processes.
- c. Integrating ESG dimensions into the existing underwriting standards and guidelines of the insurer often allows the best uptake of ESG risks and, at the least, might cross-reference any additional ESG governance elsewhere. Although there are significant advantages, underwriting standards often deal with very specific risk criteria. As such, the integration of value-based ESG criteria into existing underwriting standards may create friction and conflict which will need to be carefully managed across the organization.
- d. Alignment of ESG approaches within different parts of an organisation is also prudent. This ensures a consistent approach to ESG risks for the organisation as a whole, where possible (e.g. implementing the Principles for Sustainable Insurance and the Principles for Responsible Investment).

Further good practice examples of mitigating ESG risks are included in the heat map.

Key questions that Life and Health insurance organisations should consider when integrating ESG risks into their underwriting approach include:

- When thinking about clients, what are the ESG issues that the insurance organisation will prioritise, both as a risk manager (i.e. understanding, preventing and reducing risk) and as a risk carrier (i.e. risk transfer/insurance coverage)?
- Is there employee training to enhance ESG understanding and awareness and how ESG considerations can be embedded into day-to-day roles?

7.3 Establishing roles and responsibilities for ESG risks

Establishing roles and responsibilities for ESG risks that impact a Life and Health insurance organisation's underwriting activities can vary greatly between organisations due to size, organisational setup and internal culture. Two trends are generally common across insurers — there is a desire to empower insurance risk

professionals to make decisions, alongside a general aim to minimise resource impacts due to additional new processes.

Senior leadership sponsorship and support for ESG is critical to the development of ESG governance, decision-making and subsequent implementation. Support from the CEO and senior executive/board members is advisable to make implementation a success (in some countries this may already be a regulatory requirement). This is also important in establishing the internal escalation processes for ESG risks. These senior-level representatives might take individual ownership of ESG risks or form part of a wider ESG committee overseeing implementation. A bottom-up approach is also possible, working iteratively over time on important and relevant ESG risks to the insurance business.

Underwriters play a role in detecting, and rating, ESG risks. There are a range of useful tools supporting risk detection (see item 7.5 below, “Detecting and analysing ESG underwriting risks”), and ESG underwriting risk training can help underwriters detect, mitigate, or know when to escalate a risk. All underwriters can benefit from training on ESG risks for general awareness. Often in smaller insurers, roles are often combined across functions. This means that caution should be exercised in avoiding overburdening with new processes, training or required actions. This reinforces the need for proactive internal engagement in determining your ESG approach. Impartiality of the ESG assessment should also be considered to allow a fair assessment of potential ESG risks vis-a-vis business potential. It may be necessary to separate these roles to allow effective due diligence.

Key questions that Life and Health insurance organisations should consider when establishing roles and responsibilities for ESG risks in underwriting include:

- Is there a senior-level decision-maker responsible for ESG risks (e.g. CEO, Chief Sustainability Officer)?
- Are there resources for specialist ESG personnel? This will help determine if underwriters should be trained on ESG content or how to access specialist personnel.
- What other roles will form part of the ESG decision-making process?
- Are there any legal requirements for allocating specific responsibility for ESG risks to personnel?

7.4 Escalating ESG risks

As the roles and responsibilities for ESG risks are developed, it will be important to define decision-making rules and escalation routes. Some ESG risks, upon detection, may be ambiguous in nature, be contradictory to profitability targets, or relate to strategic clients, and will thus require careful consideration. In such cases, clearly defined escalation paths to senior management will be required. A more proactive approach may be to share data on key ESG risks with senior executives on an ongoing basis, thereby increasing visibility and understanding as opposed to only being a point of escalation for high-risk matters.

Depending on how ESG risks are integrated into your governance frameworks, it is highly likely this will follow the underwriting route of escalation, or other existing risk management issues (e.g. reputational risks). The route of escalation must be clear and have clear accountabilities at individual role level (e.g. CEO, Board member, Chief Risk Officer, Chief Underwriting Officer). A committee approach (e.g. Risk Committee) is an alternative approach to decision-making. This allows a greater consensus and diversity of views, but caution should be exercised on the available time of committee members to make decisions.

Any escalation due to a detected ESG risk which potentially cannot be mitigated should provide the decision-maker with the business case for proceeding with underwriting the risk well as the ESG risks associated with it. This balanced view should be presented to the designated individuals or committee for decision-making. It is critical that the escalation should facilitate a fast process as underwriters (and potential clients and intermediaries) will need prompt feedback.

When implementing an ESG due diligence process, it is easy to be overwhelmed with potential escalations of ESG risks, particularly in the initial phase. Therefore, it is important to set internal thresholds by focusing on your material risks and issues, or by setting an alternative threshold (e.g. risks over a certain premium or sum insured).

Key questions that Life and Health insurance organisations should consider when escalating ESG risks in underwriting include:

- Has the insurance organisation established how quickly its ESG decision-making needs to be?
- Has the insurance organisation set thresholds to avoid excessive escalation?
- Has the insurance organisation planned escalation up to senior-level decision-makers?

7.5 Detecting and analysing ESG risks

Once priority ESG thematic, sectors and lines of business have been established in your risk appetite, this appetite must now be implemented within the insurer's day-to-day underwriting procedures.

There are a wide range of ESG and reputation-related company screening tools available. These can help support underwriters with decision-making by providing an overview of current media reports in relation to the potential insured. Various NGOs also provide lists of companies that could also be used for such screening, but as with all tools on the market, the quality and bias of the provider must be considered.

These tools can provide a range of benefits:

- a. Relating the ESG risks of concern to a list of companies or locations which can be geo-coded or listed via identifier numbers (e.g. ISIN, GICS, NAICS). This can enable integration into an organisation's underwriting, risk or compliance system. This approach is usually beneficial for organisations providing insurance services to large companies, or the executives and owners thereof, and can help deliver:
 - A pre-approved ESG list of clients
 - An excluded list of clients (subject to availability of public information)

Some drawbacks of this approach can be the cost of licences for the use of these, or when the client has limited public information available and therefore not captured in the tool. These lists are also subject to regular updates, so if the insurance organisation is not digital in its use of underwriting guidance, it can also prove to be a logistical challenge to manage various versions of lists on an up-to-date basis.

- b. Geographic information-based tools are commonly used in insurance companies for a variety of reasons. These usually revolve around physical risks, so there is a greater association with environmental risks.

Moreover, estimate ESG impacts on biometric risks could be a challenge due to its potential disruptive effects and lack of historical data.

Key questions that Life and Health insurance organisations should consider when detecting and analysing ESG risks in underwriting include:

- Is the underwriting process digital or manual? What is the most effective process to integrate ESG identification and risk tools for underwriters?
- Is there budget to procure specialist tools or research? If so, the ESG risks could be integrated into which system?
- Does the insurance organisation have lines of insurance business where geographic information on ESG risks would be useful (e.g. decision-making on single sites)?

7.6 Decision-making on ESG risks

When analysing an ESG risk for Life and Health insurance organisations, it is important to consider how severe the ESG risk is believed to be, and if this is a one-off or more systematic issue. Insurance organisations might also wish to consider the stage of development of the country where they are doing business, and if this might influence their risk tolerance on certain ESG risks.

In some cases, an ESG risk may be triggered due to the lack of public information relating to allegations against a potential insured. In such cases, it would be advisable to seek further information from business partners (e.g. intermediary, reinsurer etc.) before making a decision on whether or not to accept the risk. In the case of human rights abuses, it is considered a requirement in the UN Guiding Principles on Business and Human Rights.

Obtaining such information in a timely manner can be challenging, due to:

- lack of direct link to the client (e.g. via a broker or fronting arrangement)
- Client or intermediary unwilling to seek or share information
- Lack of understanding from the client/intermediary
- Limited financial exposure on the risk reducing incentive/leverage to ask further questions
- Portfolio being underwritten might include various ESG factors which cannot be assessed in isolation (e.g. owner of an energy company providing both fossil fuels and renewables)

Therefore, it is also possible to take an approach to provide a conditional acceptance subject to further engagement with the potential insured or intermediary, or review of information prior to renewal. This might provide the reassurance that an ESG issue was a one-off, or that more time is allowed for a more informed decision-making process to judge the risk profile. All parties should be clear that it could lead to a risk being declined in certain cases.

Some example decisions which could be taken include:

- Proceed
- Proceed, subject to further monitoring/information
- Proceed, subject to engagement with client/business partner
- Decline

Seeking further information from the client/intermediary/business partner should be part of a wider client engagement strategy which can be approached in a positive partnership manner. The information exchange between a potential insured and an insurer happens on a strictly confidential basis. This can benefit client relationships and support wider risk mitigation on the transaction and open up risk consulting opportunities.

Key questions that Life and Health insurance organisations should consider supporting decision-making on ESG risks in underwriting include:

- Has the insurer reviewed the severity and frequency of ESG risks that its business is willing to tolerate?
- Has the insurer reviewed what would consider as acceptable risk mitigation requirements for an ESG risk?
- If an ESG risk is detected with a client, is there an engagement process where issues could be raised?
- Are the insurers' intermediaries and lead (re)insurer(s) willing to engage on ESG risks?

7.7 Reporting on ESG risks

As the insurance organisation develops the ESG underwriting approach, tracking their ESG risk assessments and referrals is important to monitor the effectiveness and implementation internally. Understanding the balance between the number of risks referred and the number of ESG risks accepted should help determine if their materiality thresholds are set appropriately (e.g. too sensitive with too many risks being escalated by underwriting). This review might form part of a regular process to check the appropriateness of their ESG risk management.

In more complex organisational structures, and where escalations occur over a number of levels, it can become an issue when trying to assess and report on risks. There is the potential to double-count the decisions as they escalate up or down different business levels, and when aggregating this data to an organisation-wide level. To avoid this issue, identifiers can be used alongside client names and risks.

As the insurance organisation become more mature or as external stakeholders look for evidence of a robust ESG risk management system, external reporting on ESG risks can be implemented (and of course in line with broader ESG reporting regulatory requirements).

The number of risks declined (or adversely/positively rated) due to ESG factors can be an indication of ESG effectiveness. However, there is an inherent limitation on reporting of risks declined due to ESG concerns. The risk may not have been underwritten for a variety of reasons, of which ESG concerns were only one part of the wider decision-making process. It will not always be possible to have a clear view of the specific or causal reason for declining a risk.

Key questions that Life and Health insurance organisations should consider when reporting on ESG risks in underwriting include:

- Is the reporting mature enough to be communicated externally?
- Is there no double-counting of risks between functions?
- Will the reporting process benefit from external auditing?
- Is the role of ESG risks, which have played in the decision-making, made clear and communicated accurately?

8.1 The Principles for Sustainable Insurance

PRINCIPLE 1

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

Company strategy

- Establish a company strategy at the Board and executive management levels to identify, assess, manage and monitor ESG issues in business operations
- Dialogue with company owners on the relevance of ESG issues to company strategy
- Integrate ESG issues into recruitment, training and employee engagement programmes

Risk management and underwriting

- Establish processes to identify and assess ESG issues inherent in the portfolio and be aware of potential ESG-related consequences of the company's transactions
- Integrate ESG issues into risk management, underwriting and capital adequacy decision-making processes, including research, models, analytics, tools and metrics

Product and service development

- Develop products and services which reduce risk, have a positive impact on ESG issues and encourage better risk management
- Develop or support literacy programmes on risk, insurance and ESG issues

Claims management

- Respond to clients quickly, fairly, sensitively and transparently at all times and make sure claims processes are clearly explained and understood
- Integrate ESG issues into repairs, replacements and other claims services

Sales and marketing

- Educate sales and marketing staff on ESG issues relevant to products and services and integrate key messages responsibly into strategies and campaigns
- Make sure product and service coverage, benefits and costs are relevant and clearly explained and understood

Investment management

- Integrate ESG issues into investment decision-making and ownership practices (e.g. by implementing the Principles for Responsible Investment)

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

Clients and suppliers

- Dialogue with clients and suppliers on the benefits of managing ESG issues and the company's expectations and requirements on ESG issues
- Provide clients and suppliers with information and tools that may help them manage ESG issues
- Integrate ESG issues into tender and selection processes for suppliers
- Encourage clients and suppliers to disclose ESG issues and to use relevant disclosure or reporting frameworks

Insurers, reinsurers and intermediaries

- Promote the adoption of the Principles

- Support the inclusion of ESG issues in professional education and ethical standards in the insurance industry

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

Governments, regulators and other policymakers

- Support prudential policy, regulatory and legal frameworks that enable risk reduction, innovation and better management of ESG issues
- Dialogue with governments and regulators to develop integrated risk management approaches and risk transfer solutions

Other key stakeholders

- Dialogue with intergovernmental and non-governmental organisations to support sustainable development by providing risk management and risk transfer expertise
- Dialogue with business and industry associations to better understand and manage ESG issues across industries and geographies
- Dialogue with academia and the scientific community to foster research and educational programmes on ESG issues in the context of the insurance business
- Dialogue with media to promote public awareness of ESG issues and good risk management

PRINCIPLE 4

We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles

- Assess, measure and monitor the company's progress in managing ESG issues and proactively and regularly disclose this information publicly
- Participate in relevant disclosure or reporting frameworks
- Dialogue with clients, regulators, rating agencies and other stakeholders to gain mutual understanding on the value of disclosure through the Principles

8.2 Printable version of the heat map [To be inserted]

DRAFT

To be Published by UN Environment Programme's Principles for Sustainable Insurance Initiative in June 2022

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“The Principles for Sustainable Insurance provide a global roadmap to develop and expand the innovative risk management and insurance solutions that we need to promote renewable energy, clean water, food security, sustainable cities and disaster-resilient communities.”

UN Secretary-General (June 2012)

Endorsed by the UN Secretary-General and insurance industry CEOs, the Principles for Sustainable Insurance (PSI) serve as a global framework for the insurance industry to address environmental, social and governance (ESG) risks and opportunities—and 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 on a healthy planet.

Developed by UN Environment Programme’s Finance Initiative, the PSI was launched at the 2012 UN Conference on Sustainable Development (Rio+20) and has led to the largest collaborative initiative between the UN and the insurance industry. As of March 2022, more than 200 organisations have joined the PSI, including insurers representing about one-third of world premium and USD 15 trillion in assets under management, and the most extensive global network of insurance and stakeholder organisations committed to addressing sustainability challenges. The PSI also hosts the Net-Zero Insurance Alliance and the Sustainable Insurance Facility of the Vulnerable Twenty Group of Finance Ministers (V20).

Learn more at:

unepfi.org/psi

This PSI project was co-sponsored and co-led by HSBC Life:

[Logo to be added]

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