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PARIMA
By Risk Managers For Risk Managers

ESG AND INSURANCE:
KEY AREAS OF CONVERGENCE

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ESG, which stands for environmental, social, and governance, is a framework used to assess an organisation's business practices and performance on various sustainability and ethical issues.

Environment: This includes factors like climate change policies, greenhouse gas emissions, deforestation, biodiversity, ecological balance, carbon emissions, waste management, pollution, and adherence to environmental regulations.

Social: This considers a company's relationships with employees, communities, and society at large, encompassing issues like employee well-being, inclusivity, diversity, human rights, and social responsibility initiatives.

Governance: This assesses a company's risk management framework, transparency in reporting, and diversity within leadership.

76%
of consumers say they will discontinue their relationship with companies that treat the environment, employees, or community in which they operate poorly*

As environmental, social, and governance (ESG) principles become essential to sustainable business practices, the insurance industry is also evolving to align with these principles/values. ESG's influence on insurance spans risk assessment, investment, product innovation, and regulatory compliance, creating a more responsible, resilient industry. Here, we explore the primary ways ESG and insurance intersect, shaping the industry's future.

UNDERWRITING AND RISK ASSESSMENT

Insurance companies assess risks across environmental, social, and governance dimensions, which directly influences underwriting processes:

Environmental Risk

Insurers are increasingly evaluating environmental factors, especially as climate change intensifies natural disasters and extreme weather. These events drive up property and casualty insurance claims, challenging insurers to incorporate climate-related risks into underwriting. For example, insurers may consider a company's carbon footprint or exposure to environmental hazards when assessing their risk profile. Reinsurers have shown reluctance to provide coverage for thermal power projects in alignment with ESG principles.

Social Risk

Social factors, such as public health, community well-being, and employee relations, can also affect insurers' exposure. Health and life insurers, for example, may consider social determinants like community, employee health levels or access to wellness and healthcare, which can impact overall risk.

Governance

The practices, such as corporate transparency, regulatory compliance, and risk management, are critical in assessing or underwriting commercial risk. Poor governance increases liability risks and may lead to regulatory penalties or litigation, influencing coverage and rating terms for business clients.

SUSTAINABLE INVESTMENT STRATEGIES

80%
of global investors say how a company manages ESG risks is an important factor in investment decision-making*

Insurers manage large investment portfolios to ensure they can meet future claims, and many now recognise the importance of aligning investments with ESG principles:

ESG-Integrated Portfolios

Insurance companies are increasingly adopting ESG-focused investment strategies, shifting funds away from high-risk, carbon-intensive industries toward renewable energy and other sustainable assets. For example, "green bonds" are a popular choice, enabling insurers to invest in eco-friendly projects that align with their long-term goals.
In 2019, several re-insurers announced divestment from coal and other fossil fuel-related investments.

75%
of global Investors say companies should address ESG issues, even if doing so reduces short-term profitability*

Long-Term Financial Resilience

ESG investments are considered more resilient over the long term, often yielding more stable returns. As regulatory pressures around climate change increase, ESG-aligned investments help insurers mitigate financial risks while supporting sustainable development.

CLAIMS AND LIABILITY RISKS

ESG factors can significantly impact claims costs, particularly as climate risks and social liabilities increase:

Climate Impact on Claims

Insurers are seeing a rise in claims associated with climate-related disasters, such as hurricanes, wildfires, and floods. To manage these increasing risks, insurers need to understand the environmental impacts on underwriting and claim forecasts.

Social and Corporate Liability

Insurers must consider how ESG liabilities affect claims, especially for corporate policies. For instance, companies with poor environmental records may face lawsuits or regulatory action, leading to increased claims on directors and officers (D&O) liability policies. ESG transparency in corporate governance also affects liability claims, as poor governance often leads to legal and financial challenges.

INNOVATIVE AND RESPONSIBLE PRODUCT DEVELOPMENT

36%

of global insurers told us customers are their top priority when they are defining their ESG strategy, followed by regulators(26%)and shareholders (16%)*

The growing demand for ESG-aligned products has encouraged insurers to innovate by offering policies that promote sustainability and social responsibility:

Green Insurance Products

Insurers now offer products designed to support environmental goals, such as coverage for renewable energy projects, electric vehicle insurance, green hydrogen, etc. These products allow insurers to differentiate themselves while contributing to climate action. However, there is a need for more premium discounts for renewable energy.

Socially Inclusive Products

Social responsibility is central to ESG, and insurers are responding with policies aimed at underserved communities. Microinsurance, for example, offers low-cost coverage options for low-income or rural communities, promoting financial inclusion and reducing vulnerability to economic shocks.

REGULATORY COMPLIANCE AND REPORTING

ESG regulations are becoming a priority worldwide, with insurers facing mounting pressure to adhere to sustainability and governance requirements:

Growing Regulatory Influence: Insurers are facing increasing regulatory demands to factor ESG risks and opportunities into their operations. An illustration of this is the European Union's Sustainable Finance Disclosure Regulation (SFDR), which mandates insurers to disclose the incorporation of sustainability risks into their investment decisions. [1]

Mandatory ESG Disclosures

Regulatory bodies are requiring insurers to report on their ESG risk exposures, particularly around climate change and carbon emissions. This transparency ensures that insurers are accountable to stakeholders and can adapt to ESG-related risks proactively.

Compliance and Risk Management

By integrating ESG principles, insurers reduce potential regulatory penalties and future-proof their operations. Ensuring compliance with local and international ESG standards also bolsters the insurer's reputation, helping to build trust with clients and investors.

India's regulatory landscape is evolving to align with global ESG standards.

As per the article by Tuli & Co., the IRDAI Regulations 2024 require the creation of a Board-approved Environment, Social, and Governance (ESG) framework and the monitoring of related activities, extending similar requirements to Branches of Foreign Reinsurers (FRBs) and Lloyd's India.[2]

It is also now mandatory to establish a Corporate Social Responsibility (CSR) Committee under the Companies Act 2013

The Securities and Exchange Board of India (SEBI) has introduced the Business Responsibility and Sustainability Reporting (BRSR) guidelines for listed companies. The top 1,000 listed entities by market capitalisation are required to disclose information in the updated BRSR format.[3]

REPUTATION AND BRAND VALUE ENHANCEMENT

Adopting ESG principles strengthens an insurer's reputation and meets growing stakeholder expectations for responsible corporate behaviour:

Stakeholder Trust

Customers, investors, and employees increasingly favour companies with a strong commitment to ESG values. Insurers who prioritise sustainability and ethical practices are likely to attract more clients, maintain investor interest, and foster employee loyalty.

Competitive Advantage

ESG differentiation offers a competitive edge, as clients increasingly prefer insurers that demonstrate responsible practices. This trend positions ESG-driven insurers as industry leaders in sustainability and resilience

The General Insurance Council, representing non-life insurance and reinsurance firms in India, recently aligned itself with the Principles for Sustainable Insurance (PSI), a United Nations (UN) initiative focused on promoting sustainable insurance. In a recent Executive Committee meeting, the GI Council chose to participate in the PSI initiative to raise awareness about sustainable insurance and ESG norms within the Indian general insurance industry. [4]

Conclusion

The convergence of ESG principles and insurance signals a shift toward a more responsible and resilient industry. As with many other financial services industries, the insurance sector is highly regarded for its role in building a sustainable world. By embedding ESG factors into underwriting, investments, product offerings, and compliance, insurers can better manage risks, serve customers, and support global sustainability goals. This ESG-focused approach strengthens insurers' long-term stability and positions them as leaders in addressing today's evolving risks and challenges.

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Sources:

*All survey data in this report is sourced from the PwC 2022 Global CEO Survey
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