

Sector Report:

Insurance

Shedding light on new industry challenges

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Executive Summary

Shedding light on new industry challenges

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Sector Leaders

Top ten companies	Country	Score
Allianz SE	Germany	84.9
Storebrand ASA	Norway	84.2
Swiss Re Ltd	Switzerland	84.2
Munich Re Ag	Germany	82.1
Achmea BV	Netherlands	82.0
CNP Assurances SA	France	82.0
Aviva plc	United Kingdom	81.8
AXA Group	France	81.2
Delta Lloyd N.V.	Netherlands	80.7
Sanlam Limited	South Africa	77.4

Key Takeaways

Industry Trends

- Regulators are raising the bar for capital requirements. While the ostensible intent is to minimise the industry's insolvency risk, many insurers find themselves highly exposed to tightening regulations. According to Europe's pension regulator, **one in 12 European insurers** is not prepared to comply with the Solvency II Directive, which is scheduled to take effect on 1 January 2016.
- Low interest rates are putting pressure on insurer's profits and **could threaten the ability of some insurers** to fulfill their policy obligations in as little as eight years, according to recent industry data.
- The Insurance industry is **struggling to respond to rising consumer demand for technology-enabled insurance products**. First movers are using online platforms and social media to refresh their product offerings.
- Big data offers insurers almost **limitless possibilities for premium price optimisation**, yet concerns about data privacy are rising, and recent breaches of data security have been widely condemned by consumers and industry groups.
- A growing number of insurers are experimenting with wearables and vehicle monitoring devices. These technologies could **precipitate a shift from a pooled risk** approach to more individualised and granular assessments.
- By 2050, 21% of the world's population is forecasted to be 60 or older (up from 12% today). The **global demographic transition** will offer new product development opportunities for insurers, but penalties for being on the wrong side of the longevity risk curve could be severe.

ESG Performance

- Looking at the industry through an ESG lens, we find meaningful differentials in company performance on the key issues of **Responsible Finance**, **Financial Product Governance** and **Business Ethics**. The marginal financial materiality of these issues is increasing as the market's expectations regarding product development, data security and ethical performance continue to rise.
- Taking special account of the industry's **exposure to climate change**, we find large discrepancies in insurers' strategies to manage climate-driven risks and niche opportunities, including catastrophe bonds.
- Our top industry performers are **Allianz**, **Storebrand** and **Swiss Re**. These companies have implemented best-in-class ESG policies and programmes and demonstrate a high degree of risk awareness. We judge these companies to be comparatively well positioned to deliver shareholder value going forward.

Juggling with change

The Insurance industry is set to face several daunting challenges in the months ahead. The dual headwinds of tightening capital requirements and a likely continuation of the low interest rate environment are likely to provide a formidable test for many insurers. For U.S. insurance companies, the Fed's promise to raise its benchmark federal funds rate is signalling an easing of margin pressure. But in Europe, insurers' profits are being squeezed by the European Central Bank's (ECB) quantitative easing (QE) programme, which has exacerbated the slide on bond yields.

Insurers are facing increased pressure to get their longevity models right

Supplementing these challenges are the impacts of global demographic transition. The world's population is ageing, due to the effects of global industrialisation and advances in medical technology. While insurers are likely to benefit from increased demand for post-retirement products, pressure is rising for insurers to get their longevity models right, particularly for those with a large annuities business.

Big data has been seized upon as a way to optimise premium pricing

For many insurers, salvation is seen in technology. Digital technologies, including online distribution platforms and social media, offer tremendous promise for insurers to personalise products, connect with younger customers and improve claims management. And big data has been seized upon as a way to optimise premium pricing, with some insurers beginning to tap real-time information from vehicle monitoring devices and, to a lesser extent, wearable technologies.

The myriad risks of technology

Yet the risks associated with these technologies can hardly be overstated. Big data may fundamentally change the way insurance companies think about and measure risk, as they move away from pooled risk categories to far more nuanced and individualised risk assessments. Technology is also blurring the lines between industries and creating new competitors for incumbent insurers. Large Internet companies, such as **Google** and **Amazon**, are already making tentative inroads into the industry, as they seek new channels to capitalise on their brand equity. And other technologies, such as driverless cars, could have truly disruptive effects for certain industry segments.

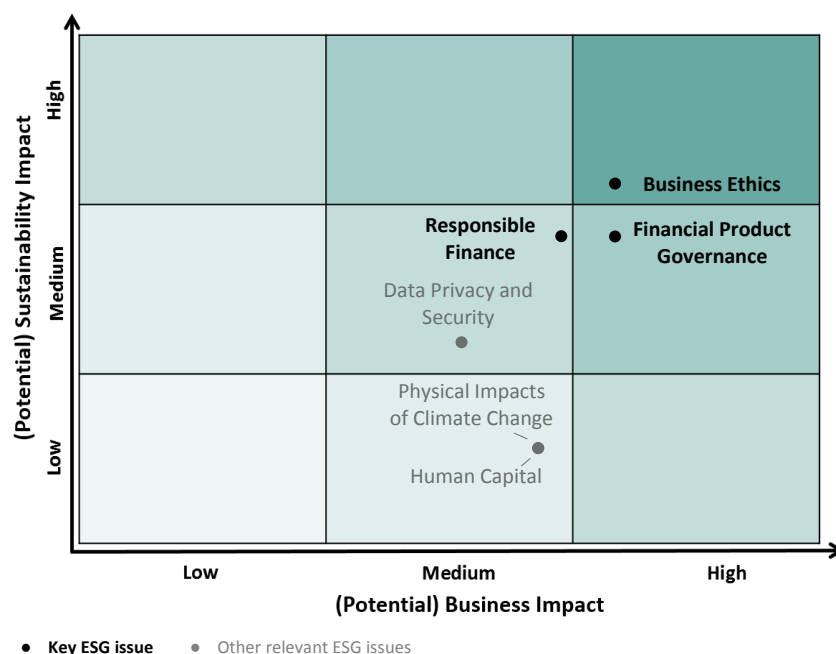
Top ESG performers are well positioned to compete

In this rapidly evolving environment, looking at industry players through an ESG lens can offer a differentiated take on company analysis and positioning. While advanced ESG programmes and policies are not a panacea for all of the challenges facing the Insurance industry, we believe top ESG performers are well positioned broadly to compete in a business environment where product innovation, expanded risk awareness and stakeholder management are seen as increasingly important drivers of value. This view dovetails with a growing body of research that finds a positive relationship between performance on material ESG issues and stock returns.¹

Identifying material ESG issues

In this report, we focus on the three key ESG issues that we believe are of fundamental importance for investors: Responsible Finance; Financial Product Governance; and Business Ethics. As shown in the matrix below, these issues are distinguished by their large sustainability and business impacts and their potential to generate material risks and opportunities for Insurance industry investors.

Materiality Matrix – Insurance



Source: Sustainalytics



Baseline: weak
Outlook: positive

Responsible Finance – Big opportunity, lack of action

Responsible Finance in the Insurance industry involves integrating ESG factors into asset management and underwriting activities and developing sustainable insurance products. While many insurers have proven to be adept innovators on these fronts, the industry as a whole has been slow to capture associated market opportunities. Still, our outlook for the industry is positive, as recent developments could pave the way for rapid product and service deployment (see [p. 35](#)).



Baseline: moderate
Outlook: neutral

Financial Product Governance –

Recovering from a reputational low point

Financial Product Governance looks at the industry's approach to customer relations, with a focus on illicit pricing strategies and claim refusals. The industry's performance in these areas is generally improving, as evidenced by the declining number of related lawsuits in key markets. However, the Insurance industry still trails other sectors in overall positioning on Financial Product Governance. Still, we expect to see continued movement by insurers on this issue in the year ahead (see [p. 43](#)).



Baseline: moderate
Outlook: positive

Business Ethics – Driving customer trust

Business Ethics in the Insurance industry translates into companies' involvement in illegal business practices, including money laundering and tax evasion. Failing to manage Business Ethics can have dramatic downside impacts on a company's reputation, with possible knock-on effects on financial performance. A growing number of insurance companies are infusing corporate decision-making processes with risk management provisions governing these issues, although violations persist. We are cautiously optimistic about the industry's direction on this issue (see [p. 49](#)).

Key ESG Issues – Leaders & Laggards Overview

	Developed Markets		Emerging Markets	
	Leaders	Laggards	Leaders	Laggards
Responsible Finance	Storebrand ASA Munich Re Ag CNP Assurances SA Achmea BV Swiss Re Ltd	Swiss Life Holding AG Suncorp Group Limited Migdal Insurance and Financial Holdings Ltd. Fairfax Financial Holdings Limited Loews Corporation	Sanlam Limited Cathay Financial Holding Co. Ltd. Sul America Sa Santam Ltd. Samsung Fire & Marine Insurance Co., Ltd.	White Mountains Insurance Group, Ltd. Axis Capital Holdings Ltd. Everest Re Group Ltd. Arch Capital Group Ltd. PartnerRe Ltd.
Financial Product Governance	Storebrand ASA Delta Lloyd N.V. Old Mutual plc Legal & General Group Plc Hannover Rueck SE	ACE Limited AEGON N.V. AIA Group Limited Progressive Corp. Baloise-Holding	Sanlam Limited Santam Ltd. Sul America Sa Liberty Holdings Ltd. Hyundai Marine & Fire Insurance	Powszechny Zakład Ubezpieczeń Spółka Akcyjna New China Life Insurance Co., Ltd. Axis Capital Holdings Ltd. Hanwha Life Insurance Co., Ltd. Samsung Life Insurance Co. Ltd.
Business Ethics	Storebrand ASA Munich Re Ag AEGON N.V. Prudential Financial, Inc. Sun Life Financial Inc.	American International Group, Inc. Admiral Group plc AIA Group Limited Migdal Insurance and Financial Holdings Ltd. Willis Group Holdings Public Limited Company	Dongbu Insurance Co., Ltd. RenaissanceRe Holdings Ltd. PartnerRe Ltd. Sul America Sa Porto Seguro SA	Discovery Holdings Limited Shinkong Financial Holding Co. Ltd. New China Life Insurance Co., Ltd. MMI Holdings Limited China Pacific Insurance (Group) Co., Ltd.

Source: Sustainalytics

Selective results of our bottom-up analysis

Industry leaders (DM & EM)

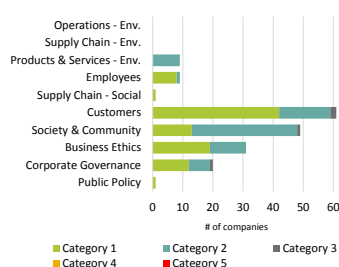
Top five companies (DM)	Country	Score
Allianz SE	Germany	84.9
Storebrand ASA	Norway	84.2
Swiss Re Ltd	Switzerland	84.2
Munich Re Ag	Germany	82.1
Achmea BV	Netherlands	82.0

Top five companies (EM)	Country	Score
Sanlam Limited	South Africa	77.4
Santam Ltd.	South Africa	67.6
Sul America Sa	Brazil	66.6
Liberty Holdings Ltd.	South Africa	66.4
Samsung Fire & Marine Insurance	South Korea	66.3

Leaders: Within developed markets, our top performers are **Allianz**, the German multi-insurer; **Storebrand**, the Norwegian life insurance firm; and **Swiss Re**, the world's second-largest reinsurer. The five highest-scoring insurers are all based in Europe, illustrating the region's comparatively advanced insurance practices. In emerging markets, South African firms took three of the top five spots, with **Sanlam** and **Santam** leading the pack.

Momentum: The ESG performance for the Insurance industry has **improved marginally in recent years**, with the mean universe score increasing from 52.6 in 2011 to 56.5 in this year's ranking. The improvement has been broad based, with gains dispersed across Environmental, Social and Governance indicators.

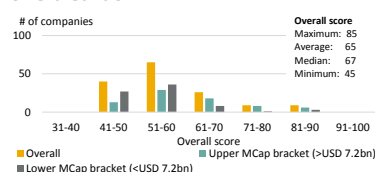
Qualitative Performance



Controversies: The Insurance industry has been involved in fewer controversies in recent years. Of the 149 insurance companies in our research universe, none is currently facing exposure to a severe (Category 4 or 5) controversy. A total of 181 Category 1 to 3 controversies have been recorded, the majority of which affect Customers and Society & Community and involve anti-competitive business practices and the social impact of insurance products.

Geographic composition: Most insurers in our research universe are based in Europe (55) and North America (45), with the remainder distributed across the Asia-Pacific (28), Latin America (12) and the rest of the world (9). With an average score of 62, European insurers stand out as top global performers. The mean score of insurers in other regions ranges from 51 (Latin America) to 56 (Rest of World).

Size breakdown



Size effect: We find a **moderately positive correlation** (0.28) between market cap and overall score, which likely reflects the larger pool of resources available to larger firms when building sustainability programmes and strategies. While the largest company in our universe by market cap, **Allianz**, is also the top overall ranked insurer, company size is by no means a perfect predictor of ESG performance.

Industry Trends

Adaptation is the name of the game

Upcoming regulations will impose new capital requirements and governance procedures on a wide range of industry players, particularly in Europe. For U.S. insurers, relief from low interest rates may be in sight, but European insurers are likely to continue to struggle with the aftershocks of the ECB's QE programme. On the technology front, insurers are grappling with a surge in demand for online commerce and technology-enabled insurance products. Industry progress in meeting this demand has been slow, although some innovative insurers are venturing into uncharted commercial territories. Big data could transform the industry's historic approach to measuring risk, but data privacy and security risks loom large. The world's ageing population also represents a double-edged sword for insurers, providing both risks and opportunities. China is expected to become the world's third largest insurance market by 2020, and many foreign insurers are closely monitoring the regulatory environment with a view to market expansion.

New regulations – A reality stress test

The financial crisis showed the vulnerability of the capital markets

The 2007–2008 financial crisis poignantly illustrated the vulnerability of the global capital markets to large organisational collapse. In an effort to strengthen financial systems, the Financial Stability Board (FSB) was tasked in 2009 with identifying systemically important financial institutions and developing policy measures to protect these organisations from insolvency.

In July 2013, the FSB, using a framework developed by the International Association of Insurance Supervisors (IAIS), identified nine insurance companies as Global Systemically Important Insurers (G-SIIs).² At its November 2014 update, the FSB upheld the G-SII designation for all nine companies, and said it would postpone its decision about which reinsurers will qualify until 2016.

G-SIIs will have to meet new capital and loss absorbency tests

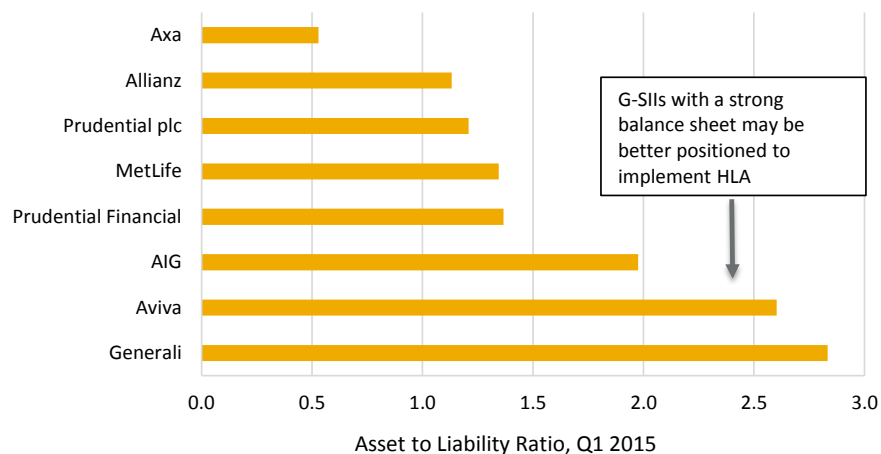
While nominated insurers may be able to use the designation to generate reputational currency, it is unlikely to be seen as a blessing by management. The nine G-SIIs are required to comply with a series of policy measures developed by the IAIS.³ These include the development of systemic risk and crisis management plans and cross-border cooperation agreements. More substantively, G-SIIs are required to meet basic capital requirements (BCRs) and higher loss absorbency (HLA) standards. The FSB released the BCR in late 2014, and companies began confidentially reporting against the requirements in 2015.⁴ HLA measures are currently being developed and are not expected to take effect until 2019.

Too early to judge the impact of regulations on G-SIIs

It is still too early to judge the financial impact of the G-SII regulations. According to some analysts, the BCRs are relatively low, equivalent to 75% of the average capital requirement for G-SIIs under existing rules in their home market.⁵ HLA measures are widely expected to offer tougher standards. While HLA requirements will not take effect until 2019, companies with a high assets to liabilities ratio may be better

positioned to implement capital buffers required under HLA. In any case, the regime will put increased resource and cost strain on the world's largest insurers, which are unlikely to be welcomed.

Asset to liability ratio of global systemically important insurers, 2015*



* The asset to liability ratio for Ping An Insurance is 5.3. We omitted this data from the chart because it is structurally not comparable.

Source: Sustainalytics, Capital IQ, 2015

The G-SIIs are not the only game in town

The G-SIIs are a significant industry development but they are not the only evidence of tightening capital regulations in the Insurance industry. The Solvency II Directive, which is scheduled to come into effect on 1 January 2016, will introduce a harmonised insurance regulatory regime across all 28 EU member states. The regime is intended to reduce insolvency risk, improve protection for policyholders and boost the international competitiveness of EU insurers. The Directive will set new capital reserve requirements for almost all of the EU's 3,500 insurers and reinsurers, and impose enhanced governance and reporting requirements.⁶

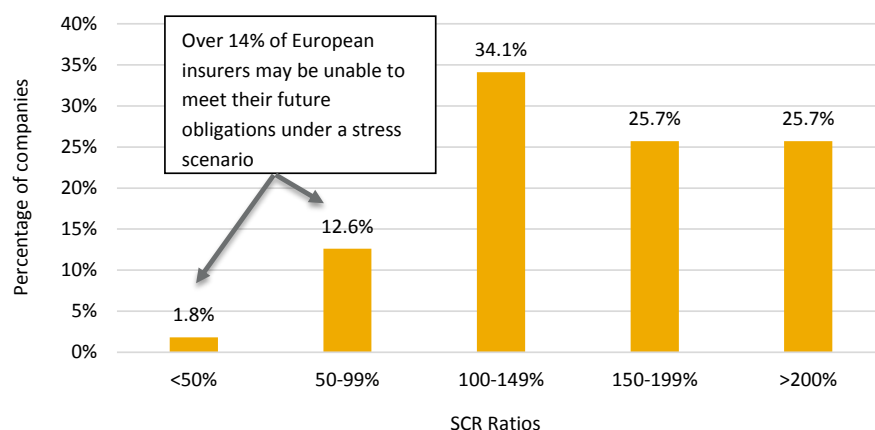
One in 12 European insurers is not prepared to meet Solvency II

Numerous organisations are closely monitoring the progress of Europe's insurance companies against Solvency II requirements. According to analysis conducted by the European Insurance and Occupational Pensions Authority (EIOPA), one in 12 insurers (8%) failed to comply with basic capital requirements spelled out under the Solvency II Directive as of the end of 2013.⁷ Under EIOPA's double-hit scenario, which combines a decrease in asset values with a reduction in the risk-free rate, over 14% of the companies tested had a solvency capital requirement (SCR) ratio below 100%.⁸

Large insurers are at an advantage

From the perspective of Solvency II's enhanced governance and disclosure requirements, we expect that smaller firms are at the greatest risk, while large, diversified insurers, such as **Allianz** and **Generali**, are generally well positioned. Complying with the regime's financial requirements is, ceteris paribus, likely to be more difficult for companies with a weak balance sheet, although the precise exposure is likely to be a function of many different factors.

Distribution of Solvency Capital Requirement (SCR) ratios in EIOPA's "double-hit" scenario



Source: EIOPA, 2014

Low interest rates – The race to the bottom

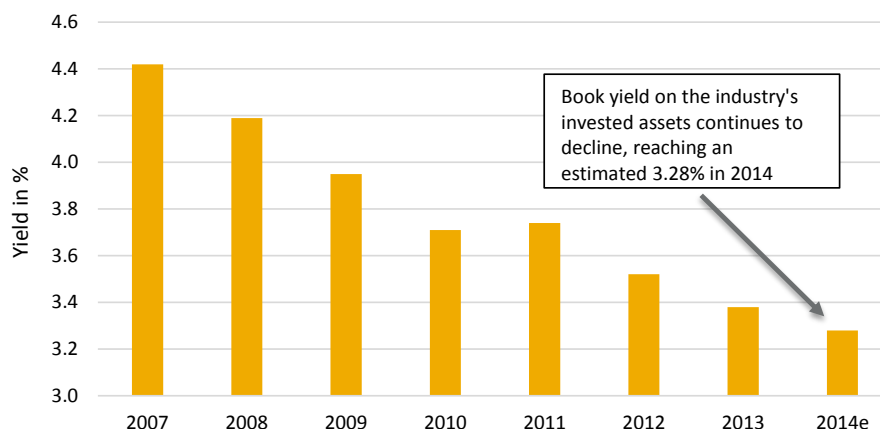
The low interest rate challenge

The low interest rate environment that has characterised the financial markets since the end of 2007–2008 financial crisis has posed an enormous challenge to insurance companies. The conventional insurance business model relies heavily on investing collected premiums in the market, typically in long-term fixed income instruments. Lower rates result in less invested income and force insurers to meet expected cash outflows through other sources of income. Low interest rates can also push some insurers to compensate by making riskier investments in equities and alternatives.

Declining average book yield

Based on data from the Insurance Information Institute, the average book yield on invested assets among global property and casualty insurers has decreased from 4.42% in 2007 to an estimated 3.28% in 2014.⁹

Book yield on property/casualty insurance invested assets, 2007–2014e



Source: Insurance Information Institute, 2015

Of course, insurers are not uniformly exposed to the effects of low market yields. Life insurers, for instance, typically face the highest exposure because they tend to have longer term liabilities and frequently sell products with guaranteed payouts.

Diversifying the asset management function

Some insurers have responded to the low yield environment by moving away from guaranteed products and into new areas of business, such as managing defined contribution pension assets. A good example is **Legal and General**, whose investment management arm currently oversees USD 1.14trn in assets, of which USD 976bn is managed for external clients.¹⁰ Insurance companies that can generate additional cash flow through fees from managing external assets may be less dependent on chasing returns in the market.

Yields on European bonds go negative

For U.S. insurers, and life insurers in particular, the Fed's promise to raise its benchmark federal funds rate will help relieve some of the pressure. But in Europe, insurers continue to struggle with the ECB's QE strategy, which has exacerbated the low rate environment and helped push yields on some government bonds into negative territory. As one example of the difficulties facing European insurers, **Vienna Insurance Group**, the largest insurance provider in Eastern Europe, recently posted its worst first-quarter profit since the 2007–2008 financial crisis, citing the impacts of low yields.¹¹ Signalling tough times ahead, EIOPA asserts that a continuation of the current low interest rate environment could challenge the ability of EU insurers to fulfill their obligations to policyholders in as little as eight years.¹²

Technology and business intelligence – The new frontier

Rapid technological advancement is upending business models in many sectors of the economy, and the Insurance industry is no exception. Customer demand for innovation is rising, and insurers are plainly aware of the large potential benefits of harnessing technology in their risk management function. Yet actual implementation of new technology across the industry has been slow, partly due to legacy software issues.

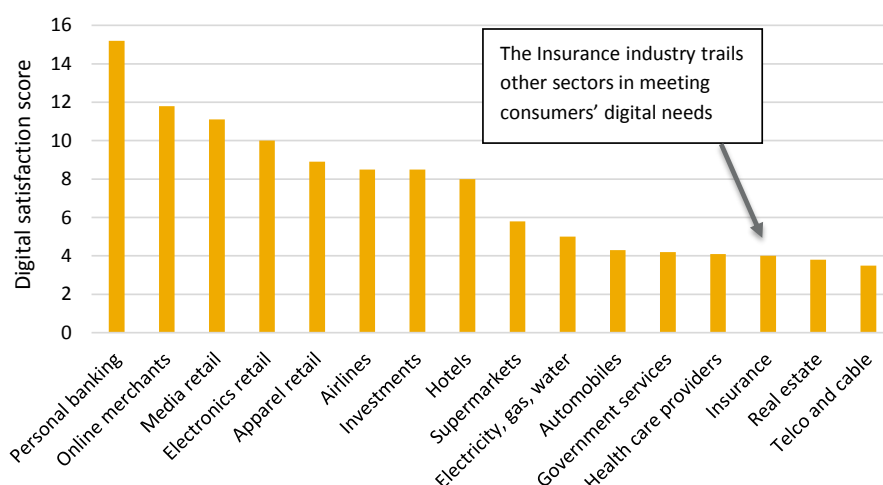
Proportion of insurance customers that prefer to conduct transactions online is increasing

The changing preferences of insurance customers are reflected in Boston Consulting Group's (BCG) 2013 consumer sentiment survey. The study found that approximately 15% of insurance customers in Western countries prefer to conduct their transactions with insurance providers remotely, up from 5% in 2011.¹³ Similarly, 50% of insurance customers expressed a preference for a combination of online insurance transactions and in-person contact with sales or service people, up from 30% in 2011.¹⁴

Insurers have been slow to react

While some insurers are adapting their business models to reflect changing consumer preferences, the industry as a whole has been slow to react. A 2013 Ernst & Young report that surveyed over 100 global insurers on their awareness and preparedness to embrace and adapt to the increasingly digitalised world found that close to 80% of respondents did not see themselves as digital leaders and were still learning how to adapt to the changing market.¹⁵ Moreover, BCG's 2013 "Digital Survey and Value Survey in the U.S." found that the Insurance industry is lagging behind other industries in meeting consumers' digital needs. The study places insurance near the bottom of the ranking, flagging a high digital dissatisfaction among customers.¹⁶

Rating U.S. industries by their online experience



Source: BCG, 2014

Digital opportunities for insurers

Online platforms

Online platforms have become a key distribution tool

Supplementing the industry's traditional distribution channels of company agents and external independent brokers, online platforms have become an important distribution tool and have allowed insurance companies to market products and services to clients in new ways. Selling insurance products online can boost insurers' profitability by allowing for the distribution of policies to a wider array of customers, while reducing costs due to claims management automation and self-service portals.

Tapping the microinsurance market

Online platforms and digital channels are particularly well suited to distributing microinsurance products. According to the International Labour Organisation, the number of people covered by microinsurance increased from 78 million in 2007 to 500 million in 2012.¹⁷ Industry leaders include **UAP Insurance**, which enables farmers in Kenya to purchase crop insurance policies by using their mobile phones and to pay premiums using an online banking application.¹⁸ Similarly, customers can register for **Old Mutual's** "Pay When You Can" insurance policies using a cellphone.¹⁹

Social media

Insurers are beginning to integrate social media

Pioneers in Western Europe have started using the Internet and social media as a distribution channel for insurance products. For example, **AEGON's** Kroodle uses Facebook accounts to log in and Facebook apps to submit claims as well as receive quotes and other services.²⁰ Similarly, **Allianz** recently made a commitment to invest EUR 400–500m yearly to improve its digitalisation and integrate technology at the core of its business. These efforts reflect the company's strategy to compete in both online and offline markets.

With easy access to the Internet through computers, mobiles and other hand-held devices, social media is increasingly being used as a filter for driving consumer choice. Customer service expectations also continue to evolve rapidly due to mobile communications. New communication channels, such as specialised websites that

enable clients to quickly compare prices, are gaining popularity among consumers. Examples include www.compare.com in the U.S. and www.independer.nl in the Netherlands.

Gamification ties insurers to the latest digital trends

Gamification

Gamification is a relatively new concept in the Insurance industry, where game-like techniques are used in interactions with tech-savvy customers to improve customer engagement. As examples, Farmers Insurance Group and **AXA** engage their customers in a game that makes the players identify their needs and the potential benefits of acquiring specific insurance policies.²¹ In addition to improving customers' financial literacy, gamification may positively impact the reputation of insurance companies, particularly in the eyes of younger customers. Gamification can be applied in different stages of the insurance value chain, including product development, sales and distribution.

Big data is attractive to insurance companies

Big data

Big data offers numerous benefits to insurers, with applications in risk management, claims management and product development. The use of big data and related tools is certainly not without risks (see below), but the growing volumes of raw data being generated in our increasingly digitalised world are inherently attractive for companies that are in the business of measuring risk.

Insurers in the U.S. and EU are increasingly taking advantage of “open data” sites such as Data.gov that collate data on health, education, and health and safety. By mining these databases, insurers are able to make increasingly sophisticated judgements of risk and offer more individualised premium prices. As one example, insurers in the U.S. personal auto insurance market have started to integrate behaviour-based credit scores into their pricing models, as data analysis revealed that customers who pay their bills on time are also safer drivers.²²

Nearly three quarters of insurers see big data as a key part of their commercial strategy

According to IBM's 2014 “Real-World use of Big Data in Insurance” study, approximately 74% of surveyed insurance companies state that the use of information (including “big data”) and analytics is an important part of their commercial strategy.²³ As a demonstration of this finding, insurers in our coverage universe disclose a wide variety of big data uses and applications. **Swiss Re** (see company portrait on [p. 30](#)) is using big data to improve the efficiency of claims management by mining public data sources and reducing the number of questions it asks consumers (insurance companies) during the underwriting process.²⁴ **Zurich Insurance** is tapping weather and geospatial data sets and using predictive analytics to inform underwriting and pricing across all of its commercial lines.²⁵ In South Africa, **Santam** reports that it uses predictive analytics to strengthen its fraud detection systems and speed up claims processing.²⁶

Service providers such as **Verisk Analytics** and **IBM** clearly stand to benefit from the big data trend with an array of offerings that help insurers forecast future losses and put a price on potential risks. In 2013, the global big data market was valued at USD 5.1bn, and it is expected to grow to USD 32.1bn by 2015 and USD 53.4bn by 2017.²⁷

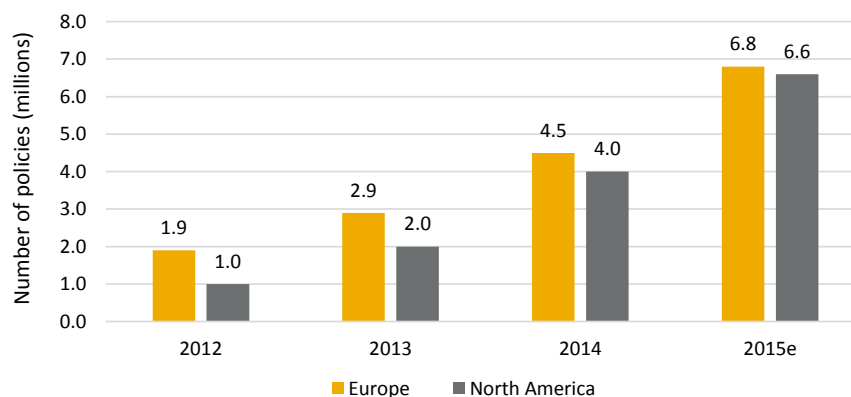
Using wearables to reward healthy lifestyles

Big data has led some insurers to the wearable technology (“wearables”) market, which includes Fitbit and Google’s Android Wear. A report released by Accenture in March 2015 found that 63% of insurance executives believe that wearables will be broadly adopted by the Insurance industry within the next two years.²⁸ John Hancock Financial, a subsidiary of **Manulife Financial**, stands out as an early adopter in this respect. In April 2015, the company began providing new policyholders with a free fitness band to monitor their health progress. By voluntarily sharing the results, policyholders can earn discounts of between five and 15%.²⁹ This is a shift from the conventional industry practice of using self-reported health questionnaires and locking in premiums over the insured’s lifetime.

Vehicle monitoring devices are increasingly being used

A second major application of real-time data in the Insurance industry is found in vehicle monitoring devices. These devices measure factors such as mileage, time of travel, acceleration and braking. The number of car insurance policies that use monitoring devices is expected to reach nearly seven million in both Europe and North America this year.³⁰ Australia-based **QBE Insurance** recently reported that customers under its voluntary “Insurance Box” programme save 6% at renewal on average.³¹

Car insurance policies using monitoring devices



Source: Ptolemus, 2015

Risks of technology

Data privacy and security

Big data amplifies the potential of data privacy and security risks

Though the benefits for insurers of using technology are clear, the risks are murky. The most obvious risks are found in data privacy and security, which are being amplified as insurers bring more and more customer data in house or, alternatively, as they tie themselves to third-party data providers. Concerns about data privacy are rising, and recent breaches of data security have been widely condemned by customers and industry groups. Recent major breaches have occurred at **CareFirst**, **Premiera** and **Anthem**, all of which operate in the U.S. healthcare segment, as well as **Cathay**

Financial Holding, which operates in Taiwan.³² Following the Anthem data breach, the National Association of Insurance Commissioners in the U.S. published the Principles for Effective Cybersecurity Insurance Regulatory Guidance as a way to improve data management among U.S. insurers and reduce risks going forward.³³

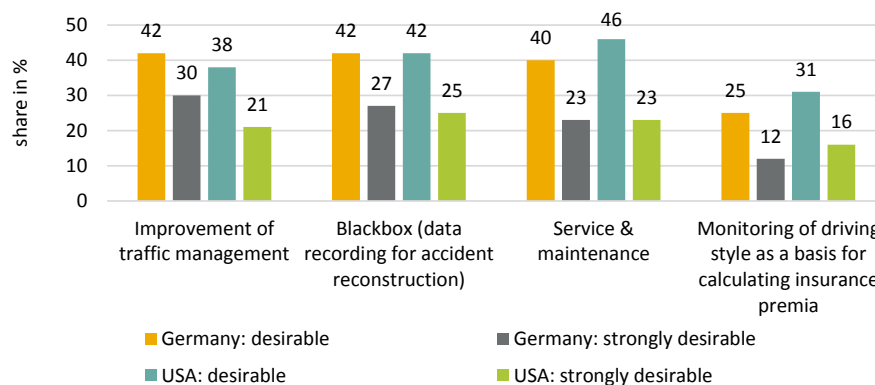
Ironically, some insurers are likely to benefit as concerns over data security rise

Ironically, some insurers are likely to benefit as concerns over data security rise. A growing number of insurers are underwriting “cyber insurance” policies that compensate policyholders for legal expenses and the cost of lost business associated with cyber-attacks. Cyber insurance is a specialised but fast-growing market, with estimated global premiums in 2014 of USD 2.4bn.³⁴ Leading providers include **Marsh & McLennan**, **Travelers** and **AXA**. This development shows how the Insurance industry, through its core function of transferring risk, is uniquely positioned to benefit as new business risks emerge, including those driven by technology. Innovative and strategically flexible insurers may have a competitive edge in capturing these opportunities going forward.

Foregoing potential cost savings under the banner of privacy

Some big data applications, such as wearables and vehicle monitoring devices, present particularly alarming privacy issues. In many ways, insurance customers face a fundamental trade-off between the right of data privacy and the (potential) benefits associated with these technologies. For instance, large segments of the population are likely to forego potential savings in life or auto insurance premiums in exchange for keeping details of their lifestyle and driving habits private. This view is strongly embedded in, for example, Germany, where, unlike the U.K., Italy, Ireland and the U.S., the majority of car insurance companies have thus far resisted vehicle monitoring devices.³⁵

The use of Big Data in the automobile industry, 2015



Source: Continental, 2015

Concerns about big data in the auto industry

A survey conducted by Continental in 2015 shows significant reservations in the U.S. and Germany about using big data in a transportation context, particularly when it comes to using monitoring devices to inform insurance premiums (see chart above). It is remarkable that there are no big differences between the attitudes in Germany and in the U.S. on this issue. However, as shown above, concerns about data privacy do not

Big data could change the way insurers think about risk

seem to be slowing down the market for insurance policies that use vehicle monitoring devices, at least in the U.S.

Taking an explicitly critical view of big data, one can even say that it has the potential to change the way the Insurance industry measures risk. Dating back to 1700 B.C., the Insurance industry has historically been based on the idea of pooled risk, where the insurance company collects premiums from large groups of people with different levels of risk.

But the degree of uncertainty that underpins this model is decreasing, as insurers avail themselves of increasingly localised and nuanced data sets. The effect is that the line between low- and high-risk individuals is being blurred. In addition to leading to far more extreme disparities in premium pricing, big data could result in large chunks of the population being deemed “uninsurable”. This is already the case with private health and disability insurance products, but the potential for insurers to decline coverage across a range of different policies could conceivably increase if big data is fully exploited. Regulators can of course impose constraints, as the European Court of Justice did in 2012 when it prohibited the use of gender in underwriting auto and life insurance premiums.³⁶ But regulators seeking to put the brakes on the use of analytical tools that use big data may find themselves going against the grain, given the ubiquity of web-connected devices.

New entrants

When will Google enter the insurance market?

In a digitalised world, where businesses are increasingly transitioning to an online marketplace, new global players, such as online retailers, Internet companies and car manufacturers, are entering the insurance market. One of the major risks for incumbent insurers is that these non-traditional players often benefit from superior brand equity and high levels of customer engagement.³⁷ This threat is perhaps best exemplified by **Google** and **Amazon**, which have already made tentative inroads into the Insurance industry. In March 2015, Google launched “Google Compare for Auto Insurance”, a tool for comparing rates from different insurance providers. Google partnered with **Mercury Insurance** and **MetLife** in setting up the platform.³⁸

In 2009, **Rakuten**, Japan’s largest Internet company, entered the domestic insurance market by acquiring **Airio Life Insurance**.³⁹ Rakuten’s comprehensive e-commerce platform and experience with online customer interactions – approximately 70% of Japan’s population uses Rakuten – have helped the company capture insurance sales opportunities.

Disruptive technologies

Self-driving cars could prevent 90% of all collisions

While big data has a clear (but hardly risk-free) upside for insurers, technological innovation can also pose threats to insurers. One such example is self-driving cars. The self-driving car is based on technologies that are already partially available in today’s mass-market cars. These include parking assistance, traffic congestion assistance (autonomous following), lane keeping assistance, collision prevention assistance, etc. Besides their function to enhance comfort and convenience for the driver, all of these systems target a reduction of driver errors and hence increase individual and collective

It will likely take 20 years before self-driving cars are established

safety. Google forecasts that its “driverless pods”, which will begin hitting the road in the summer of 2015, could prevent 90% of all collisions.⁴⁰

Estimates that by 2020 up to 10% of all mass-produced vehicles will be driverless, as quoted in a recent KPMG report, seem to be completely unrealistic from our point of view, given the immense challenges that still need to be addressed and solved before these cars can get beyond a “concept car” status.⁴¹ The consensus view is that it will probably take more than 20 years before self-driving vehicles become an established, frequently observable form of individual mobility on our streets.

What happens to auto premiums in a world with 90% fewer collisions?

For insurers, the question is what will happen to the market for auto insurance premiums in a world with 90% fewer collisions? Some initial reports suggest that a transition to driverless cars could reduce the U.S. 200bn market for auto insurance premiums by 75%.⁴² While this would clearly be a doomsday scenario for auto insurers, the impacts are still highly uncertain at this point. What is clear is that very few insurers have provided evidence to their shareholders that they are strategically aware of this long-term threat. In the most recent U.S. earnings season, only three U.S. insurers – **Cincinnati Financial**, **Mercury General** and **Travelers** – acknowledged the potential risks of driverless cars in their annual reports.⁴³ This is perhaps understandable, given that self-driving cars may not become established until the 2030s, but the lesson of Kodak in the 1980s shows that it is never too early for large organisations to begin developing scenarios to manage potentially disruptive threats.

Less dramatic technological innovations could prove more challenging for insurers over the short run. Advanced driver assistance systems (ADAS), which include such technologies as adaptive cruise control and crash avoidance sensors, are already being deployed in the latest generation of vehicles in the U.S. and Europe. Volvo recently disclosed that it will be able to eliminate collisions for anyone driving one of its cars by 2020 using ADAS. The growing proportion of vehicles with ADAS may not constitute as grandiose a threat as driverless cars, but the impacts could still be material. According to one industry estimate, a 20% adoption of driver-assist technology could reduce the frequency of collisions enough to trigger material reductions in premiums.⁴⁴

Ageing population – New risks and opportunities

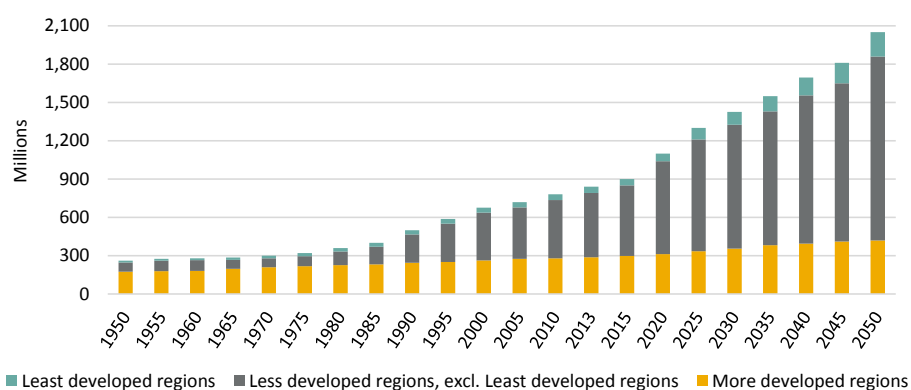
In 2050, 21% of the global population will be 60 or over

The global population is in the midst of an unprecedented ageing trend. According to data from the United Nations, by 2050 the world’s population aged 60 years or over will represent 21% of the total forecasted global population of nine billion (see overleaf chart), up from 8% in 1950 and 12% in 2013.⁴⁵ The growing share of people aged 60 and over in the world’s total population is a function of rising life expectancy and declining fertility rates.

The global dependency ratio will reach 25% in 2050, up from 10% in 2005

One of the key implications of the world’s ageing population is an expected increase in the global dependency ratio, which compares the number of retirees to the working age population.⁴⁶ According to the UN, the global dependency ratio will reach 25% in 2050, up from 10% in 2005. This shift, which is largely inevitable, will place an increased burden on the working population to maintain productivity and wealth creation levels.

Population Aged 60 Years or Over By Development Region, 1950–2050



Source: United Nations Secretariat, Sustainalytics, 2014

The Insurance industry is uniquely exposed to the world's ageing population and rising dependency ratio. At a basic level, this trend is expected to trigger both risks and opportunities for insurers. On the one hand, the growing share of retirees in the population is likely to strain the national pension and insurance systems in many countries. This creates an array of opportunities for private insurers to step in and offer pension and health-related products to retirees and the general public.⁴⁷

Pressure is rising to get longevity models right

On the other hand, insurance companies that have underestimated longevity risk in their models could be hit with unexpected costs. Insurance companies with a significant interest in guaranteed products, such as annuities, face the greatest exposure to this risk. According to **Swiss Re**, insurers that underestimate life expectancy by only one year (which would not seem to be terribly inaccurate) can see their liabilities increase by up to 5%.⁴⁸

A market for longevity swaps

Insurers are responding by using big data techniques to improve the accuracy of their longevity models and finding ways to move longevity risk off of their balance sheet. A market for longevity swaps has emerged in several countries, where reinsurance companies assume longevity risk of insurers and pension plans.⁴⁹

Insurance in China – The new playing field

Demand for health and non-life insurance products is exploding

Many insurers are rushing to establish an emerging markets presence, and few countries present as compelling a growth opportunity as China. China is expected to be the world's third-largest global insurance market by 2020, trailing only the U.S. and Japan.⁵⁰ Demand for health and non-life products in China is rising due to rising individual wealth levels, the country's ageing population and growing strains on the state pension system. The market for auto insurance is also expanding in lockstep with the number of automobiles on China's roads. The number of private vehicles in China is expected to hit 200 million by 2020, up from 120 million in 2014.⁵¹

China's development into one of the largest insurance markets in the world has led to a steady increase in the number of foreign insurance companies entering the country. While foreign companies remain minority players in China's expanding life and non-life

markets, their share of both markets is rising, albeit marginally. Foreign-owned companies represented 5.6% of China's life and health insurance market in 2013, up from 4.0% in 2011. In China's non-life market, foreign companies represented 1.3% of the market in 2013, up marginally from 1.1% in 2011.⁵² China's importance in the global insurance market was also symbolically demonstrated when **Ping An Insurance** was named as one of the world's nine G-SIIs in 2013.

European insurers are leading the pack

European insurers hold a commanding market presence among foreign entrants, with 50.6% of total foreign-owned life premiums and 37.9% of total foreign-owned non-life premiums at the end of 2013.⁵³ **Zurich Insurance**, **Allianz** and **Groupama** are examples of companies recording positive growth in premiums from 2012 to 2013.⁵⁴

Although foreign companies in China still face stringent regulations that protect domestic insurance players, the national regulator has expressed an intention "to open its doors more widely to foreign insurers".⁵⁵ Liberalisation could potentially contribute to the modernisation and development of the local insurance market, while increasing growth opportunities for non-domestic players. China's life and health sub-industry generated gross premiums worth USD 147.9bn in 2013, which represented 5.7% of total global life insurance premiums.⁵⁶ This number is a clear indication of the market's size and the opportunities available for international insurers to tap the country's underdeveloped public health sector.

Expansion into emerging markets is not devoid of risk

However, business expansion into emerging markets is not devoid of risk. Emerging economies such as China are volatile and exposed to severe downturns, inflation, interest rate variations and currency risks. Regulations tend to be weaker relative to developed markets and vary from country to country. Specialised expertise is usually needed to adapt products and services to diverse populations and cultural contexts.

Outlook – The winner takes it all

Smaller insurers will face the greatest difficulties complying with Solvency II

Upcoming regulations are likely to provide a stern test for the Insurance industry, particularly in Europe, where Solvency II is scheduled to take effect in 2016. New BCR and HLA standards could also prove daunting for the nine G-SIIs, although it is too early to gauge specific exposures. An often-overlooked implication of regulatory reform, however, is the burden it places on internal resources. While this does not apply to G-SIIs, which are by definition the world's largest insurance companies, we expect that smaller European insurers will face the greatest difficulties complying with Solvency II.

The low interest rate environment is likely to continue to squeeze the profits of insurers, particularly in Europe, and this situation will not make meeting tougher capital requirements any easier.

Some insurers may have their heads in the sand

It is perhaps a truism to say that insurers are increasingly using technology to drive claims management, improve online platforms and inform premium pricing models, but we also see major risks associated with this transition, which have probably not been sufficiently priced in by the market. Issues of data privacy, security and disruptive threats loom large in this context, and some insurers might be guilty of a lack of foresight. While 86% of industry CEOs agree that technology will transform their

businesses in the next three to five years, the Insurance industry has a long way to go to convince investors that it is making adequate investments in these areas.⁵⁷

The ageing population will create risk and opportunity

We see an additional layer of risk and opportunity playing out in connection with the world's ageing population. Demand for post-retirement products is set to rise, but so too is the penalty for being on the wrong side of the longevity risk curve (although the growing market for longevity swaps may transfer this risk to the reinsurers). In a quest to boost profits, some insurers will likely be lured by the prospect of insurance sector reform in China, although the risks of doing business in emerging markets should not be underestimated.

Increased emphasis on product innovation, expanded risk awareness and effective stakeholder management

While it is challenging to condense all of these trends to a single set of imperatives, it is clear that increased emphasis will be placed by the market on product innovation, expanded risk awareness and effective stakeholder management. In this environment, it is our view that insurers with superior positioning on material ESG metrics may be at a long-term structural advantage. In the chapters that follow, we turn our analysis to analysing companies on key ESG issues for the Insurance industry, with a view to providing differentiated analysis for investors.

Spotlight

The upside and downside of climate change

Climate change poses risks and opportunities for the Insurance industry. Exposure is highest for reinsurers, such as Swiss Re and Munich Re, which have been actively modelling climate impacts for decades. Extreme weather events often result in costly claims and financial losses for insurers, and the number of loss events and insured losses are on an upward trajectory. Opportunities are found in new insurance solutions and niche products, such as catastrophe bonds. The UN Principles for Sustainable Insurance (PSI) could be an important catalyst in formulating industry-level responses to climate change.

Climate change and insurance

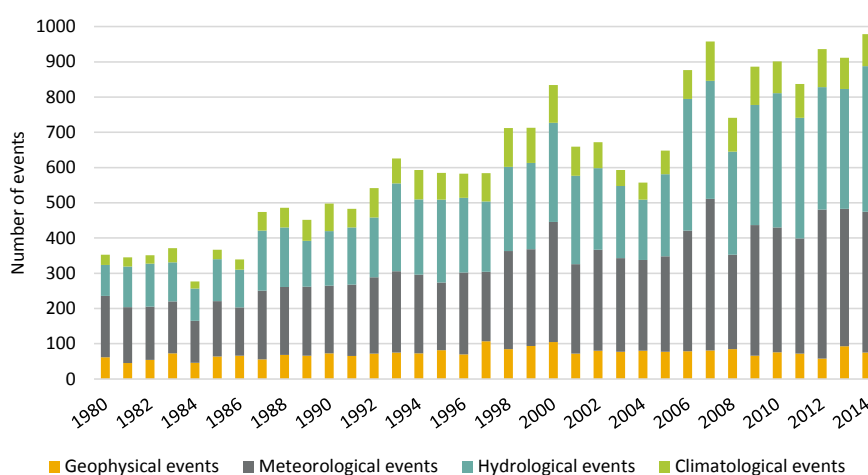
Evidence for climate change

The evidence for anthropogenic climate change continues to mount. Significant changes in weather patterns, including abnormal heat and cold waves, storms and floods, severe droughts and landslides, snowstorms and hurricanes, have been observed across the globe in recent years. Scientific consensus about the drivers of these changes or how these changes will evolve may be incomplete, but this uncertainty has had little effect on the Insurance industry's growing risk and opportunity profile around climate change.

Loss events are trending upward

The nature of the Insurance industry's exposure to climate change stems from the growing frequency of extreme weather events. According to **Munich Re**, the total number of worldwide weather-related loss events is increasing, although the numbers from year to year are variable. In 2014, a total of 979 weather-related loss events were recorded, up from 834 in 2000 and 353 in 1980 when record keeping began.⁵⁸

Loss events worldwide by event type, 1980–2014



Source: Munich Reinsurance Company, Geo Risks Research, NatCatSERVICE, 2015

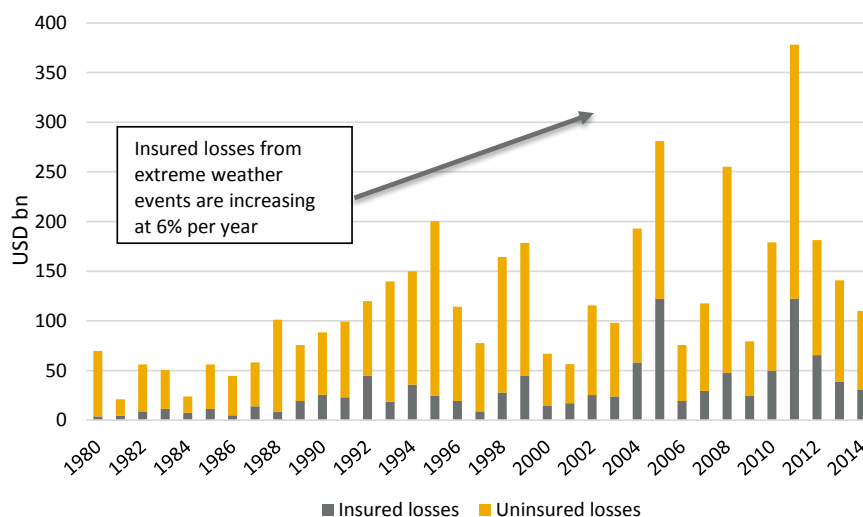
Insured losses are increasing by 6% per year

The insured losses from these events have been substantial. While 2014 was a relatively quiet year, with total losses of USD 110bn, of which USD 31bn (or 28%) was insured, average annual losses over the past ten years were USD 190bn, with USD 58bn in annual insured losses.⁵⁹ Losses from extreme weather events are highly variable year to year and, after converting financial data up to 2014 to remove the effects of inflation, average annual overall losses are growing only marginally. Still, *insured losses* are growing much more quickly than *uninsured losses*; the former grew by an average of 6% each year from 1980–2014, compared to a mere 0.5% for the latter.

Climate risk is largely borne by reinsurers

Property and casualty insurers have opted in large part to hedge their exposure to weather-related losses through reinsurance, so the risk is ultimately borne by reinsurance companies. While most property & casualty and life & health insurers show a lack of preparedness in addressing climate-related risks and opportunities, reinsurers have been active in modelling climate impacts and developing risk transfer solutions for more than 20 years.⁶⁰

Loss Events Worldwide by Insurance Category, 1980–2014



Source: Munich Reinsurance Company, Geo Risks Research, NatCatSERVICE, 2015

15% of the world premium volume is managed in line with the PSI

Industry response – The PSI

Launched in June 2012, the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance (PSI) provide a road map for developing sustainable risk management and insurance solutions. As of April 2015, over 70 insurers and supporting organisations had signed the PSI, representing approximately 15% of the world premium volume and USD 8trn in assets under management.⁶¹

Insurance signatories to the PSI commit to:

- Embed ESG issues relevant to the insurance business in their decision-making;
- Work together with their clients and business partners to raise awareness of ESG issues, manage risk and develop solutions;

- Work together with governments, regulators and other key stakeholders to promote widespread action across society on ESG issues; and
- Demonstrate accountability and transparency in regularly disclosing progress in implementing the PSI.

A close look at the activities of PSI signatories shows that industry pioneers have developed a number of insurance and investment products, services and practices to tackle both the mitigation and adaptation dimensions of climate change.

Product and service opportunities

We profile below some of the climate-driven solutions currently offered by companies in the Insurance industry. Solutions can be distinguished between those that help insurers hedge themselves and those that insurers offer to their clients.

Transferring risks from major catastrophes to investors

Catastrophe (cat) bonds were developed in the 1990s as an innovative way for insurers to transfer a portion of the risk from major catastrophes to investors. Cat bonds are issued by insurers and are rated by traditional rating agencies according to the likelihood that the insurer will face claims within the bond's time period.⁶² They usually have maturities of less than three years. If a catastrophe does not occur during the bond's lifetime, investors get interest payments in addition to the return of the principal. If a catastrophe does occur, investors typically lose their principal.

Cat bonds are used by insurance companies as an alternative to conventional catastrophe reinsurance. They can cover a variety of events, including storms, heavy rain, cliff collapse, lightning, floods, tornadoes, squall lines, typhoons, tsunamis, mudslides, landslides, subsidence, hail, waterlogging and hurricanes. The market for cat bonds has grown at 8.3% per year since 2002, with total valuation in 2014 put at USD 20bn.⁶³ Cat bonds are high-risk investments but benefit from a low correlation with traditional fixed income investments.

Cat bonds grabbed headlines in April

The cat bond market grabbed headlines in April 2015 when a team of business school academics argued that cat bonds and other types of alternative risk transfer products threatened to undermine the USD 575bn reinsurance industry. The authors allege that insurance companies are packaging together catastrophe risks using inaccurate models, reminiscent of the way big banks carved up subprime mortgages before the 2007–2008 financial crisis.⁶⁴

Helping smallholder farmers protect against unpredictable weather and harvest losses

Index-linked insurance policies are sold by insurers to smallholder farmers to help protect against unpredictable weather and harvest losses. Index-linked insurance policies calculate losses and payouts based on easily monitored metrics, such as rainfall or wind speed. This prevents underwriters from having to measure losses on a case-by-case basis, while owners benefit from not having to file a claim with the insurance company after an insurable event. According to a 2015 report from the International Research Institute for Climate and Society at Columbia University, index policies can cost as little as USD 11 per season.⁶⁵ The downside to these products is that the payout

Combining the expertise of an insurance company with the public mission and financial capital of an NGO or governmental organisation

is not directly tied to the damages a policyholder may face, which leaves a potential gap between damage and compensation.

Public-private partnerships (PPPs) are another avenue that insurance companies can take to extend climate coverage. PPPs combine the expertise of an insurance company with the public mission and financial capital of an NGO or governmental organisation. A recent example of a PPP in the Insurance industry is AXA's partnership with the World Bank. The project, unveiled in September 2014, focuses on extending "innovative and affordable parametric and weather-index linked insurance protection for the world's most vulnerable, developing regions."⁶⁶ The partnership moves beyond climate change issues and seeks to enable other necessary initiatives, such as infrastructure development and investment in local insurance companies. **Lloyds of London** (Lloyds) recently estimated that there was a USD 168bn insurance deficit in 17 high-growth countries, forcing local governments to bridge the gap when insurance coverage is low. Lloyds estimates that for every 1% increase in insurance penetration, state liabilities drop by as much as 22%. In countries harder hit by climate change whose governments struggle with large deficits, increased insurance coverage may be key to ensuring stability during a disaster.

Providing incentives for policy owners to adopt environmentally or climate-friendly behaviours

Green insurance policies provide incentives for policy owners to adopt environmentally or climate-friendly behaviours. They are typically offered in developed markets where insurance coverage is strong. Examples include "pay as you drive" car insurance policies, where premiums are linked to the amount of driving and distance travelled, property insurance with preferential rates for green buildings (such as buildings certified to the Leadership in Energy and Environmental Design or LEED standard) and auto policies with discounts for fuel-efficient vehicles.

Outlook – Accelerating pace of innovation

The Insurance industry has taken modest but innovative steps to create climate-driven insurance solutions. We expect that the pace of innovation in testing and developing these products will accelerate over the short to mid-term, as the physical effects of climate change continue to worsen, and as regulators take increasingly substantive steps to incentivise climate-friendly business practices. There is considerable room for new innovation and market leadership in this area.

Bottom-Up Analysis

Interpreting the numbers

Our coverage universe for the Insurance industry includes 149 listed and non-listed companies across both developed and emerging markets

Our assessment is based on three ESG themes and four management dimensions

On the following pages we provide an overview of company performance within the industry group “Insurance”, according to the Global Industry Classification Standard (GICS). The Insurance industry includes five sub-industries: Insurance Brokers; Life & Health Insurance; Multi-Line Insurance; Property & Casualty Insurance; and Reinsurance. Our coverage universe includes 145 listed and four non-listed companies across both developed markets (DM) and emerging markets (EM).

Our evaluation is based on the classic three-pillar structure used in responsible investment analysis, which consists of three main themes: Environment, Social and Governance. The number of indicators used to assess each theme, as well as indicator weights, is industry specific. Indicators and indicator weights are determined based on their financial materiality and overall relevance for industry stakeholders. Indicators can also be grouped into four management dimensions: Disclosure; Preparedness (policies, programmes, etc.); Quantitative Performance (employee turnover rates, environmental emissions figures, etc.); and Qualitative Performance (controversies). For the Insurance industry, we use a total of 59 indicators.

Insurance – Industry-specific weight matrix*

Theme	Weight / # Indicators	Dimension			
		Disclosure	Preparedness	Quantitative Performance	Qualitative Performance
Environment	30%	3.3%	18.3%	46.7%	31.7%
	17	2	6	6	3
Social	35%	0.0%	37.1%	15.7%	47.1%
	17	0	8	5	4
Governance	35%	10.0%	55.0%	0.0%	35.0%
	25	5	17	0	3

* Representing the weight of themes within the overall rating, and for the dimensions associated with the themes

Source: Sustainalytics

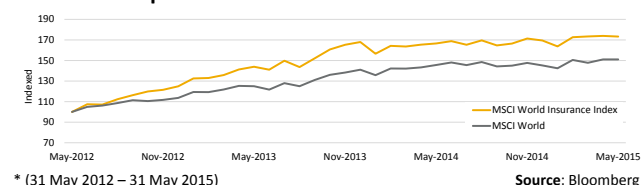
How ESG scores are computed and aggregated

The raw scores we allocate at the indicator level range from 0–100 points. They are then multiplied by their appropriate weights, summed up and recalibrated to arrive at scores at the different aggregation levels, including the individual ESG theme scores and the overall ESG score. Based on their scores, companies are allocated to five distinct performance groups: Industry Leader; Outperformer; Average Performer; Underperformer; and Industry Laggard, according to their relative position within the industry and assuming a normal distribution of scores. For a more detailed description of our methodology, please see the Appendix.

Developed Markets (DM)

Universe analysed: **DM – Insurance**
 Number of constituents: **86 companies**
 Updated: **April 2015**
 Source company data: **Capital IQ**

Stock market performance*



Sector Leaders

85

Overall ESG score

Allianz SE

92

Environment score

Storebrand ASA

91

Social score

Allianz SE

90

Governance score

Storebrand ASA

As the world's largest insurer in terms of market capitalisation, **Allianz** exhibits strong ESG performance driven by its progressive ESG policies and programmes designed to mitigate potential risks and impacts, as well as best practice commitments to address Social issues. While a comparatively small company in terms of market capitalisation, **Storebrand** is a sustainability leader in the industry due to comprehensive management approaches to Environment and Governance issues, complemented with a lack of involvement in controversial practices.

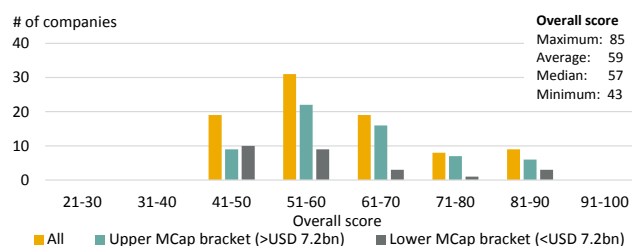
Overall ESG score and size

Top five companies upper MCap bracket (>USD 7.2bn)	Country	MCap (USD m)	Score
Allianz SE	Germany	79,072	84.9
Swiss Re Ltd	Switzerland	31,358	84.2
Munich Re Ag	Germany	38,154	82.1
CNP Assurances SA	France	13,738	82.0
Aviva plc	United Kingdom	22,529	81.8

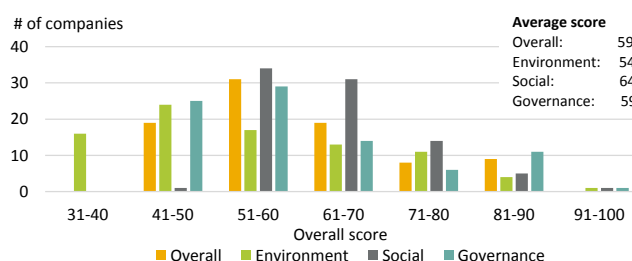
Top five companies lower MCap bracket (<USD 7.2bn)	Country	MCap (USD m)	Score
Storebrand ASA	Norway	2,706	84.2
Achmea BV	Netherlands	n.a.	82.0
Delta Lloyd N.V.	Netherlands	4,754	80.7
Groupama S.A.	France	n.a.	70.1
RSA Insurance Group plc	United Kingdom	6,000	64.3

Distribution of scores

Distribution by MCap bracket



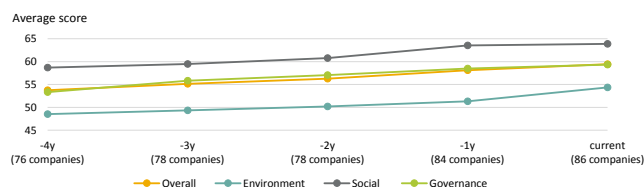
Distribution by ESG theme



The overall ESG performance distribution of DM insurance companies ranges from 84.9 points for **Allianz** to 43.1 points for **Fairfax Financial Holdings**. With a median of 57, slightly below the industry average value of 59, the score distribution reflects a concentration for both upper and lower market cap companies under 60 points. Seven lower cap companies (<USD 7.2 billion) have a total score higher than the industry mean, demonstrating that some relatively small insurance companies have taken steps to integrate sustainability in their business models.

A closer look at the distribution of scores by ESG theme shows a median value below the industry average for all three themes. A handful of players demonstrate pioneering initiatives that go beyond compliance. Our analysis shows that insurers tend to concentrate their sustainability efforts on Social and Governance themes, such as human capital strategies, which are generally considered to be more relevant for their business planning than Environmental issues.

Momentum ESG scores



Momentum Leaders (highest yoy performance)	Score		
	Current	-1y	change
Topdanmark A/S	62.7	49.0	13.7
Great-West Lifeco Inc.	57.0	47.0	10.0
UnipolSai Assicurazioni S.p.A.	63.0	55.5	7.5
Friends Life Group Limited	69.7	62.3	7.4
Lincoln National Corp.	53.6	46.7	6.9

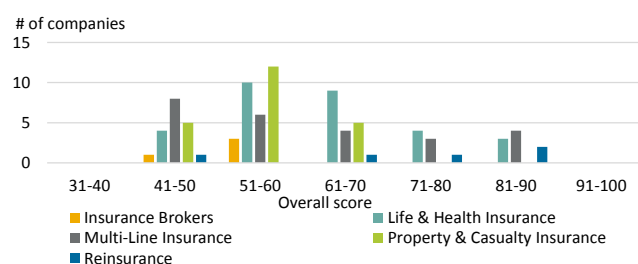
Momentum Laggards (lowest yoy performance)	Score		
	Current	-1y	change
Insurance Australia Group Ltd.	63.6	66.9	-3.3
Delta Lloyd N.V.	80.7	83.8	-3.1
Assicurazioni Generali SpA	76.5	79.4	-2.9
RSA Insurance Group plc	64.3	67.1	-2.7
Munich Re Ag	82.1	84.5	-2.4

Over the past three years, DM insurance companies have achieved an aggregate ESG performance improvement, with the mean universe score increasing from 55.1 points in 2012 to 59.4 points in 2015. Looking specifically at each pillar under the ESG umbrella, the Social performance of DM insurance companies improved by an average of 2.9% each year over this period, compared to 3.9% for Environment and 3.6% for Governance.

The momentum leader, **Topdanmark**, stands out for its significantly improved Disclosure and Preparedness to address ESG risks and opportunities. **Insurance Australia Group** is the momentum laggard. The company's score dropped from 66.9 in 2014 to 63.6 in 2015, a decline of 3.3 points or 4.9%.

Rating distribution by sub-industry and region

Breakdown by sub-industry

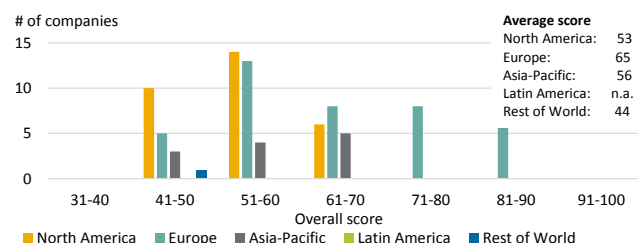


Leading company in each sub-industry		MCap (USD m)	Score
Insurance Brokers	Aon Plc.	25,116	56.8
Life & Health Insurance	Storebrand ASA	2,706	84.2
Multi-Line Insurance	Allianz SE	79,072	84.9
Property & Casualty Insurance	Tokio Marine Holdings Inc.	23,039	68.0
Reinsurance	Swiss Re Ltd	31,358	84.2

A ratings distribution by sub-industry shows that Insurance Brokers and Property & Casualty Insurance lag behind the other sub-industries, with no company scoring more than 70 points. Life & Health Insurance and Multi-Line Insurance stand out for a more symmetrical distribution of scores, whereas Reinsurance has the highest concentration of companies in the top scoring range.

While we find a moderately positive correlation (0.28) between market cap and overall score, being large is not a prerequisite for strong ESG performance in the Insurance industry. There are several instances of lower cap players outperforming larger peers within specific sub-industries. A good example is **Storebrand**, which leads the way in the Life & Health Insurance sub-industry.

Breakdown by region



Leading company in each region		MCap (USD m)	Score
North America	Prudential Financial, Inc.	39,049	65.8
Europe	Allianz SE	79,072	84.9
Asia-Pacific	Tokio Marine Holdings Inc.	23,039	68.0
Latin America	n.a.	n.a.	n.a.
Rest of World	Migdal Insurance and Financial H	1,695	43.9

Europe is the top-performing region in the Insurance industry, and it is the only region with companies scoring in the +71 range. The performance of companies based in North America and the Asia-Pacific region is concentrated at the lower end. This disparity is also reflected in the average scores per region, with North America and Asia-Pacific recording 53 and 56 points, compared to 65 in Europe.

Based in Germany, **Allianz** significantly outperformed the highest-scoring North-America-based company, **Prudential Financial**, as well as the highest-scoring Asia-Pacific-based company, **Tokio Marine Holdings**. The leading company from the Rest of World, Israel-based **Migdal Insurance and Financial Holdings**, trails the other three regional leaders.

Disclosure, Preparedness, Performance – Sector Leaders

89

Disclosure

AEGON N.V.

Sustainalytics analyses company ESG performance based on four dimensions: Disclosure; Preparedness; Quantitative Performance; and Qualitative Performance.

86

Preparedness

Allianz SE

AEGON (see company portrait on [p. 29](#)) demonstrates leadership in ESG Disclosure and addresses all material issues for the industry through strong CSR reporting. Additionally, the insurer's reporting to the CDP Questionnaire is considered best practice. **Allianz** is a best practice example for extensive policies and management systems to help mitigate Social and Environmental risks. **Storebrand** stands out for its strong Quantitative Performance, exemplified through low carbon emissions and a high percentage of assets allocated to responsible investment.

88

Quantitative Performance

Storebrand ASA

Qualitative Performance – Most controversial companies

3

Category 3 – Significant

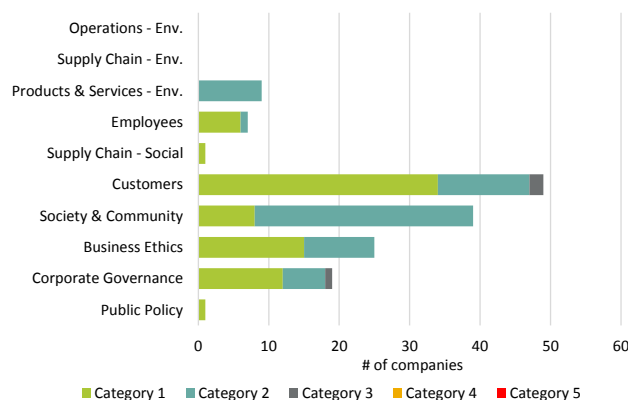
AEGON N.V.

ACE Limited

Ageas SA/NV

Currently, three companies have controversies assessed as a Category 3, well below the highest controversy level (Category 5). The companies displayed on the left have been involved in significant controversies over the past three years but have taken measures to remediate the underlying problems. The majority of insurance Category 3 assessments are customer related, concerning product quality issues.

Qualitative Performance – Distribution of event type



As service providers, insurers are most commonly exposed to controversies related to the negative impact of their business on customers. These controversies include cases related to Quality and Safety, Anti-Competitive Practices, Marketing Practices or Privacy. Society & Community controversies capture repeated criticism from civil society groups, centred on financing of entities or sectors linked to human rights abuses.

DM Company Portrait: AEGON



Outlook
Neutral



Overall ESG Score
Outperformer (14th out of 86)



Highest Controversy Level
Quality and Safety

Domicile: Netherlands
Industry: Insurance
Sub-Industry: Life & Health Insurance
Ticker: ENXTAM:AGN
ISIN: NL0000303709
Sedol: 5927375
Employees (FY 2013): 26,891
MCap: USD 19,187m

Analyst view

AEGON, like many of its European peers, excels in a number of ESG performance areas. Over the past three years it has made modest improvements across every ESG management dimension and has retained an outperformer ranking. However, the company faces exposure to a Category 3 controversy, which is among the highest in the industry. The company faces significant risk from consumer lawsuits, due to alleged aggressive anti-consumer strategies relating to pricing and excessive premiums.

Company description

Founded in 1844, AEGON is a Dutch insurance company with a presence in 25 countries. The majority of the company's business is conducted in the Netherlands, the U.S. and the U.K. The company employs close to 27,000 people and offers insurance, pension and savings products and asset management services to individuals and corporations.

Company characteristics (current & momentum)	Score			Rank
	-2y	-1y	curr.	
Overall ESG score	70	71	73	14
Environment	58	61	63	26
Social	63	66	68	27
Governance	88	85	87	4
Disclosure	100	89	89	1
Preparedness	66	68	70	8
Quantitative Perf.	34	42	48	19
Qualitative Perf.	90	87	87	86

ESG performance

AEGON is involved in a number of customer-related controversies, including the long-lasting lawsuit surrounding its KoersPlan unit-linked products.⁶⁷ In 2006, the Dutch Financial Services Ombudsman found that a number of national and international insurance companies, including AEGON, hid costs in their investment-linked insurance and provided insufficient or deceptive product information resulting in losses to consumers.⁶⁸ Although most of the insurers have reached an agreement and compensated Dutch consumer groups, AEGON's involvement in the case is considered exceptional, due to its prolonged legal battle with these consumer groups.

While over 400,000 customers have been compensated in recent years with settlements totalling EUR 300m, AEGON faced additional litigation filed in 2014 by the Dutch national consumer association, Woekerpolis.nl. The insurer has undertaken several measures to improve its communications with customers and has reduced the premiums charged to KoersPlan customers. However, the long-term success of these measures is yet to be proven, and the Dutch Financial Services Ombudsman is investigating how insurers are handling complaints regarding unit-linked products. Following the loss of trust in the financial sector after the financial crisis, when many companies, including AEGON, required government bailouts, long-lasting litigation cases with customers have been an impediment to restoring confidence in the industry. AEGON will need to demonstrate its commitment to customers by resolving current litigation cases and effectively re-establishing customer trust.

Analyst

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DM Company Portrait: Swiss Re



Outlook
Positive



Overall ESG Score
Industry Leader (3rd out of 86)



Highest Controversy Level
Society & Community Incidents

Domicile: Switzerland
Industry: Insurance
Sub-Industry: Reinsurance
Ticker: SWX:SREN
ISIN: CH0126881561
Sedol: B545MG5
Employees (FY 2013): 11,574
MCap: USD 31,358m

Analyst view

With an overall score of 84, Swiss Re is one of the leading ESG performers in the Insurance industry, demonstrating an advanced understanding of how Environmental and Social risks intersect with traditional measures of risk. Swiss Re stands out due to its strong commitment to responsible investment and financial inclusion. The reinsurer's active participation in the Principles for Sustainable Insurance (PSI) has strengthened its reputation as a sustainability leader in the industry.

Company description

Founded in 1863 and headquartered in Zurich, Switzerland, Swiss Re is the world's second-largest reinsurer in terms of market value. Swiss Re primarily provides reinsurance, insurance and other insurance-based forms of risk transfer services. With over 11,000 employees, the company has over 60 offices in more than 20 countries that serve a wide range of customers.

Company characteristics (current & momentum)	Score			Rank
	-2y	-1y	curr.	
Overall ESG score	73	80	84	3
Environment	73	82	87	3
Social	67	77	79	7
Governance	78	80	87	3
Disclosure	61	61	61	10
Preparedness	64	72	82	2
Quantitative Perf.	56	63	67	10
Qualitative Perf.	92	98	98	55

ESG performance

Involved with sustainability issues since the mid-1990s, Swiss Re is one of the industry's pioneers in adopting progressive sustainability risk management frameworks. Additionally, as one of the founding signatories of the PSI, Swiss Re revised its existing sustainability risk framework in 2013 to better align with PSI requirements for its underwriting and investment procedures.⁶⁹ Most notable today are Swiss Re's responsible investment activities, which meet best industry practice by integrating ESG issues into its active ownership and negative screening processes. The reinsurer has also identified eight sensitive sectors and "issue" policies that apply to both underwriting and investment, which is extraordinary in the industry. These policies determine whether the company refrains from certain investments or excludes transactions entirely. In FY2013, the reinsurer rejected 13% of its proposed business transactions that failed its internal due diligence assessment. Moreover, relevant employees are subject to mandatory training on how to apply this sustainability risk framework.

Furthermore, Swiss Re is an active player in the financial inclusion arena, by aiming to provide not only re/insurance capacity but also risk management know-how to its customers. In addition, the company significantly improved its ESG performance over the past three years by reporting according to the Global Reporting Initiative (GRI) guidelines and obtaining external certification for these reports. In general, Swiss Re's comprehensive responsible finance policies and programmes meet best practice, making it one of the industry's strongest ESG players.

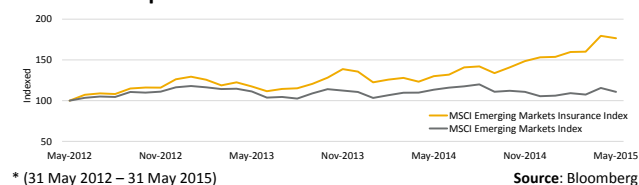
Analyst

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Emerging Markets (EM)

Universe analysed: **EM – Insurance**
 Number of constituents: **33 companies**
 Updated: **April 2015**
 Source company data: **Capital IQ**

Stock market performance*



Sector Leaders

77

Overall ESG score

Sanlam Limited

68

Environment score

Samsung Fire & Marine Insurance Co., Ltd.

81

Social score

Sanlam Limited

83

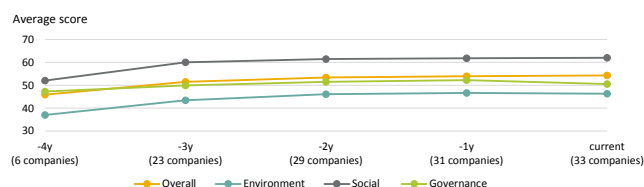
Governance score

Sanlam Limited

Top five companies EM countries	Country	MCap (USD m)	Score
Sanlam Limited	South Africa	9,190	77.4
Santam Ltd.	South Africa	1,842	67.6
Sul America Sa	Brazil	2,005	66.6
Liberty Holdings Ltd.	South Africa	2,797	66.4
Samsung Fire & Marine Insurance Co., Ltd.	South Korea	8,718	66.3

Sanlam (see company portrait on the following page) is the EM insurer with the strongest commitment to sustainability, demonstrated through its overall performance and leadership in Social and Governance matters. As an industry best practice, the company adheres to the G4 guidelines in its sustainability reporting. Sanlam's majority-owned subsidiary, **Santam**, is distinguished by strong Environmental performance and narrowly trails EM leader **Samsung Fire & Marine Insurance** in environmental management. Of the six South African companies covered in Sustainalytics' universe, three are found in the top five companies in EM countries, due to advanced sustainability awareness and strong disclosure of ESG issues. **Sul America** and **Samsung Fire & Marine Insurance** closely trail their South African peers, with strength in Qualitative Performance.

Momentum ESG scores

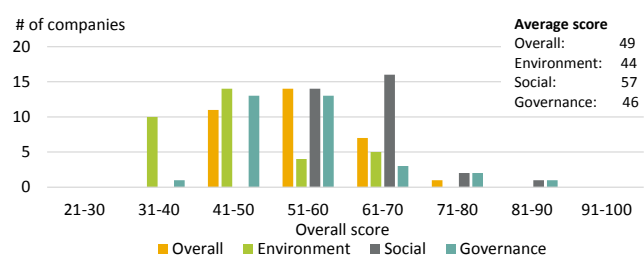


Momentum Leaders (highest yoy performance)	Score		
	Current	-1y	change
Sul America Sa	66.6	56.5	10.1
Cathay Financial Holding Co. Ltd.	62.9	53.2	9.6
Samsung Fire & Marine Insurance Co., Ltd.	66.3	59.2	7.1
China Life Insurance Co., Ltd.	50.3	44.8	5.6
Sanlam Limited	77.4	73.0	4.4

EM companies' historical ESG performance shows constant improvement over the past three years, particularly in the Environmental and Social themes. **Cathay Financial**, which trails only **Sul America** in terms of momentum, stands out due to significant efforts to improve its ESG performance. Despite being based in Taiwan, a country where sustainability awareness and management of ESG-related issues is still nascent, the insurer actively integrates ESG factors into its business strategy.

Distribution of scores

ESG Breakdown



Similar to the distribution of scores for DM companies, the distribution for EM companies shows a general concentration of performance below the industry average of 49 points. The mean Environmental score of EM insurers, at 44, lags behind the mean Social (57) and Governance scores (46). This gap is mostly a result of the general lack of Disclosure on Environmental matters from EM insurers.

EM Company Portrait: Sanlam



Outlook
Positive



Overall ESG Score
Industry Leader (1st out of 33)



Highest Controversy Level
No incidents found

Domicile: South Africa
Industry: Insurance
Sub-Industry: Life & Health Insurance
Ticker: JSE:SLM
ISIN: ZAE000070660
Sedol: BOL6750
Employees (FY 2013): 12,953
MCap: USD 9,190m

Analyst view

Sanlam leads its emerging market peers in almost every ESG dimension. Notable achievements include an increase in the company's Governance score from 71 to 83 points over the past three years and a leap forward in Disclosure practices. A consistently strong performer across all ESG themes, Sanlam has successfully integrated ESG policies and programmes into its expansion strategy for the rest of Africa. As the African insurance market continues to develop, Sanlam is well positioned to manage increased ESG risk exposures and to compete with international insurers.

Company description

Sanlam is headquartered in South Africa and provides insurance solutions and various financial services to individual and institutional clients globally. The company was founded in 1989 and went public in 1998. It has a market cap of USD 9bn and spans 11 African countries, the largest continental footprint of any insurance company.

Company characteristics (current & momentum)	Score			Rank
	-3y	-1y	curr.	
Overall ESG score	73	73	77	1
Environment	69	69	66	3
Social	79	79	81	1
Governance	71	71	83	1
Disclosure	35	35	57	7
Preparedness	56	56	64	1
Quantitative Perf.	50	50	50	2
Qualitative Perf.	100	100	100	1

ESG performance

Since 2007, Sanlam has been expanding its operations throughout Africa, typically by investing in existing insurance businesses. In order to address the challenges posed by such integration, Sanlam has developed an "Emerging Markets Governance Framework Policy". The policy is focused on embedding business ethics within new partner organisations. Sanlam first assesses existing business ethics frameworks in partner organisations, identifies gaps and then helps to develop appropriate procedures, including whistleblower channels. Moreover, executive management at partner organisations is asked to undergo additional ethics training if necessary, in order to align with Sanlam's Code of Ethical Conduct. Since 2003, Sanlam has conducted general ethical risk assessments of the whole organisation and reported the results, which complements its EM Governance Framework Policy activities.

Regarding product development and customer projection, Sanlam runs "stress tests" in the early stages of development to determine potential customer risks and identify mitigating solutions.⁷⁰ Furthermore, Sanlam was the first South African insurer to include HIV coverage within its basic policy covering chronic diseases. In general, Sanlam's lack of involvement in controversies, combined with all of the aforementioned initiatives, shows how progressive ESG policies and appropriate risk measures can support insurance expansion into emerging markets without incurring negative impacts on stakeholders or reputational damage for the company.

Analyst

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Key ESG Issues

Risk gatekeepers' approach to sustainability

The Insurance industry plays an indispensable role in the global economy by allowing households and businesses to hedge risk and free up resources for productive enterprise and investment. Given the ubiquity of insurance products in modern economic activity, insurance companies are ideally positioned to stimulate sustainable economic development, particularly through pricing signals and underwriting practices. Partly as a result of the regulatory, market and technological trends examined above, ESG issues are taking on increased financial relevance across the Insurance industry. We focus our analysis in this chapter on the three ESG issues that we believe are of primary significance for insurance investors: Responsible Finance; Financial Product Governance; and Business Ethics.

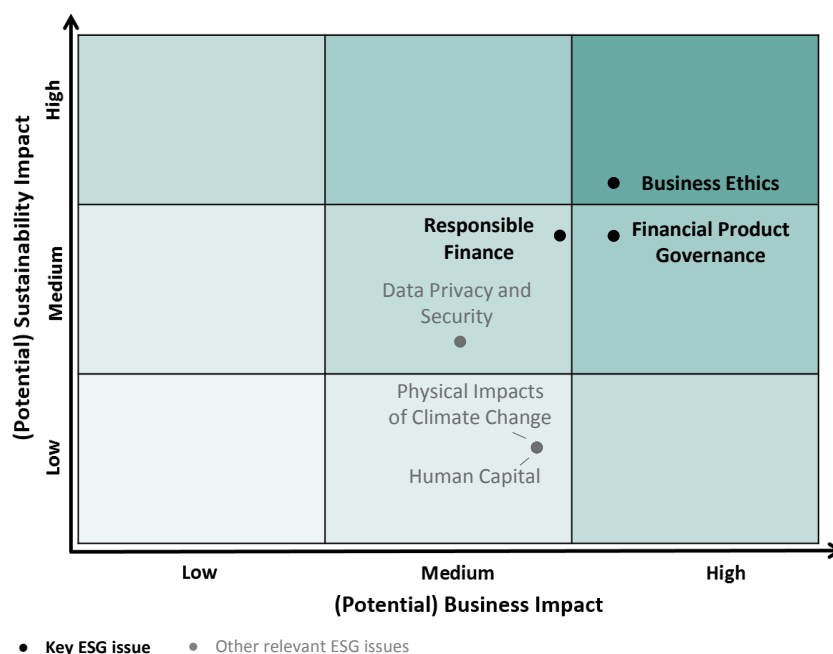
Key ESG issues for the Insurance industry

Key ESG issues or areas of exposure that are most material to the Insurance industry

The materiality matrix below includes all ESG issues we consider relevant for the Insurance industry and highlights those we have identified to be **key** from a two-dimensional impact perspective. **Sustainability Impact** is defined as the impact **of** a company on its stakeholders, while **Business Impact** is the ESG issue's impact **on** a company. An ESG issue is considered a key ESG issue within Sustainalytics' framework if the magnitude of its potential impacts (Exposures) is highly material with regard to at least one of the two dimensions, as measured in terms of depth, breadth and duration of impact. The magnitude of potential impact is measured with the so-called Exposure score, which falls into one of three categories (low, medium, high).

Materiality Matrix – Insurance

Six ESG issues have been identified for the Insurance industry



Source: Sustainalytics

At the sub-industry or individual company level, Exposure scores can differ from the ones shown in the matrix above, driven by specific factors such as product involvement, business models, location or company size. As highlighted in the matrix, we have concluded that there are three ESG issues of primary significance for Insurance industry investors: **Responsible Finance**; **Financial Product Governance**; and **Business Ethics**.

Business Impact – Diverse implications for insurers

Business Ethics has implications for all eight areas of business impact

The table below graphically illustrates the different areas of business impact of relevant ESG issues for the Insurance industry. Business Ethics is assessed to have effects across all eight dimensions of business impacts, with high impacts in four areas (regulatory environment, litigation risk, reputation risk and operational risk) and low impacts in an additional four areas. Responsible Finance has high impacts in four areas and medium impact in one area, while Financial Product Governance has high impacts in four areas.

Areas of Business Impact

Key ESG Issue	Areas of Business Impact							
	Regulatory Environment	Litigation Risks	Reputation Risks	Client Demand	Asset Risks	Operational Risks	Employee Motivation	Hiring Capability
Responsible Finance	●	●	●	●	●			
Financial Product Governance	●	●	●	●				
Business Ethics	●	●	●	●	●	●	●	●
Human Capital			●			●	●	●
Physical Impacts of Climate Change	●	●	●		●			
Data Privacy and Security	●	●	●	●		●		

● low impact ● medium impact ● high impact

Source: Sustainalytics

Business impacts are mostly associated with the Regulatory Environment, Reputational Risk and Litigation Risk

Focusing on the business impact areas individually, i.e. moving down each column in the table, Regulatory Environment stands out from a materiality perspective, as it is regarded as a high-impact area for five of our six ESG issues, followed by Reputation Risk (four of six) and Litigation Risk (three of six).

Each of the three key ESG issues we have identified will be discussed in detail in the following chapters. For each key ESG issue, we first analyse the industry's exposure and assess the factors that leverage or de-leverage exposure at the sub-industry and/or individual company level. Secondly, we evaluate ESG performance and management quality by examining relevant indicators across four dimensions: Disclosure; Preparedness; Quantitative Performance; and Qualitative Performance. Each section concludes with a discussion of the leading and lagging companies and an outlook.

Responsible Finance – Big opportunity, lack of action

A growing number of insurers are adopting Responsible Finance policies and programmes, which have core applications in asset management, underwriting and product development activities. Responsible Finance practices can have wide-ranging business implications for insurers, with primacy impacts in the regulatory environment, reputational risks and client demand. Companies with top tier Responsible Finance strategies have been successful at avoiding business relationships with controversial companies and projects (sparing them negative media and NGO attention) while capturing upside revenue opportunities. Our model for identifying top performers on this issue uses nine indicators and focuses on ESG integration at the asset management and product development level.

Tapping new markets

We begin the discussion by taking a look at the industry’s exposures, i.e. the areas of potential impact with regard to Responsible Finance issues. As a starting point, we once again refer to the “Areas of Business Impact” table on the previous page, of which we provide an extract below.

Areas of Business Impact

Key ESG Issue	Areas of Business Impact							
	Regulatory Environment	Litigation Risks	Reputation Risks	Client Demand	Asset Risks	Operational Risks	Employee Motivation	Hiring Capability
Responsible Finance	●	●	●	●	●			

● low impact ● medium impact ● high impact

Source: Sustainalytics

In the Insurance industry, a Responsible Finance programme or strategy has primary applications in three areas: **(1)** asset management; **(2)** underwriting; and **(3)** product development. We pivot our discussion in this chapter around these activity centres, and analyse business impacts at the regulatory, reputational and client demand level.

Asset management

The global Insurance industry is estimated to have USD 24trn in assets under management, and trails only private wealth and pension funds in its contribution to total global assets under management.⁷¹ Data from the European market show that the “typical” asset allocation of insurance companies in 2014 was 50% fixed income, 32% alternatives and 18% public equities, although naturally there is variation across insurance company type and country.⁷² Still, insurance companies for the most part tilt their portfolios towards fixed income to better match the maturities of assets and liabilities.

A growing number of insurance companies are taking steps to integrate ESG factors into their asset management processes. Growth in ESG integration is being driven by a complex set of factors, including perceived branding and reputational effects, rising

Three areas to look at: (1) asset management; (2) underwriting; and (3) product development

Insurers’ asset allocation is tilted towards fixed income

customer demand, implications of the universal owner hypothesis, and academic and practitioner evidence about the positive relationship between ESG integration and portfolio outperformance.⁷³ While a large number of insurance companies globally disclose no particular affinity for ESG integration, the long-term trend points toward the increased exploration of ESG factors in asset management activities, including security selection and asset allocation.

The lack of ESG integration has sparked reputational concerns for many insurers

From a business standpoint, the main benefits of ESG integration are based in the possibility of portfolio outperformance and reduced involvement with controversial companies or projects, which can attract negative media and NGO attention. Indeed, the failure to consider ESG factors in investment decision-making has led to significant negative reputational effects for many insurers. **Allianz**, for instance, has been widely criticised by civil society groups for its coal financing portfolio, while **Prudential** has been singled out for its financial backing of palm oil trader IOI Corporation. Reputational and long-term financial concerns over the coal industry underpinned **AXA**'s recent announcement to divest EUR 500m of coal investments from its portfolio and boost investments in green technologies and services to more than EUR 3bn by 2020.⁷⁴

Underwriting

A second application of Responsible Finance in the Insurance industry is in underwriting. Underwriting is the process by which insurers price risk and determine the amount of premium that policyholders must pay to insure that risk.

Integrating ESG in underwriting

Companies that have demonstrated an advanced understanding of managing material ESG issues, such as **Swiss Re** (see company portrait on [p.30](#)) and **AXA**, use sustainability risk frameworks in their underwriting process. AXA integrates ESG factors into its Group Risk Management modelling tools in an attempt to fully understand and manage material risks. Furthermore, the insurer's Property and Casualty departments require local AXA entities to identify sensitive sectors or activities that can trigger significant Environmental and Social risks.⁷⁵

Project finance is often inherently controversial

ESG factors can also be integrated by insurers when acting as underwriters of equity or debt tranches in project finance. Projects developed under a project finance structure are often inherently controversial from a sustainability standpoint. These projects are typically large-scale, capital-intensive projects such as dams or power plants with considerable environmental and social impacts. NGOs and civil society groups often closely scrutinise the financing, development and operation of these assets, and the potential for insurance companies, among other investors, to face serious reputational blowback is significant.

Criticisms of the Belo Monte dam project

Some scandals have been heavily mediatised in recent years, with NGOs conducting extensive defamation campaigns against the companies involved. For example, the Belo Monte dam project, a controversial hydroelectric dam currently under construction in northern Brazil, has triggered rife opposition within the global investment community and caused reputational damage for several big insurance companies, including **Munich Re**, **Mapfre** and **Allianz**. In the case of **Munich Re**, the

Insurers can sidestep controversy by integrating ESG considerations in underwriting

damage extended to the company being removed in 2012 from the Global Challenges Index, after it was determined that the company had breached the index's environmental rules by agreeing to be part of the Belo Monte project.⁷⁶

By incorporating ESG factors in underwriting processes for these projects, insurance companies can encourage sustainable management practices while sidestepping potential controversy and negative reputational consequences.⁷⁷

Product development

A Responsible Finance strategy in the Insurance industry can also take the form of product development for clients. Examples of insurance products with ESG characteristics include green property lines, “pay as you drive” vehicle insurance, discounted policies for energy-efficient homes or low-emissions vehicles and insurance for renewable energy projects.⁷⁸

Microinsurance – Bridging the gap between the insured and uninsured

A second vein of ESG-driven insurance products is found in microinsurance solutions. Over the past 10+ years the Insurance industry has faced growing pressure to meet the financial needs of disadvantaged groups, including those affected by poverty and financial insecurity. To bridge the financial gap between the insured and uninsured, insurers are increasingly expected to be active players in the development of accessible products and services for all income segments of society and in the promotion of financial education. In the Insurance industry bridging the gap entails facilitating access to microinsurance products covering life, health, disability and property insurance or micro-finance products providing small-scale loans and other financial services to the working poor. According to the International Labour Organisation, the number of people covered by microinsurance increased from 78 million in 2007 to 500 million in 2012.⁷⁹

ESG performance – Moving on up

Performance assessment is based on insurers' adherence to international sector standards, the strength of their policies and programmes and their involvement in relevant controversies

The Insurance industry's exposure to Responsible Finance relates both directly and indirectly to its business model and, as shown above, encompasses the majority of business impact areas. Insurance companies can deflect risk exposure by minimising adverse sustainability and business impacts. We assess insurers' performance with regard to the issue of Responsible Finance based on their adherence to various international sector standards, as well as the strength of their policies and programmes and involvement in controversies in the following areas: **(1)** Responsible Finance (general); **(2)** Responsible Investment; **(3)** Sustainable Products & Services; and **(4)** Access to Financial Services. Each of the relevant sub-themes is researched through one or multiple indicators, as presented in the chart below.

Responsible Finance – Related indicators

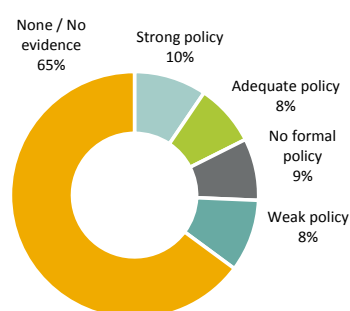
Related Indicators	Dimen- sion	# companies scoring			Weight in issue
		high	medium	low	
Responsible Finance (general)					31.0%
G.1.3.3 UNEPFI Signatory	Prep	24	3	122	5.6%
S.4.3 Society & Community Incidents*	QualP	111	37	1	11.3%
E.3.2 Product & Service Incidents*	QualP	140	9	0	14.1%
Responsible Investment					40.8%
G.1.3.1 PRI Signatory	Prep	26	4	119	7.0%
G.1.3.2 Responsible Investment Policy	Prep	14	12	122	8.5%
G.2.5.1 Responsible Investment Team	Prep	12	8	128	8.5%
E.3.1.11 Responsible Asset Management	QuantP	12	1	135	16.9%
Sustainable Products & Services					16.9%
E.3.1.15 Sustainable Financial Services	QuantP	5	29	61	16.9%
Access to Financial Services					11.3%
S.4.2.3 Financial Inclusion	Prep	5	25	119	11.3%

* high: no controversies or level 1 controversies; medium: level 2 controversies; low: level 3–5 controversies

Source: Sustainalytics

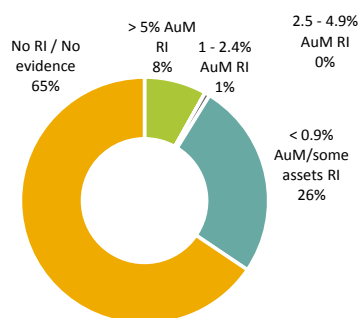
Responsible Investment

G.1.3.2 Responsible Investment Policy



Of the 149 companies in Sustainalytics' insurance industry universe, 97 (or 65%) show no evidence of or fail to disclose a Responsible Investment (RI) Policy. Insurance companies without an RI policy may be foregoing related business opportunities and may be at a disadvantage in managing downside risks related to RI, including reputational effects. Fifty-two companies, or 35% of our coverage universe, articulate a policy or general statement that describes their commitment to applying sustainability criteria in their investment process. Only half of reinsurers, less than half of multiline or life and health insurers and a little over 5% of property and casualty insurers have implemented an RI policy. No insurance brokers in our coverage universe have adopted an RI policy.

E.3.1.11 Responsible Asset Management

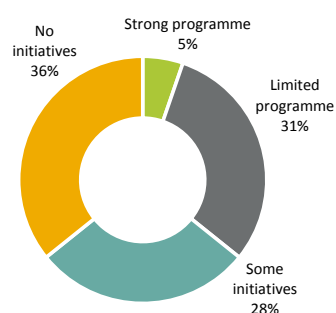


Substantial discrepancies in company performance emerge when one considers the number of insurance companies that offer RI products and their contribution to total assets under management (AuM). Only 8% of reviewed companies, all based in Europe, report that their responsible assets, which include SRI funds or assets that apply ESG criteria, are more than 5% of their total AuM. Forty companies, or 27% of the coverage universe, have less than 5% of their AuM dedicated to RI or do not disclose the value of their RI assets. The remaining 65% of insurers do not provide any evidence of RI assets under management.

Sustainable Products & Services

A closer look at our data on Sustainable Financial Services indicates that insurers, as with other issues related to Responsible Finance, have been slow to embrace sustainability as a business driver. Fifty-four companies, or 36% of the industry universe, do not disclose any products or services with purported sustainability benefits. While 60% of reviewed companies report that they have some activities or limited programmes in place, only 5% of insurers have implemented strong

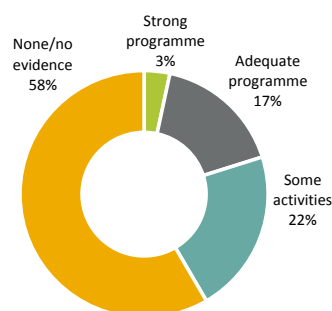
E.3.1.15 Sustainable Financial Services



programmes supported by quantitative targets and deadlines to expand sustainability financing commitments.

Geographically speaking, European companies such as **AXA**, **Old Mutual** and **Storebrand** stand out for their strong performance on this measure and are well ahead of the pack. Only one top performer, **Hartford Financial Services Group**, is based in North America. European reinsurers **Swiss Re** and **Munich Re** were the first to move on this topic, by publishing information about environmental issues such as climate change or environmental solutions on a regular basis in the mid-2000s through their Sigma and Topics/Touch publications. They have since been involved in developing several innovative insurance products and have implemented company-wide programmes in this regard. Swiss Re launched a Climate Adaptation Development Program designed to transfer weather-related risk from non-OECD countries to the commercial financial market. Munich Re offers insurance solutions promoting the use of renewable energy (wind, solar and geothermal) and is actively involved in the development of new sustainability-related products such as pandemic non-damage business interruption or power plant availability coverage.

S.4.2.3 Financial Inclusion



Access to Financial Services

Financial Inclusion looks at company programmes to facilitate access to affordable insurance products and face-to-face financial advice. Approximately 22% of companies have rolled out some activities in this area, although most of the activity follows government regulations that focus on a small group of customers or regions. For instance, **Cholamandalam MS**, a subsidiary of **MS&AD Insurance**, provides insurance products for disadvantaged groups in India, as a compliance measure with government regulations. Best performers in the industry, or 3% of all insurers covered, have strong programmes with quantitative targets at group level and clear deadlines for reaching these targets. Insurers in this group are reaching out to the large number of uninsured and are likely to benefit from growth opportunities while fulfilling a significant social need.

Among the companies standing out in this area, **Allianz**, **Aviva**, **AXA** and **Dongbu Insurance** are part of public-private partnerships between institutional investors and government agencies or NGOs. For instance, Aviva India, in partnership with microfinance institutions and regional rural banks, provides a number of financial products and services to help the underprivileged and combat poverty. Aviva has introduced both group and retail schemes. This strategy reflects these companies' responsiveness to improving the financial security of disadvantaged groups.

Controversies – Overview

As shown in the “Responsible Finance – Related controversies” table on the following page, companies in the Insurance industry were not involved in any Category 4 & 5 controversies between 2011 and 2014. Thirteen companies faced exposure to relatively minor Category 1 controversies, while 44 companies were involved in Category 2 controversies. One company, **Harel Insurance Investments & Financial**

The sector has not been involved in severe controversies between 2011 and 2014

Controversies stemming from the social impact of insurance products

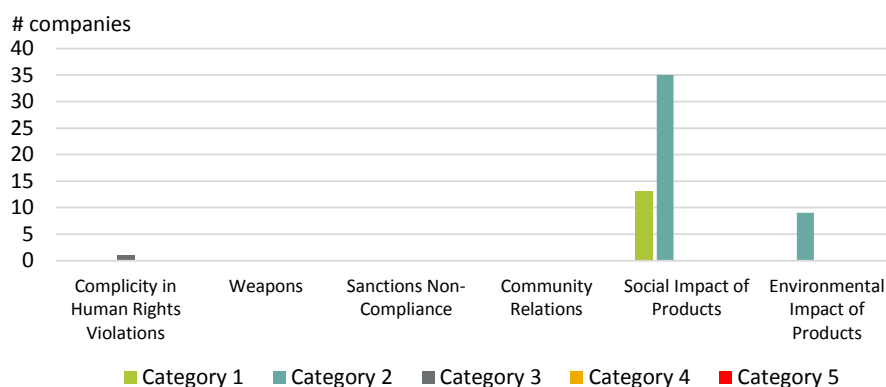
Services, was implicated in a Category 3 controversy related to complicity in human rights violations.

Reputational risks surrounding coal financing have taken on increased prominence

Responsible Finance-related controversies primarily concern the social impact of insurance products. These controversies often involve the financing of large-scale, capital-intensive infrastructure projects that can have negative impacts on local communities. **Allianz**, **Mapfre** and **Munich Re**, for instance, face exposure to a Category 2 controversy due to underwriting services provided for the construction of the Belo Monte dam in Brazil.

Nine companies face exposure to an interrelated controversy type involving the environmental impact of insurance products. Examples include **Principal Financial Group** through its financing of palm oil trader IOI Corporation, **QBE Insurance Group** for its connection to the Deepwater Horizon spill and **Allianz** due to the company's extensive coal financing portfolio. Reputational risks surrounding coal financing have taken on increased prominence as of late due to growth in the fossil fuel divestment movement.

Responsible Finance – Related controversies



Source: Sustainalytics

3

Category 3 – Significant

Harel Insurance
Investments & Financial
Services

Most severe controversies

Harel Insurance Investments & Financial Services (Harel) stands out as the only insurer in our coverage universe facing exposure to a Category 3 controversy tied to Responsible Finance. The nature of the controversy is the NGO criticism Harel has faced regarding its lead investor role in the light rail company CityPass. CityPass operates a rail line that connects West Jerusalem with Israeli settlements in and around East Jerusalem, passing through Occupied Palestinian Territories. The line has received criticism, as it passes the Occupied Palestinian Territories and is seen as legitimising and strengthening the Israeli settlement policy. The settlements are considered by many to be illegal under international law and, according to UN bodies and other NGOs, their presence contributes to human rights violations. Through its 40% ownership in the project, Harel is exposed to reputational controversies stemming from Israel's settlement policy.

European companies lead the way in Responsible Finance

Leaders & laggards – Europe in pole position

As described in detail in the ESG performance section above, European companies lead the way in Responsible Finance. **Storebrand** is highlighted below as the overall industry leader on Responsible Finance. **Swiss Re's** innovative underwriting practices are discussed in the respective company portrait on [p. 30](#). Many laggards are smaller institutions that have either not acknowledged the importance of Responsible Finance in their business strategy or have failed to adequately convey their approach through appropriate corporate disclosures.

Leaders & Laggards – Responsible Finance (DM vs. EM)

Leaders (DM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Storebrand ASA	Norway	2,706	91.8	84.2
Munich Re Ag	Germany	38,154	89.2	82.1
CNP Assurances SA	France	13,738	86.9	82.0
Achmea BV	Netherlands	n.a.	86.1	82.0
Swiss Re Ltd	Switzerland	31,358	85.9	84.2

Laggards (DM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Swiss Life Holding AG	Switzerland	7,119	29.3	49.6
Suncorp Group Limited	Australia	14,260	29.5	50.8
Migdal Insurance and Financial Holdings Ltd.	Israel	1,695	29.5	43.9
Fairfax Financial Holdings Limited	Canada	8,645	30.2	43.1
Loews Corporation	United States	16,978	31.0	46.1

Leaders (EM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Sanlam Limited	South Africa	9,190	63.7	77.4
Cathay Financial Holding Co. Ltd.	Taiwan	17,884	58.1	62.9
Sul America Sa	Brazil	2,005	58.1	66.6
Santam Ltd.	South Africa	1,842	57.3	67.6
Samsung Fire & Marine Insurance Co., Ltd.	South Korea	8,718	57.0	66.3

Laggards (EM)	Country	Mcap (USD m)	Score	
			Issue	Overall
White Mountains Insurance Group, Ltd.	Bermuda	3,604	32.7	45.3
Axis Capital Holdings Ltd.	Bermuda	4,675	32.8	46.2
Everest Re Group Ltd.	Bermuda	6,854	33.6	45.2
Arch Capital Group Ltd.	Bermuda	7,253	33.6	45.2
PartnerRe Ltd.	Bermuda	5,333	34.4	47.0

Source: Sustainalytics, Capital IQ

Storebrand is considered a sustainability leader in the industry for adopting proactive investment approaches

Storebrand – A leading Responsible Investment practitioner

Responsible Investment is a key ESG issue for companies in the financial sector, yet only a limited number of insurers have disclosed strong policies covering all asset classes and combining exclusion, best-in-class and engagement strategies. With more than 15 years of experience in responsible investing, **Storebrand's** investment practices stand out in comparison to its peers. The company has established an internal team of eight members that oversees all investments and focuses on managing risk by using negative screening, best-in-class and engagement approaches.

Storebrand explicitly excludes from its investment portfolio companies found to have breached human rights, environmental or business ethics laws. Moreover, the insurer refrains from engaging in business relationships with companies involved in the production of controversial weapons or tobacco. Companies that operate in high-risk industries or whose risk management fails to sufficiently address climate change and sustainable development, such as coal and oil sands, are also excluded. All of the company's funds and pension portfolios are subject to corporate responsibility criteria.

As of the end of 2014, 171 companies have been excluded from Storebrand's investment portfolio

As of the end of 2014, 171 companies have been excluded from Storebrand's investment portfolio due to involvement in unacceptable activities and against the insurer's predefined standards. Storebrand also works to promote sustainable business practices amongst its business partners. Furthermore, Storebrand provides socially responsible investment (SRI) funds managed using a best-in-class approach: Storebrand Pionér, Storebrand Global SRI and Storebrand Trippel Smart. Overall, Storebrand is a sustainability leader defined by its proactive investment approach.



Baseline: weak

Outlook: positive

At the industry level, improvements in the insurers' basic business practices are expected to take place

Rising awareness of potential competitive advantage

The launch of the UN Principles for Sustainable Insurance (PSI) has formally committed insurers to align their business models with sustainable development goals. Several approaches for the practical implementation of these principles have been adopted by European companies such as **AXA Group** and **Swiss Re** (see company portrait on [p. 30](#)), and best practitioners are already distancing themselves from the pack. The industry is expected to continue to demonstrate its commitment to more sustainable business practices by recording an increased rate of growth in the PSI's signatory base, similar to that of the UN Principles for Responsible Investment (PRI). Furthermore, collaboration with civil society, business partners and regulators is expected to grow to tackle sustainability concerns through Responsible Finance.

Although financial services companies, including insurers, have been targeted by NGOs for their involvement in projects or investments with a negative social or environmental impact, industry pioneers have articulated financing policies that explicitly prohibit their involvement in controversial investments or underwriting practices. Isolated cases of increased reputational risks and legal costs may still be recorded for companies that do not take into these impacts into account in their investment policies. However, at an industry level, improvements in the insurers' basic business practices are expected to take place due to increased awareness among companies that responsible business and sustainability may confer a competitive advantage.

Financial Product Governance – Recovering from a reputational low point

Although insurance companies are often defined by their ability to mitigate risk and manage large payouts, their profitability depends on claims and premiums. This relationship creates an inherent tension, because an insurance company’s profitability increases when premiums are high and payouts are low. The reputation of many industry players has been damaged in recent years by a perceived reluctance to pay legitimate claims to injured parties. While potentially profitable in the short term, this strategy ultimately results in sustained reputational damage and increased regulatory scrutiny. In this chapter we assess the performance of companies in our coverage universe on Financial Product Governance by focusing on the number and type of customer incidents they have faced in recent years.

Multidimensional implications

Financial Product Governance can have major business impacts from a regulatory, litigation, reputation and client demand perspective

Ongoing regulatory changes are reshaping the global Insurance industry. The constantly evolving regulatory environment generates high levels of associated risk that impact all insurance sub-industries via direct costs (fines, regulatory restrictions) and reputational effects. Moreover, customers negatively impacted by an insurer’s Financial Product Governance practices can potentially participate in damaging litigation, which can trigger negative effects on corporate reputation and client demand. Therefore, as shown in the table below, we assess Financial Product Governance to have high business impacts from a regulatory, litigation, reputation and client demand perspective.

Areas of Business Impact

Key ESG Issue	Areas of Business Impact							
	Regulatory Environment	Litigation Risks	Reputation Risks	Client Demand	Asset Risks	Operational Risks	Employee Motivation	Hiring Capability
Financial Product Governance	●	●	●	●				

● low impact

● medium impact

● high impact

Source: Sustainalytics

Regulatory environment

Changing regulations demand lots of internal resources

Although the Insurance industry is highly regulated overall, important differences still exist between developed and developing countries. The evolving insurance regulatory landscape demands large amounts of internal resources from affected companies, particularly in light of new capital requirements.

New focus on product governance

New regulations in several countries move away from the traditional industry practice of selling insurance policies and focus instead on product governance and customer needs.⁸⁰ The U.K. Financial Conduct Authority’s “Treating Customers Fairly and Customer Outcomes”, for instance, requires all insurance companies operating within the country to comply with a set of principles regarding consumer relations and outcomes.⁸¹ Failure to comply with the principles and promote a culture that ensures customers are treated fairly can result in sanctions from the regulator. Similarly, South

Africa's Treating Customers Fairly (TCF) regulatory initiative aims to ensure that fair treatment of customers is embedded within the culture of financial firms, including insurance companies.⁸²

Smaller insurers face higher exposure

This change in regulatory focus requires insurers to incorporate a customer conduct risk framework into their overall enterprise risk framework, with an increased focus on sales and distribution methods, customer complaints handling and post-sales reviews. Smaller insurers might have difficulties meeting the new stringent standards, which could negatively impact their financial position in the market and incur losses for shareholders.

Litigation & reputation risks

U.S. and European insurers are most frequently named in class action lawsuits

The Insurance industry has been harshly criticised in recent years for refusing to support customers that have experienced a loss. While the merits vary from case to case, this practice has exposed the industry to a significant number of customer-related lawsuits. In many of these cases, the impact of insurers' wrongdoing on individual customers has been severe, especially in the wake of extreme weather events such as Hurricane Sandy or Superstorm Irene in the U.S., where the alleged denial of the legitimacy of claims, the excessive delays taken to respond to claims and the defensive stance of the company greatly impacted customers. **Allstate**, for example, has attracted criticism for allegedly refusing to pay claims under flood insurance policies in the wake of Hurricane Sandy.⁸³

Colluding to fix policy rates

Aggressive strategies for pursuing financial gain can also expose insurance companies to high litigation risk. For instance, in 2013, **Allianz**, **AIA** and **Metlife** were fined in South Korea for colluding to fix policy rates. Lawsuits against insurers can also turn into prolonged class action lawsuits, which can in turn generate adverse financial results. **AEGON**, for example, recently experienced a lawsuit in this vein (see company portrait on [p. 29](#)). Furthermore, long-lasting lawsuits can have negative reputational repercussions, which can hurt sales and business development over an extended period of time. U.S. and European companies are most frequently named in high-profile customer class action lawsuits.

Client demand

The best-positioned companies are actively seeking to repair the industry's damaged reputation

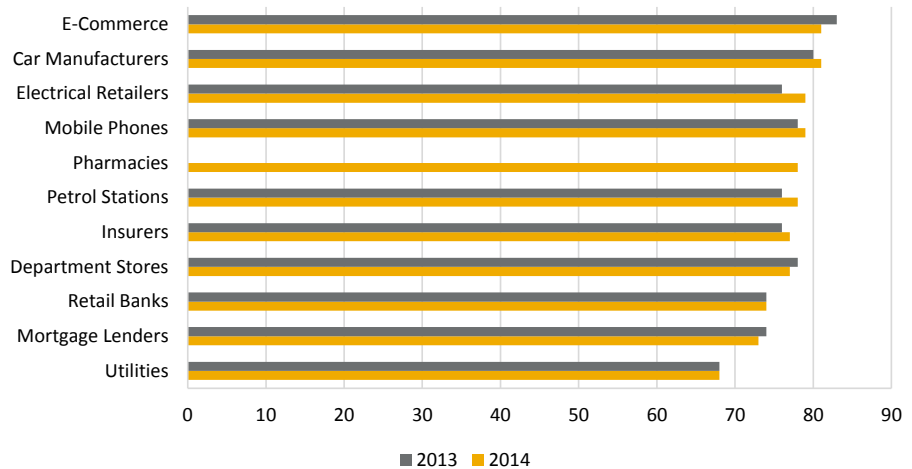
One of the greatest challenges for insurers is rebuilding public trust and confidence after a period of distrust related to the industry's perceived failure to pay claims on insured losses or lengthy repayment procedures. Insurers are expected to search for improvement opportunities at an individual level rather than wait for external regulatory demands. We believe companies that are actively seeking to repair the industry's damaged reputation and confidence through improved customer service and product innovation, such as **Swiss Re**, **Zurich Insurance Group** and **Santam**, are best positioned to succeed going forward.

Customer satisfaction surveys show that public perception of the Insurance industry continues to lag behind other industries. The figure below from the National Customer

Satisfaction Index (UK) shows that listed insurers rank behind car manufacturers and E-commerce, but ahead of retail banks and mortgage lenders.

NCSI UK Annual Customer Satisfaction Survey

Customer satisfaction with the U.K. Insurance industry is not particularly high



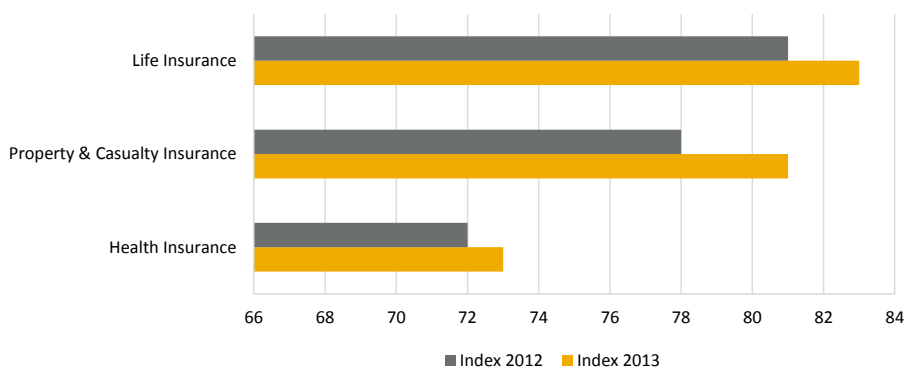
Source: NCSI UK, 2014

The NCSI UK annual national customer satisfaction ratings for the Insurance industry listed **Aviva** on top of the list, closely followed by **RSA Insurance Group** and **Direct Line Insurance Group**.⁸⁴

Customer satisfaction with insurance companies in the U.S. is trending upward

A similar survey in the U.S. found that customer satisfaction with insurance providers is trending upward, albeit over a short time frame. As shown in the figure below, satisfaction with life insurance companies was highest, followed by property and casualty and health insurance. This ranking may reflect the general perception that life insurance policies are relatively transparent instruments, and policyholders can understand how insurers arrive at the premiums they charge. On the other hand, health insurance policies are regarded as highly complex and expensive.

American Customer Satisfaction Index



Source: ASCI, 2013

The industry has historically faced significant criticism

ESG performance – Focusing on customers

The Insurance industry's business model is prone to significant controversies related to Financial Product Governance. Typical of criticism launched against the industry in the late 2000s, a 2008 study released by the American Association for Justice found that insurance companies consistently put profits over policyholders and "refuse insurance to those who need it most."⁸⁵ Isolated, long-term cases related to Financial Product Governance are still awaiting final ruling in several countries, including the Netherlands and the U.S. However, no recent high-profile cases have been recorded.

Due to increasing regulatory pressure and rising customer demands, insurers have greater opportunity than ever before to seize market share by boosting customer service levels. With this trend in mind, our approach for measuring companies' Financial Product Governance performance focuses exclusively on customer incidents.

Financial Product Governance – Related indicators

Related Indicators	Dimen- sion	# companies scoring			Weight in issue
		high	medium	low	
S.3.3 Customer Incidents*	QualP	131	16	2	100%

* high: no controversies or level 1 controversies; medium: level 2 controversies; low: level 3-5 controversies

Source: Sustainalytics

Quality issues represent the most common controversies within the Financial Product Governance arena for insurance

Controversies – Overview

We differentiate four types of controversies related to Financial Product Governance (FPG): Anti-Competitive Practices; Privacy; Marketing Practices; and Quality. These are grouped and aggregated under the umbrella indicator Customer Incidents, as shown in the table above. Only two companies (**AEGON** and **ACE**) have a low score on this indicator, as they are the only companies facing a Category 3 controversy or higher.

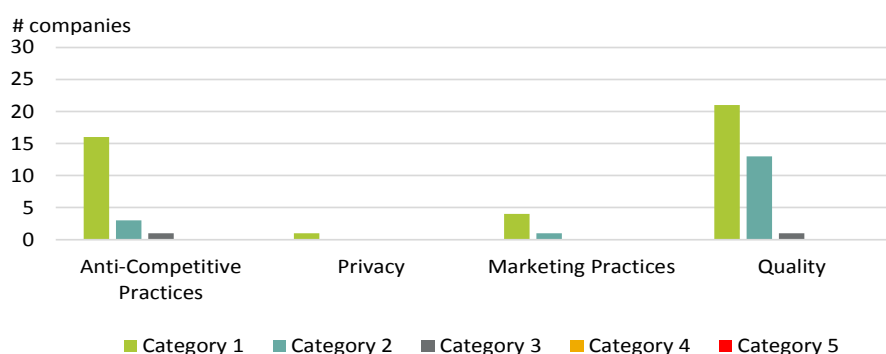
As shown in the chart below, the most common types of FPG-related controversies are ones involving Quality and, to a lesser extent, Anti-Competitive Practices. A total of 35 companies face controversies related to Quality, where companies are often implicated in lawsuits over life insurance payouts and foreclosure practices. Companies facing exposure to a Quality controversy include **MetLife**, **CNP Assurances** and **AEGON**.

Twenty companies face exposure to controversies related to anti-competitive practices

Controversies related to anti-competitive practices are also relatively common in the industry. A total of 20 companies currently face exposure to controversies of this sort. As a recent example, in March 2013 South Korea's Fair Trade Commission fined nine life insurers, including **Allianz**, **Samsung Life Insurance** and **Prudential Financial**, for colluding to fix premium rates. The watchdog alleged that the insurers conspired to set charges for guaranteed minimum death benefits and accumulation benefits.

A single insurer, **Cathay Financial Holding**, has been involved in a case related to data security systems failure. Data privacy controversies encompass cases of internal control mechanisms that fail to ensure client information protection.

Financial Product Governance – Related controversies



Source: Sustainalytics

3

Category 3 – Significant

AEGON N.V.
ACE Limited

Most severe controversies

AEGON (see company portrait on [p. 29](#)) and **ACE** are the only insurers facing exposure to a Financial Product Governance-related controversy rated Category 3 or higher. AEGON's Category 3 controversy falls into the Quality category and involves customer lawsuits over excessive premiums and poor governance procedures with its Koersplan product.

The Category 3 controversy facing **ACE** is categorised as Anti-Competitive Practices and involves accusations of questionable insurance practices, including the payment of contingent commissions and bid-rigging. ACE Limited has settled over USD 259m in claims related to bid-rigging. As of the end of 2014, 820 customer-related cases were still pending against the company in the U.S. The reputational risks associated with these cases are substantial and may continue for years, which could negatively affect the company's customer base.

Leaders & laggards – Cluster at the top

Our model yields a relatively large number of companies with top positioning on the Financial Product Governance issue. Leaders, such as **Storebrand**, **Sanlam** (see company portrait on [p. 32](#)) and **Delta Lloyd**, are distinguished by relatively few customer incidents and generally good customer performance. Some laggards, such as **ACE** and **AEGON**, have been involved in significant customer incidents in recent years.

Leaders & Laggards – Financial Product Governance (DM vs. EM)

Leaders (DM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Storebrand ASA	Norway	2,706	100.0	84.2
Delta Lloyd N.V.	Netherlands	4,754	100.0	80.7
Old Mutual plc	United Kingdom	14,794	100.0	77.1
Legal & General Group Plc	United Kingdom	22,647	100.0	74.9
Hannover Rueck SE	Germany	10,780	100.0	72.1

Laggards (DM)	Country	Mcap (USD m)	Score	
			Issue	Overall
ACE Limited	Switzerland	32,521	50.0	51.1
AEGON N.V.	Netherlands	19,187	50.0	72.9
AIA Group Limited	Hong Kong	57,256	80.0	44.2
Progressive Corp.	United States	14,128	80.0	48.6
Baloise-Holding	Switzerland	5,766	80.0	51.6

Leaders (EM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Sanlam Limited	South Africa	9,190	100.0	77.4
Santam Ltd.	South Africa	1,842	100.0	67.6
Sul America Sa	Brazil	2,005	100.0	66.6
Liberty Holdings Ltd.	South Africa	2,797	100.0	66.4
Hyundai Marine & Fire Insurance	South Korea	2,308	100.0	65.5

Laggards (EM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Powszechny Zakład Ubezpieczeń Spółka Akcyjna	Poland	12,611	80.0	51.9
New China Life Insurance Co., Ltd.	China	10,693	99.0	45.5
Axis Capital Holdings Ltd.	Bermuda	4,675	99.0	46.2
Hanwha Life Insurance Co., Ltd.	South Korea	5,447	99.0	49.4
Samsung Life Insurance Co. Ltd.	South Korea	18,071	99.0	55.8

Source: Sustainalytics, Capital IQ

**Baseline:** moderate**Outlook:** neutral

Uncertain rate of progress

Even though the Insurance industry has improved customer trust over the past years, the rate of improvement has not matched that of other industries. Marketing, external communications, sales and customer services, and product strategies still need to be adapted. The way forward for insurance companies is to explore new customer relations strategies, while keeping customer-related controversies to a minimum. Some insurers seem to be moving in the right direction, but their success in the long run is an open question.

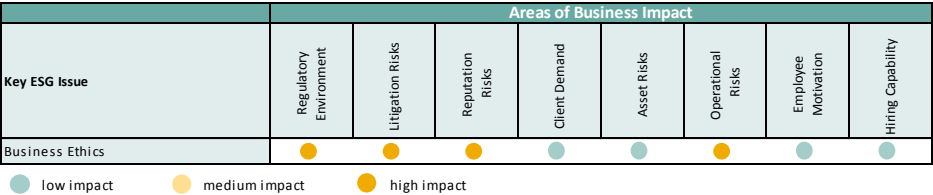
Business Ethics – Driving customer trust

Business Ethics is a foremost concern in the Insurance industry. Awareness among industry players about the importance of strong ethical performance is rising, and recent years have seen a decrease in severe controversies related to ethical lapses. A deep understanding of how Business Ethics can affect business decision-making can help insurers maintain and improve customer trust. The business case for implementing advanced ethical policies is convincing, as we show in the sections below. Additionally, we explore the broader societal effects of cases where insurers fail to guard against ethical misconduct, such as money laundering. Our model for gauging companies’ exposure to Business Ethics looks at past incidents as well as the quality of management policies covering bribery and corruption. We see encouraging signs that companies are improving their management of Business Ethics-related risks, and we have a positive outlook on the industry’s performance.

Clamping down on unethical behaviour

Business Ethics breaches can lead to reputational damage and regulatory scrutiny, which can impose significant financial costs on offending insurers. Much like corporate governance, Business Ethics is an area where many investors have recognised the importance of maintaining high standards. In this section we illustrate some of the most pertinent risks businesses face from this issue. These include: the Regulatory Environment; Litigation Risks; Operational Risks; and Reputational Risks.

Areas of Business Impact



Source: Sustainalytics

Regulatory environment

Strong regulations are common in developed countries and many regulatory frameworks claim extra-territorial jurisdiction, such as the U.K. and U.S. bribery acts. In November 2014, the Bank of England proposed legislation for the Insurance industry that would directly target senior managers and make them personally responsible for embedding culture and standards.⁸⁶ We monitor the emphasis placed on individual responsibility, not only because of implications from changing regulations, but because it is one of the best ways to ensure an ethical corporate culture.

One development that may have far-reaching effects is China’s renewed focus on fighting corruption. The quick change in norms that has affected many industries in the country (including banks and pharmaceuticals) will likely also affect the Insurance industry, although to date no company has been investigated. The most noteworthy example of China’s clampdown on bribery is GlaxoSmithKline, which in 2014 was fined USD 490m by a Chinese court for masterminding a kickback scheme.⁸⁷ Given the

Much like corporate governance, Business Ethics is an area where many investors have recognised the importance of maintaining high standards

Making senior managers responsible for business ethics

Sudden clampdown on bribery and corruption in China

Insurance industry's exposure to potentially unethical business practices, such as illegal kickbacks, China's goal to eradicate unethical practices could expose some insurers to investigations and lawsuits. As discussed in the Industry Trends section of this report, China is an attractive market both for life and health and property and casualty insurers, and a growing number of foreign insurers are entering the Chinese market.

Litigation risks

U.S. regulators investigate Swiss Re over tax evasion

Within the financial industry, banks have faced the brunt of investigations surrounding ethical lapses. High-profile cases include HSBC for money laundering and Credit Suisse for tax evasion. However, these issues are not limited to banks and extend to insurance companies. In 2014, U.S. regulators investigated **Swiss Re** to determine if the company's products could contribute to tax evasion. The insurer took actions to limit its exposure by ending certain client relationships.⁸⁸

Money laundering represents another source of litigation risk for insurance companies. A 2014 KPMG survey found that a majority of insurance companies are strategically aware of money laundering risks and are beginning to systematically manage the risk exposure by improving transaction monitoring systems.⁸⁹ This is not surprising, given the landmark settlement between U.S. regulators and HSBC in December 2012, which spurred a variety of anti-money laundering measures at many financial institutions.

Online distribution model increases money laundering possibilities

The trend towards online product distribution and the absence of face to face meetings between policyholders and company representatives is increasing the potential for money laundering risk, particularly at life insurance companies. Many countries, including China, have released guidelines in recent years to help identify risks and minimise companies' exposure to litigation risks.⁹⁰

Reputational risk

In the Insurance industry, like most other sectors of the economy, poor ethical performance can lead to reputational damages. Tax evasion, money laundering, bribery and corruption – companies that drift significantly from industry norms on any of these issues risk potentially long-standing effects on their brand and reputation. The quintessential example in the Insurance industry is **AIG**, whose reputation is still marred by effects from accounting irregularities discovered in 2005.

Insurers are grouped with banks in the public mindset

Since the financial crash of 2007–2008, banks and insurers alike have been accused of flouting basic ethical considerations in managing customer relationships. Although the Insurance industry weathered the downturn relatively well compared to other financial sub-sectors, the industry is often grouped together with commercial banks in the public mindset.

Lack of trust is inhibiting growth

That said, many insurers are aware of the importance of Business Ethics issues. According to a recent PricewaterhouseCoopers survey, 62% of insurance company CEOs are actively trying to find ways to foster a corporate culture of ethics, and 55% believe that a lack of trust in the Insurance industry is inhibiting growth.⁹¹ Additionally, in a 2013 survey of risks facing the Insurance industry, the Centre for the Study of

Many insurers believe the public has a negative perception of the Insurance industry

Financial Innovation found that “Business Practices”, a close cousin of Business Ethics, jumped from number 18 to number 4 in rank of importance to those surveyed.⁹²

Interestingly, survey data also suggests there is a disconnect between how the Insurance industry and the public at large perceive the behaviour of insurance companies. According to a survey conducted by the Chartered Property Casualty Underwriter society in 2015, 90% of surveyed members believe insurance professionals behave ethically, but 55% agreed that the public views the Insurance industry as being largely unethical.⁹³

Operational risks

Risk management is the core function of Insurance companies

Risk management, which in many ways is the core function of an insurance company, is the practice of looking at scenarios and assessing the probability of severe negative outcomes. For insurance companies to survive in the long run, it is widely acknowledged that they must instill a degree of ethics into their risk management philosophy. For example, in 2008 one rogue unit within **AIG** threatened the stability of the entire company and required a USD 182bn bailout (see [p. 54](#)). Moreover, **AIG**'s actions bring up a conflict of interest within public insurance companies: the tension between growing profitability for shareholders through aggressive investments and remaining prudent risk managers for policy holders. Although in the long run those goals are aligned, the short-sightedness of public markets can lead to excessive risk-taking. Therefore, it can be difficult to define an acceptable level of risk.

ESG performance – Evaluating policies and incidents

In order to measure companies' performance on the somewhat nebulous issue of Business Ethics, we look at relevant policies and programmes implemented by management as well as companies' on-the-ground performance in terms of ethics-related incidents. The bulk of the scoring weight (75%) is attached to a performance-based indicator, Business Ethics Incidents, due to the overriding importance placed on complying with corporate policies and guidelines.

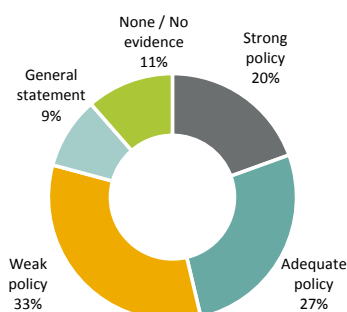
Business Ethics – Related indicators

Related Indicators	Dimen- sion	# companies scoring			Weight in issue
		high	medium	low	
G.1.1 Bribery & Corruption Policy	Prep	29	89	31	12%
G.1.2 Whistleblower Programmes	Prep	3	96	29	12%
G.1.5 Business Ethics Incidents*	QualP	139	10	0	75%

* high: no controversies or level 1 controversies; medium: level 2 controversies; low: level 3-5 controversies

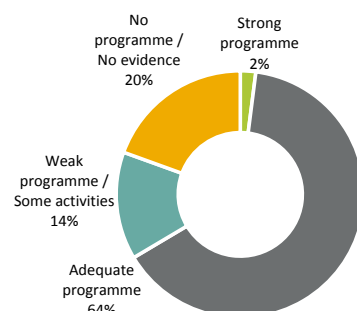
Source: Sustainalytics

G.1.1 Bribery & Corruption Policy



Within Sustainalytics' framework, a strong bribery and corruption policy must not only ostracise all forms of bribery but also provide clear guidelines and definitions for employees. Only 30 companies (20%) in our sector universe disclose a strong Bribery & Corruption Policy. **Aon**'s policy, for instance, defines relevant concepts, clearly states which illicit activities are not tolerated and provides places for employees to seek guidance. At the other end of the spectrum, only 16 companies (11%) failed to disclose any type of Bribery & Corruption Policy. For example, **Old Republic International**,

G.1.2 Whistleblower Programmes



The majority of insurers score high in Business Ethics

headquartered in the U.S., has a Code of Ethics but does not specifically address bribery and corruption in an employee-facing document. The 16 companies lacking a bribery policy are geographically diverse, covering both North America and Europe.

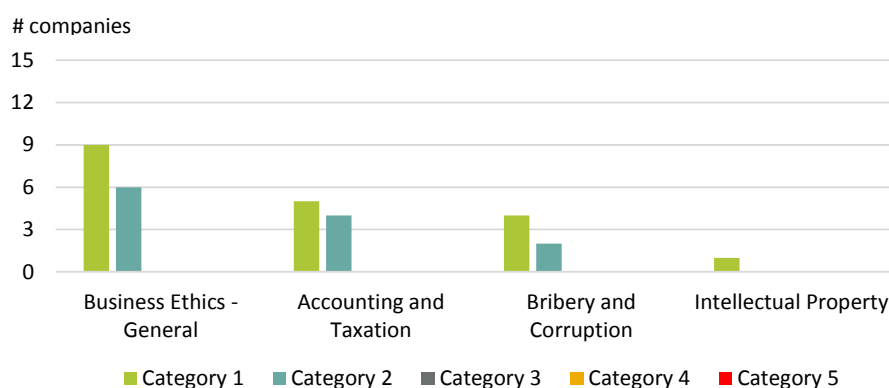
For a strong whistleblower programme, we require a 24/7 hotline and public disclosure of the types of misconduct reported throughout the year. Only three companies in our coverage universe (2%) disclose a strong Whistleblower Programme, demonstrating a wide gulf in industry performance. **Aviva**, **Generali** and **Mapfre** stand out from their peers by disclosing the number of reports received, the type of violation and the disciplinary actions taken. Fully 64% of the companies in our coverage universe have an adequate whistleblower programme in place, indicating wide acceptance of these programmes across the industry. Still, 20% (30 companies) did not disclose a whistleblower programme of any description.

Controversies – Overview

Business Ethics-related controversies in the Insurance industry, which are summarised by our umbrella indicator Business Ethics Incidents, reveal that despite programmes that fall short of best practice, the vast majority of companies (139 out of 149) score high in this area, which means that they either have no controversy at all or if they have one, it is Category 1 only (see table above). Diving a bit deeper, we found that 48% of the companies that have a controversy have it in the area “Business Ethics – General”. Less common are Intellectual Property-related controversies. **Hartford Financial** is the only company implicated on this issue. The company is alleged to have illegally used driver information collected through on-board telematics devices in its TrueLane programme. Controversies related to Accounting and Taxation and Bribery and Corruption account for 80% of recorded Category 2 cases. For example, in 2012 **Allianz** was fined USD 12.3m by the U.S. Securities and Exchange Commission for violating the U.S. Foreign Corrupt Practices Act by making improper payments to government officials in Indonesia.⁹⁴ However, **Allianz** has taken a variety of remedial measures since the incident.

Controversies in Accounting and Taxation and Bribery and Corruption account for 80% of recorded Category 2 cases

Business Ethics – Related controversies



Source: Sustainalytics

Despite strong performance over the past three years, the Insurance industry is still highly exposed to Business Ethics-related risks

Since 2011 most companies have improved their performance on Business Ethics-related controversies, and no insurance company in Sustainalytics' universe is currently facing exposure to a Business Ethics-related controversy rated as Category 3 or higher. Over the past three years, we have seen the number of companies with Category 3 controversies in Business Ethics go from three to zero, and the number of companies with Category 2 controversies decline from 14 to five, indicating that many companies have resolved previous issues. This trend has played out among developed and emerging markets-based companies alike. While some larger companies, such as **Swiss Re**, have consistently faced exposure to controversies with a Category 2 rating, other large companies, such as **Prudential Financial**, have improved their performance by resolving most of their controversies in recent years. The general improvement that we see in the industry could partly be the result of insurance companies seeking to get their houses in order in advance of substantive action by regulators.

Despite strong performance over the past three years, the Insurance industry is still highly exposed to Business Ethics-related risks, and companies' preparedness remains critical to effectively managing breaches when they do occur. The industry depends on large sales forces, which exposes companies to risks from money laundering or accepting illegal kickbacks. Therefore, on a structural level companies must remain vigilant.

Leaders & laggards – Raising the bar

Since 2011 most companies have improved their Business Ethics performance

The tables below provide an overview of leaders and laggards in developed and emerging markets. Within developed markets, leaders are based in Europe and North America, with Norway's **Storebrand** leading the way. In emerging markets, South Korea's **Dongbu Insurance** is the top performer.

The laggards in both developed and emerging markets are generally characterised by poor Disclosure, although AIG is a notable exception. Despite South Africa's King III framework regarding Business Ethics, **Discovery Holdings** has failed to disclose basic policies in this area. Clearly, even in environments where sustainability disclosure is encouraged, the performance of any given company can buck the general trend.

Leaders & Laggards – Business Ethics (DM vs. EM)

Leaders (DM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Storebrand ASA	Norway	2,706	93.8	84.2
Munich Re Ag	Germany	38,154	93.8	82.1
AEGON N.V.	Netherlands	19,187	93.8	72.9
Prudential Financial, Inc.	United States	39,049	93.8	65.8
Sun Life Financial Inc.	Canada	20,728	93.8	65.2

Laggards (DM)	Country	Mcap (USD m)	Score	
			Issue	Overall
American International Group, Inc.	United States	72,203	72.5	52.3
Admiral Group plc	United Kingdom	6,639	75.0	51.3
AIA Group Limited	Hong Kong	57,256	75.0	44.2
Migdal Insurance and Financial Holdings Ltd.	Israel	1,695	75.0	43.9
Willis Group Holdings Public Limited Company	United Kingdom	7,386	75.6	55.2

Leaders (EM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Dongbu Insurance Co., Ltd.	South Korea	3,157	94.1	61.1
RenaissanceRe Holdings Ltd.	Bermuda	4,067	93.8	48.1
PartnerRe Ltd.	Bermuda	5,333	93.8	47.0
Sul America Sa	Brazil	2,005	91.2	66.6
Porto Seguro SA	Brazil	4,004	91.2	51.9

Laggards (EM)	Country	Mcap (USD m)	Score	
			Issue	Overall
Discovery Holdings Limited	South Africa	3,926	76.5	53.1
Shinkong Financial Holding Co. Ltd.	Taiwan	3,115	76.5	49.4
New China Life Insurance Co., Ltd.	China	10,693	76.5	45.5
MMI Holdings Limited	South Africa	3,395	79.4	55.3
China Pacific Insurance (Group) Co., Ltd.	China	27,043	79.4	53.4

Source: Sustainalytics, Capital IQ

2

Category 2 – ModerateAmerican International
Group**Most severe controversies**

Regarding Business Ethics, the Insurance industry is still defined by **AIG's** 2005 accounting fraud. The accounting fraud, took place over a decade and required a near USD 2bn financial restatement.⁹⁵ Moreover, AIG's CEO, Hank Greenburg, was fired and forced to testify in Congress about the issue.

AIG was also in the spotlight during the autumn of 2008, when it required one of the largest bailouts in the U.S. financial crisis. AIG's risk management calculus failed when the mortgage market collapsed and it was required to fulfill its obligations to uphold billions of dollars of insurance contracts. Nevertheless, five years later AIG has recovered substantially. It repaid the bailout in 2012, although its share price has remained extremely depressed compared to the levels prior to 2008. Since its USD 725m settlement in 2012 regarding accounting fraud, the company has been free from major Business Ethics controversies. Consequently, we have upgraded the insurer to Category 2 for the first time since the financial crisis. However, AIG continues to rank near the bottom of consumer surveys in the industry.⁹⁶ This is not out of line with other financial companies (e.g. Goldman Sachs and Bank of America), but it is unusual for an insurance company. The former CEO and majority shareholder is currently suing the government over conditions of the bailout in 2008, making it unlikely that AIG will shed its association with the financial crash and with mismanagement, despite its best efforts.

**Baseline:** moderate**Outlook:** positive**The growing value of ethical performance**

Overall, we have a positive outlook on the industry's Business Ethics performance. Companies in the Insurance industry are increasingly recognising the importance of maintaining a strong ethical culture. Insurers are aware that a significant proportion of the public believes that the Insurance industry behaves unethically, yet we expect the external perception of the industry could improve in the years to come. Although insurance companies are unlikely to completely eliminate Business Ethics breaches, the industry's performance on this issue appears to be trending upward.

Chartbook (DM)

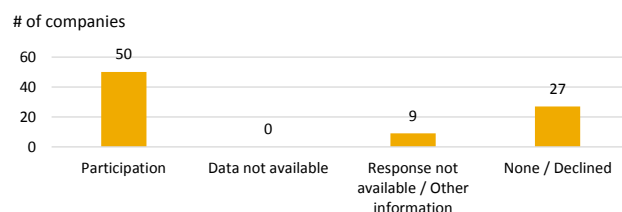
Selected indicators

Indicator	Key ESG issue	Dimension	Weight*	Min	Average	Median	Max
Environment							
E.1.5 CDP Participation	Energy Use and GHG Emissions	Disclosure	1.7%	0	42	25	100
E.3.1.11 Responsible Asset Management	Responsible Finance	QuantitativeP	20.0%	0	19	0	100
E.3.1.15 Sustainable Financial Services	Responsible Finance	QuantitativeP	20.0%	0	28	25	100
Social							
S.3.3 Customer Incidents	Controversy	QualitativeP	17.1%	50	97	100	100
S.4.3 Society & Community Incidents	Controversy	QualitativeP	11.4%	50	95	100	100
Governance							
G.1.3.1 PRI Signatory	Responsible Finance	Preparedness	7.1%	0	18	0	100
G.1.3.2 Responsible Investment Policy	Responsible Finance	Preparedness	8.6%	0	22	0	100
G.1.5 Business Ethics Incidents	Business Ethics	QualitativeP	17.1%	80	99	100	100
G.2.5.1 Responsible Investment Team	Responsible Finance	Preparedness	8.6%	0	14	0	100
G.2.13 Governance Incidents	Controversy	QualitativeP	12.1%	50	99	100	100

* indicator weight within E, S, G

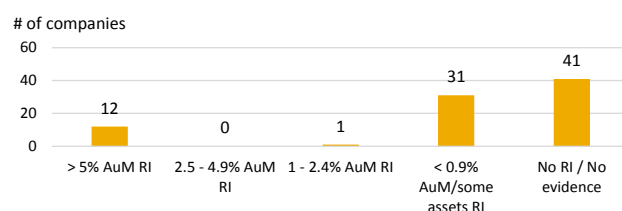
Environment

E.1.5 CDP Participation



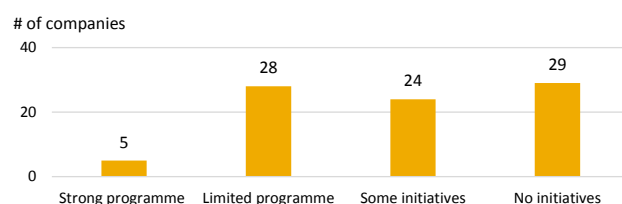
A growing number of insurers are taking steps to measure their carbon footprint as an initial step in developing an overall climate change strategy. An important vehicle in this regard is the Carbon Disclosure Project (CDP), which is an annual carbon questionnaire distributed to companies on behalf of an investor coalition with USD 95trn in assets. Over half of the 86 DM insurers participated in the CDP in 2014.

E.3.1.11 Responsible Asset Management



Of the 86 DM insurers we analyse, just over half (44) have some assets that can be considered responsibly managed, but this does not make up for the fact that a large percentage of insurers are still not incorporating ESG issues into their investment management. Leaders in the area, which have more than 5% of their total assets based in responsible investment strategies, are located in Europe.

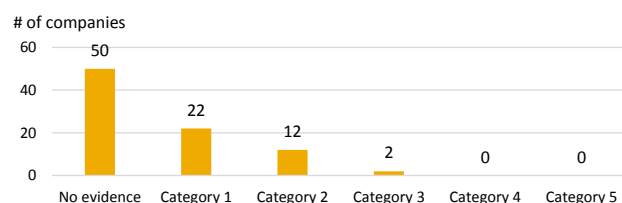
E.3.1.15 Sustainable Financial Services



We have given the Sustainable Financial Services a relatively high weight in assessing corporate environmental performance in the Insurance industry. One third of insurers in our coverage universe still fail to offer at least one product or service with environmental benefits, such as auto policies with preferential rates for low-emissions vehicles. Only five insurers have attempted to stimulate consumers' environmentally friendly behaviour by developing a strong programme to market sustainable financial services. European insurers and reinsurers lead the way through strong programmes to promote sustainable products and services, including disclosing the percentage of revenue these services generate for the business.

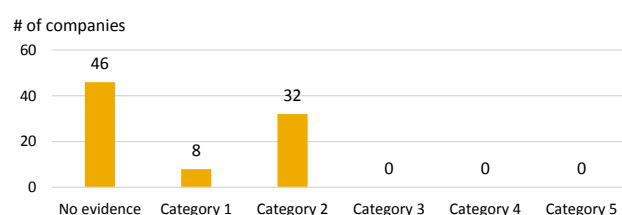
Social

S.3.3 Customer Incidents



Customer-related incidents represent one of the most common types of incidents in the industry. The lack of major customer-related controversies within the industry is particularly promising and indicates that insurers have largely stepped away from predatory behaviours and have moved into enhancing their customer relations strategies. The few remaining Category 3 lawsuits relate to claims against **ACE** alleging anti-competitive actions, or **AEGON** surrounding the quality of its products (see company portrait on [p. 29](#)).

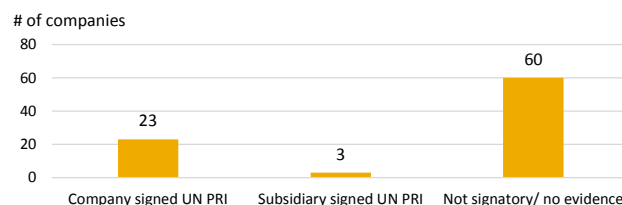
S.4.3 Society & Community Incidents



With regard to Society & Community Incidents, our analysis suggests that the large cluster of companies at Category 2 is largely a result of investments in controversial companies or sectors. Several NGO reports have indicated that insurers hold shares in companies that produce weapons, specifically cluster munitions. Due to their passive role as capital providers, insurers are often only indirectly accountable for Society & Community Incidents.

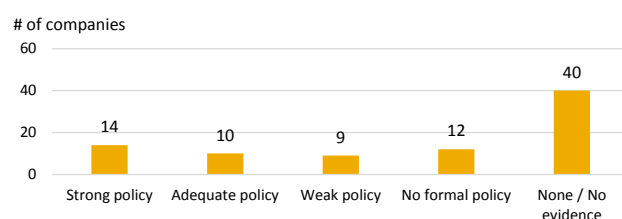
Governance

G.1.3.1 PRI Signatory



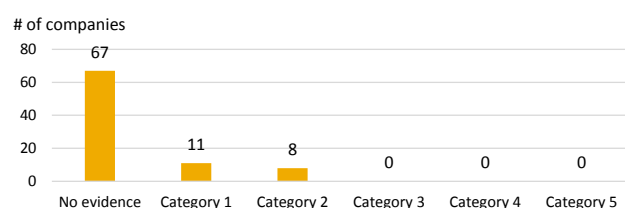
The small number of insurers that have signed the UN Principles for Responsible Investment (PRI) may indicate that the Insurance industry as a whole has poor strategic awareness of the various investment risks posed by ESG factors. Implementing the six principles may help to better manage climate change risks or risks from investments in controversial projects. The Insurance industry trails other financial sub-sectors with respect to PRI recognition and integration.

G.1.3.2 Responsible Investment Policy



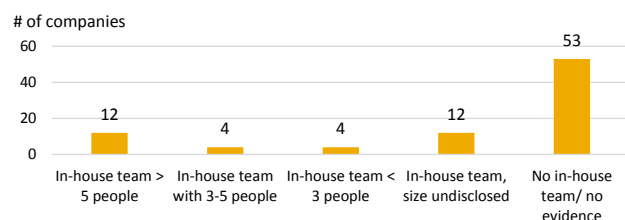
Strong Responsible Investment Policies can help insurers sidestep potentially damaging financing relationships with controversial companies and industries. Responsible Investment Policies can also help insurers capture sustainability-related investment opportunities. However, only 45 companies in our DM coverage universe (52%) have a Responsible Investment Policy of some description. We observe a particularly wide performance gap between leaders and laggards on this indicator.

G.1.5 Business Ethics Incidents



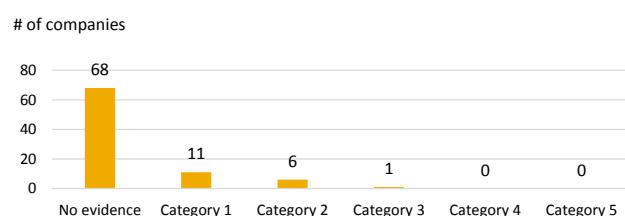
Our analysis suggests that the small number of Business Ethics-related incidents illustrates the strong controls insurers have put in place since the 2008 financial crisis to address unethical business practices. The absence of any significant controversies consolidates the industry's commitment to regain customer trust in the aftermath of the financial crisis.

G.2.5.1 Responsible Investment Team



The group-wide implementation of responsible investment strategies requires significant resources, including dedicated ESG professionals. However, the distribution of scores on this indicator reinforces our observation that insurers have been slow in aligning their business models to Responsible Investment practices. Outstanding is the non-listed insurer **Achmea**, with an in-house Responsible Investment Team comprising eight members, which is responsible for articulating and implementing its Responsible Investment Policy.

G.2.13 Governance Incidents



Over the past three years, the Insurance industry has recovered relatively well from governmental bailouts that saved many companies from bankruptcy. The successful repayment of their government assistance is reflected in the low number of Governance Incidents we have identified for the industry. The single Category 3 incident relates to **Ageas**, due to legacy lawsuits associated with one of its predecessors (Fortis).

Momentum

Indicator	Average score			
	2012	2013	2014	current
Environment				
E.1.5 CDP Participation	77	82	79	42
E.3.1.11 Responsible Asset Management	29	32	34	19
E.3.1.15 Sustainable Financial Services	17	21	25	28
Social				
S.3.3 Customer Incidents	85	86	96	97
S.4.3 Society & Community Incidents	92	91	92	95
Governance				
G.1.3.1 PRI Signatory	29	32	33	18
G.1.3.2 Responsible Investment Policy	31	33	38	22
G.1.5 Business Ethics Incidents	96	98	98	99
G.2.5.1 Responsible Investment Team	17	19	24	14
G.2.13 Governance Incidents	96	97	98	99

Disclosure

89

Sector Leader
AEGON N.V.

+51

Momentum Leader
Great-West Lifeco Inc.

-31

Momentum Laggard
Standard Life plc

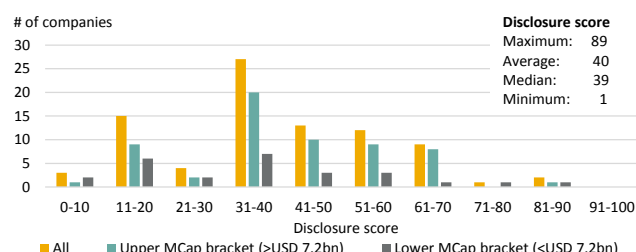
Overview

Top five companies upper MCap bracket (>USD 7.2bn)	Country	MCap (USD m)	Disc score
AEGON N.V.	Netherlands	19,187	88.9
CNP Assurances SA	France	13,738	70.0
Prudential plc	United Kingdom	55,820	70.0
Allianz SE	Germany	79,072	66.7
Mapfre SA	Spain	12,750	66.7

Top five companies lower MCap bracket (<USD 7.2bn)	Country	MCap (USD m)	Disc score
Storebrand ASA	Norway	2,706	86.7
Achmea BV	Netherlands	n.a.	71.1
Delta Lloyd N.V.	Netherlands	4,754	64.4
Helvetia Holding AG	Switzerland	4,264	53.3
Industrial Alliance Insurance	Canada	4,012	53.3

Sustainalytics analyses Disclosure by focusing on industry trends in ESG reporting. A closer look at the distribution of scores indicates that the industry's Disclosure leaders are mostly based in Europe, including the Netherlands, France and the U.K. As seen on the left, higher market cap does not necessarily imply stronger Disclosure performance. The top three companies in the lower market cap segment (<USD 7.2bn) perform favourably against many of their larger market cap peers. When comparing the top-performing companies in each size bracket, we find that **AEGON** slightly outperforms **Storebrand** due to a detailed breakdown of taxes paid per country. However, the two companies are equally advanced performers in corporate governance and environmental impact disclosure.

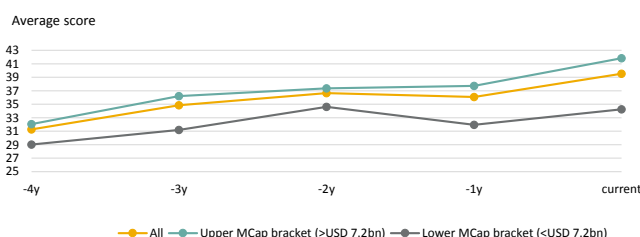
Distribution of Disclosure scores



Disclosure indicators

Disclosure	Min	Avg	Med	Stdev	Max	Weight
Environment						
E.1.5 CDP Participation	0	42	25	47	100	11.1%
E.1.6 Scope of GHG Reporting	0	58	100	47	100	11.1%
Social						
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Governance						
G.1.4 Tax Disclosure	0	30	0	41	100	22.2%
G.2.1 ESG Reporting Standards	0	25	0	33	100	22.2%
G.2.2 Verification of ESG Reporting	0	12	0	23	100	22.2%
G.2.3 Board Remuneration Disclosure	0	89	100	27	100	5.6%
G.2.4 Board Biographies Disclosure	0	94	100	24	100	5.6%

Momentum



Momentum Leaders Disclosure	Current	-1y	change
Great-West Lifeco Inc.	58.9	8.3	50.6
Helvetia Holding AG	53.3	5.6	47.8
Lincoln National Corp.	58.9	11.1	47.8
Zürich Insurance Group AG	50.0	13.9	36.1
T&D Holdings, Inc.	61.6	28.9	32.7

Momentum Laggards Disclosure	Current	-1y	change
Standard Life plc	50.0	81.1	-31.1
Munich Re AG	38.9	70.0	-31.1
Hartford Financial Services Group	36.0	64.4	-28.4
Swiss Life Holding AG	33.3	55.6	-22.2
The Dai-ichi Life Insurance	27.8	47.8	-20.0

The Insurance industry is a strong overall performer in some facets of Disclosure, such as corporate governance disclosure, but there is certainly room for improvement in ESG reporting and attainment of external verification. The momentum laggards, or those companies whose Disclosure score has tumbled the most over the last twelve months, include some of the biggest names in insurance, such as **Standard Life** and **Munich Re**. Momentum leaders primarily consist of companies new to the ESG scene, such as **Lincoln National**.

As shown in the line graph to the left, lower market cap companies have almost completely closed the Disclosure gap between themselves and their larger peers over the last three years. While this is an otherwise encouraging trend, it may indicate a plateauing of Disclosure performance among larger insurers.

Preparedness

86

Sector Leader
Allianz SE

+19

Momentum Leader
Helvetia Holding AG

-20

Momentum Laggard
Groupama S.A.

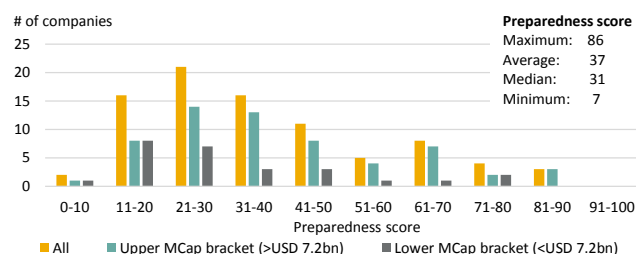
Overview

Top five companies upper MCap bracket (>USD 7.2bn)	Country	MCap (USD m)	Prep score
Allianz SE	Germany	79,072	85.8
Swiss Re Ltd	Switzerland	31,358	82.3
Aviva plc	United Kingdom	22,529	81.0
AXA Group	France	65,052	79.6
CNP Assurances SA	France	13,738	76.1

Top five companies lower MCap bracket (<USD 7.2bn)	Country	MCap (USD m)	Prep score
Delta Lloyd N.V.	Netherlands	4,754	72.7
Achmea BV	Netherlands	n.a.	71.2
Storebrand ASA	Norway	2,706	66.1
Scor Se	France	6,407	50.0
Groupama S.A.	France	n.a.	45.2

Our Preparedness assessment looks at the strength of policies and programmes articulated by companies to address ESG risks and opportunities. As with Disclosure, we find again that size is not a consistent predictor of performance. Although the top five companies in the upper market cap bracket, led by overall industry champion **Allianz**, outperform those in the lower bracket, this gap may close over the long run. Smaller cap insurers, such as **Delta Lloyd**, demonstrate particularly strong Preparedness around Responsible Finance. The absence of U.S. insurers in either top five list is not surprising. U.S. insurers have not been particularly proactive in developing strategies to address ESG risks and opportunities in their business model.

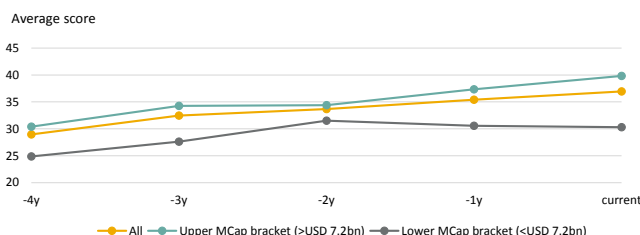
Distribution of Preparedness scores



Preparedness indicators (selection)

Preparedness	Min	Avg	Med	Stdev	Max	Weight
Environment						
E.1.7 GHG Reduction Programmes	0	42	25	40	100	1.3%
E.2.1 Green Procurement Policy	0	22	0	26	100	5.2%
E.1.8 Renewable Energy Programmes	0	15	0	23	100	1.3%
Social						
S.1.2 Discrimination Policy	0	39	50	26	100	0.0%
S.1.3 Diversity Programmes	0	29	25	29	100	5.2%
S.2.1 Scope of Social Supplier Standards	0	15	0	29	100	5.2%
S.4.2.3 Financial Inclusion	0	17	0	25	100	2.6%
Governance						
G.1.3 Global Compact Signatory	0	21	0	40	100	1.3%
G.1.3.1 PRI Signatory	0	18	0	38	100	6.5%
G.1.3.2 Responsible Investment Policy	0	22	0	35	100	7.8%
G.2.5.1 Responsible Investment Team	0	14	0	30	100	7.8%

Momentum



Momentum Leaders Preparedness	Score		
	Current	-1y	change
Helvetia Holding AG	40.1	21.4	18.7
Sompo Japan Nipponkoa Holdings	51.5	34.7	16.8
Topdanmark A/S	35.5	21.0	14.4
UnipolSai Assicurazioni S.p.A.	38.1	26.4	11.7
Hartford Financial Services Group	39.0	27.5	11.5

Momentum Laggards Preparedness	Score		
	Current	-1y	change
Groupama S.A.	45.2	65.6	-20.4
Munich Re Ag	68.8	79.6	-10.8
RSA Insurance Group plc	45.2	52.0	-6.8
Manulife Financial Corporation	29.3	36.0	-6.7
Assicurazioni Generali SpA	61.5	66.0	-4.6

Although industry performance on Preparedness has trended upward in recent years for both large and small cap companies, the performance of small cap companies has actually decreased since 2013. It is still too early to say if this is an aberration or the beginning of a clear downward trend.

A closer look at the momentum leaders shows that pioneers from Asia (**Sompo Japan Nipponkoa**) and the U.S. (**Hartford Financial Services Group**) are making steady progress in overall ESG performance and policy development. **Helvetia**, the Swiss multi-line insurer, is the overall momentum leader.

The momentum laggards include many of the industry's top overall ESG performers, such as **Munich Re** and **Generali**. Because these companies start from such an advanced baseline, a one-year decline should not represent a major concern for investors.

Quantitative Performance

88

Sector Leader
Storebrand ASA

+37

Momentum Leader
Topdanmark A/S

-10

Momentum Laggard
MetLife, Inc.

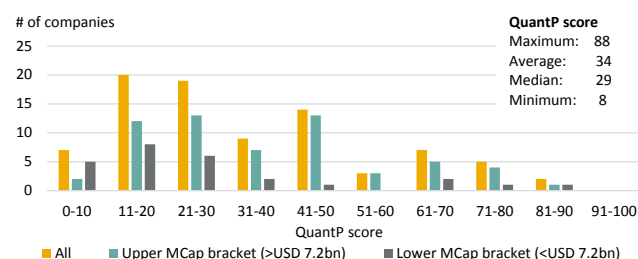
Overview

Top five companies upper MCap bracket (>USD 7.2bn)	Country	MCap (USD m)	QuantP
Munich Re Ag	Germany	38,154	87.8
Allianz SE	Germany	79,072	73.7
Assicurazioni Generali SpA	Italy	34,526	71.7
AXA Group	France	65,052	70.6
Aviva plc	United Kingdom	22,529	70.5

Top five companies lower MCap bracket (<USD 7.2bn)	Country	MCap (USD m)	QuantP
Storebrand ASA	Norway	2,706	88.4
Achmea BV	Netherlands	n.a.	70.5
Delta Lloyd N.V.	Netherlands	4,754	69.2
Groupama S.A.	France	n.a.	66.0
Topdanmark A/S	Denmark	2,970	47.5

The key indicators for Quantitative Performance are Responsible Asset Management and Sustainable Financial Services. **Munich Re** is the top performer among large cap companies, while **Storebrand** is the top small cap (and overall) performer. Storebrand's exceptional performance can be explained by the company's strong environmental and social commitment embedded in its core business. Consistent with earlier findings, European firms occupy all of the top five positions in both the large and small cap segments.

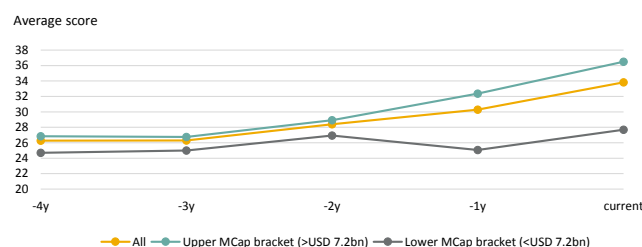
Distribution of Quantitative Performance scores



Quantitative Performance indicators

Quantitative Performance	Min	Avg	Med	Stdev	Max	Weight
Environment						
E.1.4 Environmental Fines & Penalties	100	100	100	0	100	2.6%
E.1.9 Carbon Intensity	0	46	0	48	100	2.6%
E.1.10 Carbon Intensity Trend	0	28	0	38	100	2.6%
E.1.11 Renewable Energy Use	0	21	0	40	100	2.6%
E.3.1.11 Responsible Asset Management	0	19	0	30	100	30.8%
E.3.1.15 Sustainable Financial Services	0	28	25	27	100	30.8%
Social						
S.1.4 Collective Bargaining Agreements	0	24	0	33	100	5.1%
S.1.5 Employee Turnover Rate	0	17	0	32	100	5.1%
S.1.6 Top Employer Recognition	0	33	0	44	100	5.1%
S.4.1 Activities in Sensitive Countries	50	99	100	6	100	5.1%
S.5.3 Cash Donations	0	21	25	11	50	7.7%
Governance						
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Momentum



The momentum graph on the left shows that the Insurance industry has undergone a steep performance improvement in recent years, particularly for large cap companies. The mean Quantitative Performance score for companies in the upper market cap bracket improved from 27 in 2011 to 37 in 2015. The performance of lower cap companies has been more volatile, punctuated by a notable performance drop from 2013–2014.

Momentum Leaders Quantitative Performance	Current	-1y	change
Topdanmark A/S	47.5	10.9	36.6
Friends Life Group Limited	49.5	25.8	23.7
Great-West Lifeco Inc.	45.0	23.8	21.1
Vienna Insurance Group	30.9	10.9	20.0
Achmea BV	70.5	50.8	19.7

Momentum Laggards Quantitative Performance	Current	-1y	change
MetLife, Inc.	19.2	29.5	-10.3
Aflac Inc.	19.2	25.6	-6.5
Insurance Australia Group Ltd.	31.5	37.3	-5.8
Industrial Alliance Insurance	24.5	30.3	-5.8
Fairfax Financial Holdings Limited	9.6	15.4	-5.8

The overall momentum leader is **Topdanmark**, whose score improved from 11 in 2014 to 48 in this year's assessment. Four of the top five momentum laggards are based in North America (**Metlife**, **Aflac**, **Industrial Alliance** and **Fairfax Financial**).

Qualitative Performance

87

Industry Laggard

AEGON N.V.

+5

Momentum Leader

American International Group, Inc.

-3

Momentum Laggard

CNP Assurances SA

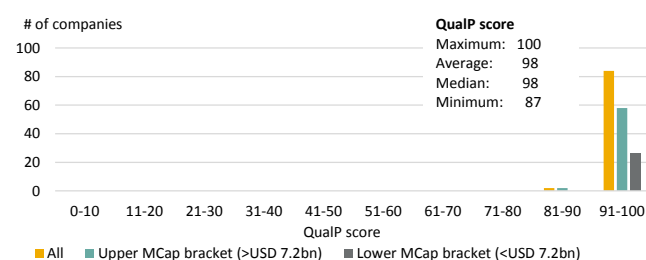
Overview

Bottom five companies upper MCap bracket	Country	MCap (USD m)	QualP
AEGON N.V.	Netherlands	19,187	87.2
ACE Limited	Switzerland	32,521	89.9
Allianz SE	Germany	79,072	91.8
AXA Group	France	65,052	91.9
MetLife, Inc.	United States	55,918	91.9

Bottom five companies lower MCap bracket	Country	MCap (USD m)	QualP
Delta Lloyd N.V.	Netherlands	4,754	96.7
Baloise-Holding	Switzerland	5,766	96.8
RSA Insurance Group plc	United Kingdom	6,000	97.7
Swiss Life Holding AG	Switzerland	7,119	97.9
Old Republic International Corp.	United States	3,924	99.7

In the Insurance industry, Qualitative Performance is largely a measure of incidents related to Business Ethics, Customers, Employees or Products & Services. The Insurance industry as a whole is less exposed to damaging controversies than other financial sub-industries. This reduced exposure is also reflected in the concentrated distribution of Qualitative Performance scores in the highest score range, as shown below. **AEGON**, with 87.2 points, stands out for its high-profile customer incidents (see company portrait on [p. 29](#)). **Delta Lloyd** is the bottom-scoring company in the lower market cap bracket, with a score of 96.7.

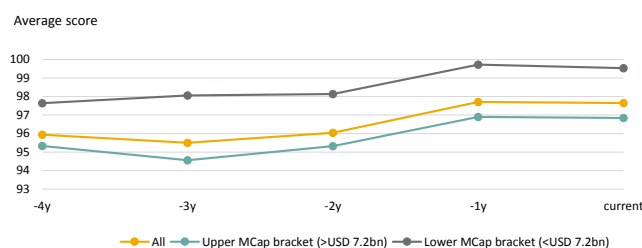
Distribution of Qualitative Performance scores



Qualitative Performance indicators

Qualitative Performance	Min	Avg	Med	Stdev	Max	Weight
Environment						
E.1.12 Operations Incidents	100	100	100	0	100	4.6%
E.2.2 Environmental Supply Chain Incidents	100	100	100	0	100	1.3%
E.3.2 Product & Service Incidents	80	99	100	5	100	6.6%
Social						
S.1.7 Employee Incidents	80	100	100	2	100	6.6%
S.2.3 Social Supply Chain Incidents	99	100	100	0	100	2.0%
S.3.3 Customer Incidents	50	97	100	8	100	7.9%
S.4.3 Society & Community Incidents	50	95	100	9	100	5.3%
Governance						
G.1.5 Business Ethics Incidents	80	99	100	5	100	7.9%
G.2.13 Governance Incidents	50	99	100	6	100	5.6%
G.3.4 Public Policy Incidents	99	100	100	0	100	2.0%

Momentum



Compared to momentum leaders in the Quantitative Performance and Preparedness sections, momentum leaders in Qualitative Performance have exhibited less impressive improvements. However, this is due in part to the industry's strong starting point regarding this measure, a function of the relatively small number of controversies facing industry players. Momentum leader **AIG** has improved its performance over the past three years by settling old cases and remaining free from new controversies.

Momentum Leaders Qualitative Performance	Score		
	Current	-1y	change
American International Group, Inc.	92.3	87.5	4.8
QBE Insurance Group Ltd.	95.1	95.1	0.0
Principal Financial Group Inc.	95.2	95.2	0.0
Manulife Financial Corporation	95.2	95.2	0.0
Aviva plc	92.2	92.2	0.0

Momentum Laggards Qualitative Performance	Score		
	Current	-1y	change
CNP Assurances SA	96.8	100.0	-3.2
Delta Lloyd N.V.	96.7	99.9	-3.2
The Allstate Corporation	94.4	97.5	-3.2
Assicurazioni Generali SpA	96.5	99.6	-3.0
Genworth Financial Inc.	95.3	97.6	-2.3

The momentum graph shows the upward sloping trend for both upper and lower cap brackets, although large cap companies still trail their smaller cap peers in overall performance. Our analysis suggests that the industry's steady improvement in Qualitative Performance is a result of the broader industry trend towards stronger compliance systems and attention to customers across the industry.

Events related to Environmental issues

2

Highest Category
9 companies

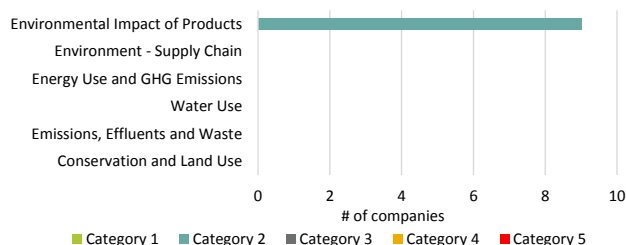
2

Average Impact Score

4

Average Risk Score

Evaluation of Events per Indicator



The industry's Environmental exposure is relatively low and is mostly related to insurers' business relations with controversial environmental sectors. Investments or underwriting practices in the coal mining or coal-fired electricity industries are common cases. Overall, the industry's involvement level remains moderate, with a few Category 2 events. **Allianz** is one of the few insurers that has been scrutinised by NGOs for involvement with environmentally controversial projects.

Events related to Social issues

3

Highest Category
ACE Limited
AEGON N.V.

2

Average Impact Score

3

Average Risk Score

Evaluation of Events per Indicator



Insurance companies are relatively highly exposed to Social controversies. However, the majority of cases are not severe and are related to controversial investments. Quality and Safety-related cases, such as the denial of the legitimacy of claims, and Anti-Competitive Practices, such as illegal bid-rigging and price-fixing cases, have a relatively high number of controversies and are the two areas with Category 3 controversies. The low average risk and impact score indicate that the majority of cases are moderate in their overall effects on stakeholders.

Events related to Governance issues

3

Highest Category
Ageas SA/NV

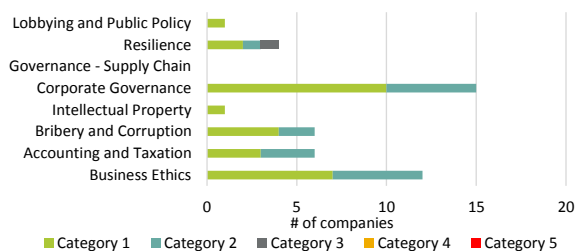
3

Average Impact Score

3

Average Risk Score

Evaluation of Events per Indicator



Business Ethics and corporate governance-related controversies are most common within the overall Governance theme. The only Category 3 case is allocated to **Ageas**, due to its poor corporate governance practices prior to the 2008 financial crisis, which led to its bailout. Overall, insurance companies have adequately managed their exposure to various Governance-related issues over the past three years, reflected in the relatively low impact and risk scores.

List of Companies Covered

Company Name	Sub-Industry	Country	FF Market cap. (m USD)	ISIN Code	Sustainalytics Rating				
					Total	YOY	Env.	Social	Gov.
ACE Limited	Property & Casualty Insurance	Switzerland	32,521	CH0044328745	51.1	-0.9%	49.7	52.4	51.0
Achmea BV	Multi-Line Insurance	Netherlands	n.a.	SUST6157B69F	82.0	5.1%	76.1	80.1	88.9
Admiral Group plc	Property & Casualty Insurance	United Kingdom	6,639	GB00802J6398	51.3	5.0%	45.8	57.6	49.7
AEGON N.V.	Life & Health Insurance	Netherlands	19,187	NL0000303709	72.9	2.6%	63.2	67.5	86.7
Aflac Inc.	Life & Health Insurance	United States	28,828	US0010551028	55.9	-1.8%	50.3	63.3	53.3
Ageas SA/NV	Multi-Line Insurance	Belgium	9,895	BE0974264930	45.1	-1.1%	38.7	54.3	41.4
AIA Group Limited	Life & Health Insurance	Hong Kong	57,256	HK0000069689	44.2	4.2%	33.8	55.8	41.6
Alleghany Corp.	Reinsurance	United States	6,287	US0171751003	45.2	0.0%	33.3	51.4	49.0
Allianz SE	Multi-Line Insurance	Germany	79,072	DE0008404005	84.9	1.4%	78.8	90.8	84.2
American Financial Group Inc.	Multi-Line Insurance	United States	4,986	US0259321042	48.8	-0.1%	38.3	61.1	45.5
American International Group, Inc.	Multi-Line Insurance	United States	72,203	US0268747849	52.3	4.5%	47.8	62.7	45.9
American National Insurance Co.	Multi-Line Insurance	United States	2,871	US0285911055	45.9	0.5%	38.3	53.4	44.8
Amlin plc	Property & Casualty Insurance	United Kingdom	3,597	GB0082988H17	53.7	-2.1%	43.3	65.0	51.3
AMP Limited	Life & Health Insurance	Australia	11,719	AU000000AMP6	64.1	5.2%	64.5	57.5	70.4
Aon Plc.	Insurance Brokers	United Kingdom	25,116	GB00858TOK07	56.8	3.6%	52.3	63.0	54.4
Arch Capital Group Ltd.	Property & Casualty Insurance	Bermuda	7,253	BMG0450A1053	45.2	-0.8%	33.7	52.9	47.4
Arthur J Gallagher & Co.	Insurance Brokers	United States	6,057	US3635761097	52.8	1.8%	40.6	61.3	54.8
Assicurazioni Generali SpA	Multi-Line Insurance	Italy	34,526	IT0000062072	76.5	-3.6%	79.4	81.8	68.6
Assurant Inc.	Multi-Line Insurance	United States	4,624	US04621X1081	49.8	-0.3%	37.9	60.5	49.3
Aviva plc	Multi-Line Insurance	United Kingdom	22,529	GB0002162385	81.8	2.2%	80.8	81.3	83.0
AXA Group	Multi-Line Insurance	France	65,052	FR0000120628	81.2	-0.5%	75.4	81.1	86.3
Axis Capital Holdings Ltd.	Property & Casualty Insurance	Bermuda	4,675	BMG0692U1099	46.2	-0.4%	33.3	52.7	50.9
Baloise-Holding	Multi-Line Insurance	Switzerland	5,766	CH0012410517	51.6	-3.3%	48.7	54.3	51.4
BB Seguridade Participacoes S/A	Multi-Line Insurance	Brazil	19,837	BRBBSEACNOR5	53.3	n.a.	44.8	63.9	50.0
Beazley plc	Property & Casualty Insurance	Ireland	2,252	JE00B64G9089	53.8	2.9%	47.8	65.0	47.7
Brown & Brown Inc.	Insurance Brokers	United States	4,287	US152361010	49.3	0.0%	38.3	58.0	50.0
Cathay Financial Holding Co. Ltd.	Life & Health Insurance	Taiwan	17,884	TW0002882008	62.9	18.1%	65.6	68.9	54.5
Catlin Group Ltd.	Property & Casualty Insurance	Bermuda	3,299	BMG196F11004	57.7	0.0%	52.4	61.4	58.4
China Life Insurance Co. Ltd.	Life & Health Insurance	China	68,787	CNE1000002L3	51.2	0.0%	42.6	60.9	48.9
China Life Insurance Co., Ltd.	Life & Health Insurance	Taiwan	2,552	TW0002823002	50.3	12.4%	43.6	63.7	42.7
China Pacific Insurance (Group)	Multi-Line Insurance	China	27,043	CNE1000008M8	53.4	0.0%	46.5	64.4	48.4
China Taiping Insurance Holdings	Life & Health Insurance	Hong Kong	4,205	HK0000055878	45.5	-3.1%	38.3	57.8	39.3
Cincinnati Financial Corp.	Property & Casualty Insurance	United States	7,619	US1720621010	50.0	5.6%	45.3	52.9	51.1
Clal Insurance Enterprises Holdings Ltd.	Multi-Line Insurance	Israel	990	IL0002240146	44.8	0.0%	38.3	55.7	39.3
CNA Financial Corporation	Property & Casualty Insurance	United States	11,384	US1261171003	46.9	-1.7%	38.3	57.0	44.1
CNP Assurances SA	Life & Health Insurance	France	13,738	FR0000120222	82.0	3.1%	77.9	85.5	81.9
Cover-More Group Limited	Life & Health Insurance	Australia	635	AU000000CVO6	54.0	n.a.	38.3	65.0	56.4
Delta Lloyd N.V.	Life & Health Insurance	Netherlands	4,754	NL0009294552	80.7	-3.7%	79.8	75.9	86.4
Direct Line Insurance Group PLC	Property & Casualty Insurance	United Kingdom	6,393	GB00889W0M42	53.3	4.5%	43.0	61.9	53.6
Discovery Holdings Limited	Life & Health Insurance	South Africa	3,926	ZAE000022331	53.1	-0.9%	44.4	62.1	51.6
Dongbu Insurance Co., Ltd.	Property & Casualty Insurance	South Korea	3,157	KR7005830005	61.1	-15.5%	55.6	68.6	58.4
Erie Indemnity Co.	Property & Casualty Insurance	United States	3,654	US29530P1021	51.2	4.0%	40.7	61.6	49.8
Esure Group plc	Property & Casualty Insurance	United Kingdom	1,927	GB0088KJH563	50.3	n.a.	38.3	61.6	49.3
Euler Hermes S.A.	Property & Casualty Insurance	France	5,579	FR0004254035	52.1	12.3%	40.4	65.0	49.1
Everest Re Group Ltd.	Reinsurance	Bermuda	6,854	BMG3223R1088	45.2	0.5%	33.3	52.9	47.8
Fairfax Financial Holdings Limited	Multi-Line Insurance	Canada	8,645	CA3039011026	43.1	-2.7%	33.3	49.9	44.6
Fidelity National Financial, Inc.	Property & Casualty Insurance	United States	8,639	US31620R3030	44.1	0.1%	30.3	53.4	46.5
Friends Life Group Limited	Life & Health Insurance	Channel Islands	8,703	GG00862W2327	69.7	11.8%	71.3	76.5	61.6
Genworth Financial Inc.	Multi-Line Insurance	United States	7,634	US37247D1063	53.5	-0.4%	46.9	64.7	48.1
Gjensidige Forsikring ASA	Multi-Line Insurance	Norway	9,979	NO0010582521	54.1	0.8%	41.8	61.3	57.6
Great-West Lifeco Inc.	Life & Health Insurance	Canada	28,990	CA39138C1068	57.0	21.3%	62.8	54.4	54.5
Groupama S.A.	Multi-Line Insurance	France	n.a.	SUST2DE24A0B	70.1	-1.8%	72.5	69.5	68.6
Grupo Catalana Occidente SA	Multi-Line Insurance	Spain	4,491	ES0116920333	47.4	-4.5%	40.3	56.4	44.5
Hannover Rueck SE	Reinsurance	Germany	10,780	DE0008402215	72.1	7.8%	80.3	78.1	59.0
Hanwha Life Insurance Co., Ltd.	Life & Health Insurance	South Korea	5,447	KR7088350004	49.4	-0.8%	38.3	58.4	50.0
Harel Insurance Investments & Financial Services	Multi-Line Insurance	Israel	1,178	IL0005850180	43.4	0.0%	39.6	50.0	40.0
Hartford Financial Services Group	Multi-Line Insurance	United States	15,729	US4165151048	62.9	7.9%	72.0	64.7	53.2
HCC Insurance Holdings Inc.	Multi-Line Insurance	United States	4,293	US4041321021	52.6	2.9%	38.3	61.6	55.7
Helvetia Holding AG	Multi-Line Insurance	Switzerland	4,264	CH0012271687	59.6	-1.8%	48.1	68.6	60.6
Hiscox, Ltd.	Property & Casualty Insurance	Bermuda	3,921	BMG4593F1207	51.7	-2.1%	44.1	61.4	48.4
Hyundai Marine & Fire Insurance	Property & Casualty Insurance	South Korea	2,308	KR7001450006	65.5	-2.7%	53.8	76.4	64.6
Industrial Alliance Insurance	Life & Health Insurance	Canada	4,012	CA4558711038	53.3	-1.2%	49.8	54.1	55.6
Insurance Australia Group Ltd.	Property & Casualty Insurance	Australia	11,452	AU000000IAG3	63.6	-4.9%	55.0	61.4	73.0
Intact Financial Corporation	Property & Casualty Insurance	Canada	8,009	CA45823T1066	57.2	0.2%	49.6	65.0	56.0
Jardine Lloyd Thompson Group plc	Insurance Brokers	United Kingdom	3,803	GB0005203376	53.0	0.7%	46.1	64.9	47.1
Just Retirement Group plc	Life & Health Insurance	United Kingdom	1,238	GB00BCRX1J15	48.8	n.a.	39.3	58.0	47.7

List of Companies Covered (cont.)

Company Name	Sub-Industry	Country	FF Market cap. (m USD)	ISIN Code	Sustainalytics Rating				
					Total	YOY	Env.	Social	Gov.
Kemper Corporation	Multi-Line Insurance	United States	2,120	US4884011002	50.8	2.5%	38.3	61.6	50.7
Lancashire Holdings Limited	Property & Casualty Insurance	Bermuda	2,291	BMG5361W1047	53.4	0.7%	42.8	61.4	54.3
Legal & General Group Plc	Life & Health Insurance	United Kingdom	22,647	GB0005603997	74.9	2.1%	76.9	67.4	80.8
Liberty Holdings Ltd.	Life & Health Insurance	South Africa	2,797	ZAEO00127148	66.4	-1.7%	60.0	68.0	70.4
Lincoln National Corp.	Life & Health Insurance	United States	12,962	US5341871094	53.6	14.7%	49.2	57.4	53.8
Loews Corporation	Multi-Line Insurance	United States	16,978	US5404241086	46.1	-0.4%	33.3	55.6	47.6
Manulife Financial Corporation	Life & Health Insurance	Canada	35,054	CA56501R1064	57.0	-3.2%	56.1	59.0	55.7
Mapfre SA	Multi-Line Insurance	Spain	12,750	ES0124244E34	63.6	9.0%	59.6	71.1	59.6
Markel Corp.	Property & Casualty Insurance	United States	7,718	US5705351048	51.3	8.0%	43.3	58.0	51.4
Marsh & McLennan Companies, Inc.	Insurance Brokers	United States	25,632	US5717481023	56.2	2.9%	49.4	57.8	60.3
MBIA Inc.	Property & Casualty Insurance	United States	2,310	US55262C1009	51.7	0.0%	38.3	61.4	53.4
Mediolanum SpA	Life & Health Insurance	Italy	6,666	IT0001279501	51.2	0.3%	36.8	68.8	46.0
Mercury General Corporation	Property & Casualty Insurance	United States	2,385	US5894001008	47.7	-2.7%	39.3	61.4	41.1
MetLife, Inc.	Life & Health Insurance	United States	55,918	US59156R1086	54.5	1.1%	52.3	57.3	53.6
Migdal Insurance and Financial Holdings Ltd.	Multi-Line Insurance	Israel	1,695	IL0010811656	43.9	n.a.	34.8	53.4	42.1
MMI Holdings Limited	Life & Health Insurance	South Africa	3,395	ZAEO00149902	55.3	0.0%	45.9	58.6	60.0
MS&AD Insurance Group Holdings, Inc.	Property & Casualty Insurance	Japan	14,868	JP3890310000	51.3	-2.9%	50.2	57.0	46.6
Munich Re Ag	Reinsurance	Germany	38,154	DE0008430026	82.1	-2.8%	89.3	75.4	82.7
New China Life Insurance Co., Ltd.	Life & Health Insurance	China	10,693	CNE100001922	45.5	0.0%	38.3	58.4	38.8
New York Life Insurance Co.	Life & Health Insurance	United States	n.a.	SUST13F32CCE	50.0	n.a.	42.2	62.7	44.1
NN Group N.V.	Life & Health Insurance	Netherlands	10,598	NL0010773842	73.8	-2.9%	66.4	75.0	79.1
Old Mutual plc	Life & Health Insurance	United Kingdom	14,794	GB0007389926	77.1	9.1%	76.1	69.7	85.4
Old Republic International Corp.	Property & Casualty Insurance	United States	3,924	US6802231042	44.8	-1.1%	33.3	51.0	48.5
PartnerRe Ltd.	Reinsurance	Bermuda	5,333	BMG6852T1053	47.0	1.2%	34.4	53.0	51.7
Partnership Assurance Group plc	Life & Health Insurance	United Kingdom	842	GB0089QN7521	50.4	n.a.	44.7	58.0	47.7
Phoenix Group Holdings Plc	Life & Health Insurance	Channel Islands	2,727	KYG7091M1096	52.4	0.0%	41.6	61.6	52.5
PICC Property and Casualty Co. Ltd.	Property & Casualty Insurance	China	18,943	CNE100000593	48.2	0.0%	39.3	55.7	48.4
Ping An Insurance (Group) Co. of China Ltd.	Life & Health Insurance	China	56,459	CNE1000003X6	50.5	-2.2%	48.5	60.7	42.0
Porto Seguro SA	Multi-Line Insurance	Brazil	4,004	BRPSSAACNOR7	51.9	-3.0%	48.9	55.7	50.5
Poste Vita S.p.A.	Life & Health Insurance	Italy	n.a.	SUSTBC95DBE4	52.6	n.a.	41.6	66.8	47.9
Power Corporation of Canada	Life & Health Insurance	Canada	13,850	CA7392391016	60.7	9.0%	68.7	58.8	55.9
Power Financial Corporation	Life & Health Insurance	Canada	22,447	CA73927C1005	57.5	4.9%	55.7	60.4	56.3
Powszechny Zakład Ubezpieczeń Spółka Akcyjna	Multi-Line Insurance	Poland	12,611	PLPZU00000011	51.9	5.9%	43.3	58.1	53.0
Principal Financial Group Inc.	Life & Health Insurance	United States	12,991	US74251V1026	60.0	-2.0%	48.6	65.4	64.5
Progressive Corp.	Property & Casualty Insurance	United States	14,128	US7433151039	48.6	2.0%	35.3	54.9	53.7
Prudential Financial, Inc.	Life & Health Insurance	United States	39,049	US7443201022	65.8	5.3%	63.8	73.1	60.3
Prudential plc	Life & Health Insurance	United Kingdom	55,820	GB0007099541	65.1	9.0%	58.3	70.2	65.9
QBE Insurance Group Ltd.	Property & Casualty Insurance	Australia	12,657	AU000000QBE9	52.8	3.7%	43.2	56.1	57.8
Rand Merchant Insurance Holdings Ltd.	Life & Health Insurance	South Africa	3,352	ZAEO00153102	50.6	-1.5%	40.7	63.4	46.4
Reinsurance Group of America Inc.	Reinsurance	United States	5,214	US7593516047	53.3	0.6%	39.3	61.4	57.1
RenaissanceRe Holdings Ltd.	Reinsurance	Bermuda	4,067	BMG7496G1033	48.1	0.0%	38.3	55.0	49.5
RSA Insurance Group plc	Property & Casualty Insurance	United Kingdom	6,000	GB008KKMKR23	64.3	-4.1%	59.3	77.0	56.0
Saga plc	Multi-Line Insurance	United Kingdom	2,734	GB00BLT1Y088	45.4	n.a.	39.6	55.7	40.0
Sampo Oyj	Multi-Line Insurance	Finland	28,112	FI0009003305	49.5	1.1%	44.8	56.4	46.6
Samsung Fire & Marine Insurance	Property & Casualty Insurance	South Korea	8,718	KR7000810002	66.3	11.9%	67.5	73.9	57.6
Samsung Life Insurance Co. Ltd.	Life & Health Insurance	South Korea	18,071	KR7032830002	55.8	-0.5%	44.4	67.4	53.9
Sanlam Limited	Life & Health Insurance	South Africa	9,190	ZAEO00070660	77.4	6.0%	66.4	81.4	82.8
Santam Ltd.	Multi-Line Insurance	South Africa	1,842	ZAEO00093779	67.6	-1.8%	66.9	68.0	67.7
Scor Se	Reinsurance	France	6,407	FR0010411983	63.9	1.3%	51.3	70.0	68.7
Shinkong Financial Holding Co. Ltd.	Life & Health Insurance	Taiwan	3,115	TW0002888005	49.4	0.0%	40.6	58.6	47.7
Sompo Japan Nipponkoa Holdings	Property & Casualty Insurance	Japan	10,587	JP3165000005	65.6	11.5%	63.6	68.4	64.5
Sony Financial Holdings Inc.	Life & Health Insurance	Japan	7,012	JP3435350008	48.0	4.7%	42.0	58.8	42.5
St. James's Place plc	Life & Health Insurance	United Kingdom	6,796	GB0007669376	57.5	-5.4%	62.7	58.0	52.5
StanCorp Financial Group Inc.	Life & Health Insurance	United States	2,856	US8528911006	51.4	-1.0%	40.6	61.3	50.7
Standard Life plc	Life & Health Insurance	United Kingdom	15,286	GB00BVFQ7Q58	65.7	2.7%	55.6	64.0	76.1
Steadfast Group Limited	Insurance Brokers	Australia	687	AU000000SDF8	48.4	n.a.	33.3	56.3	53.5
Storebrand ASA	Life & Health Insurance	Norway	2,706	NO0003053605	84.2	0.3%	91.8	71.4	90.4
Sul America Sa	Multi-Line Insurance	Brazil	2,005	BRSLACDAM12	66.6	17.9%	57.9	69.6	71.1
Sun Life Financial Inc.	Life & Health Insurance	Canada	20,728	CA8667961053	65.2	5.4%	59.4	63.1	72.2
Suncorp Group Limited	Property & Casualty Insurance	Australia	14,260	AU000000SUN6	50.8	-2.0%	33.6	61.4	55.0
Swiss Life Holding AG	Life & Health Insurance	Switzerland	7,119	CH0014852781	49.6	-0.9%	43.0	57.0	47.9
Swiss Re Ltd	Reinsurance	Switzerland	31,358	CH0126881561	84.2	5.7%	86.8	79.3	86.8
T&D Holdings, Inc.	Life & Health Insurance	Japan	8,293	JP3539220008	64.0	9.7%	63.5	63.9	64.5
Talanx AG	Multi-Line Insurance	Germany	8,421	DE000TLX1005	49.7	5.9%	43.3	59.3	45.6
The Allstate Corporation	Property & Casualty Insurance	United States	23,585	US0200021014	60.1	2.6%	60.0	67.0	53.2
The Chubb Corporation	Property & Casualty Insurance	United States	21,070	US1712321017	51.9	-0.2%	51.0	58.4	46.0

List of Companies Covered (cont.)

Company Name	Sub-Industry	Country	FF Market cap. (m USD)	ISIN Code	Sustainalytics Rating				
					Total	YOY	Env.	Social	Gov.
The Dai-ichi Life Insurance	Life & Health Insurance	Japan	14,604	JP3476480003	56.5	6.7%	63.5	62.7	44.5
The Hanover Insurance Group Inc.	Property & Casualty Insurance	United States	2,528	US4108671052	54.5	2.4%	41.9	61.4	58.4
The People's Insurance Company (Group)	Property & Casualty Insurance	China	18,597	CNE100001MK7	47.1	n.a.	38.3	57.6	44.3
The Travelers Companies, Inc.	Property & Casualty Insurance	United States	29,078	US89417E1091	53.4	4.6%	43.9	63.4	51.6
Tokio Marine Holdings Inc.	Property & Casualty Insurance	Japan	23,039	JP3910660004	68.0	5.3%	65.6	72.9	65.2
Topdanmark A/S	Multi-Line Insurance	Denmark	2,970	DK0060477503	62.7	28.0%	62.4	63.2	62.4
Torchmark Corp.	Life & Health Insurance	United States	6,806	US8910271043	46.6	-0.4%	33.3	55.9	48.6
Tryg A/S	Property & Casualty Insurance	Denmark	5,620	DK0060013274	58.3	-0.9%	51.7	65.0	57.3
UnipolSai Assicurazioni S.p.A.	Multi-Line Insurance	Italy	10,339	IT0004827447	63.0	13.5%	57.8	68.0	62.4
UNIQA Insurance Group AG	Multi-Line Insurance	Austria	4,049	AT0000821103	52.9	n.a.	42.3	58.6	56.4
Unum Group	Life & Health Insurance	United States	8,749	US91529Y1064	52.2	-0.6%	47.2	57.9	50.7
Vienna Insurance Group	Multi-Line Insurance	Austria	6,386	AT0000908504	51.6	12.8%	47.2	60.5	46.6
W.R. Berkley Corporation	Property & Casualty Insurance	United States	5,299	US0844231029	45.5	0.0%	33.3	52.9	48.5
White Mountains Insurance Group, Ltd.	Property & Casualty Insurance	Bermuda	3,604	BMG9618E1075	45.3	-0.1%	33.3	52.7	48.1
Willis Group Holdings	Insurance Brokers	United Kingdom	7,386	IE00B4XGY116	55.2	0.7%	54.6	58.2	52.8
XL Group plc	Property & Casualty Insurance	Ireland	8,201	IE00B5LRL25	50.2	-2.1%	33.8	58.2	56.2
Zurich Insurance Group AG	Multi-Line Insurance	Switzerland	43,941	CH0011075394	70.2	8.7%	64.8	74.4	70.6

Source: Sustainalytics

Appendix

Methodology – How we rate companies

Research process



The annual update of each company rating includes a thorough review of a broad range of generic and industry-specific ESG indicators. Our research is based on information disclosed by the companies themselves (such as annual reports, financial reports, CSR reports, CSR websites and press releases) and independent news sources such as (local) newspapers, relevant websites and NGO materials. A rigorous internal review process, followed by company contact and feedback, is implemented to ensure consistency and overall high research quality.

This process is complemented by the monitoring of around 20,000 news sources from around the world. Information from these sources is processed on a daily basis, with the aim of identifying those news items (so-called *incidents*) that may be significant from an ESG perspective. We monitor individual incidents, such as a lawsuit, explosion or strike, and assess them based on their impact on stakeholders and the environment (so-called *sustainability impact*) as well as on the reputational risk they pose for the company. For each incident, the sustainability impact assessment captures the severity of impacts (measured in terms of depth, breadth and duration), taking into consideration accountability and exceptionality, while the reputational risk assessment captures the notoriety and media exposure of incidents.

Key ESG issues

Our research framework broadly addresses three themes: Environment, Social and Governance (ESG). Within these themes, the focus is placed on a set of key ESG issues that vary by industry.

Industry-specific selection of key ESG issues based on a “materiality of impact” assessment

We define “key ESG issues” as industry-specific areas of exposure that are most material from a sustainability impact and/or business impact perspective and hence define the key management areas for a company. The list of issues that are potentially relevant for a company have been determined by us based on a detailed and systematic “materiality of impact” analysis of the business models and value creation chains within a given sector. We evaluate sustainability and business impacts in terms of depth, breadth and duration of impacts, in the same way that we assess incidents.

Indicators, scoring and relative position

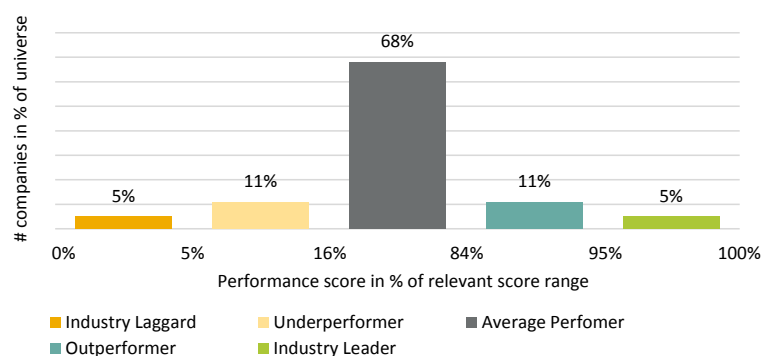
The research itself is conducted at the indicator level, where a comprehensive set of generic and industry-specific metrics is analysed, scored and weighted to determine a company’s overall ESG performance. For every indicator, our analysts evaluate the degree to which a company meets relevant best practice standards.

On this basis, a “raw score” out of 100 is assigned to every indicator based on a set of detailed and well-documented internal criteria. In turn, these raw scores are aggregated based on a sector-specific weight matrix that reflects the relative importance of an issue and the related indicators.

Companies are allocated to five distinct performance groups

Based on their scores, companies are allocated to five distinct performance groups (Industry Leader; Outperformer; Average Performer; Underperformer; or Industry Laggard) according to their relative position within the respective reference universe and assuming a normal distribution of scores.

Relative position within relevant score range



Source: Sustainalytics

Types of indicators

How well do companies manage areas of exposure?

We differentiate between four types of indicators that focus on different management dimensions: Preparedness; Disclosure; Quantitative Performance; and Qualitative Performance.

Indicators cover four different management dimensions

- **Preparedness:** These indicators assess a company’s management systems, policies and programmes designed to manage material ESG risks, e.g. bribery and corruption policies, environmental management systems or diversity programmes. Preparedness also includes a company’s participation in relevant initiatives such as the Equator Principles.
- **Disclosure:** These indicators assess whether a company’s ESG reporting meets international best practice standards and includes, for example, the ESG reporting standard and its verification, but also tax disclosure, board remuneration disclosure or CDP participation.
- **Quantitative Performance:** These indicators assess a company based on quantitative performance metrics such as, for example, carbon intensity or employee turnover rate.
- **Qualitative Performance:** These indicators assess a company’s ESG performance based on an analysis of incidents, events and controversies in which the company has been involved.

Report Parameters

REFERENCE UNIVERSE: INSURANCE	Global universe of Insurance (according to GICS classification); split into sub-universes DM and EM
WEIGHT MATRIX	Default Weight Matrix (Insurance)
UPDATE FINANCIAL & ESG DATA	09 April 2015, unless otherwise stated
PUBLICATION DATE	17 June 2015

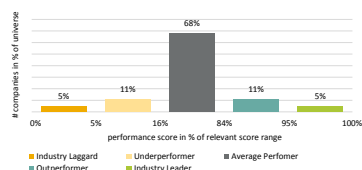
Contributions

FINANCIALS SECTOR TEAM	Silvana van Schaik (Associate Analyst), Sophia Burress (Analyst)
THEMATIC RESEARCH TEAM	Doug Morrow (Associate Director), Dr. Hendrik Garz (Managing Director, Thematic Research), Niamh O'Sullivan (Associate Analyst), Thomas Hassl (Analyst), Madere Olivar (Editor)

Glossary of Terms

BUSINESS IMPACT	Assesses the magnitude of the potential impact that an ESG issue may have on the financial performance of a company. Business impact is measured on a scale between 0 and 10.
CONTROVERSY	Collection of observation points reflecting the controversial behaviour of a company regarding Environment, Social and Governance issues. A controversy is measured by the associated controversy indicator, which is defined at the sub-theme level. Controversies are rated from Category 0 (no controversy) to Category 5 (severe). Each controversy indicator consists of a bundle of event indicators.
DEFAULT WEIGHT MATRIX	This is the Weight Matrix proposed by Sustainalytics.
DEVELOPED MARKETS (DM)	Sub-universe including companies from: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom and United States.
DIMENSION	To assess a company's ability to address different kinds of ESG-related risks and opportunities, all indicators used by Sustainalytics can also be attributed to the four (management) dimensions: Disclosure ; Preparedness ; Quantitative performance ; and Qualitative performance . For each dimension we calculate a dimension score, multiplying the relevant indicators with their respective weights and transforming the result so that the highest reachable score is 100 and the lowest 0.
DISCLOSURE	Assesses whether a company's ESG reporting meets international best practice standards, including, for example, the ESG reporting standard and its verification, but also tax disclosure, board remuneration disclosure or CDP participation.
EMERGING MARKETS (EM)	Sub-universe including companies from: Argentina, Bahrain, Bangladesh, Brazil, Bulgaria, Chile, China, Colombia, Croatia, Czech Republic, Egypt, Estonia, Greece, Hungary, India, Indonesia, Jordan, Kazakhstan, Kenya, Kuwait, Lebanon, Lithuania, Malaysia, Mauritius, Mexico, Morocco, Nigeria, Oman, Pakistan, Peru, Philippines, Poland, Qatar, Romania, Russia, Serbia, Slovenia, South Africa, South Korea, Sri Lanka, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates and Vietnam.
EVENT	A series of incidents that refers to the same controversial topic, tracked in one events indicator, for example "labour relations" or "environmental impact of products". An event assessment is based on the highest impact or risk score assigned to the related incidents. Events are rated on a scale from Category 0 (no event) to Category 5 (severe).
EXPOSURE	Defines an area of potential impact a company faces due to its business activities. Exposure to key ESG issues is assessed at a sector level and is further refined at the company level.

IMPACT	Refers on the one hand to the effects a company's activities may have on environment and/or society (sustainability impact) and on the other hand to the effects ESG issues may have on a company's bottom line (business impact).
INCIDENT	A single observation point reflecting the controversial behaviour of a company regarding ESG issues. We monitor individual incidents such as, for example, a lawsuit, explosion or strike and assess them based on their impact on stakeholders and the environment (sustainability impact) as well as on the (<i>reputational</i>) risk they pose for the company.
KEY ESG ISSUE	Sector-specific areas of exposure that are most material from a sustainability impact and/or business impact perspective and hence define the key management areas for a company. The list of issues that are potentially relevant for a company have been determined by us based on a detailed and systematic "materiality of impact" analysis of the business models and value creation chains within a given sector.
KEY INDICATOR	A sector-specific ESG indicator that we regard as most important to assess how well a company manages areas of exposure as reflected by the identified key ESG issues .
MOMENTUM	Development of historical scores for -1, -2, and -3 years from the reference date. Note: The industry average calculation is based on the current company universe. Defaulted companies are not part of the calculations.
OUTLOOK	A forecast on how a company's overall ESG score , controversy rating or sector response on a key ESG issue will change over the next 12 months. For the sector report, we differentiate five different grades (⬆) very positive; (↻) positive; (→) neutral; (↻) negative, and (⬇) very negative.
OVERALL ESG SCORE	Evaluates a company's overall ESG performance on a scale of 0–100, based on generic and sector-specific ESG indicators that are grouped in three (ESG) themes and four dimensions , derived by multiplying the raw scores for the relevant indicators with the respective weight matrix .
PREPAREDNESS	Assesses a company's management systems, policies and programmes designed to manage material ESG risks, such as bribery and corruption policies, environmental management systems or diversity programmes, for example. It also includes a company's participation in relevant initiatives such as the Equator Principles.
QUALITATIVE PERFORMANCE	Assesses a company's ESG performance based on an analysis of incidents , events and controversies in which the company has been involved.
QUANTITATIVE PERFORMANCE	Assesses a company based on quantitative performance metrics such as, for example, carbon intensity or employee turnover rate.
RAW SCORE	Score between 0–100 that assesses the performance of a company for a single ESG indicator.
RELATIVE POSITION	Classification of companies into five distinct performance groups, based on a company's score (overall ESG score, theme score or dimension score), according to its relative position within the reference universe, assuming a normal distribution of scores: - Industry Leader: Within the top 5% of the reference universe; - Outperformer: Within the top 5% to 16% of the reference universe; - Average Performer: Within the mid-range 16% to 84% of the reference universe; - Underperformer: Within the bottom 5% and 16% of the reference universe; - Industry Laggard: Within the bottom 5% of the reference universe.
RISK	Refers mainly to the reputational risk a company is exposed to and forms one part of a company's incident assessment. The reputational risk assessment captures the sustainability impact , notoriety and media exposure of incidents and is measured on a scale between 0 and 10.
SECTOR	Sustainalytics analyses 42 different peer groups. The peer group definitions are by and large aligned with the GICS classification for industry groups (level 2).



SUB-THEME

Sub-division of the three ESG [themes](#) in:

- Environment: Operations, Contractors & Supply Chain (Env), Products & Services (Env);
- Social: Employees, Contractors & Supply Chain, Customers, Society & Community, Philanthropy;
- Governance: Business Ethics, Corporate Governance, Public Policy.

SUSTAINABILITY IMPACT

Assesses the magnitude of potential impact on stakeholders, including environment and society, that may be caused by a company's activities. The sustainability impact assessment captures the severity of impacts (measured in terms of depth, breadth and duration), taking into consideration accountability and exceptionality. Sustainability impact is measured on a scale between 0 and 10.

THEME

The three sustainability areas Environment (E), Social (S) and Governance (G). For each theme we calculate a theme score, multiplying the relevant indicators with their respective weights and transforming the result so that the highest reachable score is 100 and the lowest 0.

WEIGHT MATRIX

A matrix containing the weights with which individual indicators are multiplied to calculate the [overall ESG score](#) for a company. Weights are sector specific, reflecting the relative importance of indicators for companies within the respective sector. The weight matrix may be adjusted at the company level if an indicator is disabled due to company-specific reasons (e.g. specifics of the business model). Note: Weight matrices are customisable by our clients. The matrix proposed by Sustainalytics is called the Default Weight Matrix.

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