EUROPEAN
FINANCIAL
CONGRESS

Instytut Badań
nad Gospodarką Rynkową
Do Studzienki Str. 63
80-227 Gdańsk, Poland

tel. +48 58 524 49 01
fax. +48 58 524 49 09

efc@ibngr.pl
www.efcongress.com

Answers of the European Financial Congress[1] in relation to the UNEP Finance Initiative's consultation on underwriting environmental, social and governance risks in non-life insurance business[2]

Methodology for preparing the answers

The answers were prepared in the following stages:

Stage 1

A group of experts from the Polish financial sector were invited to participate in the survey. They received selected extracts of the ESG Guide for the Global Insurance Industry developed by UN Environment's Principles for Sustainable Insurance Initiative and the consultation questions translated into Polish. The experts were guaranteed anonymity.

Stage 2

Responses were obtained from experts representing:

- insurance firms,
- consulting firms,
- the academia.

Stage 3

The survey project coordinators from the European Financial Congress prepared a draft synthesis of opinions submitted by the experts. The draft synthesis was sent to the experts participating in the survey with the request to mark the passages that should be modified in the final position and to propose modifications and additions as well as marking the passages they did not agree with.

Stage 4

On the basis of the responses received, the final version of the European Financial Congress' answers was prepared.

[1] European Financial Congress (EFC – www.efcongress.com). The EFC is a think tank whose purpose is to promote debate on how to ensure the financial security and sustainable development of the European Union and Poland.
[2] https://www.unepfi.org/psi/wp-content/uploads/2019/02/PSI-Guidance-for-non-life-insurance-underwriting.pdf

Answers of the European Financial Congress to the consultation questions

GUIDE

Q 1. Does the guide help develop an ESG approach for insurance industry stakeholders and screening of non-life insurance transactions? How can it be improved?

Yes, in particular for those entities which have not taken actions in this area yet. The guidelines are created as a support tool for insurance companies, in particular for those organisations whose knowledge of ESG is limited or insufficient. From this point of view, it would be advisable to expand the first part of the guide with description of the origin and essence of conducting business activity in compliance with sustainable development principles, and the list of the Sustainable Development Goals could be provided. Supplementing the Guide with examples of use, implementation projects at organisations, details concerning processes and reporting could also be considered.

In addition, the Guide describes the framework within which the industry should operate while developing an approach not only to ESG risks, but also to other forms of risks which are difficult to measure. Consequently, it can be useful for developing relevant processes and procedures.

Q 2. Is the Guide clear and easily understandable? If not, which sections or areas need improvement and how?

In general, it is clear and understandable, but could be improved by adding a part in the form of an "executive summary". It would be helpful for entities which start implementing ESG to present a short "check list" with the basic questions which an organisation needs to answer before moving on to more in-depth analysis and ESG organisation. A bigger number of practical examples, adding a glossary and explanation of the abbreviations used in the glossary, as well as complementing the basic principles defined in the risk maps would also be useful.

Q 3. Are there any areas missing which should be included in the Guide?

In general no, as the Guide discusses all important issues.

Q 4. Is the format useful or would another format be better?

The format in which the guide has been presented is appropriate and logical. However, due to insurance market participants' lack of experience and sufficient knowledge, it could be useful to extend the guide with examples and additional information on the form and scope of the disclosed information related to ESG.

Q 5. How frequently should the Guide be updated (e.g. yearly, every two years)?

The guide update frequency should be correlated with the pace of changes in the insurance companies' regulatory and organisational environment. Update conducted every two years seems to be sufficient, provided that there will be no legislative revolution changing the scope/nature of ESG risks, e.g. due to the European Union legislation, which is changing / being created. In such a case, it would probably have to be necessary to update the Guide once the regulations take a new shape.

Q 6. Would additional training or information be helpful? If so, what form (e.g. webinars, training sessions, discussion forums)?

Training is necessary. It would be useful to include on-line seminars, discussion forums, training sessions and educational webinars which would explain the key points of the Guide and its practical application. Raising employees' and decision makers' awareness and broadening their knowledge of the increasing importance of factors which constitute an element of non-financial reporting is important. It, in particular, applies to persons who manage investment, communication and risk areas.

HEAT MAPS

Q 7. Are the heat maps clear and easy to understand?

Heat maps are clear. In order to make their analysis easier, it would be justified to add a legend to the numbers indicated in the individual "Principles" columns, and to assign abbreviations of the names of those columns to the full names of the Principles indicated earlier.

From the practical point of view, it would be desirable to expand the Guide with a map of risks in which ESG risks would be assigned to selected client/partner categories. The risk/good practice map should take into account the key jurisdictions (EU, USA, China, etc.) or regional (continental) specific features.

Q 8. Are there ESG risks which should be added or deleted?

At this stage of the work, there is no such need. However, it should be pointed out that what seems to be a problem is the lack of full consistency between the risk categories used in the documents concerning ESG, such as the Guide in question, *Commission action plan on financing sustainable growth or Principles for Responsible Investment.*

Q 9. Are there risk mitigation examples and good practices which should be added or deleted?

They should not be deleted or added. The examples provided are useful and they well illustrate the issues discussed.

Q 10. Are there economic sectors, which are material to ESG risks in non-life insurance underwriting, that should be added?

At this stage of the work, we cannot see such need.

Q 11. Do you have suggestions on the risk categorisation of specific ESG risks vs economic sectors?

No. The categorisation of the individual ESG risks with respect to given sectors of the economy is clear and complete. Only in the "Climate Change" category it would be possible to separate the "transition risk" in accordance with the new guidelines on non-financial reporting.

Q 12. Should some lines of non-life insurance business be added or deleted?

There is no such need. The provided list of the insurance lines which are important for ESG risks seems to be complete.

Q 13. Do you have suggestions on the risk categorisation of specific ESG risks vs lines of non-life insurance business?

No.

Q 14. Are you aware of any additional ESG information sources that are relevant, of good quality and with international recognition?

Information from reinsurers is an additional source of information in practice.

ADDITIONAL COMMENTS

The insurance sector plays an important role in promotion of sustainable economic, social and environmental development. The first global guide for insurance companies devoted to ESG issues, which has been presented for consultation, will certainly contribute to raising their awareness in those areas. It may also constitute significant support in developing by insurance undertakings a right approach to environmental and social risks, as well as risks connected with corporate governance in their ongoing activity. The UNEP FI document, which is a valuable source of information and inspiration for insurance companies, may be useful for shaping actions which contribute to sustainable development.

What may prove to be the main challenge faced by teams implementing ESG risk management is assessment of reliability of information obtained from various sources for valuation of exposure with respect to those risks.

All four Principles are based on the assumption that entities which actively manage ESG risks will have "hard" data necessary to make objective and rational valuation of those risks in their counterparties. In fact, however, the nature of those risks is similar to the image or reputational risk. It means that an entity whose ESG policy is publicly questioned will take appropriate actions.

The document's connection with numerous source documents and organisations' websites is on the one hand its advantage but on the other a certain obstacle. Such a solution allows the Guide's "automatic update", as changes to other documents do not require corrections in the Guide itself, but looking for the source documents connected with it requires additional time.

Absence of a glossary at the beginning of the document and explanation of the abbreviations used in the text is also problematic. The glossary would help explain the basic ESG-related issues to persons who are not familiar with the topic (and the Guide is aimed at them).