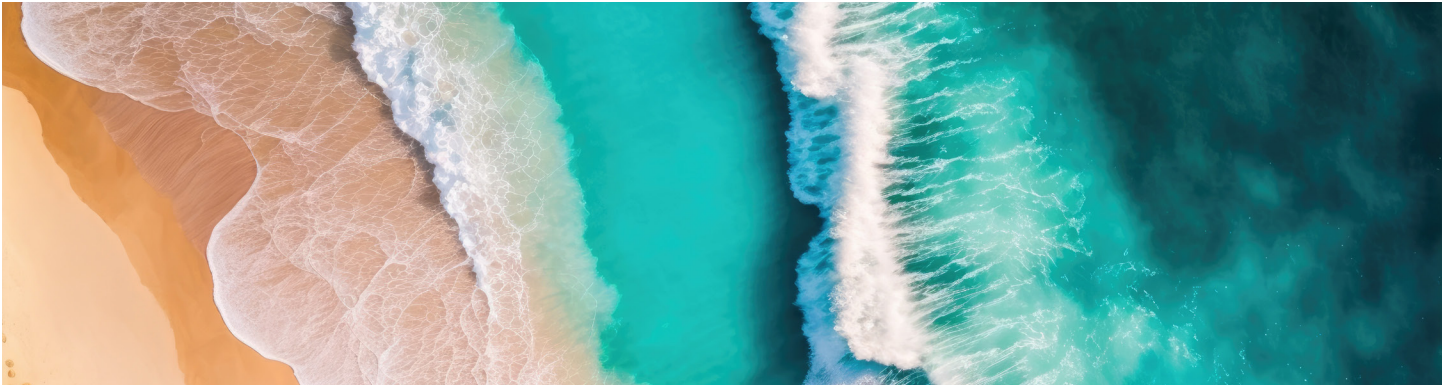




## The insurance industry's path to ESG impact

Emerging as a top priority across all sectors, environmental, social, and governance (ESG) considerations require more than meeting minimum disclosure requirements. Forward-thinking insurers are working on ESG strategies to embed into every facet of their organization. Adding to the pressure are the growing expectations—of insurance customers, investors, boards, employees, and other ecosystem stakeholders—for a strong position on how meaningful action will be taken, measured, and reported.



## Understand the case for ESG

While Canadian insurers are developing their ESG strategies, there is pressure to do more to address rising regulatory, financial, and reputational risks:

### Regulatory risks

**Guideline B-15: Climate Risk Management** by the Office of the Superintendent of Financial Institutions (OSFI) sets out disclosure and governance expectations for the management of climate-related risks for federally regulated financial institutions (banks and insurance companies). It starts in 2024 and comes into force in 2025.

### Financial risks

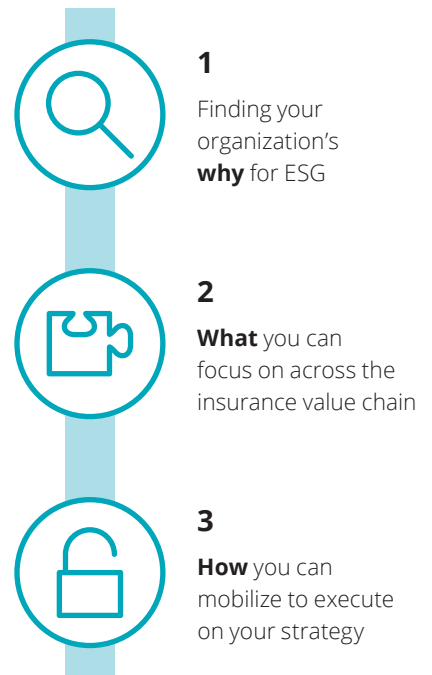
In 2021, **severe weather events** across Canada resulted in **\$2.1 billion in insured losses**, ranking it as the sixth-highest loss-year on record. The impact of climate change on property and casualty business models is of growing concern to insurers, as payouts from extreme weather events have more than doubled each decade since the 1980s, causing Canada's natural catastrophe protection gap to widen significantly.<sup>1</sup>

### Reputational risks

A 2022 Deloitte survey showed that **almost half of Generation Zs (48%) and millennials (43%)** had put at least some pressure on their employers to take action on ESG and climate change. The Canadian Securities Administrators (CSA) is working to establish climate-related disclosure requirements for publicly traded companies, which will have a significant impact on insurers as large institutional investors both domestically and globally.

With a focus on how to mitigate these risks while managing stakeholder expectations, this report explores how insurers can make a meaningful impact on their organizations, their communities, and the real economy through a well-developed ESG strategy that considers the entire insurance value chain while leveraging key enablers of successful execution.

This perspective is organized into three sections:



## Tie ESG to purpose and strategy

Whether your organization is just beginning its ESG journey or it's well under way, your corporate values and ESG strategy should work hand in hand to demonstrate to investors, customers, employees, suppliers, and other stakeholders the positive impacts your organization is making.

**Successful value creation happens when an organization's purpose, ESG efforts, and business strategy are integrated.**

Answering the question "Why?" is the first step insurers should take to establish a solid strategy that will deliver tangible and positive environmental, social, and governance results.<sup>2</sup>

To clarify your organization's **why**, consider the following questions: "Where does our organization have a competitive advantage?" and "How does our strategy drive impact beyond the company's four walls?"

**Focus on material ESG topics to see where they naturally connect with your organization's values and strategy** to help you to identify areas where your business is differentiated and can gain competitive advantage.

Figure 1



Trusted, competitive, and differentiated position in the market

## Consider opportunities across the value chain

Developing an ESG-driven **competitive advantage** (the **what**) begins with taking an end-to-end view of the value chain to identify areas of opportunity for creating impact. What insurers should do across the value chain will vary by organization and ties back to its **why** (connection to purpose and strategy), current maturity level, distinct competitive advantage, and overarching ambition to do more. Regulatory, financial,

and reputational risks will drive insurers to move at greater speed, a situation we expect to continue in the years ahead.

Figure 2A provides examples of ESG opportunities at each stage of the insurance value chain, while Figure 2B offers Canadian and global examples of initiatives that insurers are already undertaking.

**Figure 2A**

WHAT	
Value chain	Opportunities
Discovery	<ul style="list-style-type: none"> <li>• Provide stakeholders with tools and information on ESG risks and opportunities (e.g., climate-change-related physical risks and energy transition opportunities)</li> <li>• Explore accessibility of products for marginalized populations</li> </ul>
Products & pricing	<ul style="list-style-type: none"> <li>• Develop products that address ESG risks (e.g., live flood alerts)</li> <li>• Encourage consumer behaviours that support ESG-related activities (e.g., incentivize customers to install solar panels on their residential roofs)</li> <li>• Enhance pricing based on preventative behaviours</li> </ul>
Quoting & advice	<ul style="list-style-type: none"> <li>• Provide tailored advice on ESG-related products</li> <li>• Advise on preventable risks and solutions</li> </ul>
Underwriting	<ul style="list-style-type: none"> <li>• Conduct ESG stress-testing (e.g., climate data in P&amp;C, health data in L&amp;H)</li> <li>• Introduce ESG considerations into policy wording (e.g., modify post-natural disaster rebuild policies to include consultations on potential relocation)</li> </ul>
Claims & servicing	<ul style="list-style-type: none"> <li>• Consider ESG factors in claims settlement and supplier decisions (e.g., implement ESG scoring, build a net-zero supplier standard, develop a sustainable claims management standard that is applicable to all claim types)</li> <li>• Ensure claims processing and servicing fairness</li> </ul>
Capital & risk control	<ul style="list-style-type: none"> <li>• Align investments and the underlying investment management processes to ESG priorities (e.g., sector capital deployment commitments)</li> <li>• Conduct ESG scenario- and stress-testing</li> </ul>
Engagement	<ul style="list-style-type: none"> <li>• Incentivize consumers to focus on prevention, mitigation, and resilience</li> <li>• Incentivize consumers to change behaviours</li> </ul>



Property and casualty insurance



Life and health insurance

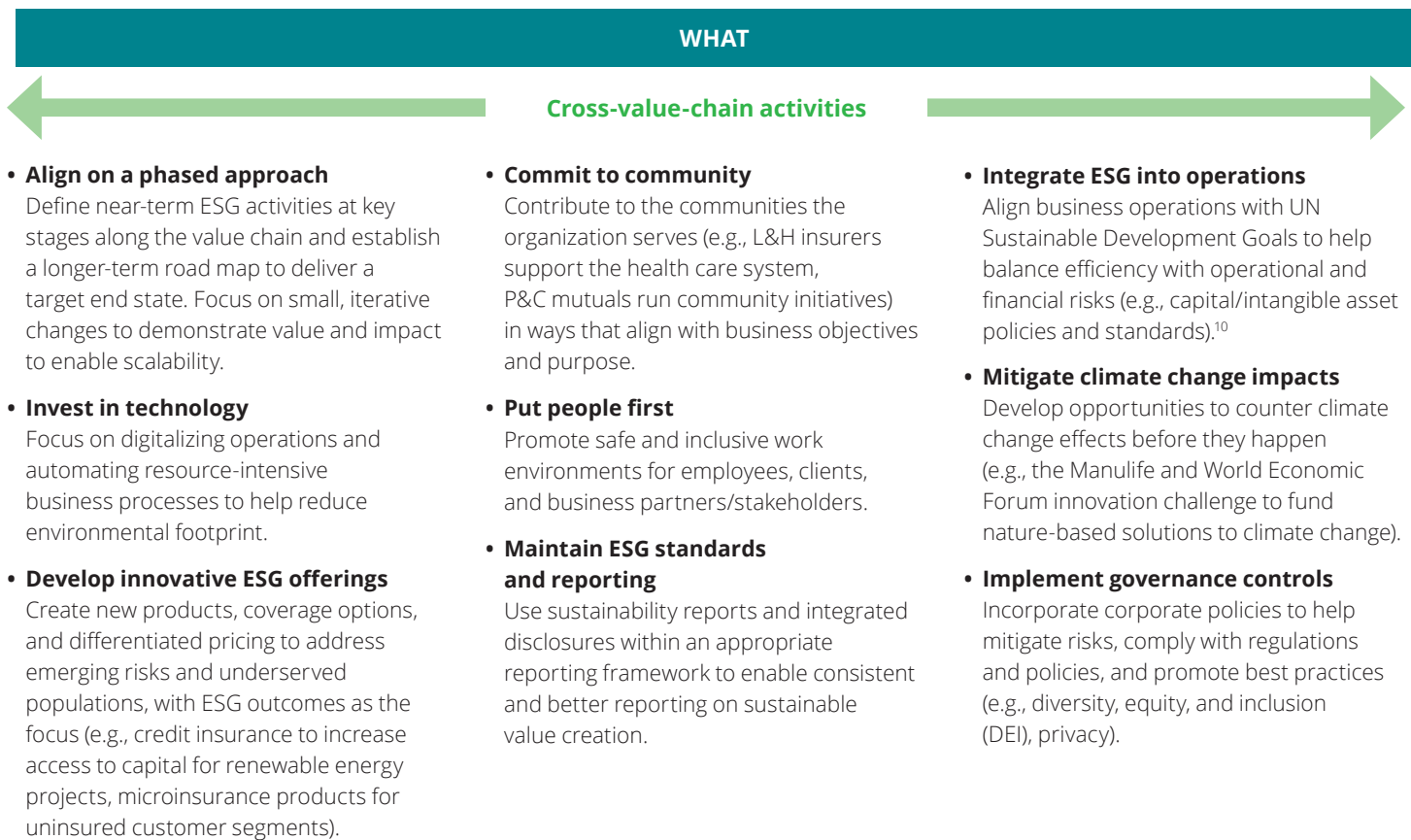
# What some insurers are already doing

Figure 2B

WHAT		
Value chain	Area	Existing examples
Discovery	S	PolicyAdvisor is a digital aggregator that provides an easy-to-access digital quoting experience that enables more affordable and more equitable access to impartial advice on insurance products from multiple insurers for underserved customer groups. <sup>3</sup>
Products & pricing	E	Aviva stopped insuring stand-alone operational fossil-fuel power generation in the London market in 2019, replacing the product with a renewable-energy insurance offering that has enabled it to insure some of the world's largest solar and wind farms. <sup>4</sup>
Quoting & advice	S	Aegon's qualitative-to-quantitative pilot program offers an instant-quote app for intermediaries to increase the consistency, efficiency, and fairness of quotes, which has improved customer-acceptance rates and reduced processing times by more than 95%. <sup>5</sup>
Underwriting	E	AXA integrated ESG data in its underwriting methodologies; tactically, this has enabled it to ban property and construction covers for coal mines, coal plants, oil-sands extraction sites/pipelines, and drilling in the Arctic region. <sup>6</sup>
Claims & servicing	E	Sedgwick's repair solutions division has reduced the environmental impact of on-site repairs through its alternative restoration approaches and sustainable claims guidance. <sup>7</sup>
Capital & risk control	G	Allianz integrates sustainability into its investment and asset management solutions, investing almost €132 billion of proprietary assets and €360 billion of third-party assets under management in 2022 alone and boosting its overall efforts toward portfolio decarbonization. <sup>8</sup>
Engagement	S	Foresters partnered with Dacadoo to embed wellness and behavioural science into the post-purchase experience in order to inspire and reward healthy lifestyles and wellness-focused objectives. <sup>9</sup>



## Initiate change across the enterprise

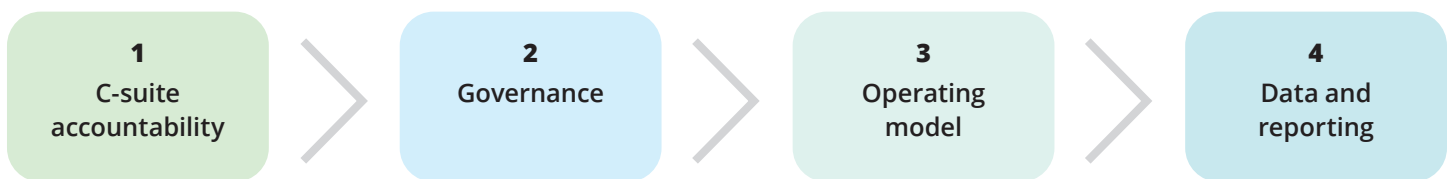


Insurers should think about where they can differentiate across the value chain to connect ESG with their purpose and strategy.

Because each player in the insurance sector is unique, so too will be the end-to-end approaches to embedding ESG priorities into business operations and activities across the value chain. Not every insurer will be able to develop best practices across all business activities, but **those that are able to differentiate themselves are also positioned to move beyond baseline compliance and into their own holistic and strategy-driven ESG approach.**

## Bring ESG impact to life

Once your organization has aligned on the **why** and the **what** of its ESG strategy, the next step is to turn attention to the **how**—as in **how to operationalize your ESG strategy and make it work in practice**. While there are a number of critical enablers to bringing it to life, the following four are essential to effectively plan and operationalize your ESG strategy:



### 1 > C-suite accountability

Ensuring ESG accountability at the C-suite level is imperative to both strategy formation and operationalization. Accountability may sit with a single leader, such as a chief sustainability officer, or be shared among several leaders, depending on the organization's size and ESG maturity. To be effective, all C-suite executives need to take a certain amount of responsibility—**a successful ESG strategy cannot be built or delivered in isolation.**

ESG-focused leaders **connect the organization's ESG strategy to developments in the marketplace and play a key role in driving change in the organization.** They help guide the board, CEO, and other executives in developing a functional strategy, bringing research from the market, experience in more technical areas such as regulatory and legal compliance, and an understanding of the company's broader business plan.

### 2 > Governance

**Establishing appropriate forums where ESG is managed from a governance perspective will improve the monitoring of strategy execution and effectiveness.** Armed with an understanding of the company's ESG goals, including how each one may affect their specific lines of business, leaders can go back to their

functions to disseminate key messaging and ensure that all ESG activities are aligned to the organization's broader strategy. Governance should be designed at multiple levels (board, leadership, functional) to drive accountability, visibility, and clear outcomes tied to the ESG strategy.



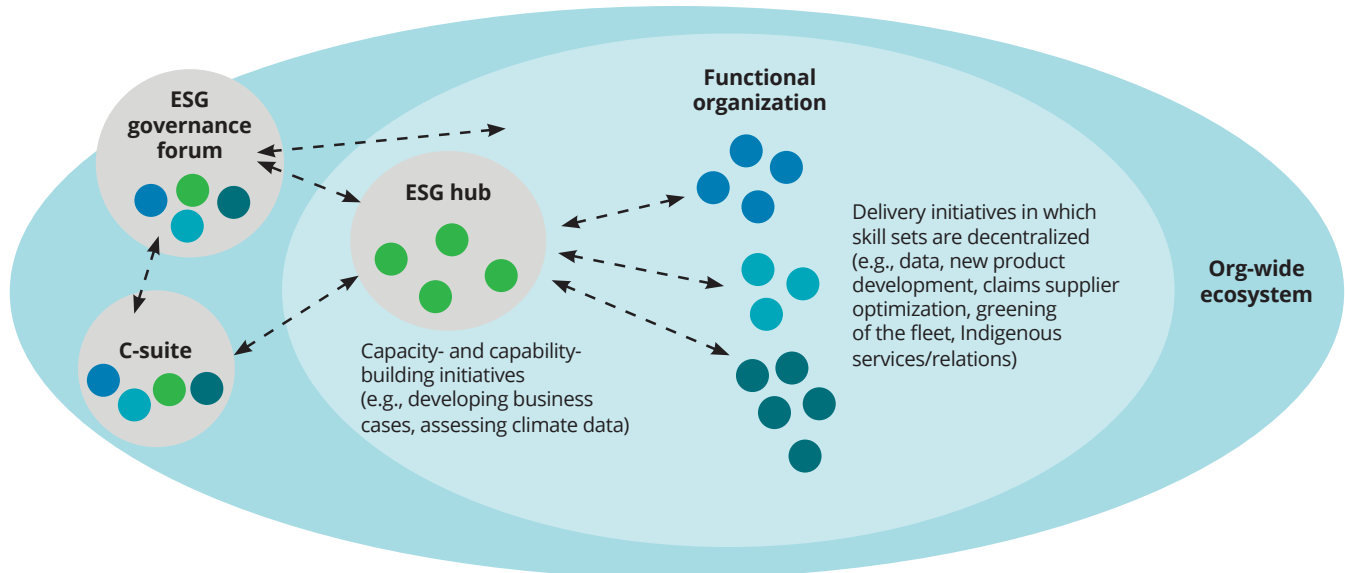
### 3 > Operating model

Given the cross-functional nature of ESG, the operating model that most organizations gravitate to is the **hub and spoke**. This choice is meant to ensure that their ESG strategy and outcomes receive the focus and seniority needed to be achieved, and allows for **flexible, business-driven delivery alongside other initiatives**. It's also intended to foster agile innovation that can be rapidly developed within the hub and then deployed to business units across the organization.

The ESG hub can be used for both **internal ESG considerations** (e.g., net-zero commitments, net-zero underwriting and claims, DEI, greenhouse gas emissions

tracking) and **those that are external** (e.g., product sustainability, social considerations in new advertisements, ethical supply chains). Leaders in an ESG hub require a **mix of technical expertise and business-line knowledge**, allowing them to act as advisor-leaders who can empathize with and understand the needs of the business. Those tasked with specific initiatives across the broader organization can then bring their capabilities to the job at hand. For example, climate-data experts may bring proficiency and capacity to a real estate team that's considering a sustainable retrofit of an office.

Figure 3



Note:

- Blue dots represent different functional groups and business units across the organization.
- Green dots represent the ESG hub.



## 4 > Data and reporting

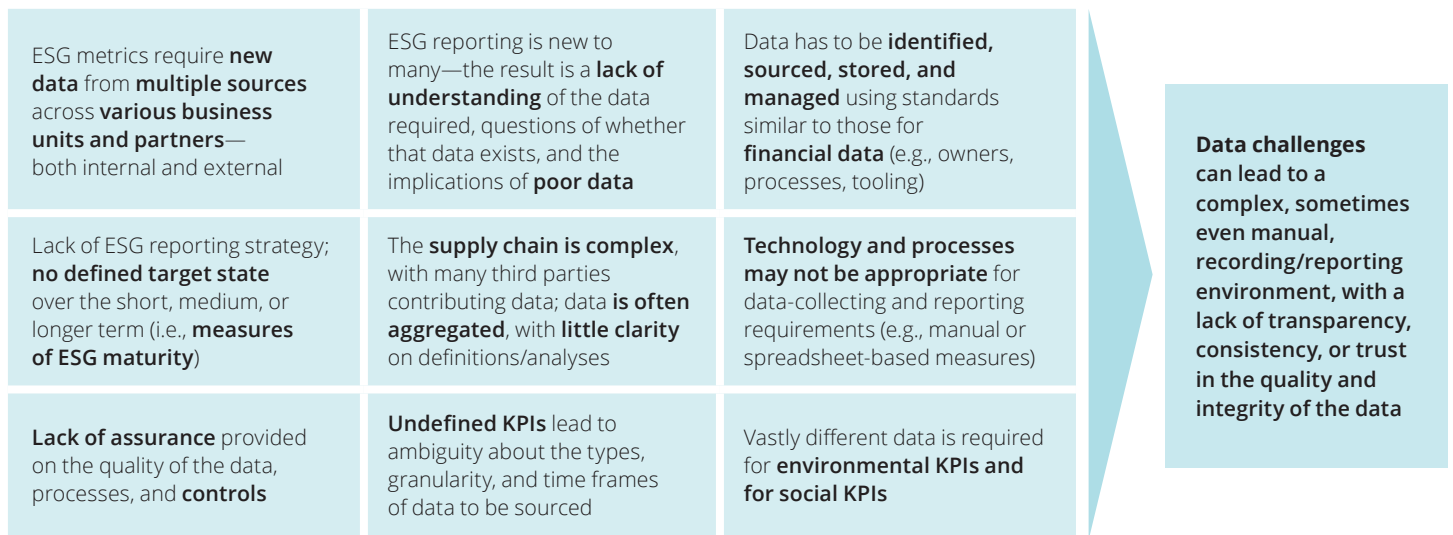
### Data

As regulatory requirements for reporting on existing and emerging ESG-related risks increase, **a considerable amount of data needs to be accessed, stored, and analyzed.** Insurers need to understand all regulatory and broader ESG requirements and catalogue any data they currently store, the extent of controls applied to the required data, the granularity and frequency of the data available, and the ownership of that data across the organization. As stakeholder and regulatory focus on ESG increases, the quality, consistency, and reliability of this data will be expected to improve, making it **vital to have a robust data-strategy and implementation plan.**

Data considerations become relevant in the ESG journey once an organization has determined what is material to its risk profile, such as the impact of extreme-weather events like floods. These decisions allow the metrics that will be measured and monitored—as well as the data required to populate each one—to be defined. Achieving defined ESG priorities through such metrics supports the organization in realizing its target state. **The gaps between the current environment and that target state can then be evaluated and addressed in terms of people, processes, data, analytics, and other technology.**

A successful end-to-end ESG solution will be multifaceted and require coordination and collaboration between multiple business lines and disciplines. In addition, due to the frequent changes and refinements that will occur across the ESG landscape, such a solution must be highly adaptable and scalable. For this reason, an iterative approach to implementation is often best, wherein a minimum viable product (MVP) can be delivered quickly while more advanced requirements continue to be refined.

Figure 4—Key data challenges

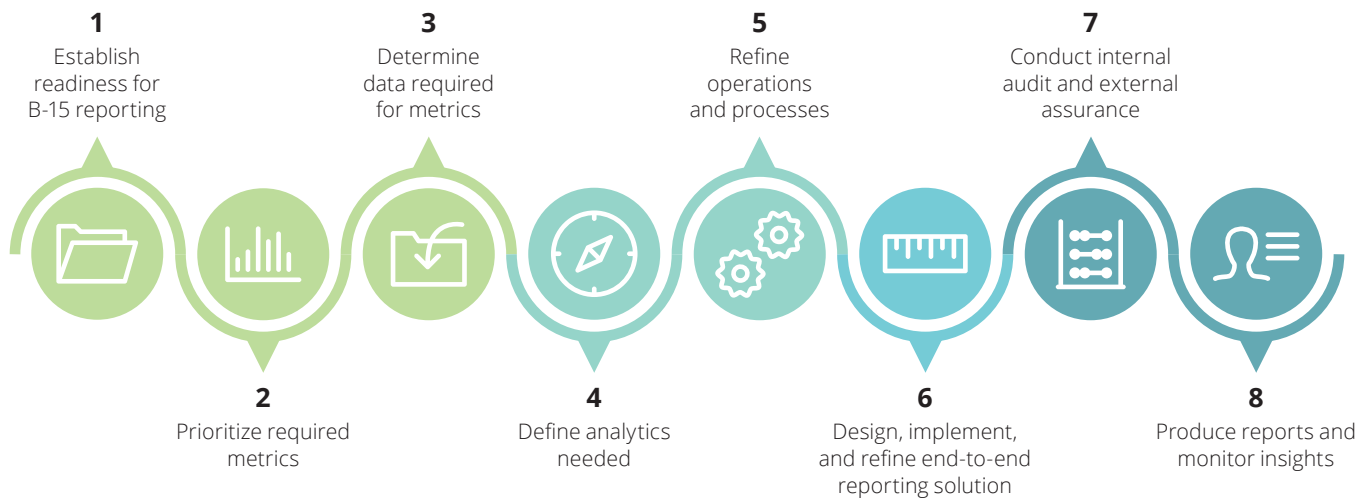


## Reporting

While OSFI has stated that Canadian insurers will need to align their ESG reporting and governance with TCFD standards through Draft Guideline B-15, there are other regulators and standard-setters around the world (e.g., SASB, CSA, ISSB) that have issued **proposals on ESG reporting—each with its own principles and goals**. While it's expected these reporting frameworks will converge in time, at this stage, insurers should focus on the **selection of a framework and subsequent materiality assessments as a**

**critical next step** in narrowing down the **how** of their reporting. Your organization may decide to select elements from different frameworks at the outset of your reporting journey to align with your ESG ambitions. In theory, there is no limit to the number of frameworks that can be reported on, but each will bring an additional layer of complexity. Your organization may wish to **select a more flexible framework to appeal to a broader audience**.

Figure 5—ESG reporting implementation approach



## Consider where to go from here

The many benefits of having a clearly articulated ESG strategy as part of an organization's overarching strategy and purpose represent **a great opportunity for today's executive leadership**. However, the work required to realize success, let alone start along the ESG path, can seem daunting. Getting there will not look the same for every insurance organization, but it can be helpful to start with three key steps:



**1**

Align on your **why** and connect it to your organizational purpose and strategy.



**2**

Use your why to help you define your **what**—what your organization will commit to and your strategy for achieving it across the insurance value chain.







**3**

Develop an action plan for **how** your organization will execute its ESG strategy through clear roles and responsibilities, an effective governance forum, and alignment on the data needed to generate impactful and measurable reporting.

Deloitte's ESG specialists have served both insurers and non-insurance organizations in Canada and around the world, defining fit-for-purpose strategies that have helped our clients move from meeting minimum disclosure metrics to developing and executing ESG action plans.

# How we have helped our clients on their ESG journey

Figure 6

 <b>Strategy</b> <i>Confronting the sustainability challenge</i>	 <b>Operations</b> <i>Configuring to execute on ESG opportunities</i>	 <b>Finance</b> <i>Obtaining and allocating funds</i>	 <b>Reporting</b> <i>Communicating results responsibly, with confidence</i>
Portfolio decarbonization	Actuarial platform modernization	Carbon trading markets	ESG readiness and assurance
ESG underwriting	ESG risk-measurement implementation	Restructuring	ESG data and governance
Corporate governance	ESG operating-model transformation	Incentivized underwriting	ESG integrated reporting
DEI	ESG transformation office	Capital planning and management	Regulatory disclosure and adherence
Claims vendor assessment and selection	ESG data-processing design	Investment risk management	ESG data-management and controls
Real estate/location	Regulatory processes implementation	ESG due diligence	Stakeholder relations and communications

Whether your organization is in the early days of defining its ESG strategy or well into tracking and reporting, the next leg of your journey begins with a single step.

## Endnotes

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A special thank you to

**Carolyn Murnaghan,**  
**Sree Balakrishnan, Tracy Dunbar,**  
**Megan Long, Thomas MacIntosh,**  
and **Hayley Square** for their help  
in developing this report.

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