National Insurance Alliance Limited

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"Let's Talk About Green Insurance (Part 3)"

In part 2 of our running series on Green Insurance, NIACE shared and stressed the pivotal role that insurance companies play and will continue to play for the "green switch". In the third and final part, we will be taking a closer look at how ESG indicators can be an accurate predictor of a company's ESG risk and how that risk is correlated to the profitability of the insurance industry.

ESG initiatives and indicators have become one of the main factors that investors evaluate before making an investment decision. However, there currently is no discussion about a company's ESG risk and the potential impacts it might have on insurance companies.

According to research conducted by Allianz in 2021, there is a correlation between a company's ESG score and the likelihood of it experiencing business disruption due to extreme climate events. Simply put, the less ESG initiatives a company has and/or is currently planning, the more likely it will experience some form of business disruption due to extreme climate events in the future. Current ESG scores can predict future environmental impact on the company because environmental efforts compound into the future. Essentially, if a company starts to play their part to mitigate climate risk, then it is more likely that the future environmental situation would be favourable and chances of climate-linked business disruption would be lower.

The findings are further backed up by data showing that the past few years have seen a growing number of natural disasters and it is only projected to increase in the next few years. Additionally, dollar value losses (both economic and insured) stemming from natural disasters are also on the rise coupled with increased activity in insurance-linked securities such as catastrophe bonds suggesting that there is an increasing opportunity and argument for green insurance or "impact underwriting".

Similar to impact finance where banks finance green projects that meet regulatory requirements, impact underwriting is the concept of insurance companies underwriting policies that have embedded ESG clauses (the embedded ESG clauses is what make the insurance policy green) that companies and/or individuals have to adhere in order to hold and classify their policy as green. This gives rise to a dual dividend situation where underwriters can profit from an increased demand in asset insurance by underwriting more policies while being in a unique position to drive ESG initiatives which will benefit the society.

Through impact underwriting, the insurance industry has the collective ability to effectively drive companies to incorporate ESG initiatives into their daily operations by rewarding companies with lower premiums for holding green insurance policies and penalizing those that do not with higher premiums. Additionally, affirmative and negative covenants can be introduced into green underwriting that ensures companies do not take on more and or limit their environmentally harmful practices in order for them to qualify for green insurance

As firm believers in the global push for a greener world, the management team at NIACE are working with our partners, insurance underwriters and industry stakeholders to drive positive change for the environment. NIACE will continue to assist and participate in assessing the feasibility of green insurance and we hope that our contributions will bring about change to the world as we look to a cleaner and greener future together.