Key themes: Integrating sustainability into underwriting and management data in sustainability programmes

We were delighted to host risk and sustainability professionals at our office on Ludgate Hill and facilitate a very engaged conversation about the practical challenges of embedding sustainability into business strategy.

We created a LinkedIn group for the Sustainability Risk Function to connect with like-minded individuals, encouraging them to share insights and feedback. Their contributions play a key role in shaping and growing the group.

Topic one. Measuring progress with integrating sustainability into underwriting.

Best practice is known

The group recognised that implementing sustainability into underwriting is becoming clearer in terms of what needs to be done and how to do so. Organisations remain relatively reticent to take the plunge.

Making the case remains still challenging

The ability to articulate the business case as to 'why this should be done' and 'why now' remains a significant challenge. There was a view that the last six months has been particularly challenging, with political signalling on both sides of the Atlantic, potentially holding insurance executives back. There is insufficient pressure yet from regulation, nor conversely sufficient regulatory incentives, such as capital credits to make a difference.

Internal engagement continues and data related to insurance associated emissions is helpful. However, most organisations are in the awareness building and education phase for boards and executives. Traction remains slow and this is not helped by concerns over the robustness of data.

Defensive approaches

Most organisations consider they are playing a defensive game on sustainable underwriting in terms of remaining within the pack, from a reputational risk perspective. Organisations feel that they are keeping in line with current regulatory expectations and there is insufficient client demand to drive change.

The risk of doing nothing is not yet threatening enough in terms of the potential to lose business or client relationships.

Offensive approaches

The positive case for change is partly about commercial opportunities but equally about an organisation's core purpose. All organisations are interested in innovation and the development of new products. In many cases it maybe more a case of adapting existing risk financial solutions to exploit new sectors and technologies emerging from the transition. There was some debate about the role of Lloyd's new Transition Code in encouraging new solutions to be tested and evolved. Perhaps brokers have a greater role to play in creating a viable commercial marketplace for these new solutions?

In a few cases, however, the core purpose and strategy of particularly start-up organisations may be focused on integrating sustainability into what they do from the outset.

Reflecting however on the outcomes of the Euro 2024 clash between France (the best defence) against Spain (the best offence) perhaps gives a hint for the future.

Interesting to see where the competitive advantage lies in the future.

Topic two. Management information and data as used in sustainability programmes.

The second topic of discussion focused on the challenges of underwriting associated data and management information and whether this was sufficiently mature to support decision making.

Immature market

The general feeling was that most organisations know what good looks like and there are tangible examples that can be drawn from investment and asset management. Unfortunately, data sources and models are not there yet. The analogy was drawn to where catastrophe risk models were 15-20 years ago.

This means that the work being done now is foundational but is part of a long-term journey, rather than a solution that can be used to inform risk selection and pricing today.

Core underwriting data

A key learning for several organisations was that the data challenges are not purely associated with third party ESG or climate data but exist closer to home. Many organisations are finding that their core underwriting data related to the client industries, sectors and geographies are not sufficiently robust to support ESG scoring or insurance associated emission calculations.

This is a double-edged sword, as the business case for data enhancement and quality management is now broader than just about sustainability and could positively impact underwriting effectiveness and the potential for application of automation.

Inconsistent data

A key concern was the lack of consistent and standardised sustainability datasets. There was increasing scepticism about ESG ratings, with one participant thinking their day had passed. More insurers are now more interested in drilling down into the underlying performance data.

A number of participants also involved in responding to ESG rating agency data calls and surveys expressed concerns regarding how these were handled and reflected that the quality of the data collected was partly dependent on the rating agency's methodology and partly on the commitment of the relevant organisation to providing or correcting reported ESG data. Again, there was a hope for consolidation within the ESG rating agency sector and increased alignment of reporting.

Public reporting

Until recently, access to ESG data was hampered by public reporting largely limited to public listed companies. However, greenhouse gas emission data is becoming more easily accessed in. Streamlined environmental and climate reporting (SECR) applies to larger private companies (currently over a threshold of £36 million (turnover) and/or £16m balance sheet. The implementation of the Corporate Sustainability Reporting Directive (CSRD) across the European Union will start to apply to private companies with €50m turnover and/or €25m balance sheets from YE2025 and will be subject to external audit independent assurance review. It was felt that this increase disclosure and particularly independent validation would bring enhanced data quality in time.

Conclusion

Both parts of the meeting highlighted that implementing sustainability is a change management exercise and requires the sustainability team to be closely engaged with colleagues on a cross-functional basis. Whether it is engaging with underwriters or driving data quality enhancement programmes, these are time-consuming projects requiring senior management sponsorship and appropriate resources to be successful.

Start the conversation

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