GUERNSEY'S INSURANCE ESG FRAMEWORK, ONE YEAR ON - LESSONS LEARNT

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The Guernsey International Insurance Association (GIIA) introduced its world-leading ESG Framework with an accreditation kitemark in May 2021, created to help its members manage ESG opportunities and risk, and deliver positive ESG impact.

Guernsey is a member of the UN's Sustainable Insurance Forum and GIIA is a signatory to the United Nations' Sustainable Insurance Principles.

At WE ARE GUERNSEY's HUB Sessions at Airmic in June, Robus Group Director Adele Gale, who led the development of the Framework as Deputy Chair of GIIA, and Aon Managing Director Paul Sykes discussed the first 12 months with Walkers Partner Kate Storey.

Why was the Framework necessary for the insurance industry, and what were its objectives?

AG: Investors now want to know how their capital, savings and pensions are being invested and what social and environmental impact those investments are having. In response, the Task Force for Climate Related Disclosures developed their Framework under which UK companies make consistent disclosures on their environmental impact. From 2023, the Sustainability Disclosure Requirements come into force incorporating social impact. Many of Guernsey's 700+ insurance licensed entities were not directly impacted by these requirements in 2020, but had an appetite to become ESG 'fit'. As a signatory to the UN's Principles or Sustainable Insurance (PSI), GIIA recognised the need for a principle-based practical guide to assist our Guernsey entities in measuring their impact and articulating their contribution to ESG initiatives. We wanted accessible guidance which started conversations and nurtured initiatives in sustainability, as well as recognise the many Guernsey entities set up to do good.

What are some of the technical elements of the Framework?

AG: To adhere to the Framework the requirements of four pillars must be met: Pillar 1 requires embedding ESG principles within the governance and decision-making processes of the insurer, which must be a member of GIIA or managed by an member. GIIA works to raise awareness of the environmental and social impact of insurers and to develop solutions alongside Government and the Regulator. An assessment of how the risks underwritten contribute to achieving the UN's Sustainable Development Goals (SDGs) is needed to meet the requirements of Pillar 2. Pillar 3 mandates that Investments held meet the 'do not harm' threshold with various rating tools being acceptable. Pillar 4 requires a public statement of adherence.

There is a kitemark available, which relies on the compliance culture pre-existing in Guernsey which is typical of the regulated insurance market.

How has the Framework been received with clients? Is there demand for a more sustainable and ESG-centred approach?

PS: Clients have reacted positively. At Aon, we have referred to ESG as being a "social licence to operate" but also think of it as "the new 'All Risks' of Insurance", considering some of the real-world situations we are facing, such as the greatest public health crisis of a lifetime, a new velocity of catastrophic weather events, supply chain impacts of the pandemic, the Ukraine conflict and Brexit. These conflate to generate various secondary crises and effects on the economy through inflation and the increasing cost of living, which sits at odds with a jobs crisis like we haven't seen before, where there are more jobs than workers to do them.

These circumstances result from the interconnectedness of risks, creating more uncertainty and volatility and therefore more unmet need amongst our clients. The Framework has provided a 'handrail' as we help clients navigate this new 'all-risks' landscape and make better decisions for their business and stakeholders.

There are also wider societal impacts and stakeholders to consider. ESG has transitioned into more of a cultural shift. For businesses selling to Generation Z, employers must demonstrate authentic ESG credentials and purpose to attract younger talent. For this generation, making a difference in society may be most important. We can predict, therefore, that demand will continue for a more sustainable approach.

Is the Framework being taken up by newly-formed insurers, or existing clients?

PS: It is being adopted by both new and existing clients. Two publicly available examples: Replexus (Guernsey) ICC was the first Guernsey insurer to embrace it. This was fitting in that it houses a client cell, Dunant Re IC, for the Danish Red Cross. Guernsey's green credentials were of utmost importance in Replexus' decision to operate from Guernsey. Dunant Re issued the world's first humanitarian catastrophe bond for the Danish Red Cross to provide protection for 10 volcanoes around the world upon the occurrence of a catastrophe.

Another early adopter was AGP Insurance (Guernsey) Ltd, the long-standing captive of electronics giant Acer Group. They demonstrated commitment to the Framework's four pillars. The risk underwriting facilitates the growth of economic and industrial welfare, contributing to meeting the UN SDGs. On the investment side, AGP holds assets with ESG ratings of good or better.

What is the process of implementing the Framework?

AG: For Robus, the Framework typically provides practical application support for the client's wider ESG strategy. We talk about the Framework and Robus' own established ESG policy with our clients, prospects, and service providers, helping them assess the benefits. We now have 15 entities on board.

Is one pillar more difficult to implement than others?

AG: The Framework is less something to achieve and more a process to embed and evolve. Saying that, total impact assessment tools and 'follow-the-risk' methodologies are at an early stage of development for insurance, and the hardest challenge facing our industry is to consistently and comparably calculate scope 3 emissions (indirect emissions that occur in a company's value chain) and social impact from underwriting activities (Pillar 2).

What have been your experiences in implementing the Framework over the past year?

PS: For those with a degree of cynicism, perhaps derived from concerns about 'greenwashing', I go back to the 'handrail' analogy - we use it to help clients navigate the ESG landscape and shape decisions for the better, to help businesses thrive, to protect and enrich the lives of people and their communities whilst simultaneously allowing our clients to flourish.

How does Guernsey's ESG approach compare your other offices?

PS: Aon's green captive model has operated successfully for clients in Sweden, Switzerland, Holland and Italy so far. It has the UN PSI in common with GIIA's Framework, so approaches are similar in Europe. However, ESG can be interpreted differently across continents. In Europe, Climate Change (the E) is a significant priority of the ESG agenda, while the S is a bigger issue for North America.

What are the next developments for Guernsey?

PS: I expect Guernsey to maintain a leading position, but act proportionately, with a drive towards greater transparency as a means of winning and maintaining stakeholder trust and loyalty.

L-R: Kate Storey, Adele Gale and Paul Sykes discussing GIIA's ESG Framework at an Airmic HUB session.

PO Box 655, St Peter Port,
Guernsey, GY1 3PN
+44 (0)1481 720071
INFO@WEAREGUERNSEY.COM

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