INSURANCE Research Brief

SASB’s Industry Research Brief provides evidence for the material sustainability issues in the industry. The brief opens with a summary of the industry, including relevant legislative and regulatory trends and sustainability risks and opportunities. Following this, evidence for each material sustainability issue (in the categories of Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance) is presented. SASB’s Industry Brief can be used to understand the research and data underlying SASB Sustainability Accounting Standards. For accounting metrics and disclosure guidance, please see SASB’s Sustainability Accounting Standards. For information about the legal basis for SASB and SASB’s standards development process, please see the Conceptual Framework.

SASB identifies the minimum set of sustainability issues likely to be material for companies within a given industry. However, the final determination of materiality is the onus of the company.

Related Documents

- Financials Sustainability Accounting Standards
- Industry Working Group Participants
- SASB Conceptual Framework
- Example of Integrated Disclosure in Form 10-K

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MATERIAL SUSTAINABILITY ISSUES

Environment
• Environmental Risk Exposure

Social Capital
• Plan Performance

Business Model & Innovation
• Integration of Environmental, Social, and Governance Risk Factors in Investment Management
• Policies Designed to Incentivize Responsible Behavior

Leadership & Governance
• Systemic Risk Management

INTRODUCTION

Insurance companies play an essential role in society, providing products and services that enable the transfer, pooling, and sharing of risk necessary for a well-functioning economy. However, insurance products can also create a form of moral hazard, lowering incentives to improve underlying behavior and performance and contributing to sustainability impact. Insurance companies that are able to address these and other externalities, including systemic risk and the impact of their investment portfolios, will likely be well positioned to protect shareholder value, as performance on key sustainability issues increasingly contributes to market value. Additionally, the management (or mismanagement) of key sustainability factors has the potential to affect traditional valuation by impacting profits, assets, liabilities, and cost of capital.

To ensure that shareholders are able to evaluate these factors, insurance companies should report on the sustainability risks and opportunities that materially affect value in the near and long term. Enhanced reporting will provide stakeholders with a more holistic (and comparable) view of performance that includes both positive and negative externalities, and the non-financial forms of capital that the insurance industry relies on to create long-term value.

The sustainability issues that will drive competitiveness within the insurance industry include:

• Addressing the potential risks to insured properties associated with global climate change and other environmental risks
• Retaining customers through timely claim management and transparent information
• Integrating environmental, social, and governance risk factors into investment management
• Developing new policies and products that incentivize responsible behavior
• Managing systemic risk

The extent to which these sustainability factors impact value will become increasingly clear as regulations continue to emphasize oversight and accountability and technology better allows companies to integrate emerging challenges and opportunities into product development and risk analysis.
INDUSTRY SUMMARY

The insurance industry is primarily comprised of companies that act as agents, brokers, and underwriters of insurance policies. Policies are intended to protect individuals, businesses, and agencies against losses that may occur due to damage, liability, or other risks. Companies in this industry offer a range of policy lines, including life, supplemental health, property, casualty, automobile, liability, and reinsurance.1

Insurance premiums, underwriting profits, and investment income drive industry growth, while insurance claim payments present the most significant cost and source of uncertainty for profits. Industry growth drivers are closely correlated with interest rates and the state of financial markets, as a majority of income is generated through the investment of premiums prior to claim payments. Market demand for products and services is generally associated with drivers that are specific to certain industry segments. Rates of per capita disposable income impact the demand for auto, home, and other asset insurance products. The life insurance market is closely associated with household savings rates, and demand for new products is driven in part by increased wealth and life expectancy. The industry also faces emerging issues including terrorism, climate change, and internet security. Advances in mobile technology and the ability to collect and analyze real-time data will create significant opportunities for improved efficiency, increased revenue, and greater customer satisfaction.

LEGISLATIVE & REGULATORY TRENDS IN THE INSURANCE INDUSTRY

The regulatory environment that governs the insurance industry in the U.S. remains largely fragmented with state-level policies and oversight. However, national and international market trends and evolving federal regulatory efforts have the potential to impact shareholder value and sustainability performance. The following section provides a brief summary of key regulations that are likely to impact value in the industry and further amplify the importance of environmental, social, and governance issues.2

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act passed, presenting significant implications for the insurance industry. The Act includes provisions for the creation of the Federal Insurance Office, which is authorized to monitor the industry and identify gaps in state-based regulations. In addition, the newly established Financial Stability Oversight Council is charged with identifying risks to financial stability in the U.S. including those that could arise from the insurance industry. The Council also classifies financial institutions that are deemed to be systemically

1 A list of five companies representative of this industry and its activities appears in Appendix I.
2 Traditional health insurance is covered in the Managed Care industry in the Health Care sector.
3 This section does not purport to contain a comprehensive review of all regulations related to this industry, but is intended to highlight some ways in which regulatory trends are impacting the industry.
important in that their failure could have significant impacts on the U.S. economy. Currently, American International Group and Prudential have received this designation, and MetLife progressed to ‘Stage 3’ of the Council’s review process. Although the oversight rules are yet to be finalized, they will likely affect insurance companies’ capital structure and limit their ability to pay dividends and repurchase shares.1

In July 2012, Congress passed a five-year extension of the National Flood Insurance Program. As of November 2012, the program had debt of roughly $20 billion, which is expected to rise to nearly $30 billion once the claims from Hurricane Sandy are tallied.2 Congress continues to debate changes to the program, and a 2012 bill requiring that the National Flood Insurance Program charge actuarial rates, leading to increased rates for consumers, is facing the potential of delayed implementation. Although most insurance companies do not offer flood insurance, they profit from administering policies for the federal program. Regulatory changes have the potential to change current fee structures and incentivize private insurers to offer flood insurance.

The Patient Protection and Affordable Care Act (PPACA) is expected to expand the number of individuals with health insurance by an estimated 26 million people.3 IV Although the PPACA will most significantly impact the managed care industry, it is also likely to affect the market for supplemental health insurance and potentially life insurance, which are both offered by companies in this industry.

In addition to regulatory changes in the U.S., many companies in this industry are exposed to evolving regulations in emerging markets. For example, in 2002 India required all insurers doing business in the country to provide insurance to low income groups. This law mandates that in a company’s first business year, seven percent of new life insurance policies have to be provided to policyholders in rural areas. This requirement increases to 20 percent over 10 years.4 Although this represents a singular case, it demonstrates the potential for international legislation to force companies to develop new product models that address societal needs.

SUSTAINABILITY-RELATED RISKS & OPPORTUNITIES

Recent legislative efforts and a rapid increase in the prevalence of mobile technology continue to place further emphasis on the customer in the insurance industry. This trend, coupled with the availability of real-time analytics and a variety of new risks and opportunities associated with global climate change, terrorism, and internet security, demonstrate the importance of sustainability issues in the insurance industry. As these non-traditional market forces continue to align the interests of society with those of long-term investors, companies that are better able to manage all forms of capital and limit negative externalities will be better positioned to protect shareholder value in the long run.

IV Estimates range between 26 and 30 million for the number of people will become insured under the PPACA.
The following section provides a brief description of how the insurance industry depends on each form of capital and how specific sustainability issues will drive performance including evidence and value impact. Issues are divided into five categories: Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance. A table indicating the nature of the value impact and evidence of interest from stakeholders appears in Appendix IIA. Appendix IIB expands on the channels of financial impacts of each sustainability issue. The recommended disclosure framework appears in Appendix III.

ENVIRONMENT

The environmental dimension of sustainability includes corporate impact on the environment, either through the use of non-renewable natural resources as input to the factors of production (e.g., water, minerals, ecosystems, and biodiversity) or through environmental externalities or other harmful releases in the environment, such as air and water pollution, waste disposal, and greenhouse gas emissions.

Relative to other industries, insurance companies do not engage in activities that have a direct impact on the environment, nor do they depend on natural resources. However, companies in this industry are heavily impacted by the increased frequency of extreme weather events associated with climate change, as it creates a direct impact on the likelihood of claim payments for certain insurance products (e.g., property). As these risks and opportunities become increasingly apparent, investors must understand how insurance companies manage key issues relating to environmental capital.

Environmental Risk Exposure

Catastrophe losses associated with extreme weather events will continue to have a material and adverse impact on the insurance industry. The extent of this impact is likely to evolve as climate change increases the frequency and severity of both modeled and non-modeled natural catastrophes, including hurricanes, floods, and droughts.

The insurance industry's limited reporting on risks related to climate change prompted insurance commissioners in California, New York, and Washington to require additional disclosures. Subsequently, insurance companies writing more than $300 million in policies nationwide will be required to disclose how they intend to respond to the risks their businesses and customers face from the increased frequency of extreme weather events associated with global climate change. The new disclosure requirements include how companies are integrating climate change into their analysis, pricing, and overall exposure.

Insurance companies that integrate climate change into their analysis, pricing, and overall exposure will be better positioned to protect shareholder value. Enhanced disclosure on this integration, in addition to probable maximum loss, total losses, and the mitigation of risk, will
provide investors with the information necessary to assess current and future performance on this issue.

**Evidence**

In 2013, natural catastrophes in the North America caused insured losses of $17 billion, compared to a 1980–2012 mean of $19.4 billion. Globally, insured losses totaled $31 billion in 2013, which was significantly lower than the $56 billion average of the last ten years. Although 2013 presented a below-average year in terms of losses, weather-related catastrophes continued to generate the most significant losses, demonstrating the significance of this issue.

Although a single weather event cannot conclusively be attributed to climate change, evidence indicates that an increase in extreme weather events will be a consequence of rising temperatures. Therefore, events such as Hurricane Sandy, which generated $35 billion in insured losses in 2012, are likely to become more frequent.

In 2013, AIG announced that Hurricane Sandy resulted in $2 billion in losses, contributing to a net loss of $4 billion for the fourth quarter of 2012. The company reports that “natural disasters, such as hurricanes, earthquakes and other catastrophes, have the potential to adversely affect our operating results.” Further, the company reports that “the majority of policies exposed to catastrophic events are one-year contracts allowing us to quickly adjust our exposure to catastrophic events if climate changes or other events increase the frequency or severity of catastrophes.”

Allstate’s fourth quarter profit fell by 45 percent in 2013 as a result of losses from Hurricane Sandy. The company recorded $1.12 billion in losses associated with the storm. Allstate reports that “climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires, the affordability and availability of homeowners insurance, and the results for our Allstate Protection segment.”

**Value Impact**

The failure to adequately manage environmental risk exposure has the potential to result in increased benefit payments and reduced profit. Further, increased probability of one-time catastrophic events can raise the risk profile of insurance companies, resulting in increased cost of capital. Environmental risk exposure can affect both tangible and intangible assets in the long term as this issue becomes increasingly material for the insurance industry—requiring more capital to shore-up increased risk and affecting companies’ reputation.

**SOCIAL CAPITAL**

Social capital relates to the perceived role of business in society, or the expectation of business contribution to society in return for its license to operate. It addresses the management of relationships with key outside stakeholders, such as customers, local communities, the public, and the government. It includes
issues around access to products and services, affordability, responsible business practices in marketing, and customer privacy.

Insurance companies rely on state licenses to operate and benefit from quasi-mandatory schemes for many of their products (e.g., auto insurance is required to drive a car). Subsequently, the industry is dependent on social capital and the ability to maintain these licenses through the adequate provision of services to customers. A recent market shift toward consumer interests will place further emphasis on the importance of social capital. Companies that are able to manage the risks and opportunities associated with social capital will be better positioned to create and protect long-term value.

Plan Performance

Insurance companies compete on the basis of price, brand reputation, services offered, and customer relationships. As financial regulators continue to emphasize consumer protection and accountability, firms that are able to ensure strong plan performance will be better positioned to protect shareholder value. Although insurance is regulated by individual states, there has been a similar effort by states to enact consumer protections and ensure that claims are handled adequately with proper disclosures. Plan performance is also a major focus of independent rating agencies that examine the timeliness of claim payments, the availability of information, and the fairness of pricing.

Insurance companies that are able to ensure timely claim payments and transparent information will be better positioned to retain customers and protect shareholder value.

Evidence

State and federal regulators play an active role in protecting their constituents in many aspects of the insurance industry. For example, in November 2012 the Governor of New York introduced new policies to evaluate how insurers in the state responded to claims associated with Superstorm Sandy. The plan required that the number and size of claims handled by over 20 companies be disclosed. Further, the time limit for insurers to send adjusters to homes was reduced from 15 to six days. Companies that failed to meet the state’s new standard could potentially lose their license to operate.

Plan performance is also driven by competition among insurance providers, as consumers increasingly benefit from a transparent marketplace for insurance, driven by technology and regulation. As a result, the number of customers who switch insurance providers continues to increase, emphasizing the importance of plan performance. For example, a recent study by J.D. Power and Associates suggests that although auto insurance shopping has reached its lowest point in five years, 43 percent of those shoppers switched providers. This marks the highest rate since the study began in 2008.
Value Impact

The ability to provide competitive plans in terms of performance, pricing, and transparency directly impact the volume of policies a company is able to underwrite. Those who perform well in these areas will be better positioned to retain clients and capture new market share, increasing revenue. In the long term, strong plan performance will likely have an impact on reputation and, therefore, intangible assets. In addition, close attention of state and federal regulators on this issue can impact insurers’ risk profile, as regulation can impose restrictions on activities or impose unexpected cost on insurers.

HUMAN CAPITAL

Human capital addresses the management of a company’s human resources (employees and individual contractors), as a key asset to delivering long-term value. It includes factors that affect the productivity of employees, such as employee engagement, diversity, and incentives and compensation, as well as the attraction and retention of employees in highly competitive or constrained markets for specific talent, skills, or education. It also addresses the management of labor relations in industries that rely on economies of scale and compete on the price of products and services or in industries with legacy pension liabilities associated with vast workforces. Lastly, it includes the management of the health and safety of employees and the ability to create a safety culture for companies that operate in dangerous working environments.

Insurance companies rely on human capital to maintain value. However, relative to other industries in the financial sector, these companies do not face specific material risks or opportunities associated with human capital.

BUSINESS MODEL & INNOVATION

This dimension of sustainability is concerned with the impact of environmental and social factors on innovation and business models. It addresses the integration of environmental and social factors in the value creation process of companies, including resource efficiency and other innovation in the production process, as well as product innovation and looking at efficiency and responsibility in the design, use-phase, and disposal of products. It includes management of environmental and social impacts on tangible and financial assets—either a company’s own or those it manages as a fiduciary for others.

As large asset owners, insurance companies face significant risks and opportunities associated with the impact of environmental, social, and governance factors on their investment portfolios. Firms that are able to successfully integrate these issues into investment decisions will be positioned to preserve premium revenues and protect shareholder value. Companies in this industry also have the opportunity to expand societal and investor value through the development of policies that incentivize responsible behavior.
Integration of Environmental, Social, and Governance Risk Factors in Investment Management

Insurance companies are responsible for investing capital to ensure the preservation of premium revenues equivalent to expected policy claim payouts and must be able to maintain long-term asset-liability parity. As environmental, social, and governance (ESG) factors have increasingly been demonstrated to have a material impact on the performance of corporations and other assets, the integration of these factors into the management of their investments, including corporate bonds, mortgage loans, real estate, and corporate equity is likely to have a material impact on the performance of insurance companies' investments.

According to a theory of Universal Ownership, large asset owners are directly impacted by environmental and social externalities, given their long-term liabilities, and need a diversification of assets. For example, a large asset owner is likely to invest in both companies that emit large quantities of greenhouse gas emissions and companies that are directly impacted by climate change. Therefore, while it is generally a source of reduced risk in portfolio investment, diversification is also a source of increased ESG risks. Despite enhanced scrutiny, the insurance industry continues to lag behind others in adhering to voluntary standards established by organizations such as the United Nations Principles for Responsible Investment (PRI), an initiative of the world's largest asset owners (retirement funds and insurance companies) and their asset managers to recognize the importance of ESG factors and market stability in generating both short- and long-term sustainable investment returns.

Failure to address these issues could lead to diminished returns and limit a company's ability to issue claim payments. Companies should therefore enhance disclosure on how ESG is integrated into the investment of policy premiums and the portfolio risk presented by issues, including climate change and natural resource constraints.

Evidence

Demonstrating the importance of ESG factors on investment management, Munich Re became one of the first signatories to the UN PRI in 2006 and has since set out to integrate ESG issues into investment analysis and decisions. In 2012, 30 global insurance companies, worth more than $5 trillion in total assets, pledged to join a UN-backed process to promote a set of Principles for Sustainable Insurance.13

In addition to this growth in interest, numerous studies have articulated the value of incorporating ESG factors into investment decisions. According to a Deutsche Bank meta-study on sustainable investing, “100% of the academic studies agree that companies with high ratings for CSR and ESG factors have a lower cost of capital in terms of debt (loans and bonds) and equity.” Furthermore, the report indicates that “89% of the studies we examined show that companies with high ratings for ESG fac-
tors exhibit market-based outperformance, while 85% of the studies show these types of companies exhibit accounting-based outperformance.”14

The importance of these considerations to the protection of value is illustrated by Climate Change Scenarios – Implications for Strategic Asset Allocation, a 2011 study led by Mercer. The report found that climate change alone could contribute as much as 10 percent to portfolio risk over the next 20 years, while investment opportunities in low carbon technologies were predicted to reach $5 trillion by the year 2030.15

A recent United Nations Environment Programme (UNEP) report articulated the materiality of environmental risks for sovereign credit. According to the report, “a 10 percent fall in the productivity of natural resources, such as grazing land or forests, could force current trade imbalances” to increase by an equivalent of four percent of GDP due to higher dependence on imports.16

**Value Impact**

Policy premiums and return on investment portfolios provide the primary sources of revenue for the insurance industry. Return on investment is also critical to maintaining a strong balance sheet and adequate capital ratios. Insurance companies rely primarily on fixed income assets, including corporate debt, which is particularly impacted by ESG risks. As these factors affect the value of corporate bonds, insurance companies are likely to experience a corollary shift in risk/return profile of their investment portfolios. A failure to address ESG factors can decrease investment revenue and asset values, limiting the ability to cover claim payments, and therefore increasing their risk profile and cost of capital.

**Policies Designed to Incentivize Responsible Behavior**

Advances in technology and the development of new policy products have allowed insurance companies to limit claim payments while encouraging responsible behavior. The industry is subsequently in a unique position to incentivize responsible behavior and generate positive social and environmental externalities.

Policies that encourage improved social performance include safe driving discounts and life insurance policies that offer financial incentives for weight loss and smoking cessation. Examples of policies that promote positive environmental externalities include home insurance that incentivizes energy-efficient construction or protects renewable energy providers against shortfalls in production.

While such policies contribute to the social good, they are also primarily designed to reduce the incidence of triggering events for insurance payout and can therefore contribute to enhanced profitability. In addition, as insurance companies increasingly compete on plan performance (see above), products that account for policyholders’ behavior or perfor-
mance are likely to perform well with existing and new customers.

In order to demonstrate how shareholder value is being enhanced through the development of such policies, insurance companies should disclose products that incentivize responsible behavior and a low-carbon economy.

**Evidence**

Auto insurance provides an example of how incentives for improved driver safety and environmental stewardship can also improve the bottom line for insurance companies. Auto insurance companies, such as GEICO, Nationwide Mutual, and State Farm Insurance, offer policy discounts for 'good driving,' which is often defined as the lack of at-fault accidents during a given period of time. For example, Nationwide offers a 'Vanishing Deductible' program that eliminates a policyholder's deductible by $100 for every year of no-fault accidents, up to $500. The company also offers policy discounts of up to 26 percent for three years of no-fault accidents. Furthermore, auto insurance companies are also incentivizing more fuel-efficient driving through programs such as GMAC's pay-as-you-go policy and GEICO's low mileage discounts.

A study by the Brookings Institution indicates that if all automobile drivers adopted usage-based plans, the incentives for customers to drive less would result in an eight percent decrease in mileage, resulting in annual savings of $52 billion from reduced traffic, oil consumption, and pollution. According to the National Association of Insurance Commissioner (NAIC), 20 percent of all motor vehicle insurance in the U.S. is expected to incorporate a usage based plan in some form within five years.

Life insurance companies offer similar incentives for health improvements including weight loss and smoking cessation. For ING, a policy for a 200 pound, 6 foot 30 year old male smoker in New York with a history of health issues is $203 per month, while Prudential quotes $206 per month. For that same male, losing 25 pounds in and of itself does not reduce premium prices, but reductions in medications or treated conditions reduces premium costs to $145 per month for ING. If the person is a non-smoker, his life insurance premium rates from ING would decrease to $57 per month, and Prudential would charge $63.

**Value Impact**

The development of policies that incentivize responsible behavior allow for societal value as well as enhanced market share. Companies that succeed in this area will increase underwriting revenue and potentially limit claims payments, thereby increasing profitability. In addition, strong performance in this area could impact a company's reputation and enhance the value of intangible assets in the medium to long term.
LEADERSHIP & GOVERNANCE

As applied to sustainability, governance involves the management of issues that are inherent to the business model or common practice in the industry and that are in potential conflict with the interest of broader stakeholder groups (government, community, customers, and employees) and therefore create a potential liability, or worse, a limitation or removal of license to operate. This includes regulatory compliance, lobbying, and political contributions. It includes risk management, safety management, supply chain and resource management, conflict of interest, anti-competitive behavior, and corruption and bribery. It also includes risk of business complicity with human rights violations.

An evolving national and international regulatory framework coupled with the need to incorporate new technology in products and services place increased emphasis on the need for strong governance in the insurance industry. Strong management and oversight structures are needed to negotiate developing regulations and oversight relating to systemic risk. Although the designation of systemically significant nonbank financial institution will only apply to a select number of firms, enhanced disclosure on elements of performance related to systemic risk will allow shareholders of all companies to understand which companies are better positioned to protect long-term value.

Systemic Risk Management

Similar to other financial institutions, insurance companies face risks associated with credit and financial markets. Within the industry, companies that engage in non-traditional or non-insurance activities, including CDS protection and debt securities insurance, have been identified by regulators as being more vulnerable to financial market developments, and subsequently, more likely to amplify or contribute to systemic risk. As a result, insurance companies in the U.S. and abroad face the potential of being designated as systemically significant, nonbank financial institutions.

Although the regulatory implications of this designation remain undetermined in the U.S., firms will be subject to stricter prudential regulatory standards and oversight by the Federal Reserve Board. Specifically, insurance companies will likely face limitations relating to risk-based capital, leverage, liquidity, and credit exposure. In addition, firms will be required to maintain a plan for rapid and orderly dissolution, in the event of financial distress. To demonstrate how these risks are being managed, insurance companies engaged in non-traditional activities should enhance their disclosure on key aspects of systemic risk management.

Evidence

In 2008, AIG was forced to relinquish a 79.9 percent equity stake to the U.S. government in
exchange for up to $85 billion in loans intended to prevent the firm’s collapse.\textsuperscript{19} The company was bankrupted by credit default swaps on collateralized debt obligations that declined in value. AIG had sold $441 billion in contracts protecting against default for securities that had been rated AAA. However, $57.8 billion was in multi-sector collateralized debt obligations that were backed by subprime loans, of which many were downgraded.\textsuperscript{20}

Since the financial crisis, AIG has been designated a non-bank systemically important financial institution (SIFI) along with Prudential by the Financial Stability Oversight Council. MetLife remains under consideration as well.

Value Impact
The implementation of new risk management regulations is intended to improve the ability of nonbank SIFIs to absorb shocks arising from financial and economic stress. Timely adoption of the current and future requirements will likely put insurance companies in a strong competitive position. Increased quality, transparency, and consistency of the capital base may improve a firm’s risk profile and lower the cost of capital. Further, higher liquidity ratios could have a positive impact on operational efficiency and profitability, which will enhance shareholder value.

A failure to adapt to new regulatory requirements is likely to lead to intensified oversight and potential litigation; increasing recurring general and administrative expenses, imposing contingent liabilities, and diminishing the value of intangible assets. Further, this could lead to a lost trust from clients and reduce market share and revenue. In addition, inadequate risk assessment for credit risk, trade risk, and financial guarantee insurance products can generate systemic risk, and lead to withdrawals and liquidity risks. These factors can impact balance sheets and diminish book value in the short to medium term.

The precise rules for nonbank SIFIs are yet to be finalized. However, the current uncertainty and likely evolution of these rules suggest the potential for a material impact on corporate performance and profitability in the near term.

SASB INDUSTRY WATCH LIST

The following section provides a brief description of sustainability issues that did not meet SASB’s materiality threshold at present, but could have a material impact on the insurance industry in the future.

Regulatory Capture and Political Influence
The issue of regulatory capture and political influence continues to be prominent in the insurance industry. Specifically, companies are widely seen as having had significant influence on the development of new regulations since the 2008 financial crisis, through lobbying, contributions, and direct relationships with regulators.
The material implications of lobbying efforts and campaign contributions remain controversial. Specifically, there is little evidence on how these actions impact shareholder value and whether the cost of these activities is outweighed by corporate gains. Additionally, the issue raises questions of the efficacy of lobbying for—or against—a regulation that protects near-term profits, but is misaligned with longer-term strategic investments and initiatives.

Although investor interest in the issue appears to be increasing, it is not clear whether shareholder resolutions requiring such disclosure will receive widespread support. Additionally, after indicating it as a priority issue for 2013, the SEC dropped the issue of political spending from its 2014 agenda.
APPENDIX I: Five Representative Companies | Insurance

<table>
<thead>
<tr>
<th>COMPANY NAME (TICKER SYMBOL)</th>
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<tbody>
<tr>
<td>MetLife (MET)</td>
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<tr>
<td>American International Group (AIG)</td>
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<tr>
<td>Prudential Financial (PRU)</td>
</tr>
<tr>
<td>Berkshire Hathaway (BRK/A)</td>
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<tr>
<td>Allstate (ALL)</td>
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</tbody>
</table>

This list includes five companies representative of the Insurance Industry and its activities. Only companies that are US listed and where at least 20 percent of revenue is generated by activities in this industry according to the latest information available on Bloomberg Professional Service were included.
## APPENDIX IIA:
### Evidence for Material Sustainability Issues

<table>
<thead>
<tr>
<th>MATERIAL SUSTAINABILITY ISSUES</th>
<th>EVIDENCE OF INTEREST</th>
<th>EVIDENCE OF FINANCIAL IMPACT</th>
<th>FORWARD-LOOKING IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HM (1-100)</td>
<td>IWGs</td>
<td>%</td>
</tr>
<tr>
<td>Environment</td>
<td>Environmental Risk Exposure</td>
<td>45</td>
<td>95</td>
</tr>
<tr>
<td>Social Capital</td>
<td>Plan Performance</td>
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<td>77</td>
</tr>
<tr>
<td>Business Model &amp; Innovation</td>
<td>Integration of Environmental, Social, and Governance Risk Factors in Investment Management</td>
<td>47</td>
<td>86</td>
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<tr>
<td></td>
<td>Policies Designed to Incentivize Responsible Behavior</td>
<td>30</td>
<td>64</td>
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<tr>
<td>Leadership &amp; Governance</td>
<td>Systemic Risk Management</td>
<td>53</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**HM:** Heat Map, a score out of 100 indicating the relative importance of the issue among SASB’s initial list of 43 generic sustainability issues. The score is based on the frequency of relevant keywords in documents (i.e., 10-Ks, shareholder resolutions, legal news, news articles, and corporate sustainability reports) that are available on the Bloomberg terminal for the industry’s publicly listed companies.

**IWGs:** SASB Industry Working Groups

%: The percentage of IWG participants that found the issue to be material. (-) denotes that the issue was added after the IWG was convened.

**Priority:** Average ranking of the issue in terms of importance. One denotes the most material issue. (N/A) denotes that the issue was added after the IWG was convened.

**EI:** Evidence of Interest, a subjective assessment based on quantitative and qualitative findings.

**EFI:** Evidence of Financial Impact, a subjective assessment based on quantitative and qualitative findings.

**FLI:** Forward Looking Impact, a subjective assessment on the presence of a material forward-looking impact.
**APPENDIX IIB: Evidence of Financial Impact for Material Sustainability Issues**

<table>
<thead>
<tr>
<th>EVIDENCE OF FINANCIAL IMPACT</th>
<th>ENVIRONMENT</th>
<th>SOCIAL CAPITAL</th>
<th>BUSINESS MODEL &amp; INNOVATION</th>
<th>LEADERSHIP &amp; GOVERNANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Risk Exposure</td>
<td>-</td>
<td>-</td>
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<td>-</td>
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<tr>
<td>Plan Performance</td>
<td>-</td>
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<tr>
<td>Integration of Environmental, Social, and Governance Risk Factors</td>
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<tr>
<td>Risk Factors for Industry Trends</td>
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<tr>
<td>Policies Designed to Incentivize Responsible Behavior</td>
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<td>Systemic Risk Management</td>
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<thead>
<tr>
<th>REVENUE &amp; EXPENSES</th>
<th>Revenue</th>
<th>Operating Expenses</th>
<th>Non-operating Expenses</th>
<th>Cost of Revenue</th>
<th>Cost of Capital</th>
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### APPENDIX III: Sustainability Accounting Metrics | Insurance

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
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</thead>
<tbody>
<tr>
<td><strong>Environmental Risk Exposure</strong></td>
<td>Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes, by insurance segment, type of event, and type of risk insured</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
<td>FN0301-01</td>
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<tr>
<td></td>
<td>Total annual losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
<td>FN0301-02</td>
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<tr>
<td></td>
<td>Description of how environmental risks are integrated into: (1) The underwriting process for individual contracts (2) The management of firm-level risks and capital adequacy</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN0301-03</td>
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<td>List of markets, regions, and/or events for which the registrant declines to voluntarily write coverage for weather-related natural catastrophe risks</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN0301-04</td>
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<td>Percentage of policies in which weather-related natural catastrophe risks have been mitigated through reinsurance and/or alternative risk transfer</td>
<td>Quantitative</td>
<td>Percentage in U.S. dollars ($)</td>
<td>FN0301-05</td>
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<tr>
<td><strong>Policies Designed to Incentivize Responsible Behavior</strong></td>
<td>Discussion of products or product features that incentivize healthy, safe, and/or environmentally responsible actions or behavior</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN0301-06</td>
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<td></td>
<td>Net premiums written related to energy efficiency and low carbon technology</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
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<tr>
<td><strong>Plan Performance</strong></td>
<td>Complaints-to-claims ratio</td>
<td>Quantitative</td>
<td>n/a</td>
<td>FN0301-08</td>
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<td>Customer retention rate</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>FN0301-09</td>
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<td>Average number of days from reported claim to settlement of claim</td>
<td>Quantitative</td>
<td>Days</td>
<td>FN0301-10</td>
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<td>Description of efforts to provide information to new and returning customers in a clear and conspicuous manner</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
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</table>
### APPENDIX III: Sustainability Accounting Metrics | Insurance (Cont.)

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systemic Risk Management</td>
<td>Non-policyholder liabilities</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
<td>FN0301-12</td>
</tr>
<tr>
<td></td>
<td>(1) Notional amount of CDS protection sold, (2) Notional amount of debt securities insured for financial guarantee, and (3) risk-in-force covered by mortgage guarantee insurance</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
<td>FN0301-13</td>
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<tr>
<td></td>
<td>Value of collateral received from securities lending and amount received from repurchase agreements</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
<td>FN0301-14</td>
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<tr>
<td></td>
<td>Amount of life and annuity liabilities that can be surrendered upon request: (1) Within three months without penalty (2) With penalties lower than 20%</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
<td>FN0301-15</td>
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<tr>
<td>Integration of Environmental, Social, and Governance Risk Factors in Investment Management</td>
<td>Discussion of how environmental, social, and governance (ESG) factors are integrated into the investment of policy premiums</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN0301-16</td>
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<tr>
<td></td>
<td>Discussion of the investment portfolio risks presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN0301-17</td>
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</tbody>
</table>
APPENDIX IV: Analysis of 10-K Disclosures | Insurance

The following graph demonstrates an aggregate assessment of how the top ten U.S. domiciled companies, by revenue, in the insurance industry are currently reporting on material sustainability issues in the Form 10-K.

<table>
<thead>
<tr>
<th>DISCLOSURE ON MATERIAL SUSTAINABILITY ISSUES</th>
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<tbody>
<tr>
<td>INSURANCE</td>
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<tr>
<td>0%</td>
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<td>----------------------------------------------</td>
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<tr>
<td>Environmental Risk Exposure</td>
</tr>
<tr>
<td>Plan Performance</td>
</tr>
<tr>
<td>Integration of Environmental, Social, and Governance Risk Factors in Investment Management</td>
</tr>
<tr>
<td>Policies Designed to Incentivize Responsible Behavior</td>
</tr>
<tr>
<td>Systemic Risk Management</td>
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Legend:
- **NO DISCLOSURE**
- **BOILERPLATE**
- **INDUSTRY-SPECIFIC**
- **METRICS**

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References


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