

# ESG Up Close

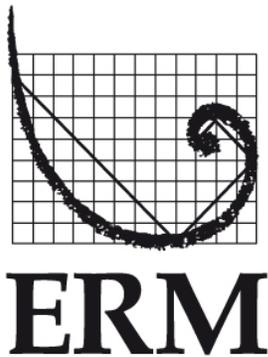
Alan Dayeh  
Partner, Sustainability Strategy  
and Financial Services

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WICA 2023



**Point.  
Advisory**  
an ERM Group company



*The business of sustainability*

# Sustainability defined

What does sustainability look like in practice?

**Socio-environmental**  
Environmental preservation, access to potable water and breathable air, environmental hazard management



# Sustainability underpins the UN Global Goals

## SUSTAINABLE DEVELOPMENT GOALS

### Agenda 2030 – Sustainable Development Goals

Sustainability is the foundation for today's leading global framework for international cooperation focused on 'leaving no one behind' – the 2030 Agenda for Sustainable Development and its [Sustainable Development Goals](#) (SDGs).



# Environmental, Social, Governance

## Typical ESG Factors

### Environmental

Environmental criteria includes the company's impact on the environment, as well as management of environmental risks that could impact the company.

This could involve:

- Greenhouse gas emissions
- Energy efficiency
- Biodiversity loss
- Deforestation
- Waste management
- Air and water pollution



### Social

Social criteria encompasses a company's business relationships. This could involve:

- Customer satisfaction
- Privacy and security
- Product responsibility
- Labour standards
- Human rights and Modern slavery
- Equity, Diversity and Inclusion
- Community engagement
- Health and safety



### Governance

Governance criteria addresses how a company is run. This could involve:

- Board diversity
- Board/committee structures
- Cyber security
- Privacy
- Executive remuneration
- Political contributions
- Codes of conduct
- Risk management and business continuity
- Tax management



# Characteristics of ESG factors and issues

Issues that have traditionally been considered non-financial or not material

A medium or long-term horizon

Qualitative objects that are not readily quantifiable in monetary terms

Externalities (costs borne by other firms or by society at large) not well captured by market mechanisms

A changing regulatory or policy framework

Patterns arising throughout a company's supply chain (and therefore susceptible to unknown risks)

A public-concern focus

# Comparing ESG and Sustainability

## ESG

### Example ESG Factors

#### Environmental

Climate, biodiversity loss, natural disasters, extreme weather events, pollution, GHG emissions

#### Social

Human rights, occupational health and safety, supply chain, inclusion, community engagement

#### Governance

Board management, regulatory compliance, remuneration, fraud, cybersecurity

## Sustainability

### SUSTAINABLE DEVELOPMENT GOALS



# Insurance Industry – MSCI ESG Map

	Property & Casualty Insurance	Life & Health Insurance	Reinsurance	Insurance Brokers	Multi-line Insurance
<b>Environmental</b>					
Climate Change Vulnerability					
Carbon Emissions					
Financing Environmental Impact					
<b>Social</b>					
Human Capital Development					
Privacy & Data Security					
Responsible Investment					
Access to Finance					
Product Safety & Quality					
Consumer Financial Protection					
<b>Governance</b>	Ownership & Control/Board/Pay/Accounting/Business Ethics/Tax Transparency				

# Example Topic – Modern Slavery



Source: *The Commonwealth Modern Slavery Act 2018 Guidance for Reporting Entities p30*

# Global risks need to be navigated

## Many of the global risks are Environmental and Societal

### Global risks ranked by severity over the short and long term

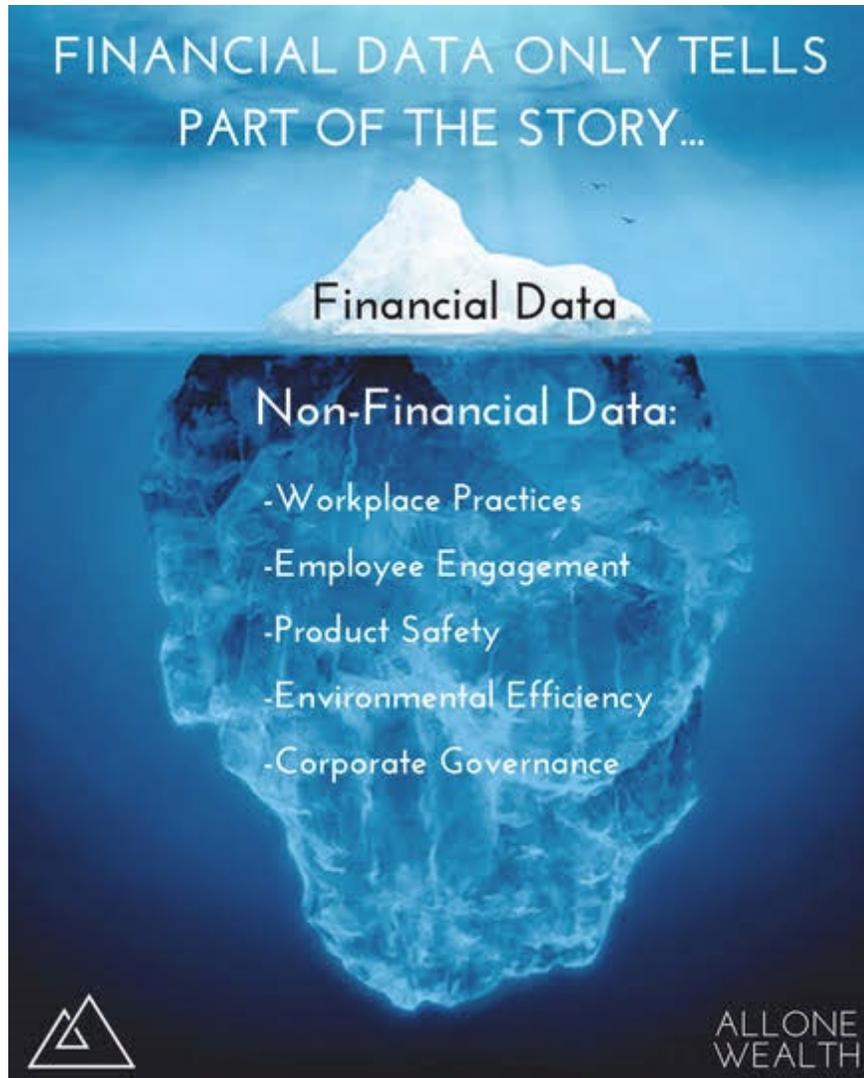
*\*Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period\**



### Severity by stakeholder over the short term (2 years)



# ESG factors play a significant role in market value



**20% Tangible assets**

**80%**

**Intangible assets**

# ESG-related 'loss events'

Examples of organisations that have experienced ESG-related impacts



**Nike** accused of employing children and paying workers less than minimum wage

1990s



**BP's** oil rig Deepwater Horizon explodes, killing 11 workers, injuring 17 and creating an environmental disaster

2010



Building collapse kills more than 1,100 workers in Bangladesh's Rana Plaza factory used by 25+ brands

2013

**\$30M** owed in compensation

Millions of **Volkswagen** cars recalled after company admits to falsifying emissions tests

2015

**\$33B**

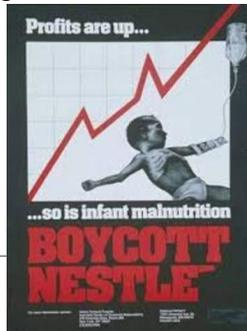
**Oxfam** faces alleged cover-up of sexual harassment scandal in Haiti

2018

Lost over 7,000 regular donors

1980s

**Nestlé** boycott for marketing baby formula in emerging countries



2000s

**Mattel** recalled 967,000 products due to lead paint contamination

**>\$50M**

2011

Flooding in Thailand resulted in disruptions to **automotive** and **technology** supply chain networks

**\$47B**

Total flooding cost



2014

Drinking water in **Flint, Michigan** found with dangerous levels of lead

**\$1.5B**

estimated cost

2016

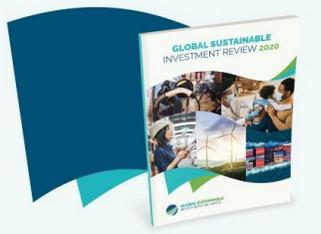
**Samarco (Vale and BHP)** dam collapse kills 19 and sends iron ore debris through southeast Brazil

**\$1.5B**



# Responsible Investment and Sustainable Finance

GLOBAL SUSTAINABLE  
INVESTMENT REVIEW  
2020



35.9% of total assets  
under management are  
sustainable investments



Global sustainable  
investment at  
**\$35.3 trillion**

**\$1.6 trillion**

2021 sustainable debt  
issuance

**100%**

Increase in green bond  
issuance between 2020 and  
2021

## Equity Sustainable/Responsible Investment

- ‘Sustainable investment’ is an investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management.
- Term used interchangeably with responsible investment, socially responsible investment and ethical investment.

## Debt Sustainable Finance

- ‘Sustainable Finance’ incorporates climate, green and social finance while also adding wider considerations concerning the longer-term economic sustainability of the organisations that are being funded, as well as the role and stability of the overall financial system in which they operate.

# Responsible & Ethical Investment Spectrum

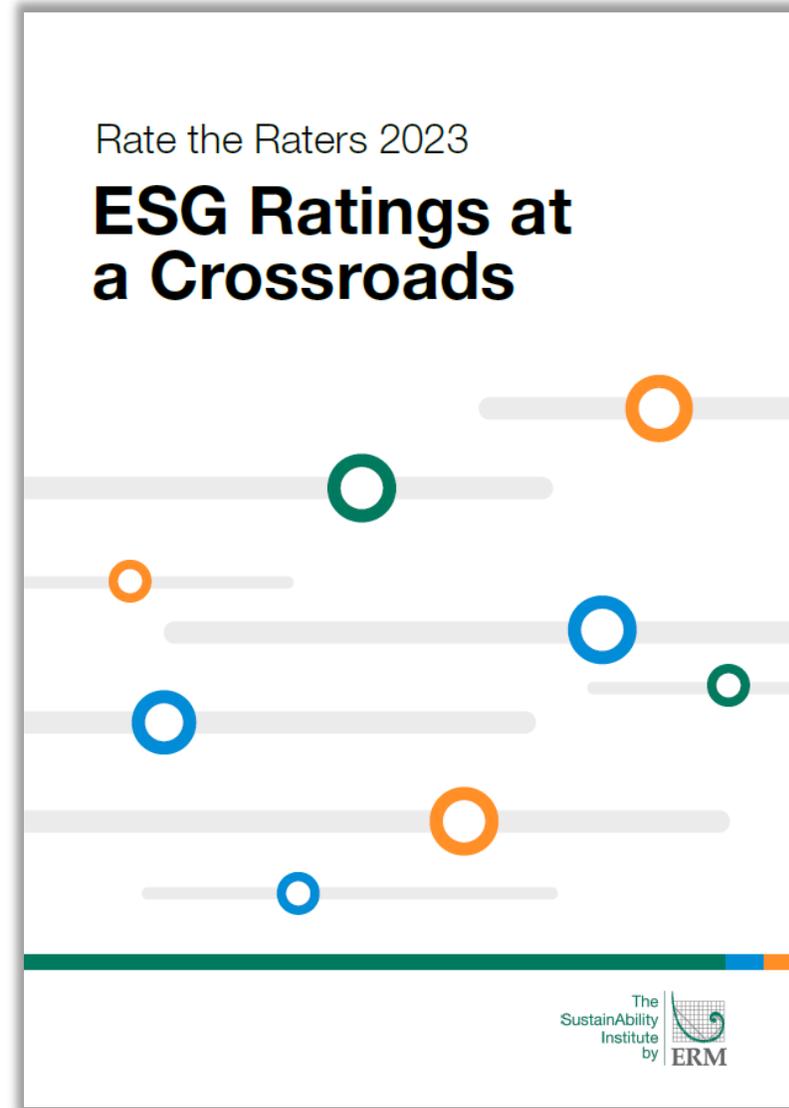
	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT						PHILANTHROPY	
		ESG INTEGRATION	ACTIVE OWNERSHIP – CORPORATE ENGAGEMENT & VOTING	NEGATIVE SCREENING	SCREENING NORMS-BASED SCREENING	POSITIVE/ BEST-IN-CLASS SCREENING	SUSTAINABILITY-THEMED INVESTMENT	IMPACT INVESTING (& COMMUNITY INVESTING)	
<b>FOCUS</b>	Limited or no regard for ESG factors	Consideration of ESG factors as part of investment decision	Using shareholder power to influence corporate behaviour	Industry sectors or companies excluded/ divested to avoid risk and better align with values	Screening out investments that do not meet minimum standards & including investments that meet defined ESG criteria	Investments that target companies or industries with better ESG performance	Investments that specifically target sustainability themes eg: clean energy; green property	Investments that target positive social & environmental impact and provide either a market or below market rate	Grants that target positive social & environmental impact with no financial return
<b>IMPACT INTENTION</b>	<b>Agnostic</b>	<b>Avoids harm</b>			<b>Benefits stakeholders</b>			<b>Contributes to solutions</b>	

# Rate the Raters – Overview

The Rate the Raters 2023 Report explores the ESG ratings landscape through survey and interview findings on corporate and investor sentiment of ESG ratings.



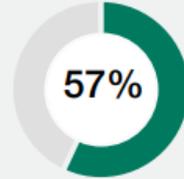
Read now: [www.sustainability.com](http://www.sustainability.com) on the ‘thinking’ tab



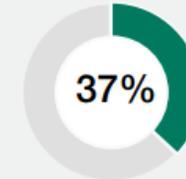
# Rate the Raters – Investor Use of ESG Ratings

## Summary of top-three reasons for use

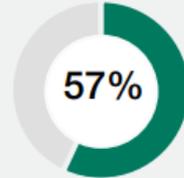
ESG ratings supplement my organization's other research on corporate ESG performance/risk



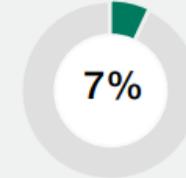
ESG ratings are a credible/quality source of information on corporate ESG performance



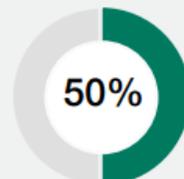
ESG ratings provide information / data that is material to investment performance



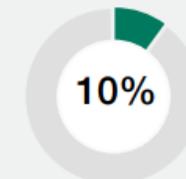
My firm derives reputational benefit from using ESG ratings



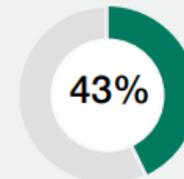
There is a growing demand by key stakeholders, including clients, to use the ESG information provided by ESG ratings



Other

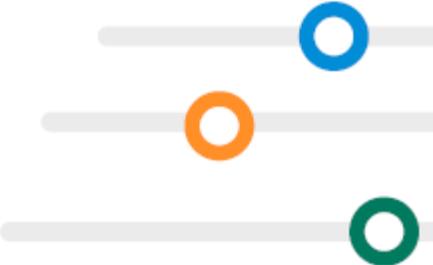


I am required by my organization to integrate corporate ESG ratings into investment analysis and decision-making



*\*Note: figures indicate the percent of survey respondents who selected the option as a top-three reason for use.*

# Rate the Raters – Key Findings



**Investor demand is strong and growing**

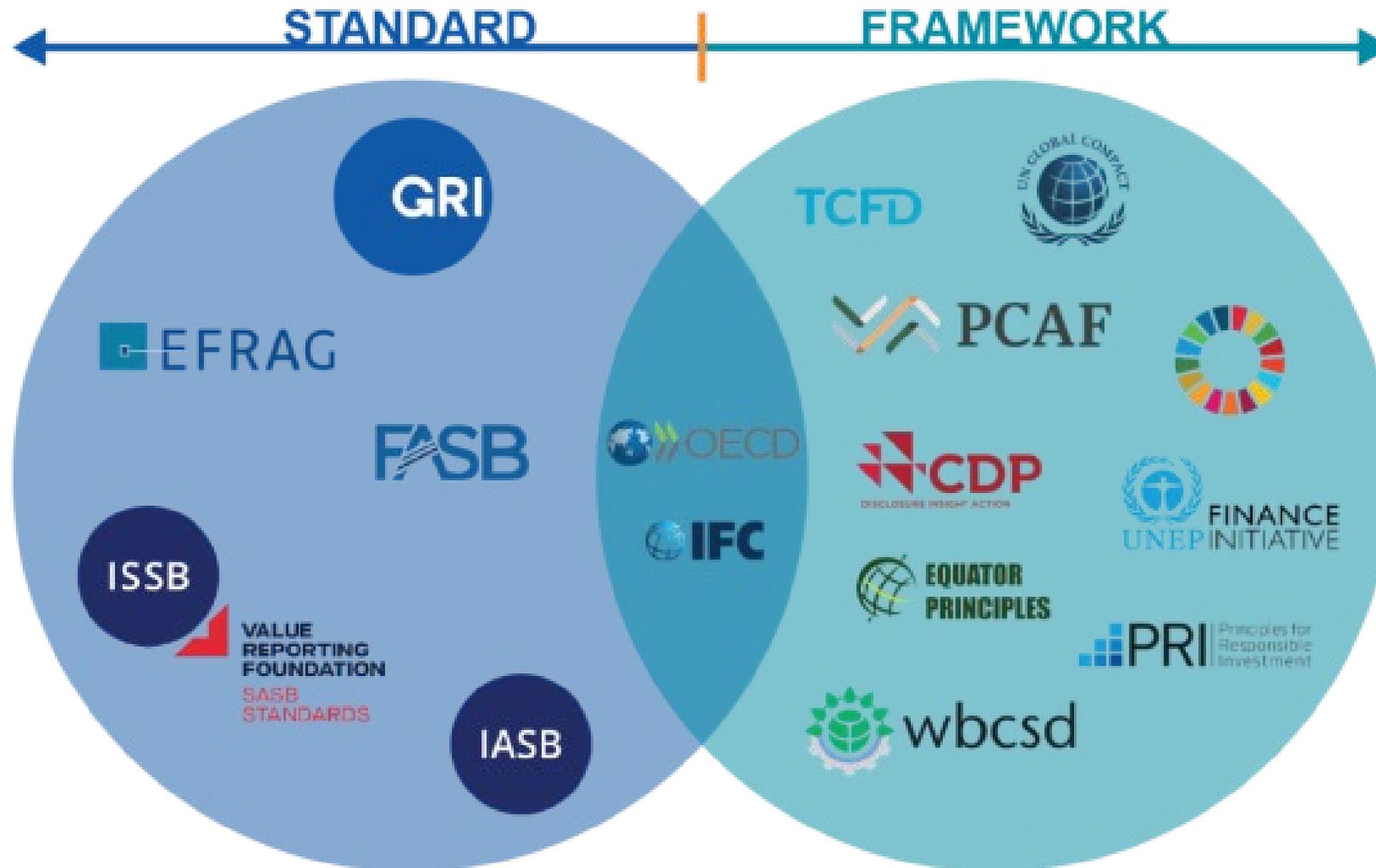


**Investors are focused on data, not ratings**

**Discontent among stakeholders is brewing**

**Active leaders remain on top**

# ESG Standards and Frameworks



# Principles of Sustainable Insurance (PSI)



PSI is a global sustainability framework and initiative of the United Nations Environment Programme Finance Initiative (UNEP FI). The principles were developed to support the integration of ESG considerations into risk management and help push the sustainable insurance agenda forward.

**Principle 1:** We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.

**Principle 2:** We will work together with our clients and business partners to raise awareness of environmental, social, and governance issues, manage risk and develop solutions.

**Principle 3:** We will work together with governments, regulators, and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

**Principle 4:** We will demonstrate accountability and transparency in regularly disclosing publicly available progress in implementing the Principles.

# ESG/Sustainability disclosure expectations by audience

**Investor**  
Stakeholder  
perspective



ISSB

Factors relating to financially material issues that are reasonably likely to impact the financial condition or operating performance of a company and, thereby, are most important to investors.



**All**  
Stakeholder  
perspective

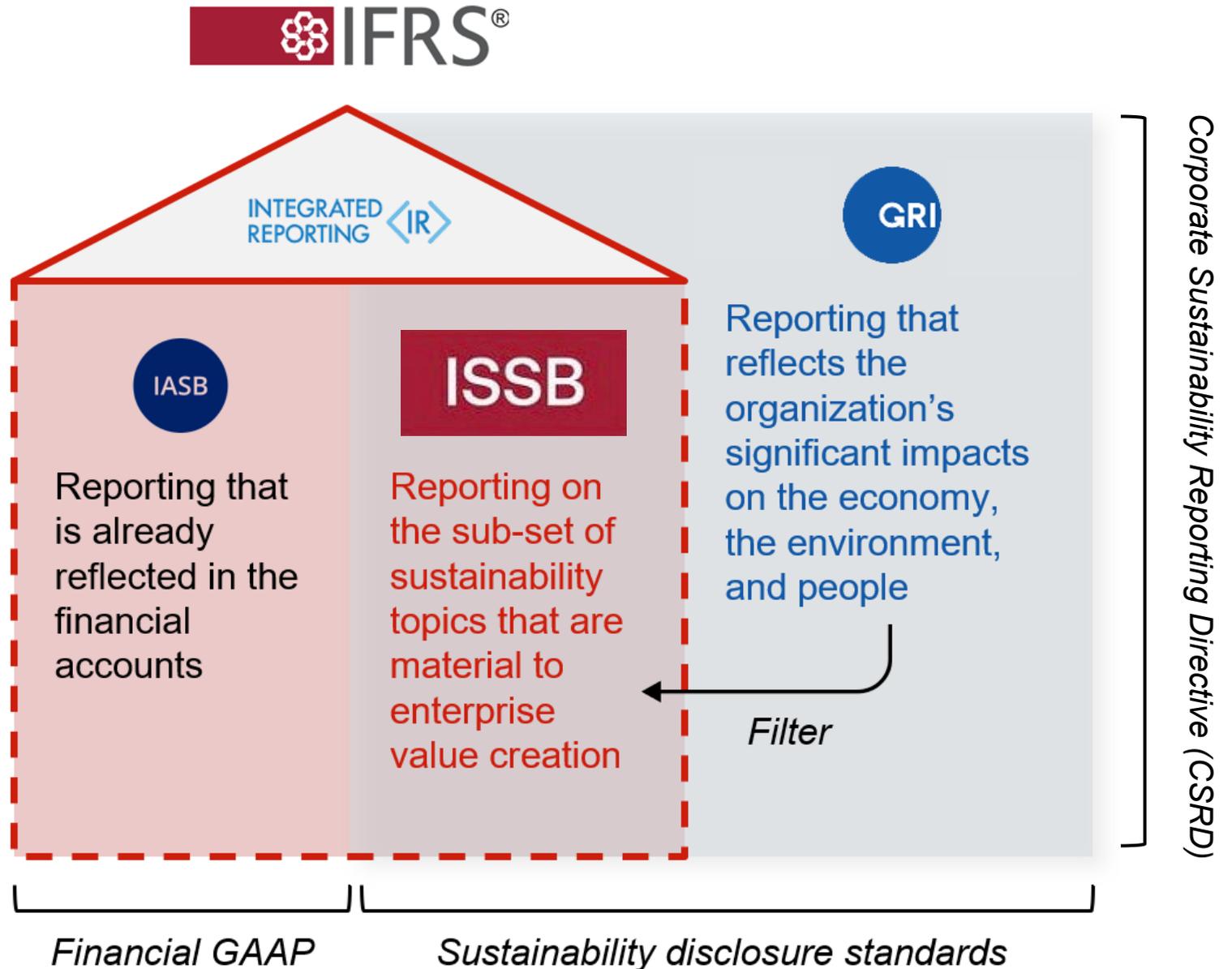


GRI

Factors that represent an organisation's most significant impacts on the economy, environment, and people, including impacts on their human rights.

# Relationship between Sustainability-related disclosure standards

- **ISSB** focuses on **financial** materiality
- **GRI** focuses on **impact** materiality
- **CSRD** focuses on **double** materiality



# Stock Exchange ESG Activities



Out of the total 130 members of the SSE initiative...



# Overview of Greenwashing

“**Greenwashing** is a misrepresentation (express or implied) of the sustainability credentials of a company or of its products or services”

Greenwashing can happen in many ways through:

- advertising
- marketing or promotional material
- on packaging
- on a website
- company report, or
- any another form of communication.

In Australia, two bodies are primarily concerned by greenwashing:

- Australian Competition and Consumer Commission (ACCC)



- Australian Securities and Investments Commission (ASIC)



# Guidance for Consumer Products

Preliminary guidance from the ACCC



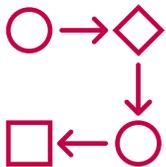
Avoid use of vague language



Avoid use of technical language



Take caution when using standards



Consider the entire lifecycle of the product



Be transparent but mindful of detail



Think about the consumer's perspective

# Guidance for Investment Products

How to avoid greenwashing when offering or promoting sustainability-related products - ASIC

Is your product true to label?

Have you used vague terminology?

Are your headline claims potentially misleading?

Have you explained how sustainability-related factors are incorporated into investment decisions and stewardship activities?

Have you explained your investment screening criteria? Are any of the screening criteria subject to any exceptions or qualifications?

Do you have any influence over the benchmark index for your sustainability-related product? If you do, is your level of influence accurately described?

Have you explained how you use metrics related to sustainability?

Do you have reasonable grounds for a stated sustainability target? Have you explained how this target will be measured and achieved?

Is it easy for investors to locate and access relevant information?

# Changing Climate for the US Insurance Sector



<https://www.persefoni.com/events/changing-climate-for-the-insurance-sector>

## Changing Climate for the Insurance Sector: Research and Insights



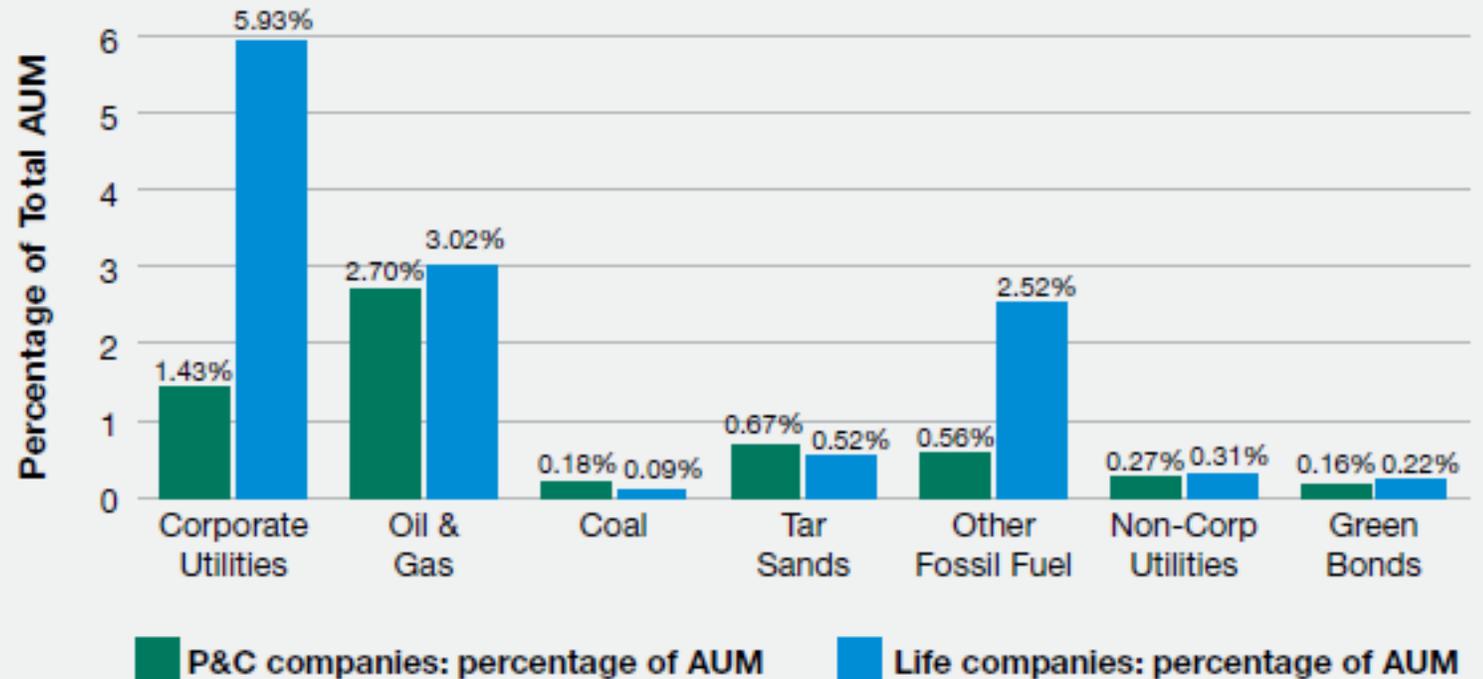
# Changing Climate for the US Insurance Sector - Takeaways

1. The top 16 U.S. insurers held approximately 50 percent of the over \$500 billion dollars in fossil fuel-related assets owned by the sector.
2. The financial decisions of the two largest property & casualty insurance companies have a far greater impact on overall fossil fuel-related asset ownership than that of any other companies in the dataset analysed.
3. Investment policies that focus only on one type of fossil fuel, or only on one type of investment, may result in asset portfolios that still include large fossil fuel holdings

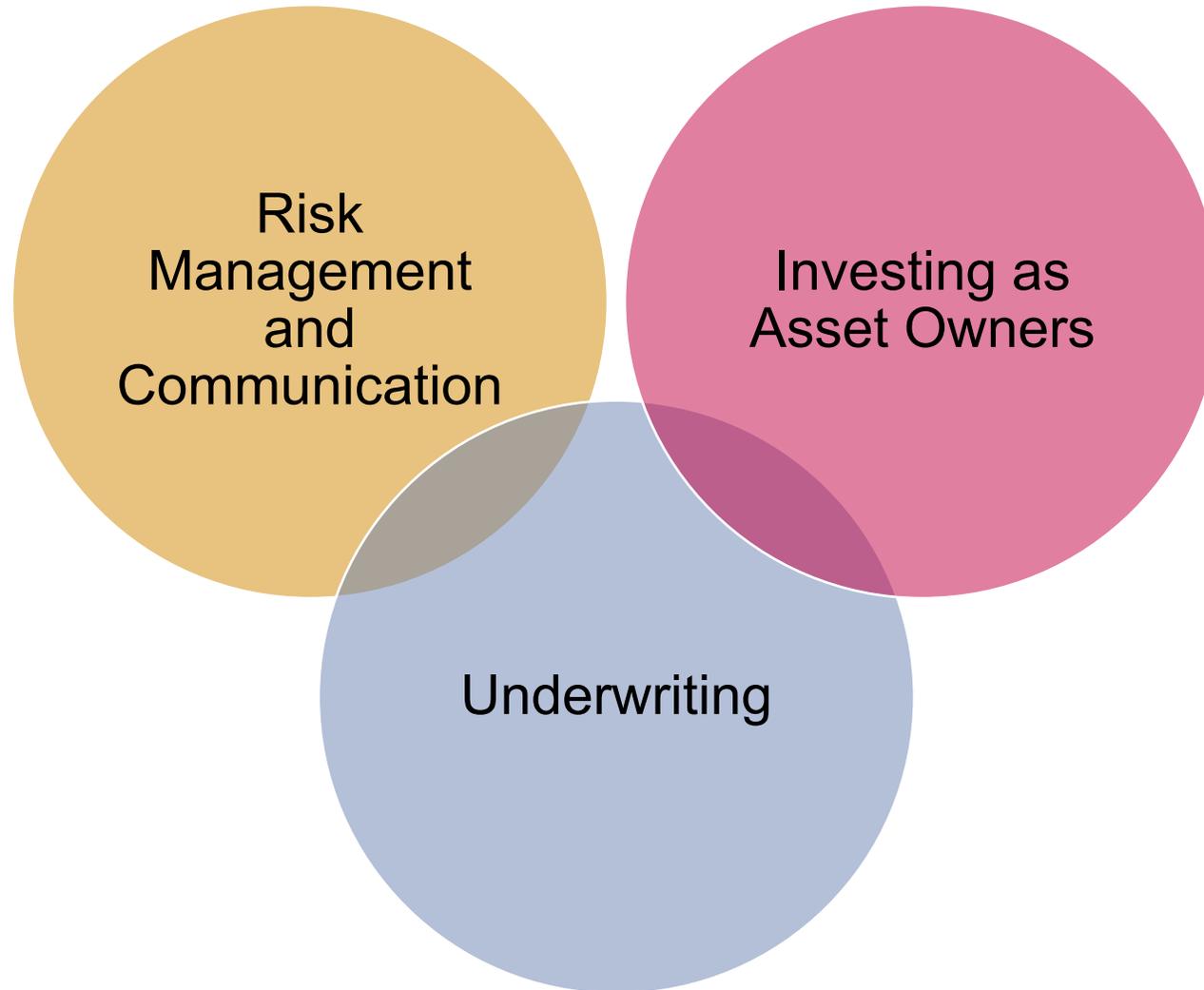
**Figure 1**

**Investment breakdown by sector**

**(percentage of assets under management (AUM) and Green Bonds)**



# The role of insurers in Climate and ESG



# Reflecting and looking ahead on ESG

“ESG was never meant to be a silver bullet. It was meant to change the investment chain conversation. It’s done that....

Back to 2003/4 at [United Nations Environment Programme Finance Initiative \(UNEP FI\)](#) we had two simple objectives of which ESG was simply part of the package to deliver those objectives.

The objectives were:

- 1. Align interests** of long-term asset owners and the core security, humanitarian, developmental and environmental goals of the [United Nations](#); and
- 2. Change the investment conversation** above and beyond CSR, SRI (nothing wrong with them but needed to mainstream get financial flows at scale into systemic risks over time).

So, yes, two simple goals. I am glad ESG is where it is now as shifting the global political economy from 250 years of extractive capitalism to the next era of collaborative regenerative capitalism.”

*Paul Clements-Hunt – Coined ESG term in 2004*

# Thank You

Alan Dayeh

Partner, Sustainability Strategy and Financial Services

<https://www.linkedin.com/in/alandayeh/>

[Alan.Dayeh@erm.com](mailto:Alan.Dayeh@erm.com)

