

THE GOOD, THE BAD AND THE DIFFICULT TO LABEL

Environmental, Social and Governance

Presented by
SHADRACK KWASA

LONDON AND CAPITAL

Who we are

Our institutional practice provides a tailored service specifically for insurance companies. We work strategically with you to identify your unique requirements and develop an entirely bespoke investment solution.

Our team of relationship managers, actuaries, Ex-CIOs and investment professionals draw on their insurance expertise to provide you with an end-to-end service that helps identify and define your requirements, establish suitable guidelines and risk tolerances, construct portfolios within risk & capital budgets, and provide a full suite of regulatory and strategic reporting.

SPECIALIST

London & Capital's specialist institutional practice has been built with the specific needs of insurers in mind.

EXPERIENCE

We have a 11-year track record of working with global insurance clients, supported by a team of specialists who are dedicated to the sector.

SERVICE

We deliver an end-to-end service to our clients that includes developing a strategy and providing straightforward investment management.

COST

Our all-inclusive management fee is cost-effective, fully transparent and covers all aspects of portfolio management.

REVIEW

London & Capital will work with you to:

Fully understand your investment objectives and articulate your risk appetite.

Understand your business plan and underwriting lines, your liability and claims profile, as well as your capital position and governance structure.

Assess your long-term objectives, liquidity and cash flow requirements, as well as your risk tolerances.

STRATEGY

London & Capital will:

Develop a long-term strategic asset allocation for your investment portfolio, recommending proportions of cash, government and corporate bonds, stocks and other alternative assets to hold in your portfolio.

Stress test strategic asset allocation against various scenarios to ensure that it is suitable for meeting your risk and return objectives.

Define your investment guidelines, which will form part of your discretionary management agreement.

MANAGEMENT

London & Capital will:

Manage your portfolio on an ongoing basis to ensure that it continues to meet its objectives and remains properly diversified and within risk control limits.

Operate within strict guidelines and limits, including any restrictions around liquidity, currency exposure, credit ratings, bond duration limits, counterparty limits, and benchmarks.

Work with client to ensure optimisation of capital management policy through appropriate investment selection.

GOVERNANCE

London & Capital will:

Ensure the portfolio continues to adhere to an ever changing regulatory environment.

Bring ad-hoc recommendations to the client for changes to the portfolio which would enhance the risk adjusted returns of the portfolio or the current strategy, including de-risking if the market or industry environment arises to ensure the mandate continues to develop.

Provide a full range of reporting for your stakeholders and participate in your meetings to explain how your portfolio is performing.

What do we mean by ESG?



WHAT IS ESG?

Defining terms

ENVIRONMENTAL



Green house gas emissions

Water usage

Deforestation

Industrial waste disposal

Recycling, reusing and repurposing

SOCIAL



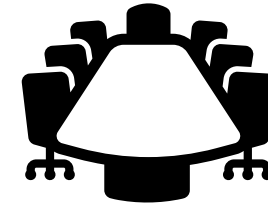
Health and safety

Diversity and representation

Slavery & child labour

Societal impact of business practices.

GOVERNANCE



Board diversity

Board credentials

Executive pay

Management accountability

Workers rights

THE MANY FLAVOURS OF ESG

What other terms are used to refer to ESG

	Definition
Sustainable investing	A general term referencing the consideration of ESG factors in the management and selection of investments.
Responsible investing	Integration of ESG considerations into investment decisions.
Impact investing	Investing with a primary objective of meeting particular environmental or social related goals over and above making an investment profit.
Socially responsible investing	Screening investments based on non-financial factors such as their environmental impact or moral worth.
Ethical investing	Applying mainly ethical filters to determine what investment to make. This can be both negative or positive filters; for example excluding investment in adult entertainment and favouring investment in education.
Green investing	Investment in companies focused on environmentally conscious business practices for example alternative energy sources.

GENERAL APPROACH TO ESG

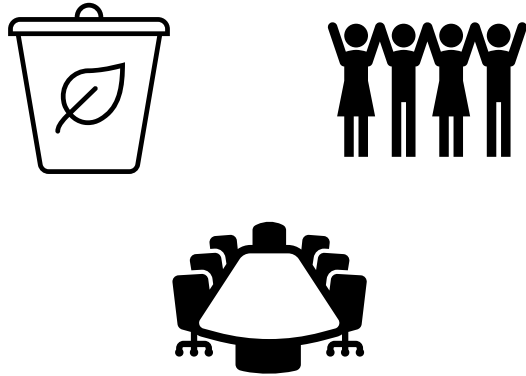
How are mutuals and other insurers approaching ESG?



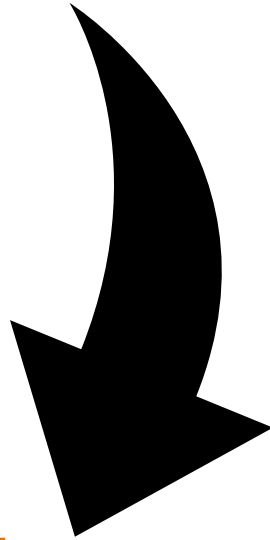
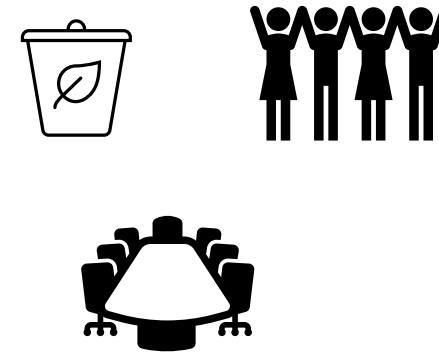
GENERAL APPROACH TO ESG

The good, the bad and...

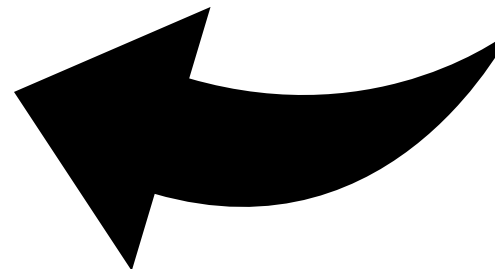
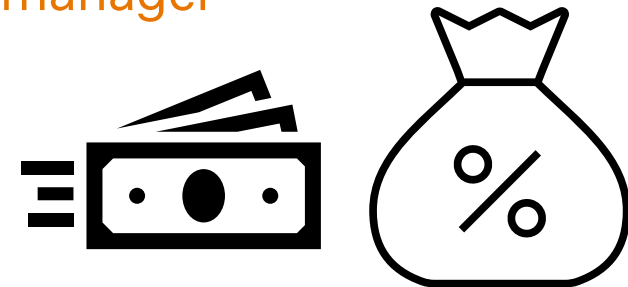
1. ESG is identified as an investment issue



2. The next manager selection includes ESG as one of the selection criteria



3. ESG is essentially deferred to the investment manager



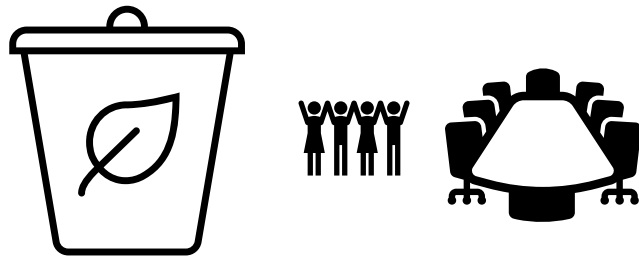
4. Possibly sub-optimal ESG allocation



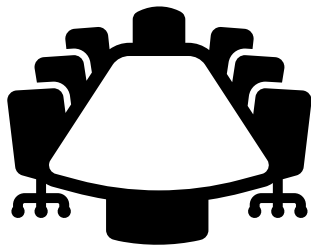
WHAT DOES A SUB-OPTIMAL ALLOCATION LOOK LIKE?

...the difficult to label. A few examples.

DIRECTORS & OFFICERS RISK



V.S



Correlation between governance risk in assets and governance risk in liabilities

PROPERTY & CASUALTY



V.S.



Increased frequency and severity of extreme weather events impacts on assets and liabilities.

LIFE & HEALTH



V.S.





Impact of societal outcomes from investments on health and well-being of target market.

WHAT IS THE RELEVANCE TO MUTUALS?

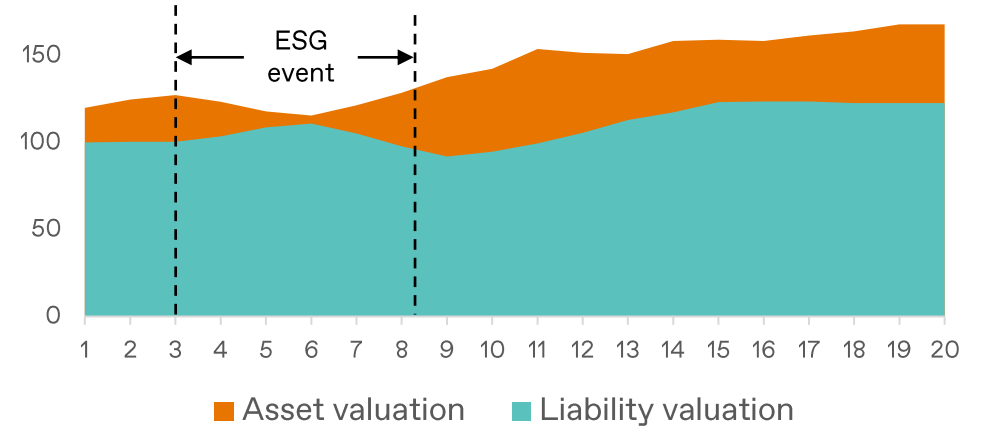


WHY IS THIS AN ISSUE FOR MUTUALS?

Conflict between 'general' ESG approach and mutual ethos.

Mutual Ethos	
	Serving member interests.
	Open and inclusive access for all.
	Supporting local communities.
	Supporting special bodies.
	Transparency
	Trust

Asset-liability correlation



Missed investment opportunities

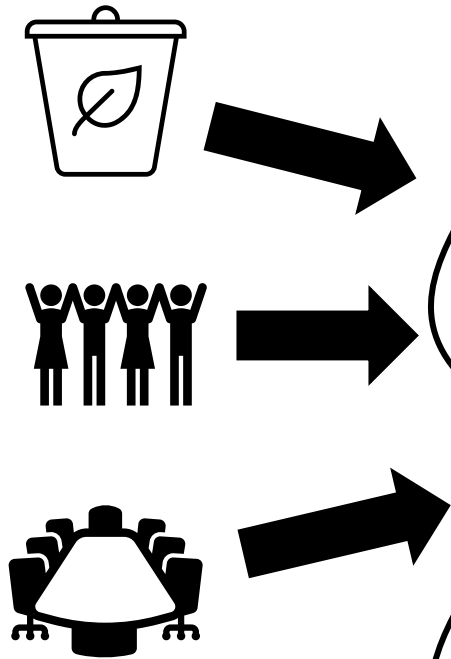
- Health insurer – medical diagnostics, social media
- Life insurer – lifestyle investments, health and wellbeing
- Property & Casualty insurer – AI in weather prediction

WHAT ACTION CAN MUTUALS TAKE?

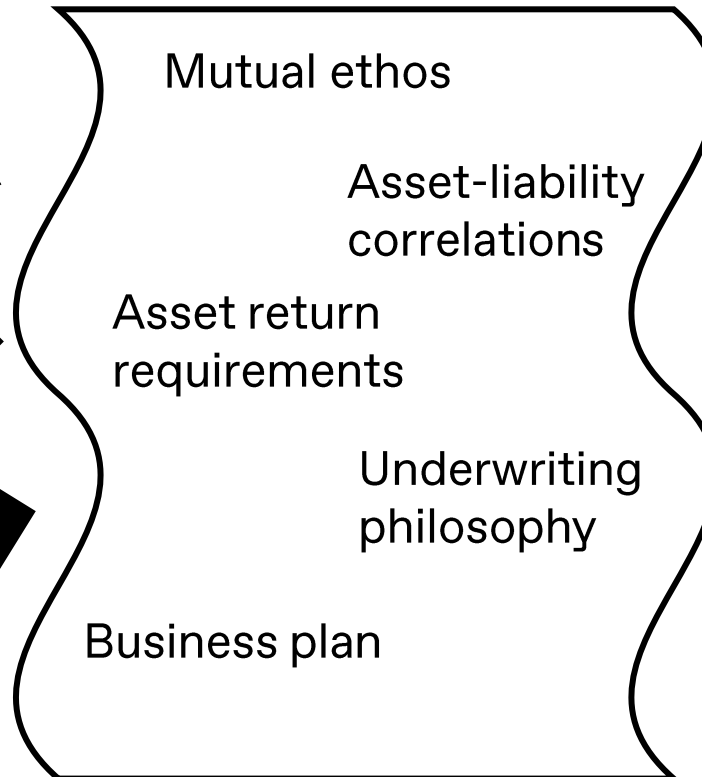


VIEW ESG IN YOUR PARTICULAR CONTEXT

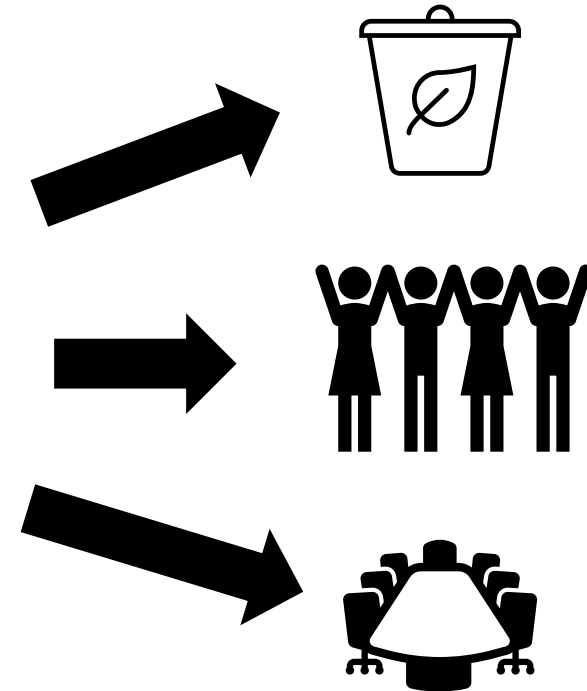
'Generic' ESG Principles



ESG Filter



Targeted ESG



A PRACTICAL TEMPLATE FOR ESG DISCOVERY

View ESG as another asset-liability risk and identify an ESG strategy that reflects features particular to the Mutual.

STEP 1

IDENTIFY BUSINESS AREAS SENSITIVE TO ESG EVENTS

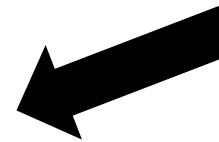
This covers issues such as ensuring investments are in line with Mutual's ethos, expanding underwriting in lines exposed to ESG risks such as climate change, avoiding activities detrimental to local communities, avoiding negative press and controversies or supporting broader CSR goals such as gender equality etc.



STEP 2

PRIORITISE POSITIVE AND NEGATIVE ESG RISKS

Once the key ESG risks have been identified, prioritise the risks in order to identify the areas of key focus for the investment portfolio.



STEP 3

UNDERSTAND ESG CORRELATIONS

Understand any correlations between corporate ESG risks, liability ESG risks and asset ESG risks for example events that may result in simultaneous losses to the investment and underwriting portfolio or areas of potential investment opportunity that fall in line with a Mutuals ethos or help achieve particular ESG goals.



STEP 4

INTEGRATE ESG RISK MANAGEMENT INTO INVESTMENT PORTFOLIO MANAGEMENT

Manage and monitor the investment portfolio to maximise positive ESG risks (investing in companies that have favourable ESG metrics), allow achievement of ESG related outcomes important to the Mutual and minimise negative idiosyncratic ESG risks.

SUMMARY

The good, the bad and the difficult to label



...IN CONCLUSION

- A generic approach to ESG may result in unintended risk exposure both from an investment and liability management perspective, depending on the underwriting profile of a Mutual.
- This may also result in missed opportunities to invest in a manner that directly or indirectly benefits members because the ethos of the Mutual is not applied as a primary filter to understand ESG.
- Taking time to consider and translate ESG into the context of a Mutual is a useful step in ensuring ESG is more than a simple tick box. This should happen before an ESG strategy is agreed.
- ESG should align with the long-term objectives of a Mutual.



THANKYOU