# Insurers' impacts remain uncovered

The past few years have seen the insurance sector begin to embrace social and environmental reporting. But, as **Paul Scott** finds, few companies have looked beyond their minimal, direct impacts

In common with many service sectors, the insurance industry came late to environmental and social reporting. Only over the past three years has the number of insurers publishing non-financial reports become significant. However, whereas the banking sector has progressed into the mid range of reporting sectors (see *Environmental Finance*, November 2002 pages 22–23), the insurance sector still trails towards the bottom end of the range[1].

Between 1994 and mid-2003, a total of 59 insurance sector reports were published, compared with three times that many from banks over the same period. Many of the largest names in the industry – such as AIG, Berkshire Hathaway, XL and Zurich Financial – still do not produce any environmental or social reports at all.

There are several parallels between banking and insurance sector reporting. Neither sector is, of itself, directly responsible for particularly significant environmental impacts, and both were spared the stakeholder and peer pressures that led sectors such as mining, chemicals and utilities to initiate reporting programmes in the early 1990s. Both financial sectors originally produced only environmental reports, and are only now beginning to publish reports covering a wider range of non-financial issues (see figure 1).

However, while German, British and Swiss insurers are as much in evidence in the reporting tables as their banking compatriots, US insurance companies are reluctant reporters. Their Japanese peers, led by The Tokio Marine and Fire Insurance Company and Sompo Japan Insurance, are somewhere between the two (see figure 2).

The most important difference in approach between the two sectors lies in the report content. Banks are now beginning to address their indirect impacts – those arising from their lending and investment activities, as evidenced by the establishment of the Equator Principles to address the environmental and social impacts of project financing (see *Environmental Finance*, July–August 2002, pages 15–16).

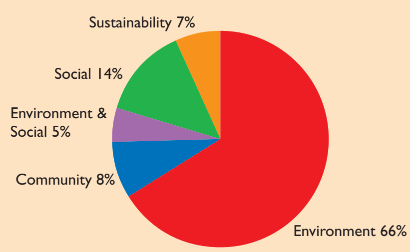
Generally, insurance sector non-financial reports focus solely on internal environmental management. Almost all insurance sector reports outline objectives and performance relating to paper consumption, waste management and energy and water use. These parameters are typical for office-based service sectors – and are well-established and uncontroversial.

What would be more interesting to learn would be how the sector is using its muscle to mitigate the environmental and social impacts which will otherwise push up premiums for everyone.

For example, the assets managed by insurance companies are colossal – the UK insurance industry alone has investments of more than £1,000 billion ($1,640 billion), accounting for over 20% of the UK stock market. The sector could wield considerable influence in encouraging the companies in which it invests to mitigate their environmental and social impacts – or by moving its assets out of polluting sectors. There is little or no evidence of this taking place in the reports published to date.

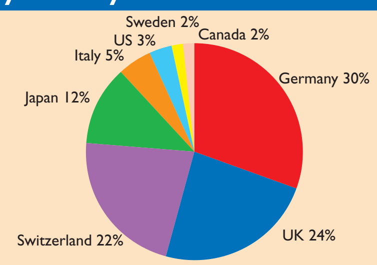
What evidence there is comes from the UK's Cooperative Insurance Society (*Social Accountability Report 2002*), which acknowledges the importance of such global environmental issues as greenhouse gas emissions and the Kyoto Protocol on climate change. It also gives information on the composition of its investment portfolio, its voting record and its views on sustainable investment.

**1. Types of reports produced in insurance sector**




*Source: CorporateRegister.com, September 2003 based on 59 reports received January 1994–August 2003*

**2. Insurance sector reports by country**




*Source: CorporateRegister.com, September 2003 based on 59 reports received January 1994–August 2003*

Likewise, in its *Environmental Statement and Magazine 2001*, Munich Re outlines sustainability criteria in asset management, and examines a broad range of issues from sustainable land management to climate change and population increase. There are cursory nods in this direction from a sprinkling of other insurance companies, such as Swiss Re, but a deafening silence from the majority (although some publish information on company websites).

Clearly, there may be issues surrounding investment returns – shareholders would likely complain if insurers withdrew from investing in entire industry sectors. But more transparency is required in how insurers are considering these issues – if at all. How can influence be brought to bear on the insurance industry to report on these issues?

The voluntary Global Reporting Initiative (GRI)[2] is the current beacon for non-financial reporting, and its Sustainability Reporting Guidelines might be expected to assist here. Certainly the GRI's 'sustainability context' principle – which requires companies to consider where its greatest impacts may lie – would point towards insurers reporting on asset management.

However, the more directly relevant EC13 principle on 'indirect economic impacts', could be ignored by companies using GRI standards. As it is an 'additional principle', it is at the discretion of the GRI reporting firm as to whether it is used, and if not, its omission does not have to be explained.

The GRI issued a financial services sector supplement on social performance in 2002[3], to which an insurance outreach group of six leading insurers contributed, but beyond a few brief points on social criteria in asset management and socially relevant elements of underwriting policy, important environmental and broader sustainability issues appear unaddressed.

We therefore have a situation where climate change, to take but one concern, appears to be creating enormous future liabilities for the insurance industry, but on the evidence of the sector's reports, market-based measures to help prevent or mitigate the impacts are not being taken by an industry which has the assets and influence to make a significant contribution. EF

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1 See www.corporateregister.com 'Statistics' – *Companies reporting per sector* and *Reports produced per sector*

2 See www.globalreporting.org

3 *Financial Services Sector Supplement: Social Performance.* GRI November 2002, downloadable from www.globalreporting.org