The Year of a New Beginning –
From ESG Commitments to Action

As the world grappled with the overwhelming challenges attributed to Covid-19, racial and social injustice, and dysfunctional geopolitics throughout 2020, many observers anticipated that reliance on the ESG framework for establishing commitments to all stakeholders would fade. But to the contrary, 2020 ushered in a year whereby the ESG framework provided a strategic and cultural roadmap for global corporations to adapt, navigate and emerge from 2020 with their businesses not only functioning but thriving. No longer are leaders debating the merits of ESG as a framework for creating long-term value for all stakeholders. To the contrary, a sustainability plan of action designed around ESG is widely accepted as an imperative for moving forward. We now turn to 2021 and the years ahead to determine if these plans become a catalyst for widespread change in why and how we conduct our business.

Year of Commitment
In 2020 ESG went mainstream amongst corporate leaders and many within our industry made public commitments to all stakeholders to be a force for good in the environment and society at large. Companies began by establishing a "new" purpose acknowledging all stakeholders and articulating the impact they want to have in the world. With regard to the environment, one example is Aviva's bold commitment to tackle the climate crisis with Amanda Blanc, Aviva Group Chief Executive Officer stating, "we have a huge responsibility to change the way we invest, insure and serve our customers." It is noteworthy that the commitment goes beyond Aviva's footprint and investment strategy by extending into their core insurance / underwriting operations. By the end of 2021, Aviva will stop underwriting insurance for companies making more than 5% of their revenue from coal or unconventional fossil fuels, unless they have signed up to the Science Based Targets initiative (SBTi), a collaboration between CDP, World Resources Institute (WRI), the World Wide Fund for Nature (WWF), and the United Nations Global Compact (UNGC), whose goal is to establish science-based environmental target setting as a standard corporate practice.

Both Swiss Re Group and Zurich Insurance Group also established their respective climate commitments by relying on a multi-prong strategy covering their physical footprint, asset management and re/insurance. Moving beyond their corporate footprint, Swiss Re made a public commitment to reach net-zero emissions by 2020 across the whole business including asset management and re/insurance. Whereas Mario Greco, Zurich Insurance Group's Chief

Executive Officer, sets a high standard by stating “we want to be known as one of the most responsible and impactful business in the world.” Regarding the core insurance business, Zurich’s goes beyond a pledge to understand and monitor the carbon intensity of their underwriting portfolios and developing key metrics to support alignment to a 1.5°C future by also committing to helping their customers successfully navigate the transition.

As it pertains to societal issues, insurers commitments are equally bold, addressing the needs of employees, customers and vulnerable people at large. One such example was to include the support of emerging digital trends with a new generation of products and services that deliver the best solutions and experiences while maintaining ethical use of customer data (e.g., never sell their personal data or share without being transparent). Digital was recognized as a means for not only serving existing customers better but reaching the disenfranchised as well.

Commitments to employees went beyond a safe physical presence to include an environment conducive to the employee’s success and mental well-being. Employees were promised meaningful work with a clear purpose in a safe, attractive, flexible and inclusive work environment where everyone can contribute. Access to training and skill development needed to succeed in a digital business environment, and a culture of inclusivity, collaboration and creativity became core.

As for vulnerable people at large, insurers committed to community outreach, using digital to reach and support the underserved, and to deliver resiliency programs in developing countries and poor communities.

In terms of governance, companies began with a pledge towards achieving diverse Board representation and in many cases set forth specific targets. Aside from Board composition, Directors actively engaged in governing all ESG matters by providing oversight of progress towards delivering on stakeholder commitments as well as oversight of material ESG-related risks (e.g., supply chain disruptions, energy sources, and labor practices). Boards also seek to be informed about the company’s approach to dealing with investor requests for ESG-related engagement and external disclosure and requests from emerging ESG-ratings services (e.g., the proxy advisory firm ISS’ new “Environmental & Social Quality Score”).

In summary, 2020 was the year of recognition that a sustainability plan designed in accordance with the ESG framework is not only a force for good but is critical to creating long-term value. Furthermore, the absence of a sustainability plan will likely have reputational impacts and result in significant public, investor and stakeholder relations risk. While companies will consider the value proposition of ESG initiatives relative to other business priorities and opportunities, it is important to recognize that the value derived from ESG initiatives will continue to develop, especially as more institutional investors consider sustainability as an investment priority and more companies take a proactive but targeted approach.

An Era of Action

The year ahead will be a year of corporate action with accountability at the forefront. Global hopes are high that corporate leaders will play a significant role in building a better future alongside governments, civil society, non-governmental agencies and other such actors. But corporates face a paradox. Corporate leaders are increasingly accepting responsibility for their social, environmental and economic impacts, yet they are not in direct control given the systemic nature or the fact that the impact falls upstream and downstream their value chain. Consequently, corporate engagement with other external stakeholders is imperative to be fully impactful. Business leaders now recognize the importance of not just associations but deeper collaboration to drive progress on common objectives. Surely, the COVID-19 pandemic has demonstrated the power of collaboration between government, the private sector and civil society as well as the unfortunate consequences of its absence. The environmental and societal problems that we face are problems of the global commons. Acting alone, even if well intentioned, will circumvent the attainment a globally optimal outcome.

- ***Imperative of collaboration to drive needed system change.***
  Collaborative research conducted on behalf of the SustainAbility Transparency Network (STN) highlighted trends and best practices for corporate practitioners. Companies are being more selective and strategic when it comes to collaborations and moving away from general participation to being an active piece of the puzzle in areas where they have expertise. At the same time, collaborative peer initiatives focused on sustainability are, by their nature, acts of systems change. They seek to shift the status quo by moving best practice within an industry, or even across the entire private sector. There is wisdom in the crowds. Including voices from outside and within the private sector can enhance systems change. Technology helps tap collective insights but maintaining a mindset and avoiding the prisoner's dilemma, even though well meaning, is ever more important. A collaborative mindset requires humility, open mindedness, and a willingness to abandon traditional decision models. The collaborative leader is willing to not only accept but expect setbacks, learn from the setbacks and re-engage, as opposed to being punitive or overly reactive. Organizations will need to seek, develop and reward individual competencies needed to support collaborative efforts and trusted relationships, such as those individuals who forge beyond their organization / industry to form "boundary-spanning" partnerships. How corporates foster collaboration amongst leaders to draw on the wisdom of the crowd, and who is included in the crowd, will untimely pave their way to success.

- ***Evolving metrics and tracking systems for informing and validating progress.***
  To date corporates substantiated their commitment by setting high level targets or referencing programs currently in operations. Going forward companies will develop explicit metrics as well as systems for tracking and reporting progress relative to the metrics. Additionally, companies will provide clarity as to how these metrics map to value creation within their own company as well as throughout their value chain and within the economy at large. The association is supported by research although individual companies will now develop unique roadmaps for building network effects across their various programs, resulting in global optimal solutions.

- ***Better governance of information through harmonization.***
  Clarity, consistency and comparability of ESG data remain key challenges. With any new initiative, multiple normative standard setters evolve and in time consolidate or align to achieve a uniform corporate reporting norm. Likewise, regulatory authorities and rating agencies are following suit. In recent months, the New York Department of Financial Services, AM Best, Lloyd's and EIOPA have all made pronouncements. In the meantime, leaders will learn from and select across the varying standards many of which are not auditable or validated by outside authorities. While not optimal, Boards will need to be aware that regulation and harmonization is evolving, therefore

directors are encouraged to be inquisitive about indictors of success against a self-selected framework.

The Years Ahead
The most recent year is the first year of a decade which could recalibrate the role of business in delivering on purpose. It has been a daunting year and leaders have stepped forward with widespread recognition and a willingness to play their part in building a better future. Nevertheless, more challenges lie ahead. Challenges such as the need to develop an ESG mandate beyond investments to include the core business of insurance / underwriting, the lack of consistency over ESG data quality and disclosures, and the ability to truly adapt to a collaborative mindset. Furthermore, as an industry we are facing challenges as we broaden the meaning of “E” in the ESG paradigm beyond climate to recognize biodiversity, water pollution, and the circular economy. Likewise, we are grappling with the breadth and ever-increasing momentum around social resilience. We are on a multi-year journey with next year being a year of action towards building truly resilient organizations and systems. Stakeholder capitalism is here to stay and subscribing to “triple-bottom-line” goals of people, planet and profit are, in fact, mutually reinforcing. It seems clear that 2021 will indeed be The Year of a New Beginning.

7.2021

Joan Lamm-Tennant, PhD
IIS Research Expert: Resilience

About the Author:
Joan is the founder and former CEO, Blue Marble Micro, Ltd. She is currently serving the industry as an Independent Director for Equitable Holdings, Inc., Ambac Financial Group, Hamilton Insurance Group, Ltd. and The Institutes, as well as on the board of Element Financial Management Corporation. She is dedicated to furthering her work in insurance by helping entrepreneurs and leaders align their commitment to Stakeholder Capitalism with drivers of financial success. Joan held a Professorship and Chair at Villanova University and Wharton, University of Pennsylvania.