Benchmark on Responsible Investment by Insurance Companies in the Netherlands 2023

Confronting Climate Risks: A dual challenge

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Utrecht, The Netherlands
September 2023

Special thanks to all participating insurance companies for their indispensable contributions and cooperation

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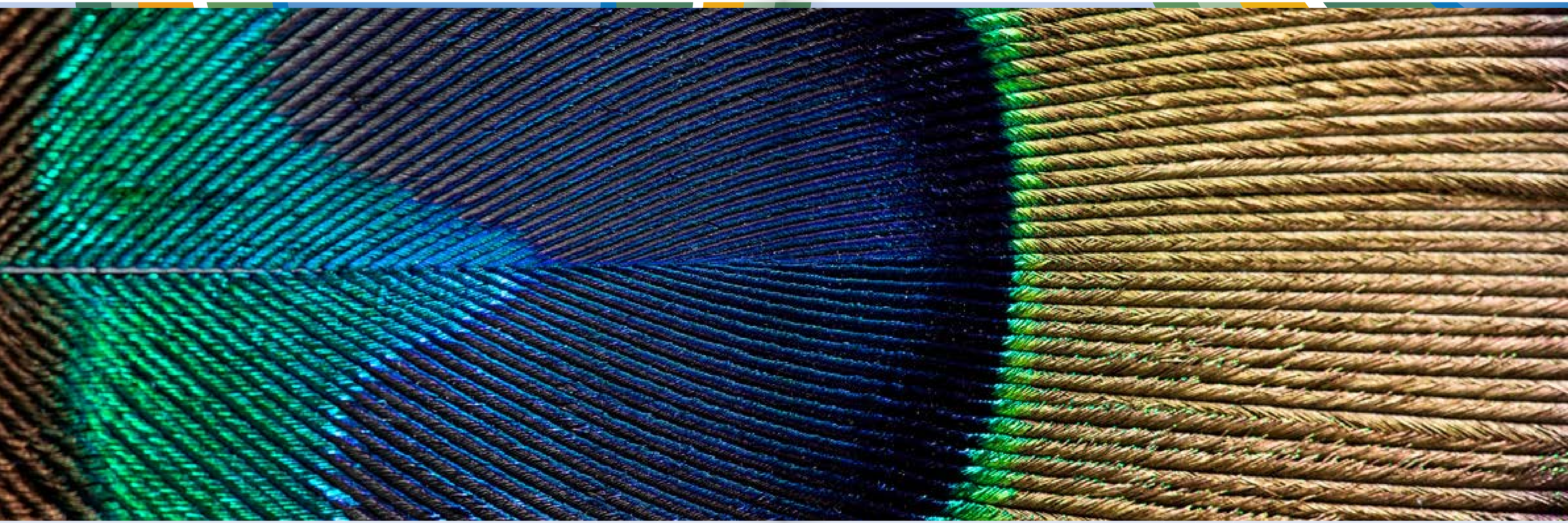
About VBDO



The Dutch Association of Investors for Sustainable Development (VBDO) is a not-for-profit multi-stakeholder organisation. Our mission is to make capital markets more sustainable. VBDO believes a more sustainable and responsible capital market leads to a healthier and more just world. As an independent association, we are a passionate driver, motivator and knowledge leader for responsible investment and have been helping to anchor sustainability in companies since 1995. VBDO helps organisations to make choices that look beyond financial gain alone and consider environmental, social and governance (ESG) factors. Members include insurance companies, banks, pension funds, asset managers, NGOs, consultancies, trade unions, and individual investors. VBDO is the Dutch member of the international network of sustainable investment forums. VBDO's activities target both the financial sector (investors) and the real economy (investees) and can be summarised as follows:

ENGAGEMENT
For more than 25 years, the core activity of VBDO has been engagement with 40+ Dutch companies listed on the stock market. VBDO visits the annual shareholders' meetings of these companies, asking specific questions and voting on environmental, social and governance (ESG) themes. The aim of this engagement is to promote sustainable practices and to track progress towards the companies becoming fully sustainable, thereby providing more opportunities for sustainable investments.

THOUGHT LEADERSHIP
VBDO initiates knowledge building and sharing of ESG-related issues in a pre-competitive market phase. Also, we regularly give training on responsible investment both to investors as well as NGOs.

BENCHMARKS
Benchmarks are an effective instrument to drive sustainability improvements by harnessing the competitive forces of the market. They create a race to the top by providing comparative insight and identifying frontrunners, thus stimulating sector-wide learning and sharing of good practices. VBDO has extensive experience in developing and conducting benchmarking studies. VBDO conducts several annual benchmarking exercises, for example, since 2005 on responsible investment by Dutch pensions funds, and since 2009 on responsible investment by Dutch insurance companies.

This has proven to be an effective tool in raising awareness of responsible investment and stimulating the sustainability performance of pension funds and insurance companies. VBDO is one of the founding partners of the Corporate Human Rights Benchmark, which ranks the 500 largest companies worldwide on their human rights performance and makes the information publicly available in order to drive improvements. VBDO's most recent Tax Transparency Benchmark ranks 78 Dutch and 25 EU stock-listed companies according to the transparency of their responsible tax policy and its implementation.

For more information about VBDO, please visit our website: www.vbdo.nl/en

Ranking

Ranking 2023	Change	Ranking 2021	Name of insurance company	Overall score 2023	Governance	Policy	Imple-mentation	Accountability	Stars
1	– 0	1	Athora Netherlands	4,5	4,6	4,3	4,6	4,7	★★★★
2	▲ 1	3	a.s.r.	4,2	4,4	4,2	4,0	4,8	★★★★
3	▲ 1	4	Achmea	4,2	4,2	3,6	4,3	4,7	★★★★
4	▼ 2	2	NN Group	4,1	4,6	3,6	3,9	4,7	★★★★
5	▲ 3	8	VGZ	3,8	4,2	2,6	4,0	4,4	★★★
6	▼ 1	5	CZ Groep	3,5	3,2	3,6	4,0	2,3	★★★
7	▲ 3	10	Menzis	3,2	3,2	2,5	3,5	3,0	★★
8	▲ 5	13	Univé Groep	3,0	3,5	2,8	3,0	2,6	★★
9	– 0	9	De Goudse Verzekeringen	2,9	2,9	2,6	3,1	2,4	★★
10	▼ 3	7	DELA	2,9	3,2	2,6	3,2	1,7	★
11	▲ 5	16	Klaverblad	2,7	2,2	2,6	3,0	2,5	★★
12	▼ 2	10	Allianz	2,4	2,3	2,1	2,5	2,2	★
13	▼ 1	12	ZLM	2,3	1,0	1,9	2,9	2,2	★
14	– 0	14	Zorg en Zekerheid	2,2	2,1	2,1	2,1	2,7	★
15	– 0	15	Scildon	2,2	2,8	1,4	2,3	2,1	★
16	▲ 2	18	DSW	2,0	2,3	1,1	2,3	1,3	★
17	– 0	17	ONVZ	1,9	1,9	2,0	2,1	1,5	★
18	▲ 2	20	Monuta	1,9	2,9	2,2	1,9	0,8	★
19	▲ 4	23	Salland	1,5	1,8	0,5	1,9	1,2	★
20	▲ 2	22	Onderlinge 's-Gravenhage	1,0	1,3	0,5	1,2	0,9	☆

* The scores are rounded to one decimal place. However, insurance companies are only given a shared place in the ranking if they have the same score to two decimal places.

Preface
Angélique Laskewitz

Climate disasters are occurring in rapid succession – from record breaking global temperatures to unprecedented amounts of ice melting in the Arctic and Antarctica to the rapid decline of biodiversity. These frightening developments serve as a stark reminder of the pressing need to address climate issues and meant it was an obvious decision to focus this year's benchmark report on the issue of climate risks. This decision was also based on the fact that these risks present a dual challenge for insurers, impacting not only their conventional role as insurers but also their role as institutional investors.

The omnipresence of climate risks and their overwhelming increase in occurrence may induce feelings of helplessness. For some, helplessness results in inaction, but it is encouraging to observe that insurance companies are instead taking matters into their own hands. Insurers are engaging in critical self-reflection on their policies and display a continuous willingness to adapt and innovate as needed. The willingness, inventiveness, and ambitions of Dutch insurance companies shine through in the outcomes of this year's benchmark, evidenced by the notable improvement in the average overall score, which has risen from 1,7 to 2,8. Beyond serving as a mere assessment tool, the benchmark provides a profound insight into the current landscape of responsible investment within Dutch insurance firms. Moreover, it plays a significant role as a catalyst for change and an advocate for improvements.

Insurers are engaging in critical self-reflection on their policies and display a continuous willingness to adapt and innovate as needed.

The continuously expanding range of ESG topics demands the broadening of responsible investment policies to address pressing issues. The results of the benchmark show that there is a high degree of awareness amongst insurers about the loss of biodiversity, and VBDO encourages insurers to formulate policies on biodiversity to turn this awareness into actions. Taking action can also be done by fully utilising the set of tools that active ownership offers. Over the past few years, the possibilities of active ownership have been demonstrated more often, for example through the support for shareholder resolutions and collective engagement activities. I urge insurance companies to continue down this road and to operate collectively to make a greater impact. It is especially important to continue dialogues with external experts, NGOS, CSOs and other relevant actors now that the IRBC agreement (IMVO convenant) has ended.

Although the climate crisis is deeply concerning, there is also cause for optimism. The increased availability of sustainability-related data offers investors an important tool in tackling climate risks. This development holds great potential. Although using such data requires knowledge and expertise beyond 'traditional' financial matters, I encourage insurers to make full use of this opportunity. This can be a challenging task to take on, but be assured that experts from a variety of disciplines can support insurance companies in gaining an in-depth understanding of key issues. This understanding is crucial for effective policy-making and implementation.

In conclusion, I want to express my gratitude to our members, whose support contributed to the creation of this report. I am highly appreciative of the active involvement of the insurance companies and their asset managers, who provided invaluable and indispensable input. I hope that you read this benchmark report with interest and are inspired to take further action.

Angelique Laskewitz
Executive Director of VBDO

Tom Barrett

Foreword Richard Weurding

VBDO regularly asks the insurance sector to critically reflect on its own responsible investment performance. That's great, because it allows us too to see at a glance how our sector is doing. Are we getting better scores than two years ago? And how are individual insurers performing in comparison to their peers? No doubt you have looked at your own score first. Rightfully so, because the VBDO benchmark is highly regarded. This is becoming increasingly important, because the scores are used to compare insurers.

Within our sector sustainability is almost constantly in the spotlight. Where it began almost fifteen years ago with sustainable investing, now a growing attention for insurability exists. This includes maintaining insurability in the face of extreme weather, as well as making insurance products more sustainable.

Over the past five years, our sector has been involved in drawing up its own responsible investment policy. Fully aligned with OECD and UN guidelines.

SUSTAINABLE INVESTING

This summer marks the end of the International Responsible Business Conduct agreement (IMVO convenant). Over the past five years, our sector has been involved in drawing up its own responsible investment policy. Fully aligned with OECD and UN guidelines. The Dutch Association of Insurers has collaborated with ministries and NGOs in this covenant to provide the best possible support to our members.

The end of the IRBC agreement certainly does not signify the end of this topic. Quite the opposite, I would almost say. We will collaborate on specific themes in order to make more impact. Insurers can subscribe for the themes which are most important to them. Naturally, we will continue to engage in dialogue with our stakeholders, such as through an advisory council, in which we actively consider the input of the VBDO. And of course, we will also continue to work with the agreements of the climate commitment for the financial sector.

EXTREME WEATHER

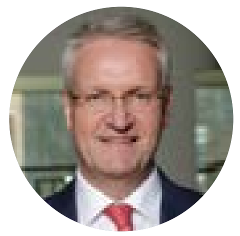
As I write this, the sky is blue and the sun is shining. The weather is calm. However, this summer has once again shown that we are dealing with more and more extreme weather. In the Netherlands and in Europe. Extreme heat, June and July were the hottest months ever recorded. Wildfires, drought, hailstorms and floods are becoming more frequent.

The Association of Insurers recently launched the Climate Damage Monitor (Klimaatschademonitor), providing the most up-to-date figures on climate-related damage. Additionally, we are and will remain in search of insurance solutions, especially for floods. We are also exploring ways to limit damage as much as possible. For example, by building smartly and timely warning for extreme weather. However, we cannot do all of this alone. We need government involvement.

MAKING INSURANCE PRODUCTS MORE SUSTAINABLE

This brings me to the final point: making insurance products more sustainable. In recent years we have seen significant progress. This is partly due to consumer demand, but insurers are also expanding the range of sustainable choices in their products. Think of sustainable damage repair and making solar panels insurable. Or consider electric cars and the sharing economy.

The question is increasingly being raised as to whether insurers should still insure everything. If they decide to engage or exclude certain sectors in their investment policy, why do they still have to insure them? We would have liked to address this question internationally within the Net-Zero Insurance Alliance (NZIA), but many parties have departed. Nevertheless, the commitment of Dutch insurers remains unwavering.
As the title of this report indicates, tackling climate risks is and will remain a dual challenge: investments and products!



Richard Weurding
Managing director of the Dutch Association of Insurers (Verbond van Verzekeraars)

Introduction

This report provides a detailed overview of the current status and developments relating to the responsible investment practices of 20 Dutch insurance companies with a combined sum of over 250 billion euros in assets under management (AuM). The insurance companies are assessed based on how they formulate, govern, implement and report on their responsible investment policy. For each category, discussion points have been included to foster a dialogue about responsible investment. The report covers a one-year period, the calendar year 2022. We refer to this as the 2023 benchmark throughout the report. VBDO's assessment ranks the results in order of performance. As the scope of this year's benchmark has decreased significantly, results are not directly comparable to those of previous benchmarks.

HOW TO INTERPRET THE SCORES

Insurance companies are given a score between 0 and 5 in this benchmark, with 5 being the highest achievable score. A score of 5 does not equal being 'most sustainable' or that no further improvements can be made. Rather, it gives an indication of how well an insurance company performs on criteria that have been set in the current questionnaire. The questionnaire is reassessed and revised periodically to reflect developments in responsible investment (RI). The overall score reflects how well each insurance company has scored in the four categories (figure 1). The scoring does not focus on individual investments but instead takes a more holistic approach.

Figure 1 | **Overview scoring model**

FINAL SCORE (between 0-5)

GOVERNANCE (16,7%)	POLICY (16,7%)	IMPLEMENTATION (50%)	ACCOUNTABILITY (16,7%)

Total score on category Implementation =
Score public equity X % of the portfolio
Score corporate bonds X % of the portfolio
Score government bonds X % of the portfolio
Score real estate X % of the portfolio
Score private equity X % of the portfolio
Score mortgages X % of the portfolio
Score alternative investments X % of the portfolio

This figure shows the scoring model. The categories are weighted differently. Governance, policy and accountability each account for 16.7%, and implementation 50%. The weighted percentage for implementation is 50% because this category determines the final output and quality of the responsible investment practices of an insurance company. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class.


Thomas Griesbeck

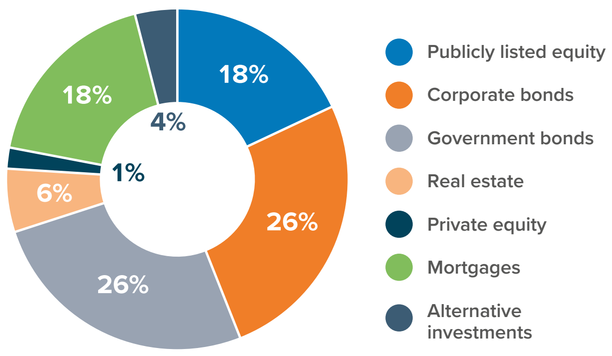
CONFRONTING CLIMATE RISKS: A DUAL CHALLENGE

Confronting climate risks as an insurer

This year, the report brings special attention to climate risks. Climate-related disasters, such as hurricanes, floods, wildfires and other extreme weather events are becoming more and more frequent. As the effects of climate change intensify, the risk landscape for insurance companies is significantly altered. This increased frequency of climate-related disasters results in a surge in claims and payouts, potentially directly impacting the financial stability of insurers. In turn, customers could be affected through increased premiums to compensate for these losses. Climate change can also have a negative effect on health, which could also lead to increased claims and payouts.

Another challenge lies in the reinsurance market. Traditionally, insurance companies transfer a portion of their risk to reinsurers. However, the increase of climate risks limits the capacity of reinsurers to take over this risk or requires them to heavily raise the costs of reinsurance. This creates a ripple effect by forcing primary insurers to reduce coverage options and raise the premiums, which in turn affects customers.

Figure 2 | **Average asset allocation of assets within scope**



Governments worldwide are taking action to address climate change. For the insurance sector, amongst other sectors, this has resulted in reporting requirements and mandated climate-risk disclosures. An example of this is the integration of climate-risk scenarios in the Own Risk and Solvency Assessment (ORSA) as part of the Solvency II supervisory framework.

As mentioned, the effects of climate change may force insurance companies to raise premiums for customers.

Conversely, customers may also demand insurance products that address climate risks and cover damage caused by climate-related disasters. Answering this demand could be a complex process as the insurance of these risks is becoming increasingly difficult and very costly. Nevertheless, leaving this demand unanswered may result in losing customers to competitors with more climate-resilient policies and products.

To summarise, confronting climate risks poses a major challenge for insurance companies in their traditional role as insurer. Climate-related disasters can impact virtually every aspect of human life which makes confronting these risks an extremely urgent matter. The cumulative effect of these risks on the financial performance of insurance companies and their ability to manage claims can threaten long-term viability and solvency of insurers. The challenge of maintaining reserves to cover potential future claims, especially in high-risk regions, has never been more relevant.

Confronting climate risks as an institutional investor

It is clear that climate risks pose a huge challenge for insurance companies in their role as insurers. Nevertheless, as the title of the report implies, insurers face a dual challenge. Climate risks also heavily affect insurance companies in their capacity as institutional investors. The increasing risk of climate-related disasters has made the transition to a low-carbon economy a global priority. This transition presents opportunities for investments, but it also comes with challenges.

First and foremost, the energy transition can lead to stranded assets resulting in financial losses and reduced investment returns for insurers. Insurance companies should carefully navigate the risks and opportunities associated with these stranded assets. This will not only contribute to an effective energy transition but will also help with ensuring a sustainable and resilient economy.

Increasingly, large investors are faced with pressure from shareholders and other stakeholders to steer away from polluting companies and invest responsibly. Insurance companies are no exception and are being pushed by customers and other stakeholders to take actions to mitigate climate-related risks in their investment portfolios. This pressure from stakeholders can be attributed to changing shareholder sentiment due to increased climate change awareness. However, external pressures are not the only drivers for insurance companies to invest responsibly. The societal role of insurance companies is also an important driver as insurers often actively participate in initiatives that positively impact communities and the environment.

Increasingly, large investors are faced with pressure from shareholders and other stakeholders to steer away from polluting companies and invest responsibly.

It is clear that insurers are significantly impacted by climate risks, both for their business operations and for their investment portfolios. To mitigate these risks, insurers must (1) adopt investment strategies that take into account climate risks; (2) continuously assess and monitor climate risks; and (3) ensure that their practices are aligned with evolving regulatory requirements, reporting standards and stakeholder expectations. By doing so, insurance companies will help to safeguard their financial interests, protect their business interests and play a key role in addressing the significant and ever-increasing climate risks that the world is facing. The dual challenge faced by insurers is certainly not easy to take on, but the results of this year's benchmark have once again shown the willingness, inventiveness and ambitions of Dutch insurance companies.


Michael Mouritz

Key findings

This section presents the key findings and recommendations of the benchmark. In 2021, the benchmark assessed 30 insurance companies. This year, 20 insurers were assessed. Further explanation on the change of scope can be found in Appendix I. The difference in the number of assessed companies means that it is difficult to make a direct comparison between the results of this year's benchmark and those of the previous edition of the benchmark. Nevertheless, the 2023 benchmark offers valuable insights along with recommendations for responsible investing by insurance companies.

Increase in the number of insurance companies making impact investments
Overall, the number of insurance companies investing in impact investments has increased.

Little progress made on the transparency of the results of responsible investment instruments, particularly for impact investing
Insurance companies are more transparent about their responsible investment-related policies. However, not enough companies have made progress when it comes to reporting on the results of implemented strategies and responsible investment instruments. This is especially true for the results of impact investments. For example, just 20% of insurance companies report on the actual impact of their impact investment portfolio. As the volume of overall impact investments has increased, it is notable that the percentage of insurers reporting on impact investing in detail has not also risen by a similar amount.

Few direct dialogues with governments and related institutions
Insurance companies often use investor statements to bring topics of interest to the attention of governments and policy makers. This is an important signal of the insurance company's stance on a matter and highly encouraged. However, VBDO defines engagement as a direct dialogue. Only a small number of insurance companies initiate such dialogues with relevant government agencies individually or collectively. There are reasons for this. In some cases, it can be hard to determine who or which agency to contact; in other cases, especially in relation to developed markets, there is no perceived need for engagement. However, due to the complexity and scale of the sustainability challenges the sector and society at large is facing, governments and policy makers should be seen as key collaborators for developing and implementing solutions.

Boost in knowledge about responsible investment (RI)
Compared to the previous benchmark, we have seen an increase in knowledge of RI and/or ESG present in the board of insurance companies. This year, it was found that in 65% the insurance companies the board is in the lead with regard to ESG and responsible investment. Moreover, these boards include at least one member with demonstrable knowledge about RI and/or ESG. Additionally, the management boards of 50% of all surveyed insurance companies included at least one person who has demonstrable knowledge of RI and/or ESG compared to the previous report's 17%.

Figure 3 | **Use of impact investing per asset class**

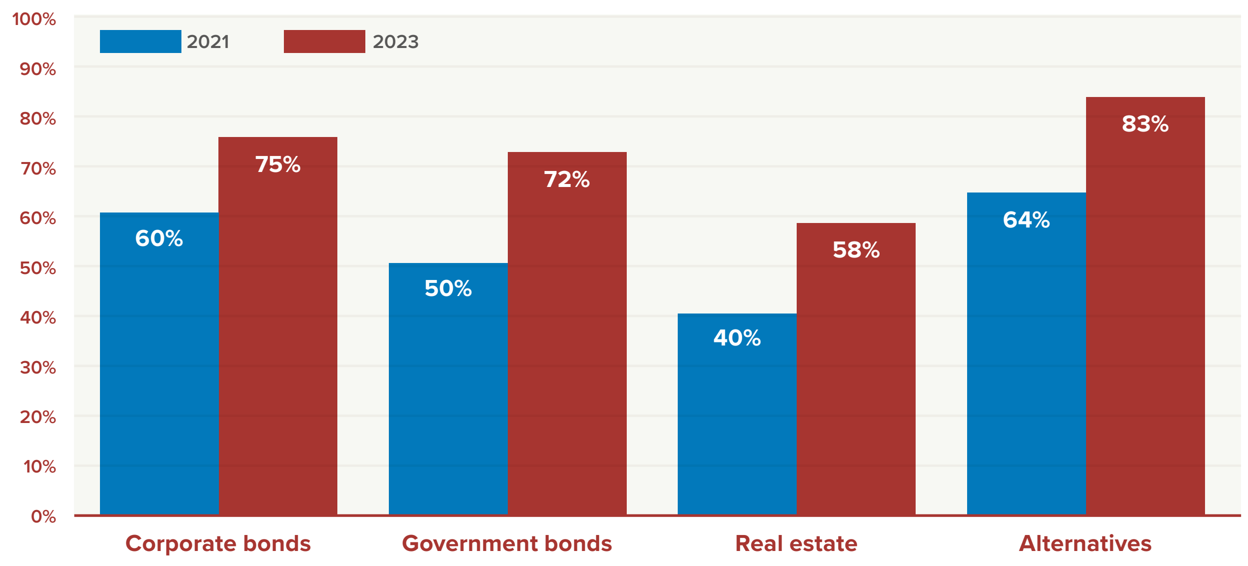
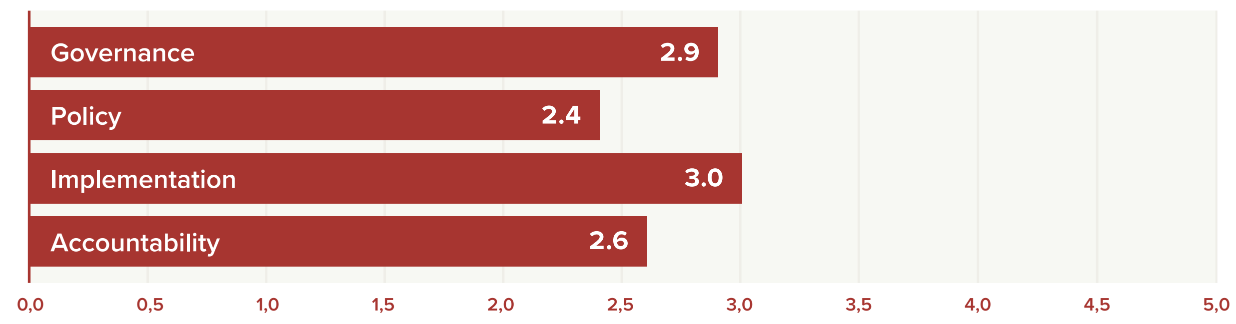


Figure 4 | **Total average score of insurance companies per category**



Recommendations

Continue consulting external experts, NGOs, CSOs and other relevant actors

Whilst the International Responsible Business Conduct agreement (IMVO convenant) is ending, it remains crucial that partnerships between NGOs, CSOs and other relevant actors continue. Through continued collaboration, stakeholders can share information, exchange knowledge, identify and mitigate environmental and social risks, and advocate for better corporate governance practices. Working together enhances collective bargaining power, leading to negotiations that prioritise positive impact on the environment and society. Moreover, sustained cooperation encourages research and innovation in sustainable investment strategies, ultimately bolstering the reputation of the investor community and the positioning of this community as responsible stewards of capital and promoters of a sustainable future. By monitoring and evaluating this process, the consultation can be better structured, resulting in a more effective process.

Do not be discouraged from taking action on biodiversity

Collating comprehensive information on sustainability-related topics such as biodiversity cannot be accomplished through a singular method. However, this should not discourage insurance companies from taking action. As the list of ESG topics continues to grow, it becomes increasingly crucial to integrate data related to these subjects into the RI policy. Whilst some topics may have an overwhelming abundance of data, others might suffer from a perceived lack of information. However, both challenges are surmountable. The scarcity of data should not discourage action, and the abundance of data should not serve as an obstacle. When collecting data on sustainability-related topics, it is essential to focus on understanding the underlying methodology behind the data to gain meaningful insights. The types of ESG data needing to be collected, and the methods of collecting and analysing it, will evolve over time. Therefore, investors must continuously improve their data-gathering capabilities and refine their understanding of material ESG factors in order for their responsible investment strategies to remain effective.

Diversify sources of knowledge

With the complexity of the challenges that institutional investors are facing it, is now more important than ever to ensure the organisation has access to the knowledge and expertise needed to address these issues. This expertise is often highly specialised and/or is not always directly linked to the financial sector. In order to weather these challenges, it is important to burst our finance bubble and seek out the knowledge of those adjacent to and outside the sector. By doing this, investors can ensure they have the knowledge and help to face challenges to, for example, an insurance company's investment universe.

Go beyond a general policy on climate change and risks

This year's benchmark results show that most insurers have integrated climate change in their RI policy. Moreover, the Climate Commitment (Klimaatakkoord) has led to insurers formulating a Climate Action plan. These Climate Action plans contain policies regarding the measurement of CO_2 emissions relating to investments. However, VBDO recommends that insurance companies go into further detail and address specific climate change-related issues such as the adaptation to physical risks of climate change, the reduction of transition risks and/or socio-ecological resilience.

1. Results per category

1.1 Governance | Good governance is crucial if a policy is to be successfully implemented. It relies on several factors, including sufficient knowledge on responsible investment existing at board level, insight into the preferences of customers, clear guidance from the board to asset managers when it comes to setting targets and measuring results, and effective oversight of the board.

DISCUSSION POINTS ON GOVERNANCE

- **How can it be ensured that dialogues between the insurance company and stakeholders contribute to the formulation and execution of an effective RI policy?**
- **In what ways can knowledge about sustainability information and understanding about the integration of such data into investment decision-making be improved?**

UNDERSTANDING SUSTAINABILITY INFORMATION AND DATA

In the 2021 report, we stated that complex societal developments and risks, such as COVID-19, the climate crisis, natural resource depletion, human rights and geopolitical events, increasingly require institutional investors to take a stance through their investment strategies. In order to do so, a thorough understanding of the complexity, relevance and impact of these developments and their related risks is essential. We believe that this thorough understanding begins with the board and its advisors as they set out the strategy of the company. However, integrating complex societal developments and risks in the investment strategy also requires a reliance on non-financial data. The amount of available data on, for example, biodiversity, real-world impact, carbon accounting, science-based targets and global warming scenarios is rapidly growing. Properly understanding such data is key to effective decision-making. This understanding starts with clarity and transparency on the methodology behind the data collection and clarity on the meaning of concepts. It can be challenging to combine financial and sustainability-related data, but we believe that this is the key to better investment decision-making.

VBDO supports continuous education by board members and advisors on relevant RI topics and suggests that they seek advice on topics that require expert knowledge. Appropriate RI knowledge, experience and training remains of the utmost importance. An effective RI policy and strategy relies heavily on competent staff to execute it. Having at least a basic knowledge of relevant RI and staying up to date on relevant developments contributes to the board's ability to give direction to staff members, and makes it easier to formulate, achieve and measure goals.

IMPORTANCE OF CONSULTING STAKEHOLDERS

As mentioned in the introductory section of this report, stakeholders play an important role in steering the direction of a company's responsible investing practices. The investments made by insurance companies not only affect the company itself, but also society as a whole. Given the substantial size of capital invested by Dutch insurance companies, it is beneficial to both insurance companies and relevant stakeholders to organise consultations on both the RI policy and climate change-related issues. For one thing, this allows insurance companies to gain knowledge and insights from NGOs, advocacy groups and other experts, who may bring the company's attention to relevant issues which may otherwise be overlooked. Such consultations may also help the insurance company to invest in a way that makes a positive societal impact and to better understand what customers find important and what they expect. Awareness of climate change is rising and many people are seeking more proactive ways to address the climate crisis, so these types of consultations may prove increasingly important.

RECOMMENDATIONS FOR GOVERNANCE

- **Optimise stakeholder consultations by formulating objectives for the consultation.**
- **Better structure the consultation process by monitoring and evaluating progress and results.**
- **Ensure you keep in contact with external experts, NGOs, CSOs and other relevant actors, especially now that the IRBC agreement (IMVO convenant) has ended.**
- **Make use the of the knowledge of experts on specific complex issues, such as climate risks, to ensure continuous education and a well-informed board.**

Figure 5 | **Knowledge level of the insurance company's board on RI (self-reported)**

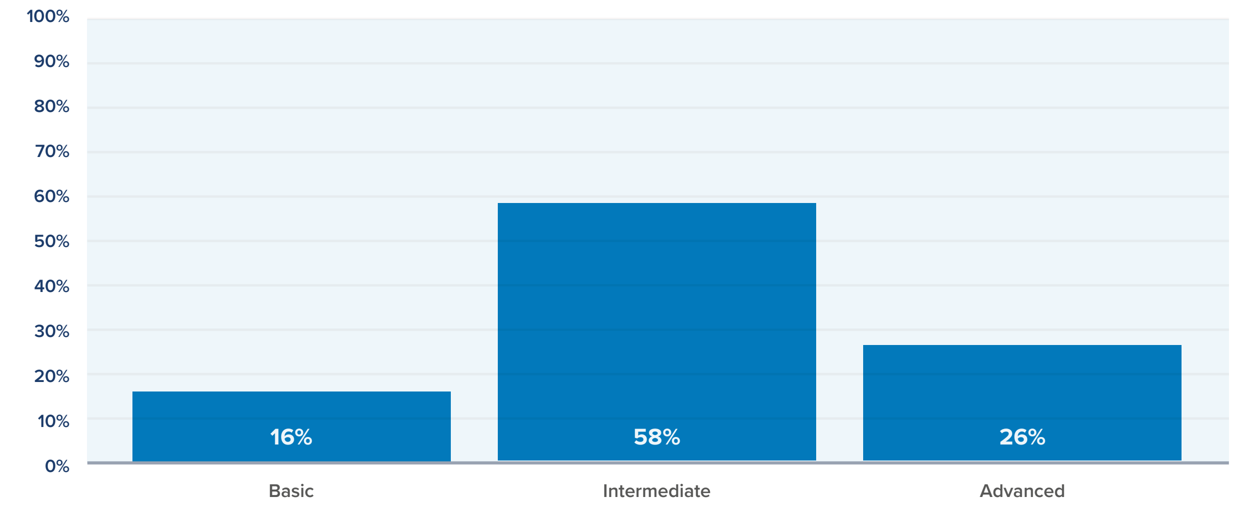


Figure 6 | **Consultation on the responsible investment policy**

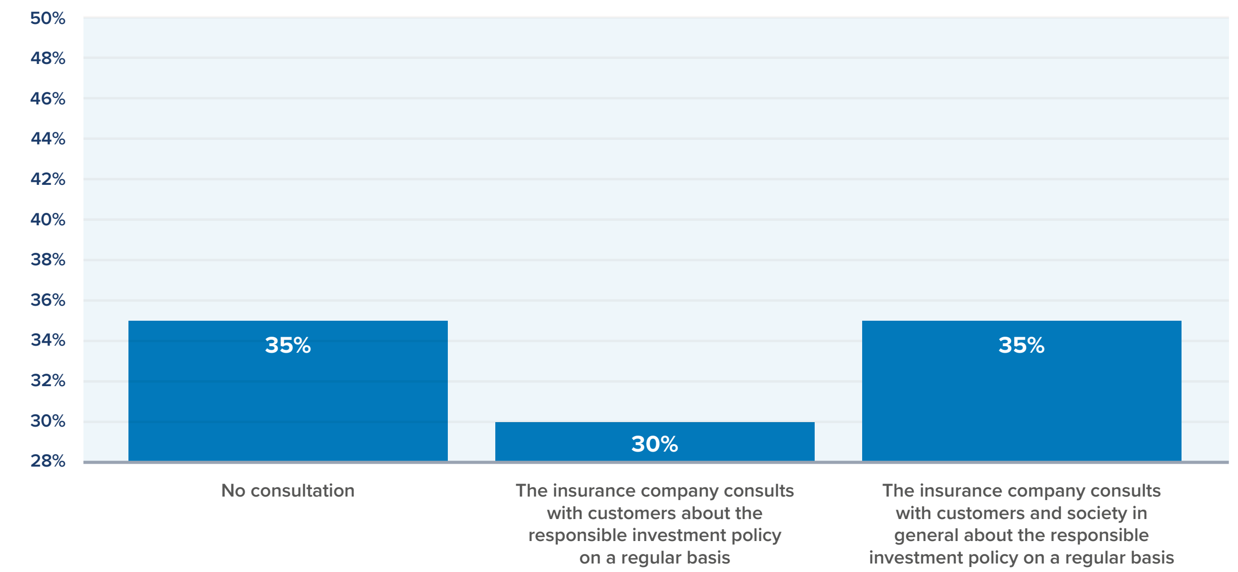
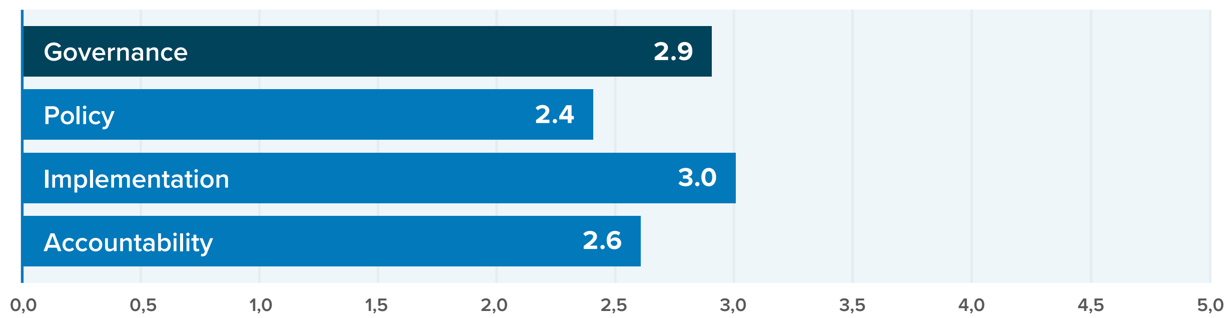


Figure 7 | **Average results per category**



1.2 Policy | A comprehensive RI policy is the foundation of an insurance company's responsible investment practices and provides a clear investment framework. This framework reflects the values of the insurance company and its stakeholders by formalising its vision, investment principles and approach to RI. To this end, articulating a long-term vision, including specific and measurable goals and a clear roadmap, is vital for the success of the RI policy. The RI policy should include ESG themes and ideally show how related topics overlap, and it should apply to all asset classes.

DISCUSSION POINTS ON POLICY

- **Is a general RI policy workable if it does not have a clear roadmap for its implementation?**
- **Will biodiversity become a more critical topic in the RI-policy than climate change?**

RI POLICIES MOVING TOWARDS HAVING GREATER DEPTH, INCLUDING TIME-BOUND ELEMENTS

Over the years, the scope of RI policies has significantly expanded to include new ESG-related topics. VBDO sees this as a positive development as a broader and more comprehensive RI policy is not only beneficial for insurance companies themselves, but for society as a whole as well. The emphasis should be on an in-depth policy rather than superficial measures in order to enhance the legitimacy of insurance companies' long-term goals. Implementing a roadmap for achieving long-term goals is one of the first steps for creating a more in-depth RI policy. The results of this year's benchmark show that 60% of all insurers have a policy in place that includes time-bound elements, which is a great improvement from the 20% of the last benchmark. It is also encouraging to see that many insurance companies have implemented such elements in 2023 or plan to do so. As these are outside of this benchmark's scope, these companies are not included in the 60% figure. However, we can expect to see an uplift in the percentage in next edition of the benchmark.

With RI policies becoming more encompassing, insurance companies should consider consulting experts and NGOs regularly to strengthen their policy. It takes a lot of work to create both a broad and in-depth RI policy; consulting experts will help to ensure that the policy is underpinned by science. A final way to increase the quality of the RI policy is by having a strong monitoring and evaluation mechanism in place. This will ensure that the insurance company will commit itself to the goals it has set and provide more transparency about progress.

BROADENING THE RI POLICY: RESPONSIBLE TAX

This year, two questions were added to reflect the increased comprehensiveness of RI policies. The first question that has been added asks insurance companies about their responsible tax policy. VBDO has published a Tax Transparency Benchmark, which assesses the tax transparency of European listed companies, for the last nine years. Tax is an integral part of sustainable development as a whole because governments use taxes to finance, amongst other things, the energy transition and adaptation to climate change. In addition, there are significant reputational and financial risks related to tax, which can negatively impact investors' portfolios. Responsible taxation refers to the practices or principles upheld by individuals, businesses and governments to ensure that the decision-making process regarding tax matters takes into account social and ethical considerations.

For institutional investors, responsible tax is a multi-faceted process. The foundation of this process is the integration of responsible tax in the RI policy or the drafting of a separate responsible tax policy. Key aspects of such a policy include sections on the investor's compliance with relevant tax laws, avoiding tax evasion and not exploiting loopholes for aggressive tax avoidance. Alongside sections that focus on legitimate tax planning within the boundaries of the law, the responsible tax policy should also bring attention to the integration of these practices in the RI process. Doing so contributes to greater breadth and depth of the RI policy and enhances the societal impact made through investments. In order to achieve this greater comprehensiveness, insurance companies can consider the broader impact of taxation on local communities and the economy. ESG matters can also be taken into consideration by going beyond legal tax requirements and avoiding so-called tax havens. A final recommendation concerns public accountability. Disclosure of tax contributions and strategies not only demonstrates a commitment to responsible tax practices, but also contributes to setting sector-wide standards.

The results show that 55% of the insurance companies do not have an explicit responsible tax policy in place. The vast majority of insurance companies that do have a responsible tax policy in place do not have requirements for asset managers in place. VBDO recommends setting out requirements regarding responsible tax for asset managers. Such requirements are most effective if adherence to these requirements is monitored to ensure that investee companies prioritise responsible tax conduct to uphold ethical standards and contribute positively to broader society. Policies form the foundation for responsible tax conduct; whilst the actual implementation of these policies in RI instruments such as exclusion, ESG integration, voting and engagement forms the next crucial step. The implementation of the responsible tax policy into RI instruments is far from common amongst insurance companies as only 20% can demonstrate such

Figure 8 | **Setting long-term goals and implementing time-bound elements**

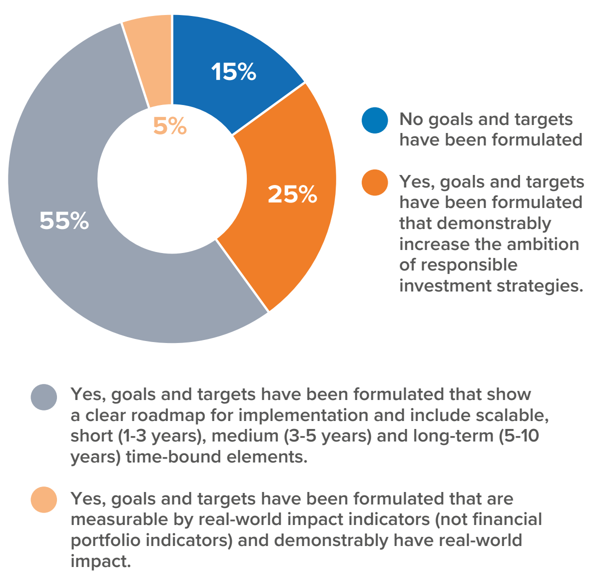
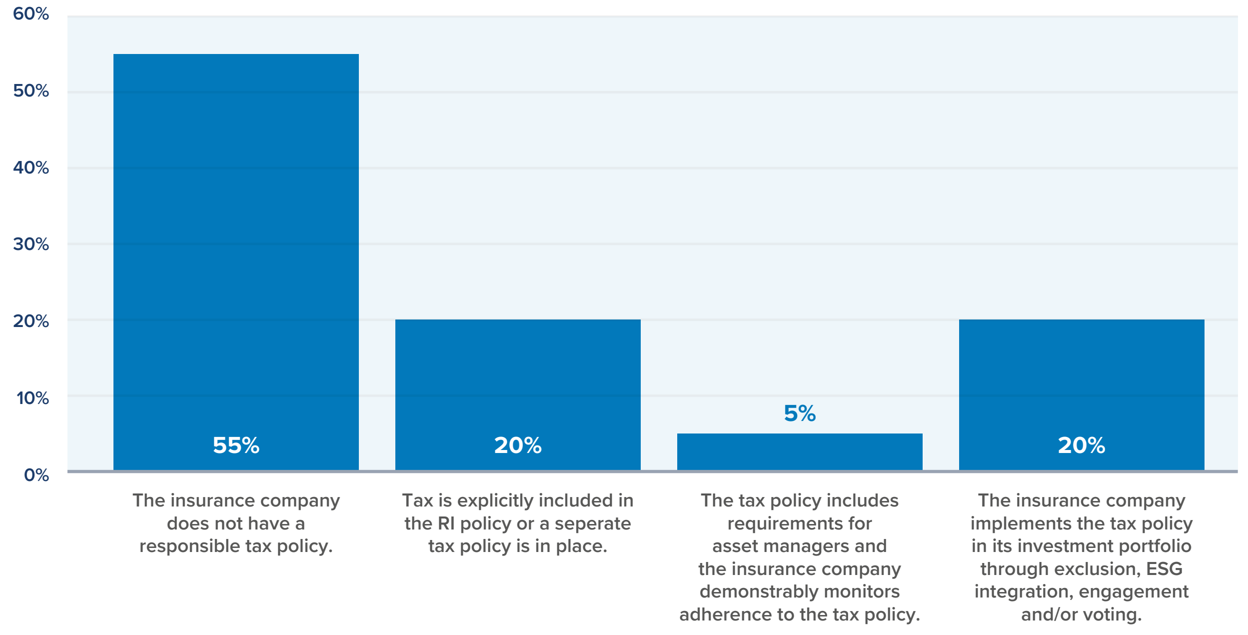


Figure 9 | **Responsible tax policy**



implementation. However, as this is the first year that the VBDO has included this question, we are looking forward to a great improvement over the coming years.

BROADENING THE RI POLICY: BIODIVERSITY

The second new question is an open question related to the comprehensiveness of the biodiversity policy of insurers. In each edition of the benchmark, we ask the insurance companies which ESG themes deserve more attention; this year, over 66% of the respondents selected biodiversity as an under considered topic. This year, the benchmark included a question on biodiversity for the first time. This question enquired about the inclusion of biodiversity within the RI policy. Whilst biodiversity is recognised as an important topic, only 32% of the respondents have a comprehensive biodiversity policy in place with time-bound elements. Biodiversity loss is different from climate change, but its effects can be just as disastrous It is often the result of human activities, such as deforestation and/or pollution, and its effects go further than the extinction of species. Biodiversity loss can be linked to a disruption in food supply and also to an increase in CO_2 emissions. Biodiversity loss can, therefore, be associated with a decrease in social-ecological resilience, which can also negatively affect the operations of insurance companies.

Compared to the impact that an insurance company has on climate change, impact on biodiversity is relatively hard to measure. This is because there are multiple facets of biodiversity such as species richness, genetic diversity, endemic species and ecosystem diversity. These are all valid measures of biodiversity, but they cannot encompass the concept of biodiversity on their own, and it is not always clear how these facets interlink with each other. However, whilst biodiversity is not encompassed by one method or definition, there are multiple tools and methods at the disposal of insurance companies to measure their biodiversity impact. The fact is that there is no single way to achieve perfect biodiversity information, but this should not be seen as reason to forgo creating a biodiversity policy. VBDO recommends that insurers implement a biodiversity policy with time-bound elements using methods already available; this can be further legitimised by making the policy transparent and available for customers and society as a whole.

Figure 10 | **Climate change in the RI policy**

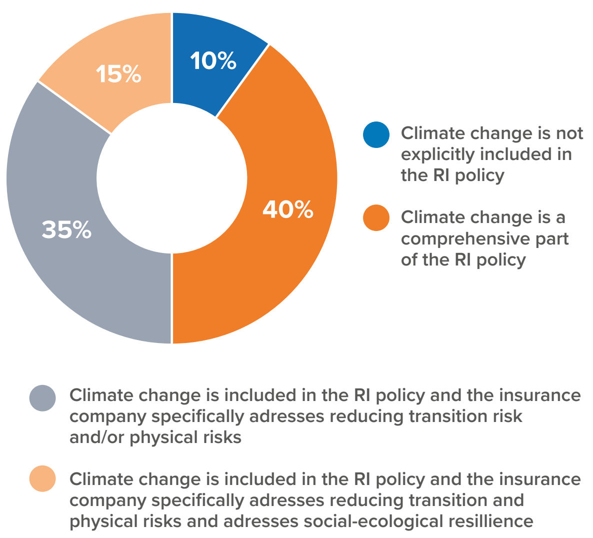
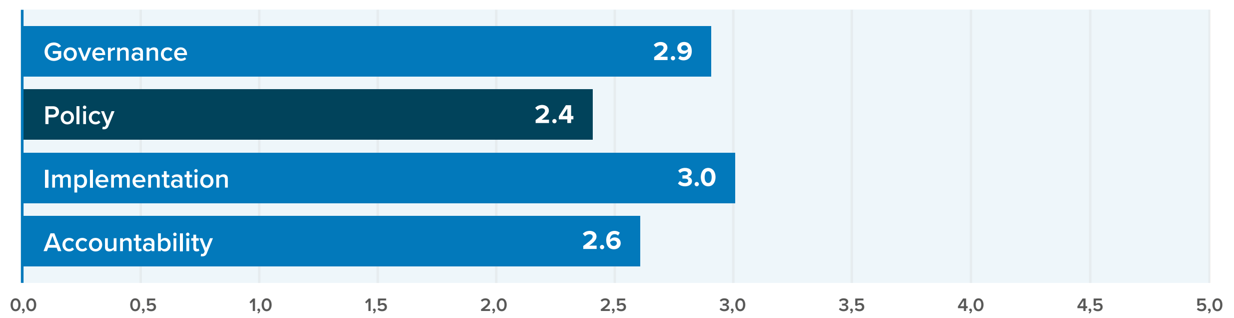


Figure 11 | **Average results per category**



Gabriel Meinert

RECOMMENDATIONS

- Formulate an explicit tax policy and communicate requirements for asset managers. Where possible, integrate the tax policy in the use of RI instruments.
- Start integrating biodiversity impact into the RI policy by using data collection methods that are already available; gain insights into the methodology used and ensure transparency for the customers and other stakeholders
- Ensure that ambitious, long-term ESG targets are accompanied by a roadmap with time-bound elements to enhance the legitimacy and effectiveness of the RI policy.

1.3 Implementation | Executing the RI policy throughout the portfolio is crucial.

Insurance companies should invest responsibly across all of the various asset classes and implement the applicable RI instruments. The scores in this category reflect how well the RI policy is being executed. VBDO analyses implementation for the various asset classes and the applicable RI instruments. The allocation of the assets is the basis for determining the final score on implementation. A detailed explanation of the available RI instruments can be found in Appendix II.

DISCUSSION POINTS ON IMPLEMENTATION

- **Which themes could be better implemented in the insurance company's portfolio using the RI instruments available?**
- **Should exclusionary tactics (e.g., divestment) be seen as the next step after engagement when dealing with companies that have poor ESG practices, or can engagement alone drive sufficient change?**

IMPLEMENTATION IN RI INSTRUMENTS

The previous section discussed how policies on sustainability and ESG form the groundworks for responsible investing. VBDO's assessment on implementation looks at the extent such policies are reflected in the actual investment process through RI instruments. In other words, this section looks at whether insurance companies actually 'walk the talk'.

1.3.1 Exclusion

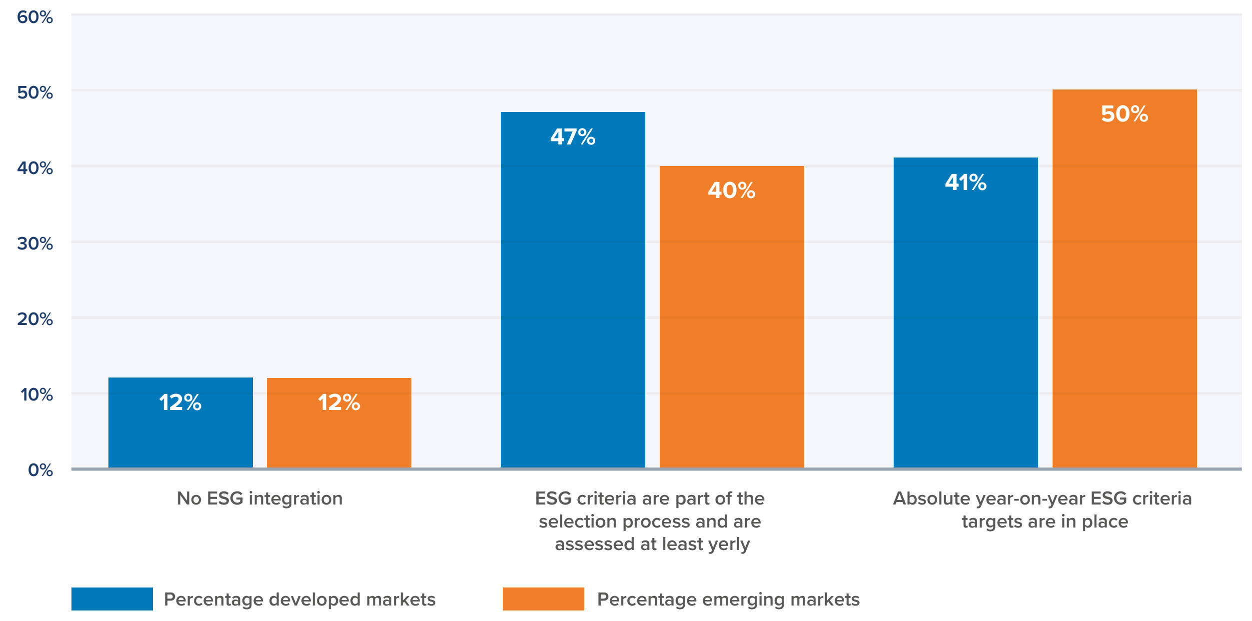
An exclusion policy indicates what type of investments an insurance company will not consider. Exclusion can be done for various reasons, including legal grounds, reputational risks, ethical beliefs and sustainability considerations. It can be applied to companies, sectors and countries. Exclusion is a relatively basic step to take, but it does require a vision on controversial issues. VBDO's benchmark only recognises exclusion criteria beyond legally binding regulations. For example, all Dutch institutional investors are legally prohibited from investing in cluster munitions, meaning that this will not be considered an exclusion policy.

For the publicly listed equity and corporate bonds categories, all insurance companies score maximum points, which implies that they all have exclusion criteria in place in addition to those that stem from legally binding regulations. In the government bond category, the maximum number of points can only be scored if the company has formulated its own sustainability-related country considerations. The results show that 78% of the insurance companies have already done so. The slightly lower score compared to the previous categories could be attributed to the fact that insurance companies prefer engagement over exclusion for this category, but the results show that engagement with governments is far from common amongst insurers (for more information, see 2.3.3). Some insurers limit their investments solely to government bonds from developed markets like Germany and the Netherlands, believing that additional exclusion criteria in this asset class are unnecessary. The sustainability-related country considerations may differ from insurer to insurer as these considerations are heavily dependent on the insurer's vision and beliefs. Nevertheless, an issue that may be worthwhile taking into account when drafting additional criteria is climate-related risks. The increasing severity of the effects of climate change may affect assets in the investment portfolio, but the way in which these effects manifest differ per region. Research and data gathering about climate risks per region may contribute to gaining insights into these risks. Some insurance companies exclude countries based on their sustainability performance, whilst others prefer engagement and view exclusion as an escalation option. Both methods can be used to influence behaviour in line with the RI policy.

1.3.2 ESG-integration

ESG integration refers to the process by which environmental, social, and governance factors are integrated into the investment decision-making process. This integrative approach ensures that ESG criteria are identified and assessed in order for the insurer to make an investment decision.

Figure 12 | **ESG-integration in government bond investments**



GOVERNMENT BONDS

The average asset allocation of government bonds is 26% making it, together with corporate bonds, the largest asset class in which the participating insurance companies invest. In relation to this asset class, there are separate questions about ESG-integration in emerging markets and ESG-integration in developed markets, because many insurance companies consider there to be fewer ESG-risks in developed markets. The consequence of this view is that insurers then believe that thorough ESG-integration is less needed for developed markets. However, VBDO is of the opinion that ESG integration is important not only for emerging markets but also for developed markets. First and foremost, this is because government bonds comprise a substantial part of the holdings of insurance companies. In addition to this, developed markets are also subject to ESG-risks and these should be taken into account when deciding whether to invest in these markets. For example, climate risks and governance practices should be considered when investing in developed markets. For these particular risks, the insurance company can assess the extent to which countries' environmental policies are aligned with scientific climate scenarios, how countries are facilitating the just transition to net-zero, and their compliance with relevant laws, regulations, and standards concerning ESG.

The vast majority (85%) of the insurance companies invests in government bonds from developed markets. Integrating ESG in these investments can be done in several ways. One way of integrating ESG in the selection process is by setting year-on-year criteria targets for either the portfolio (in the case of active investment strategies) or for the ESG index product (for passive strategies). Alternatively, ESG can be integrated by carrying out ESG analyses of potential investments or by adhering to an ESG/SRI-index. The latter strategy is currently the preferred way of ESG-integration for 47% of the insurance companies investing in developed market bonds. More than a third (41%) already have year-on-year criteria in place, but the numbers show that there is room for improvement. A small fraction of the insurance companies does not integrate ESG in the investment process of developed market bonds.

Over a third of the insurance companies (40%) invest in bonds from emerging markets. The results of the benchmarking exercise show that when it comes to emerging markets, 50% of the insurance companies have set year-on-year targets, which is more than for developed markets. More than a third of the insurers (38%) do not have yearly targets, but do integrate ESG in other ways, such as through an investment analysis.

CORPORATE BONDS

With an average asset allocation of 26%, corporate bonds comprise the largest asset class together with government bonds. All participating insurance companies have implemented ESG-integration in their corporate bonds portfolio. Compared to 2021, the number of insurance companies that sets year-on-year targets has greatly increased from 7% to 50%.

PUBLICLY LISTED EQUITY

On average, publicly listed equity makes up 18% of the asset allocation of the insurance companies in scope. In 2021, 26% of the insurance companies did not integrate ESG factors in the equity selection process. We are pleased to report that all participating insurers have now, in some way, implemented ESG-integration in this process. One way to integrate ESG is by including ESG-criteria in the selection process. This is done by 47% of the insurers investing in publicly listed equity. In 2021, this was done by 63% of the participating insurance companies. This slightly lower percentage is likely due to the larger increase in the number of insurers who have set year-on-year ESG-criteria targets as this number has risen from only 11% in 2021 to 53% in 2023.

MORTGAGES

Mortgages make up 18% of the average asset allocation. For this asset class, VBDO asks insurance companies if environmental and social issues are considered in the selection, monitoring and evaluation of mortgage investments. More than a third (42%) of insurers which invest in mortgages consider either environmental or social issues in the selection, monitoring and evaluation of mortgage investments. More than half of the insurance companies (58%) that invest in mortgages take both issues into account in the selection, monitoring and evaluation of mortgage investments. This is an increase from 2021, when 42% considered both issues. The results show that there has been significant progress from the 2021 report when 42% of respondents did not consider environmental or social issues at all and 16% only considered one of these issues.

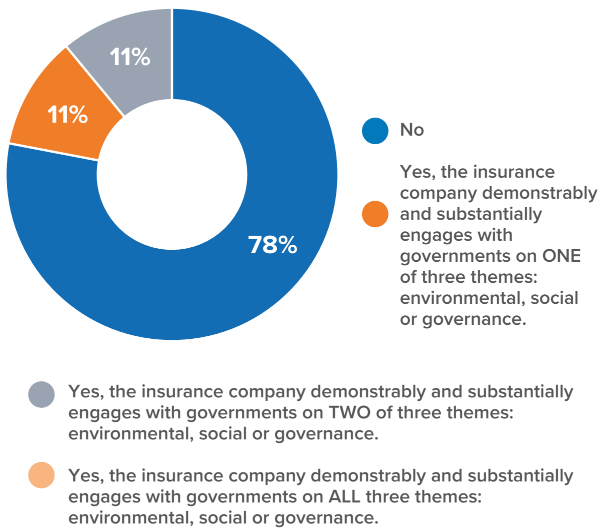
1.3.3 Engagement

Dialogue with governments, fund managers and corporate issuers of stocks and credits is a valuable tool to help optimise long-term value, manage reputational risk, and bring about positive social and environmental change. Monitoring and evaluating the progress of the engagement activities is crucial to preventing it from becoming a box-ticking exercise. Engagement can be practised in various forms such as case-by-case or collective engagement.

GOVERNMENT BONDS

Whilst government bonds comprise, on average, insurance companies' largest asset allocation together with corporate bonds, a surprisingly low percentage of insurers take part in engagement for this asset class. The benchmark shows that 78% of the participating insurance companies do not enter into dialogue with governments. VBDO distinguishes between engagements on environmental, social and governance issues. This year's benchmark shows that just 11% of the insurers has engaged with governments on either a social, environmental or governance issue. The same percentage of insurance companies 11% engage on two of these issues with governments. Engagement trajectories with governments and policy makers could be enhanced by measuring the progress of the dialogues and their results, as well as taking further steps based on the results of the dialogue.

Figure 13 | **Government bond engagement**



Climate change poses a systemic risk to the global economy and consequently to investor portfolios [1]. As global temperatures continue to rise, so will the frequency and severity of extreme weather events. Governments, through policy and regulation, can play an important role in reducing climate-related financial risk and incentivising adaptation[2].

In this report, we have observed that government bond engagement remains an under-utilised tool as a means to address climate risk. However, this type of engagement is a vital tool for driving climate-conscious policies and practices on a national level. By encouraging governments to address climate risks and implement sustainable strategies, investors can contribute to mitigating the systemic risks posed by climate change and therefore promote a more resilient global economy.

While this form of engagement comes with challenges, discussions with issuers could be effectively framed around the disclosure and progress of existing climate policies. Furthermore, collaborative engagement could increase the effectiveness of the engagement and help to overcome these challenges [3].

[1] Serhan Cevik, João Tovar Jalles, This changes everything: Climate shocks and sovereign bonds*, Energy Economics, Volume 107, 2022, 105856, ISSN 0140-9883, https://doi.org/10.1016/j.eneco.2022.105856.

[2] Climate change and sovereign risk

Prepared by Stephan Fahr, Margherita Giuzio, Clementine Mc Sweeny Pourtalet, Martina Spaggiari and Josep Maria Vendrell Simón

Published as part of the Financial Stability Review, May 2023.

[3] https://www.unpri.org/sovereign-debt/esg-engagement-for-sovereign-debt-investors/6687.article

None of the insurance companies engaging with governments have demonstrated this for this year's report.

CORPORATE BONDS

For the corporate bonds portfolio, 90% of the insurance companies indicated that engagement took place with companies in this portfolio. Of the participating insurers, 85% stated that they engaged on environmental, social and governance issues. However, only a fraction of the 20 participating companies engaged on one or two issues and 10% do not engage at all with companies in their corporate bonds portfolio. Opportunities to improve engagement with companies in this asset class lie in the process that underpins the engagement strategy. Only 47% of the insurance companies that engage with companies in their corporate bonds portfolio indicated that they assess the effectiveness of the engagement process, measure progress, and implement further actions based on the engagement outcomes. Similarly to the recommendations for engagement on government bonds, engagement can be improved by adding these practices to the engagement trajectories.

PUBLICLY LISTED EQUITY

Certain insurance companies have chosen to outsource their engagement policy and/or implementation processes. This trend is particularly noticeable among smaller insurance companies, which tend to place significant importance on the implementation of RI instruments and the overall sustainability strategy of candidates during the asset manager selection process. However, due to our benchmark's allocation of points based on predefined engagement topics, this outsourcing practice has had a negative impact on engagement scores for this group of insurance companies. VBDO firmly stresses the importance of predefined themes, as these signify a strong commitment to responsible investment. With this in mind, we encourage all insurance companies to develop specific engagement topics for their fiduciary managers to employ during engagement dialogues.

Engagement with companies in the PLE portfolio is common practice amongst the participating insurance companies, with 89% practising a form of engagement. Around a third (32%) of those investing in publicly listed equity engage with companies, but do not predefine ESG themes for engagement nor do they engage normatively on ESG-related company behaviour. As previously mentioned, VBDO emphasises the importance of formulating predefined ESG themes. Doing so requires insurers to reflect on the topics they find important and want to focus on when conducting engagement. It is also important to engage normatively on ESG-related company behaviour. This year's results show that 58% of the insurers already have predefined ESG themes for engagement and practise engagement normatively on ESG-related company behaviour.

Similarly to corporate and government bonds, the results show room for improvement when it comes to the evaluation of the effectiveness of the engagement process. The effectiveness of an engagement process can be significantly optimised by integrating the results of engagement in other RI instruments. When the insights gained from engagement are integrated into other RI instruments, the impact can be multiplied. By aligning engagement outcomes with broader RI strategies, investors can foster greater accountability and encourage companies to adopt sustainable and ethical practices. This cohesive approach not only enhances the potential for meaningful ESG improvements but also strengthens the overall impact of responsible investing, driving positive outcomes for both the portfolio and the global community.

MORTGAGES

Of the insurance companies invested in mortgages, 58% engages with mortgage investment funds. Almost a third of those engaging with mortgage funds (27%) take further steps based on the results of the engagement.

REAL ESTATE

In the previous edition of this benchmark for insurance companies, 50% of all respondents carried out engagement with real estate companies on at least one of the ESG themes. This year, 90% of the insurance companies investing in indirect real estate have engaged with real estate funds. This is a commendable achievement and VBDO hopes to see a continuation of this trend in the future. Furthermore, 22% of the respondents practising engagement indicated that they not only monitored and evaluated the results of the engagement processes, they also took further steps based on the engagement results. The integration of more RI-instruments within the engagement process is vital to make the results of the engagement process much more effective. With this in mind, VBDO expects to see more insurance companies taking further steps based on their engagement processes.

1.3.4. Voting

Many institutional investors vote at shareholder meetings. This might push companies towards a better sustainability policy, but that in itself is not enough. A clearly defined voting policy is required, one that explicitly emphasises social and environmental issues. By proactively introducing or supporting resolutions on sustainable development and corporate social responsibility, investors can push companies towards improvement and corrective action. This also sends a clear message to company management about the shareholders' expectations and desired direction for the company, especially concerning environmental and social matters. In recent years, annual general meetings have been platforms for heated discussions about sustainability. As shareholder activism and ESG considerations gain momentum, the impact of such resolutions and voting actions on sustainability-related issues continues to grow, influencing companies to incorporate ESG principles and move towards a more environmentally and socially conscious business approach.

Shareholder resolutions have emerged as powerful tools for promoting positive change within companies. A well-known example of this is Follow This - an organisation of around 8.000 shareholders in oil and gas companies. The resolutions put forth by Follow This, which call on oil and gas companies to align their strategies with the climate goals of the Paris Agreement, have attracted support from institutional investors, including insurance companies. By backing these resolutions, institutional investors and other shareholders demonstrate their commitment to responsible investing and their desire for companies to take tangible steps towards environmental sustainability.

Almost all participating insurance companies (90%) vote at the annual shareholder meetings of companies in their portfolio and explicitly include ESG requirements in the (proxy) voting mandate of the asset manager. VBDO encourages insurers to publicly initiate or support shareholder resolutions. ESG-related shareholder resolutions are still largely climate focused, but they can also address more complex topics, such as biodiversity and human rights in the supply chain. This year, 21% of the insurance companies have publicly initiated or supported shareholder resolutions about ESG matters.

In this year's assessment, VBDO found that the percentage of insurers supporting a shareholder resolution was higher than 21%. However, the criterion for awarding points is that the support or initiation of such a resolution is expressed publicly. Many insurers only publish their support in voting tools which are quite complex and difficult to access for customers and other stakeholders. VBDO recommends clearly communicating to support for such resolutions known, for example, on social media platforms and through press releases. Publicly disclosing the support or initiation of these resolutions demonstrates transparency and accountability. It allows investors to show their stakeholders, including clients, customers, and beneficiaries, that they are actively engaged in responsible investing and taking a stand on specific ESG issues. Moreover, public support for resolutions encourages collaboration among investors. It helps build investor coalitions, which enables investors to pool resources and increase their influence on companies' sustainability practices.

1.3.5. Impact investing

Impact investments are increasingly used as a tool to facilitate positive change and to generate a tangible impact through investment decisions. This trend is evident in this years' benchmark results as well, which show a notable rise in impact investments across all asset classes. For instance, in the real estate sector, 58% of insurers who invest in real estate have impact investments in this asset class. This is a significant increase from the 40% reported in the previous benchmark. Similarly for corporate bonds, 75% of insurers who hold corporate bonds have impact investments in this asset class, marking an improvement from the 60% of the previous benchmark. VBDO celebrates this encouraging development.

Figure 14 I **Use of impact investing per asset class**

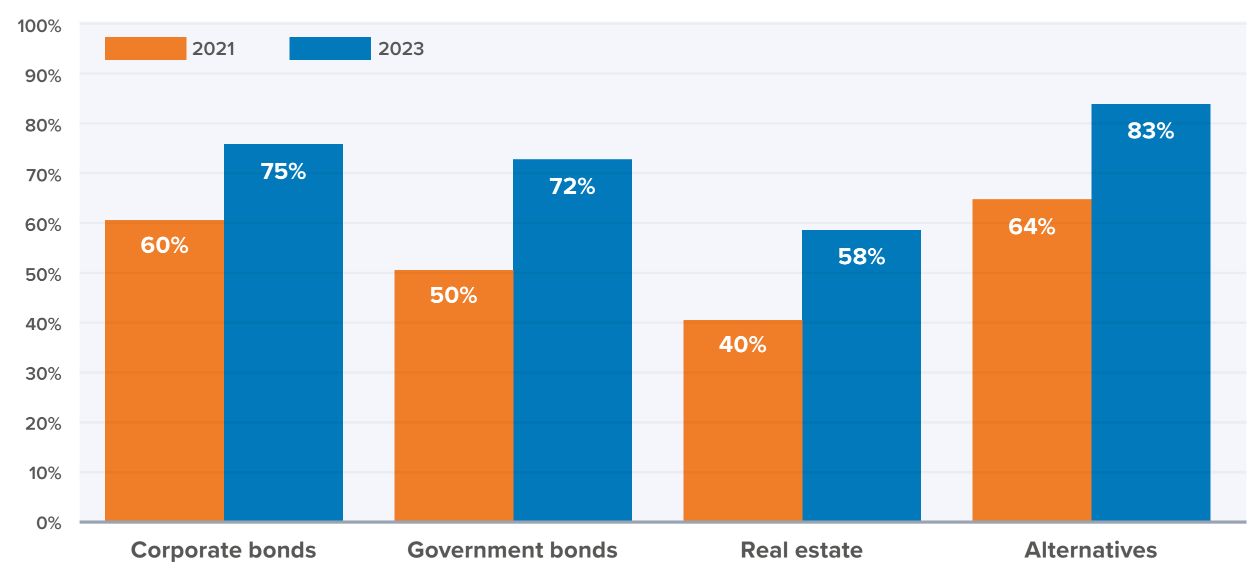
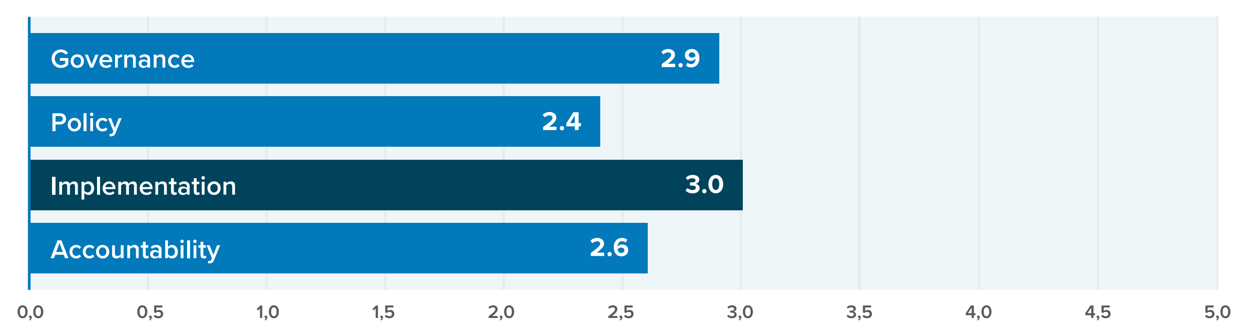


Figure 15 I **Average results per category**



However, this increased prevalence also calls for vigilance in distinguishing what qualifies as a genuine impact investment. VBDO adheres to the definition as provided by the Global Impact Investing Network (GIIN). An impact investment is an investment which is '...made with the intention to generate positive, measurable social and environmental impact alongside a financial return.' The benchmark methodology places specific emphasis on the requirement of having a pre-defined intention. This aids in ensuring these investments are truly focused on maximising impact, rather than simply being investments that incidentally have green or social characteristics.

VBDO encourages investors to increase their efforts on measuring achieved impact, in order to achieve as great an impact as possible. Taking the corporate bond asset class as an example, only 33% of insurers with impact investments in their portfolio review the use of proceeds. VBDO highlights the importance of reviewing processes, as they provide an additional step in ensuring that the impact generated is authentic and effective. By measuring and monitoring the outcomes of their impact investments, investors can better assess the positive social and environmental effects that are brought about by financial decisions. This proactive approach helps to strengthen the credibility and effectiveness of impact investing and further reinforces the investor's commitment to help create a sustainable and positive future.

RECOMMENDATIONS FOR IMPLEMENTATION

- **Utilise the leverage power gained by holding government bonds to motivate governments to tackle climate risks and promote climate-conscious policies and practices. Prioritise collaborative engagement as this gives investors greater leverage and therefore enhances effectiveness.**
- **Broaden the scope of engagement activities by including social themes.**
- **Manage and monitor the outcomes of impact investments by conducting a review of proceeds to ensure authentic and effective impact is made.**

1.4 Accountability | Concrete and transparent reporting provides stakeholders and society as a whole with an insight into the strategy and results of the insurance company regarding responsible investment. Part of this transparency is to show how the RI policy has been designed. It is also important to report regularly and at depth on strategies, goals, results and the impacts of responsible investment. Information in such reports can serve as the starting point for communication with (and accountability to) the insurance company's customers, while also being informative for other relevant stakeholders.

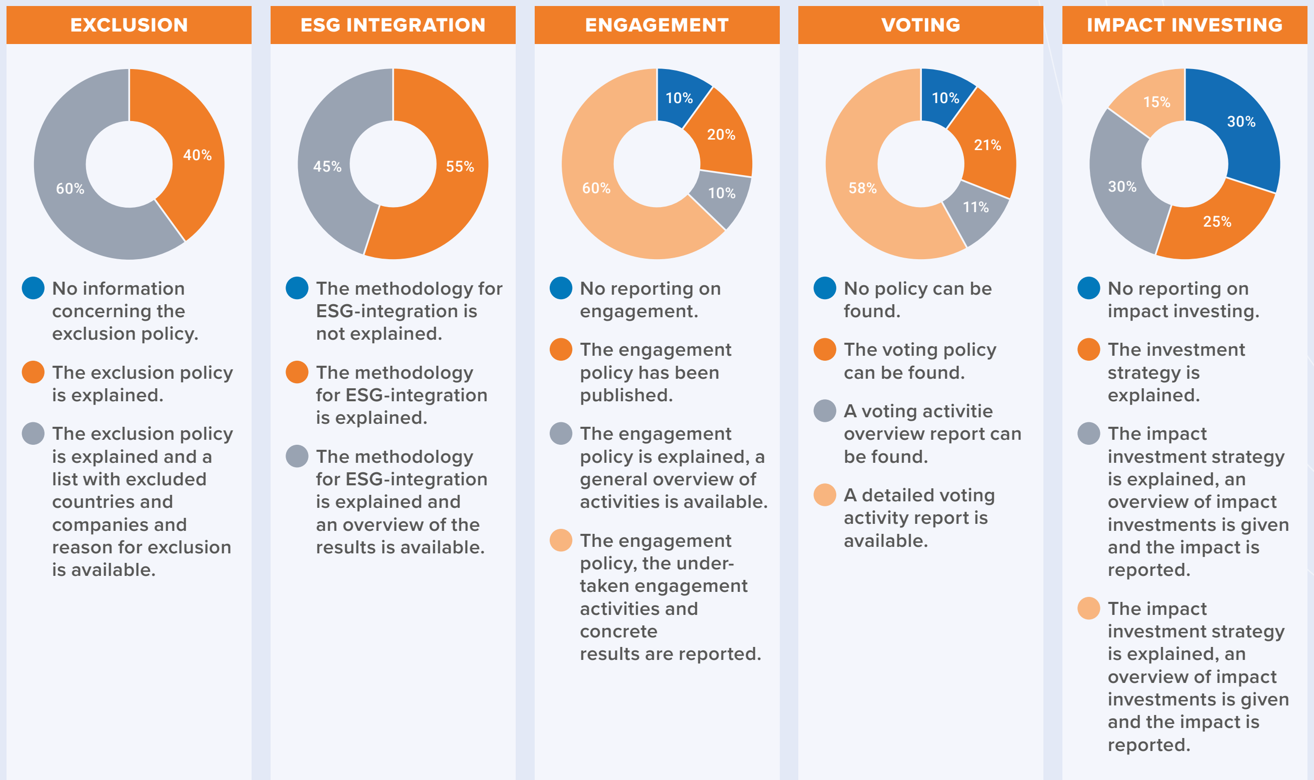
DISCUSSION POINTS ON ACCOUNTABILITY

- **Which RI aspects should be prioritised in reporting?**
- **What added value could be unlocked by going beyond regulatory requirements on transparency?**

THE POWER OF TRANSPARENCY IN RI

As the impact of the global climate crisis becomes increasingly noticeable, customers and other stakeholders are placing mounting pressure on insurance companies to be transparent about their approach to addressing these and related issues. Whilst investors often report on the sustainability on the company's own sustainable practices, investment-related sustainability reporting tends to lag behind. As concerns about issues such as climate change and biodiversity loss increase, there is a clear need for investors to bridge the gap and start adopting comprehensive sustainability reporting across all aspects of operation, including investments.

Figure 16 | **Transparency on implementation**



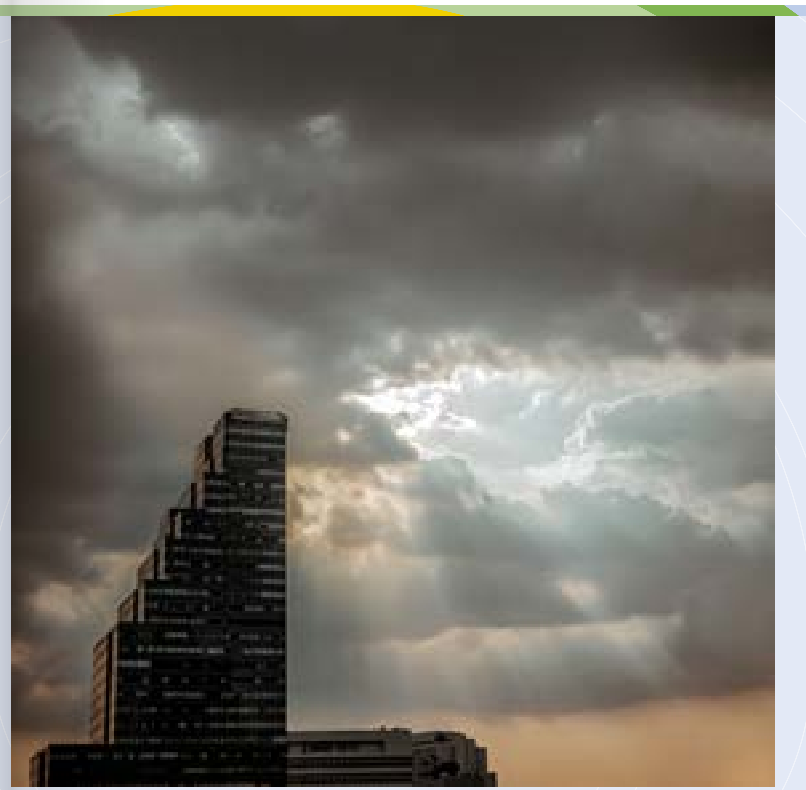
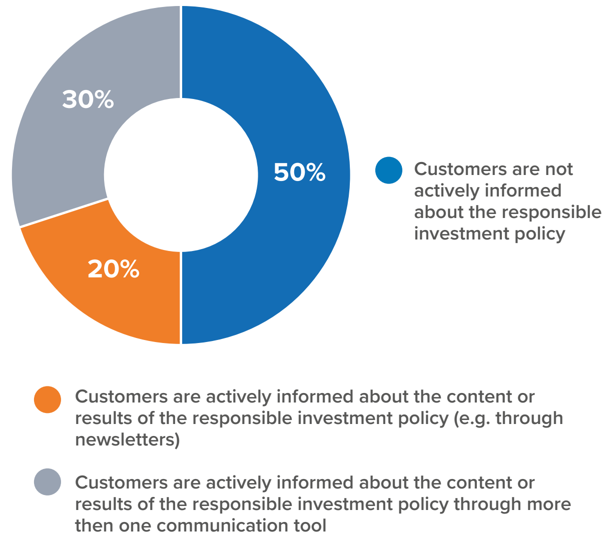


Figure 17 | **Active transparency on the RI policy towards customers**



In order for insurers to be able to effectively manage and report on the progress made on responsible investment, sustainability-related data is becoming more prominent. Whilst this field of data reporting is an evolving one, being open on the methodology that is employed is an important step towards standardisation and consequently enables comparability across the industry. If properly executed, such transparency gives customers tangible evidence of the sustainability efforts of the insurance company, sending a strong message of commitment to positive change. In light of this, VBDO encourages insurance companies to deepen reporting on critical issues such as climate change in the annual (sustainability) report. The majority of insurance companies 85% include an explanation of the climate policy in their report. However, only 25% also report on the alignment of investments with specific net-zero goals for 2025 and 2050. Additionally, VBDO identifies transparency on impact investing as an area with significant growth potential. Whilst impact investing has experienced a surge in popularity in recent years, transparency on impact investments has not increased accordingly. Just 45% of insurance companies give an overview of their impact investments, whilst only 15% report on the impact made. This is only a slight improvement up from the 2021 insurance benchmark where the numbers stood at 40% and 13% respectively. These results underscore the importance of investors broadening and deepening their disclosure practices to ensure more meaningful reporting.

Comprehensive transparency in reporting also opens the door for more meaningful discussions and engagements as well. It allows customers and stakeholders to understand the rationale behind the insurance company's responsible investment decisions and encourages open dialogues on sustainable practices and future strategies. A first step in this is to actively inform customers about the RI policy and its results through multiple communication channels. Our results indicate that 20% of insurers actively inform customers through one communication channel and only 30% of the insurance companies informs customer through more than one communication channel. By keeping customers well-informed about the ongoing progress and developments in RI in general and on the part of the insurers, insurance companies could not only establish trust with their clientele but also foster more productive and meaningful customer consultations.

TRANSCENDING REGULATORY REQUIREMENTS

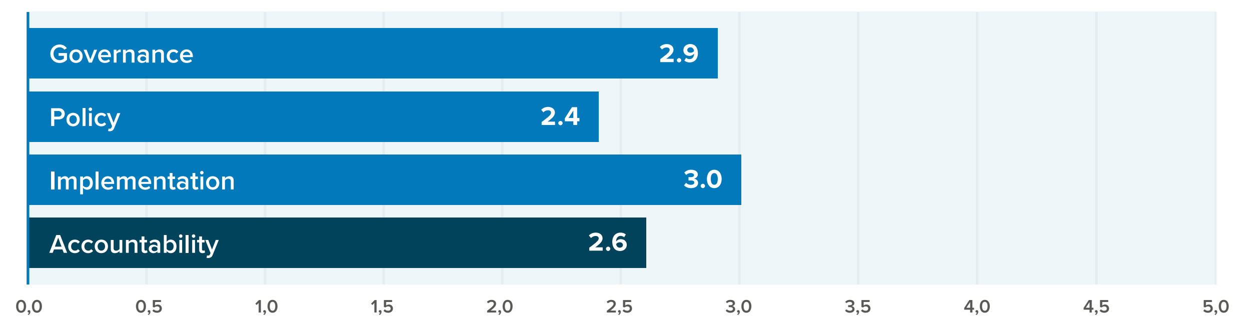
Beyond societal pressures, investors are increasingly required to report on sustainability performance because of (inter)national laws and policies. One such example is the Corporate Sustainability Reporting Directive (CSRD).

To ensure quality and reliability of reporting, the CSRD will mandate that this information is published alongside an assurance statement by an accredited independent auditor or certifier.
Despite this upcoming requirement, 70% of surveyed insurance companies have not yet obtained any assurance or an audit on their sustainability-related information. VBDO encourages investors to go beyond mere compliance with regulatory demands. This will ease the transition when various regulatory requirements do eventually take effect. Additionally, by voluntarily adopting these and other transparency best practices, investors will align themselves with societal demands, which tend to outpace these regulatory requirements.

RECOMMENDATIONS

- Deepen and concretise (active) RI performance reporting and use more than one communication channel to ensure meaningful and effective consultations with customers and other stakeholders.
- Publish sustainability information in the annual report alongside an assurance statement by an accredited independent auditor or certifier.
- Adopt transparency-related best-practices and go further than mere compliance with regulatory requirements on transparency.

Figure 18 | **Average results per category**



Disclosure standards

To some extent, reporting on responsible investment is encouraged by voluntary codes, guidelines and standards. However, mandatory legislation and current (inter)national developments indicate that disclosure standards are likely to become stricter and legally binding. Current legislation and guidelines include:

- **The Code of Conduct for Insurers published by the Association of Insurers (Verbond van Verzekeraars) indicates that social and ecological components should be part of corporate governance and the investment policy and that insurers should be accountable for this.**
- **The IMVB Covenant for the insurance sector specifies that transparency on the RI policy as well as frequent and consistent reporting on RI and RI instruments is a key requirement.**
- **The EU Sustainable Finance Taxonomy (Regulation (EU) 2020/852) for climate change mitigation and adaptation harmonises the criteria for determining whether an economic activity can be considered sustainable. Institutional investors are required to disclose how and to what extent they use the criteria for environmentally sustainable economic activities to determine the environmental sustainability of their investments.**
- **The Sustainable Finance Disclosure Regulation (SFDR) became effective in March 2021. It requires manufacturers of financial products and financial advisers to end-investors to disclose information regarding the integration of sustainability risks as well as adverse impacts on sustainability topics at entity and financial product levels.**
- **The EU Disclosure of Non-Financial Reporting Directive (NFRD) requires investors to disclose certain non-financial information, including non-financial key performance indicators on environmental matters and human rights. In 2021, the Corporate Sustainability Reporting Directive (CSRD) was proposed by the European Commission and formally adopted in November 2022. The CSRD is a proposed reform of the NFRD and explicitly requires reporting on double materiality, namely the outside-in perspective and the inside-out perspective as well as reporting on other sustainability matters. This information should be disclosed following the European Sustainability Reporting Standards (ESRS), the conceptual contents of which have been published in 2022.**
- **The Global Reporting Initiative (GRI) is an organisation that helps companies and organisations report on their sustainability efforts. It provides guidelines for disclosing information about environmental, social, and economic impacts. The GRI Standards are globally used sustainability reporting standards. This reporting helps stakeholders understand how a company is addressing its responsibilities in these areas. GRI's framework promotes transparency and accountability in sustainability practices.**
- **In 2022 the European Insurance and Occupational Pension Authority (EIOPA) published an application guidance on climate change materiality assessments and climate change scenarios in the Own Risk and Solvency assessment (ORSA). Additionally, the EU has made amendments to the Solvency II Level 2 Regulation, requiring reporting on climate-related risks pertaining to investments. Starting from the financial year 2023, insurance undertakings will be required to report on the following aspects:**
  - **A newly introduced template specifically designed to capture climate change risks related to investments.**
  - **The proportion of an insurer's investments exposed to climate change-related transition and physical risks.**
  - **The proportion of an insurer's investments exposed to transition risk.**
- **The Task Force on Climate-related Financial Disclosures (TCFD) guidelines recommend that reporting on material climate risks is integrated into companies' standard financial reporting. The TCFD divides its recommendations into governance, strategy, risk management, and metrics and targets.**

With these developments in mind, insurance companies should ensure that they comply with relevant environmental regulatory standards and recommendations as applicable to their operations. In addition, the RI policy and the reporting on its implementation should be easily accessible through an RI report or substantial section in the insurance company's annual report. Ideally, these reports should be verified by an external auditor

Appendix I - Methodology

Over the years, this benchmark has developed significantly and it has become an effective tool to measure responsible investment by insurance companies in the Netherlands. The study is impartial. The participating insurance companies and VBDO share a common goal - to enhance the sustainability performance of individual insurance companies and bring about sector-wide improvements regarding responsible investment.

UNDERLYING PRESUMPTIONS

The most important underlying presumptions in this benchmark are:

I. The scope of the benchmark is determined by selecting the 20 largest insurance companies active in the Netherlands, based on figures provided by the Dutch Central Bank. This year, companies that did not respond to the last benchmarking exercise have been removed from scope. A number of previous respondents have also been removed on their request due to reasons such as take-overs and capacity constraints. As a result, the scope of this year's benchmark has significantly decreased, meaning this year's benchmark results are not directly comparable with the results of previous benchmarks.
II. The assets that are included in this benchmark are those of Dutch insurance companies, irrespective of where these are being managed.
III. The implementation of the responsible investment policy is considered to be the most important element of the assessment as this is how the actual impact is achieved. Therefore, this section is responsible for 50% of the total score. The governance, policy and accountability sections account for the remaining 50%.
IV. The topic of 'governance' is to be considered from the viewpoint of the management of the insurance company and not from the asset manager's perspective.
V. The total score for 'implementation' is dependent on the different scores of the asset classes (publicly listed equity; corporate bonds; government bonds; real estate; private equity; mortgages; and alternative investments). The weight of the asset classes in the determination of the implementation score is dependent on the asset allocation. Other assets, such as cash, interest swaps and currency overlays are not included in this benchmark study.
VI. It is determined by VBDO within each asset class which responsible investment instruments are (reasonably) implementable.
VII. VBDO does not differentiate between investors taking an active or passive and direct or indirect investment approach but does assess what responsible investment strategies are being applied.

The above-mentioned underlying presumptions are based on VBDO's consultation with insurance companies participating in this study. This consultation is based on an annual face-to-face meeting with participating insurance companies. Of key importance to this meeting are the quantified survey results.

THE BENCHMARK

The VBDO Benchmark 'Responsible Investment by Insurance Companies in the Netherlands 2023' compares the responsible investment performance of the 20 largest insurance companies in the Netherlands based on 2022 data. VBDO assesses responsible investment through detailed profiles of each insurance company.

The practice of responsible investment is subject to continuous innovations. To reflect this, the methodology of the benchmark is revised yearly to reflect these developments.

The main revisions have been made in the policy category. A question on responsible tax was added to this category. VBDO regard tax as an indispensable element to sustainable development as well as an important ESG metric. By means of this question, VBDO encourages insurance companies to implement an explicit responsible tax policy that includes fiscally responsible guidelines for asset managers, and which sets expectations for the responsible conduct and transparency of investee companies.

A question regarding biodiversity was also added. Whilst the question does not lead to points, the answers to the question provide insight into how well biodiversity is currently integrated in the responsible investment policies of insurers. Moreover, by asking whether concrete and timebound targets are in place, the VBDO hopes that insurance companies will do more than merely describing the urgency of tackling biodiversity issues.

The revision also led to the removal of two questions. One of these concerned Strategic Asset Allocation and ALM modelling. As a certain level of detail is now required by the regulator, VBDO does not deem it necessary to push for improvement on this subject for the time being.

The second question that was removed enquired about impact investing in the publicly listed equity portfolio. This question was removed from the implementation category as there are is no consensus about the suitability of this asset class for impact investing. Instead, an open question has been added about active ownership relating to biodiversity for the publicly listed equity asset class.

VBDO BENCHMARK PROCESS

This benchmark was set up to motivate insurance companies to raise their awareness of their current status on responsible investment and to challenge them to take further steps. The research process consists of several phases (see figure 19).

Setup

The questionnaire is composed of four themes:

I. Governance | The first theme relates to the governance of insurance companies on matters of responsible investment, including boardroom awareness and expertise of RI, boardroom accountability and oversight, and consultation with customers and relevant stakeholders.
II. Policy | This theme focuses on the responsible investment policy in place during the year assessed. Its applicability to the entire portfolio, its depth and its quality are all assessed.
III. Implementation | When assessing the implementation of the responsible investment policy, VBDO looks at seven different asset classes. Table 1 shows the asset classes with the corresponding responsible investment strategies that are covered in the study. VBDO believes that asset owners should take responsibility for the investments made on their behalf. Therefore, all implementation questions cover the whole investment chain from insurance company to asset manager or fund manager. Questions relate to the status of implemented strategies in 2022.
IV. Accountability | This section discusses the transparency of responsible investment policies, strategies, results and reports.

Figure 19 | **Benchmark process.**

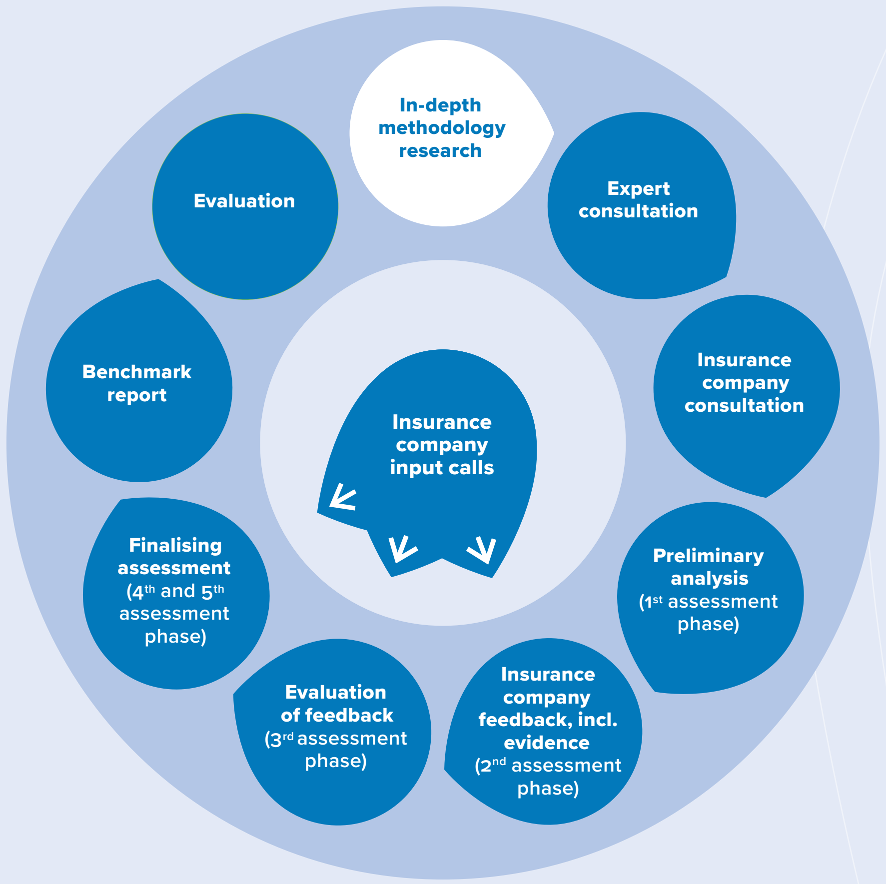


Table 1 | **Responsible investment instruments and the different asset classes included in the benchmark**

	Publicly listed equity	Corporate bonds	Government bonds	Real estate	Private equity	Mortgages	Alternatives
Exclusion	■	■	■				
ESG integration	■	■	■	■	■	■	■
Engagement	■	■	■	■	■	■	
Voting	■						
Impact investing		■	■	■	■	■	■

Star ranking

VBDO uses a star ranking based on a 0 – 5 star range in addition to a 1 – 20 ranking in numbers. The star ranking is based on the total score and on the scores of the individual categories of the insurance company; governance, policy, implementation and accountability. These minimum standards might be expanded in the future. The following scores and minimum standards determine the number of stars awarded:

★★★★★
5 STARS
A score of at least 4.5 on all categories
(governance, policy, implementation, accountability)

★★★★
4 STARS
A total score of at least 4.0
A score of at least 3.5 on all categories
(governance, policy, implementation, accountability)

★★★
3 STARS
A total score of 3.5 up to and including 3.9
A score of at least 2.5 on all categories
(governance, policy, implementation, accountability)

★★
2 STARS
A total score of 2.5 up to and including 3.4
A score of at least 2.0 on all categories
(governance, policy, implementation, accountability)

★
1 STAR
A total score of 1.5 up to and including 2.4

☆
0 STARS
A total score below 1.5

Appendix II - RI strategies and asset classes

Responsible investment strategies

Based on reviews of implementation practices by investors worldwide and our own vision on responsible investment, VBDO has identified a range of responsible investment instruments that are applicable to one or more asset classes:

- **Exclusion**
Certain products, processes or behaviours of some companies and governments are at such odds with international agreements and treaties that they should be excluded from the investment portfolio. We recommend that companies go beyond merely checking whether or not there have been reports of environmental, social and governance problems (for example, human rights violations) when deciding whether to exclude certain investments. Instead, it is better to look at these issues in more detail and assess companies on them using well-defined environmental, social and governance (ESG) criteria or international guidelines. In relation to the exclusion of government bonds, insurance companies can exclude countries based on the official sanction lists of the EU and UN, for example, or based on other criteria.

In VBDO's opinion, responsible investment goes beyond merely following legal obligations. For example, the legal ban on investments in cluster munitions came into force in the Netherlands in January 2012, so we would expect to see investments automatically excluded for this reason. Therefore, insurance companies can only receive points in this benchmark for exclusion criteria that go further than merely excluding on the basis of cluster munitions.

- **ESG integration**
Even when the worst offending companies are excluded, there are still significant differences in terms of corporate responsibility sometimes between the companies in which institutional investors invest. Whereas one company may only comply with the current environmental and social laws of the country in which it operates, another may follow high social and environmental standards in every country in which it is active. Institutional investors should consider this when developing their own investment policy and should give preference to companies that perform well in relation to corporate responsibility.

VBDO defines ESG integration as the process by which ESG criteria are incorporated into the investment process. This involves more than just screening the portfolios against exclusion criteria, but it does not mean that an investor merely selects the best-in-class companies. ESG integration can go one step further by identifying and weighing ESG criteria, which may have a significant impact on the risk-return profile of a portfolio. An example of ESG integration is positive selection; this is defined as choosing the best performing organisation out of a group of similar organisations (e.g. in terms of sector, industry or class) by using ESG criteria. In this case, ESG criteria form the basis for selecting companies that perform above average on ESG issues. Integration of ESG criteria in the investment selection can be applied to all of the selected asset classes in this research. This benchmark takes both the extent and volume of ESG integration into account.

- **Engagement**
Insurance companies can actively exert influence by entering into dialogue with the organisations in which they invest. If the policy and behaviour of a company are at odds with the investor's responsible investment policy, insurance companies should, to some extent, use their influence to alter the conduct of the company. Institutional investors that have formulated an engagement policy actively seek dialogue with companies outside the shareholder meeting. In order to obtain optimal engagement results, it is essential to evaluate and monitor the engagement activities and take further steps based on the outcome of the engagement activities. Engagement can be used for publicly listed equity as well as for fixed income, real estate funds, private equity and mortgage funds.

- **Voting**
Institutional investors can actively exert influence on the companies in which they invest by voting during shareholder meetings. Many institutional investors vote at shareholder meetings, but their voting policy is limited to subjects regarding corporate governance. This might push companies towards a better sustainability policy, but that in itself is not enough. A clearly defined voting policy is required, one that explicitly emphasises social and environmental issues. By proactively introducing or supporting resolutions on sustainable development and corporate social responsibility proactively, investor can push companies to make improvements and take corrective action. For this benchmark, voting is assessed only for the publicly listed equity asset class.

- **Impact investing**
Impact investing means actively investing in companies or projects which clearly offer added value for sustainable development. Examples include investments in sustainable energy sources, innovative clean technology, affordable medicine to protect against tropical diseases, micro-credit, and sustainable forestry. Impact investing is more than a best-in-class approach, even though companies may use similar ESG criteria and invest in specially constructed funds. With impact investing, investors choose a specific theme or development issue and search for companies or projects that can make a positive impact on this issue. For this reason, impact investing can create added value for society in a way that is unlikely to be realised with mainstream investments or solutions. VBDO believes it is important to measure and evaluate the actual environmental and social impact of the investments. When it comes to this benchmark, this RI instrument is applicable to all asset classes except for publicly listed equity.

Asset Classes

- **Publicly listed equity**
The public equities market consists of the publicly traded stocks of large corporations. The risks and opportunities connected to ESG issues are important to understand in order to analyse and adjust an equity portfolio. There are many ways to integrate ESG issues into investment decisions, including through the exclusion and selection of companies within the portfolio, voting and engagement. Since emerging markets are increasingly seen as interesting investment opportunities because of their potential for economic growth, they deserve special attention from investors when it comes to ESG integration. As a result of the growing demographic and resource challenges within these markets, and the potential for environmental damage, a more sustainable approach to economic development is crucial for emerging markets. In many cases, these countries are already responding to the above-mentioned challenges. Nevertheless, sourcing the relevant ESG data on emerging market companies can require a huge amount of research. It is, however, also possible to take ESG criteria into account for passive investments by following a sustainable index or by using an engagement overlay.

- **Corporate (including covered) bonds**
For corporate bonds, responsible investment activities can be similar to equities; however, corporate bonds do not have voting rights and they have a fixed return. This not only reduces the financial risk but also offers fewer opportunities to take advantage of high returns and to influence the policies of a company. Because bondholders lack the voting power that shareholders have, most ESG integration activity has been in equities. However, with growing client demand, bond managers are working to integrate ESG factors into fixed-income portfolios. Furthermore, VBDO emphasises the value of collaborative engagement initiatives.

- **Government / sovereign bonds**
As with corporate bonds, government bonds (together often referred to as fixed income) are generally regarded as one of the safer, more conservative investment opportunities. They are issued to fund public services, goods or infrastructure. The first consideration for responsible investment and this asset class may often be the exclusion of countries with dictatorial regimes because of their human rights violations. This is a clear example of acting on the results of an ESG risk analysis. ESG rating agencies increasingly offer products to screen bond portfolios on corporate governance regulatory practices, environmental policies, human rights issues, and international agreements. Investors can also seek government bonds that support the creation of public goods, such as infrastructure improvements and schools, or which support the development of sustainable energy sources. They can then purchase government debt targeted at a specific activity. As with corporate bonds, VBDO encourages insurance companies to engage with government bodies. This practice is certainly not common amongst institutional investors yet, but given the size and value of the public goods financed by government bonds, VBDO sees great value and opportunity for engagement with government bodies.

- **Real estate**
Real estate investments encompass a wide range of products, including home ownership for individuals, direct investments in rental properties institutional investments in office and commercial space, publicly traded equities of real estate investment trusts, and

fixed-income securities based on home-loans or other mortgages. This benchmark assessment is limited to direct investments in buildings and indirect investments via real estate funds. Investors can screen their portfolio by developing ESG criteria for: specific locations; the construction of new buildings; the maintenance of existing buildings; machinery and other facilities within buildings, such as those used to make buildings more environmentally efficient; sustainable construction and materials; and fair labour practices. For real estate investments that are managed externally, it is important to select fund managers based on their experience with and implementation of ESG. Additionally, the managers of real estate funds can be engaged to improve their social and environmental performance.

- **Private equity**

With regard to private equity, an institutional investor can motivate companies to become more innovative and sustainable by directly influencing management and encouraging entrepreneurs to focus on developing businesses with high-impact social and/or environmental missions. This can be particularly effective in regions and communities that are under-served and where companies can promote the creation of local business and jobs. With this in mind, integrating the responsible investment policy in the selection process can be an important tool for institutional investors.

- **Mortgages**

Mortgages is a credit asset class to which ESG criteria can be applied during the selection and evaluation of investments, for example, by implementing energy labels as a selection criterion. Additionally, fund managers can be engaged on relevant topics.

- **Alternative investments**

Depending on the asset allocation and definitions of an investor, alternative investments can include many kinds of assets. Experience with and strategies for responsible investments are in their infancy for this asset class. In addition, these investments usually only account for a small portion of the total portfolio. For these reasons, this benchmark only assesses certain types of investments within this asset class; hedge funds, infrastructure, commodities, and impact investments. Information provided on other investments within this asset classes will not be taken into account. There are several opportunities for responsible investment that insurance companies should consider, including:

I. Although hedge funds are often handled as a separate asset class, the underlying assets are generally publicly-listed securities (stocks and bonds) and their derivative products. Thus, investors could consider an ESG analysis of underlying assets and theoretically use the same tool for ESG management as they do for public equity and fixed income. Likewise, integrating the responsible investment policies in the selection process can be an important RI tool.
II. Infrastructure is widely considered to have a positive social impact. Infrastructure investors should take into account the broad range of material ESG risks that these investments might face over the assets' lifetime. Examples of ESG include: biodiversity impact; labour, health and safety standards; resource scarcity and degradation; extreme weather events; and supply chain sustainability. It is, therefore, worthwhile monitoring how ESG is integrated into infrastructure investments.
III. Regarding commodities, investors could direct capital to commodities with better ESG profiles and consider the source (region) of the commodity. As there are few ways in which to foster positive ESG changes, investors may advocate change on a broader level within commodities exchanges. The integration of the responsible investment policy in the selection process for commodity investments or asset managers can be an important RI tool for this category.

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