strategy&

The ESG opportunity for commercial lines insurers

Their mission, should they choose to accept it...

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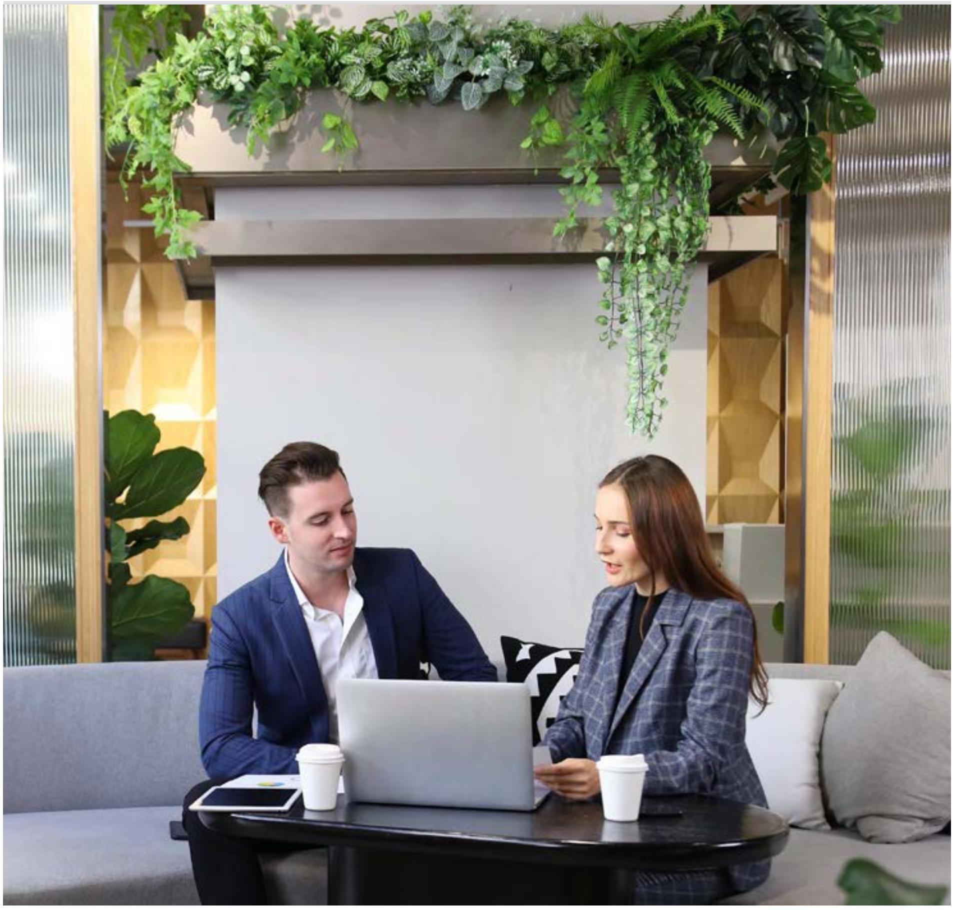
Introduction

Following on from the publication of **ESG and Insurance: A chance to rethink your ESG strategy (2021)**, PwC Strategy& has conducted annual surveys of the global community of (re)insurers and brokers to better understand how industry players think about their ESG strategies and their role in helping clients transition towards net zero carbon emissions (Net Zero).



Based on two years of data from a large, representative pool of respondents across all major insurance verticals from more than 25 countries, Strategy& have uncovered the following:

Selected insights

01

While 96% **of insurers believe they have a pivotal role to play in the Net Zero transition across all industries,** 38% **of insurers do not yet have a Net Zero target in place** – moreover, **only** 11% **have a strategy in place** to adjust underwriting, products and services for climate change.

02

When it comes to participating in the Net Zero transition, **only** 4% **of insurers consider their ESG underwriting capabilities to be mature or leading**, despite 87% of respondents believing it is likely or very likely for underwriting to be impacted by, and playing a key role in, ESG.

03

Most players are taking action: 80% **of insurers are planning to invest in ESG-related assets or projects**, with 52% planning to invest in multiple assets or projects and 28% planning to make targeted investment in standalone ESG-related projects or assets.

Insurers understand the importance of ESG but are not adapting quickly enough

ESG is a megatrend and disruptive force for change across many industries. The world is changing, and businesses are at the forefront of this, shifting practices to fully embed ESG considerations. It is forecast that ESG assets could hit $53 trillion by 2025. This is particularly important for **insurers who have a central role** supporting and enabling the transformation of other industries through their underwriting decisions, presenting a **seismic opportunity for insurers who can differentiate themselves as ESG enablers** and partners.[1]

Insurers acknowledge this and are aware that **ESG has implications across their operating model,** from their **underwriting** and **investment functions** to central services such as risk, internal audit and HR.

Despite this imperative, the **vast majority are ill-equipped** to respond to these trends with **only 4%** of insurers **believing** their **ESG underwriting capabilities are leading or mature**, and the remainder stating that their capabilities are emerging, that they have taken no actions, or that they believe ESG is not relevant for their underwriting.

Moreover, **~50% of underwriters** believe **climate change** is **insufficiently embedded in market prices** and that **current underwriting is unsustainable** in the long term. This highlights the **importance** of **investing** in the n**ew capabilities** required to keep pace with the quickly changing market, risk landscape and world. Doing so would enable insurers to **capture this vast opportunity** and gain a competitive advantage.

In 2022, **$1.1 trillion was spent globally transitioning to clean energy**, matching fossil fuels investment for the first time, and the total **capacity of renewable power is set to almost double in the next five years**, with wind and solar power forecasted to account for more than 90% of additional renewable power capacity.[2]

In addition, with the **societal shift to Net Zero**, there has been a **20%+ rise** in climate regulations, laws, frameworks and policies across major economies **since 2020,** with many corporations and institutions seeking support to achieve the 2050 Paris Agreement climate targets.[3]

[1] Bloomberg, ESG assets may hit $53 trillion by 2025, a third of global AUM, 2022, https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/
[2] Bloomberg, Global Low-Carbon Energy Technology Investment Surges Past $1 Trillion for the First Time, 2023, https://about.bnef.com/blog/global-low-carbon-energy-technology-investment-surges-past-1-trillion-for-the-first-time/
[3] Granthan Research Institute on Climate Change, Law and Policy Search – Climate Change Laws of the World (climate-laws.org)

Insurers are still taking a pragmatic rather than a strategic approach to ESG

There are **multiple ways to approach ESG**; insurers should decide how they are moving forward based not only on their **overall vision** and objectives but also their **existing capabilities** and appetite to invest in and develop new ones.

Broadly speaking, we have defined **four approach archetypes** (see figure 1) that insurers follow when it comes to ESG. In 2023 **insurers largely identified as pragmatists**, that is deploying targeted quick wins aligned to their overall strategy. This is despite ~60% of insurers claiming to have incorporated ESG into their wider corporate strategy.

This pragmatic approach is shown as **assigning senior responsibility for ESG matters**, whether that is the sole responsibility of one member of the leadership team (e.g., an ESG specialist role such as Chief Sustainability Officer, or a non-specialist role such as CFO), or split responsibilities across multiple roles. Roughly a **third of respondents** to our most recent survey reported having **a specialist / dedicated ESG role driving ESG initiatives**.

In practice, regardless of the approach, **insurers typically approach ESG through partnerships and collaborations** as opposed to via independent actions.

This includes working closely with industry groups and think tanks, as well as seeking government sponsorship. This is likely due to the **synergistic benefits** from collaborating with others on broad, complex topics to achieve a shared purpose, while also **bolstering public reputation and minimising risk**. Potentially explaining why **most insurers see their role** in the Net Zero transition as being more as **advocative/collaborative**, rather than industry leading/a catalyst for change. This reinforces the idea that insurers should think bigger, integrating ESG opportunities to align with their strategy, enabling them to be strong collaborators and catalysts for change.

Figure 1

Q13: How would you best describe the approach of your company's executive leadership to ESG?

Total responses to question - 158 for 2022, 65 for 2023. (2% of respondents answered this question with 'Prefer not to say' in 2023, 5% did in 2022)

Spectrum of ESG adoption 2022-2023

The insurance market is not responding to the opportunity fast enough

Insurers are currently offering inadequate support with solutions not sufficiently tailored to the green economy. As a result, **demand for 'green' insurance is outstripping supply**, leaving growing green industries without appropriate coverage. Indeed, insurers are at risk of leaving money on the table as we estimate that the **protection gap associated with green technologies** could be as high as **$100bn by 2025.**[4]

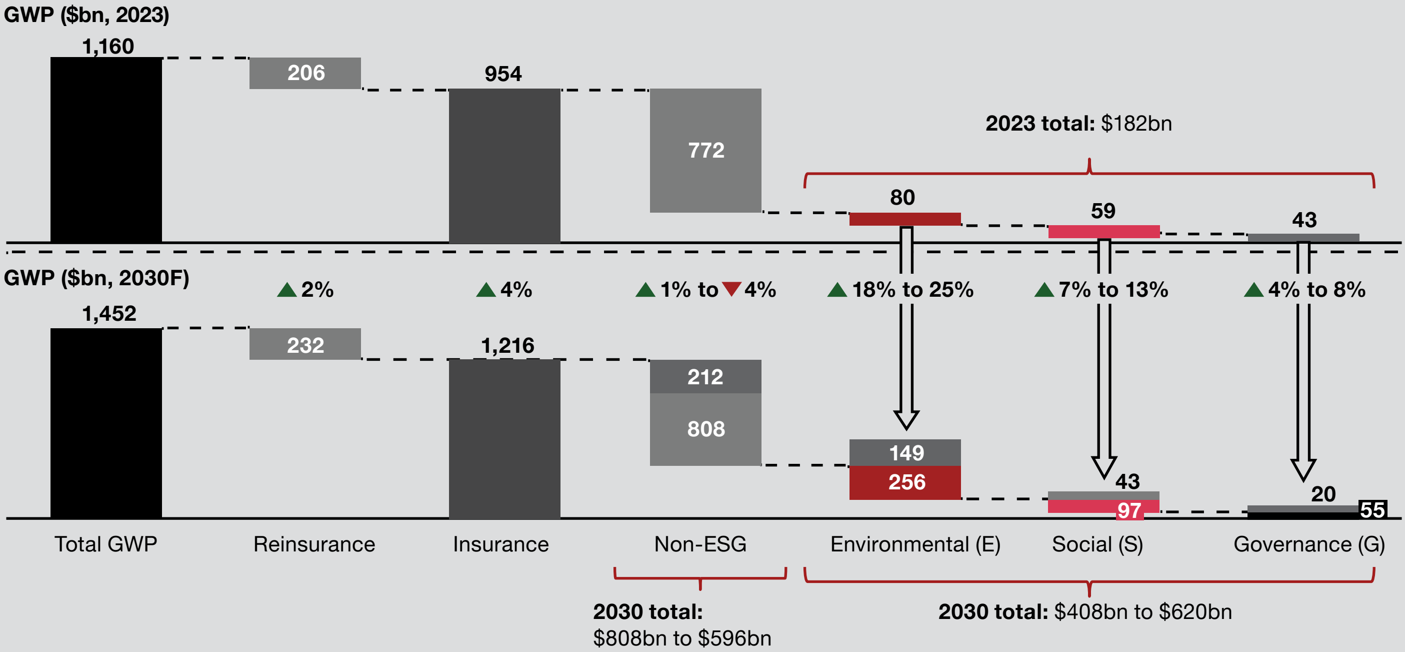
Through proxies relating to the underlying risk by Lines of Business, we estimate that total ESG GWP in 2023 represented ~$182bn with the environmental component being the largest at ~$80bn, followed by the social and the governance ones at ~$59bn and ~$43bn respectively (see figure 2).

By 2030, ESG could reach over 50% of the market, with ~$620bn ESG GWP (as an upper bound), versus ~$408bn as a lower bound. **This over $200bn range is completely dependent on insurers embracing ESG and enabling potential growth.**[5]

If insurers react quickly and start establishing underwriting standards aligned to environmental trends, they will be able to **capitalise on the growth of the green market** and adequately **support other industries in their transition to ESG**.

Figure 2

Global commercial lines insurance market - estimates (GWP, $bn and CAGRs, %, 2023-30)



Source: Source: IEA, Why London Matters 2022, FTSE Russel, OECD, Global trade outlook 2023 – UK Gov, AXCO, Finaccord, Market Practitioner Interviews

[4] Strategy& Analysis
[5] Strategy& Analysis

Insurers are trying to do more, but are challenged by knowledge and data gaps

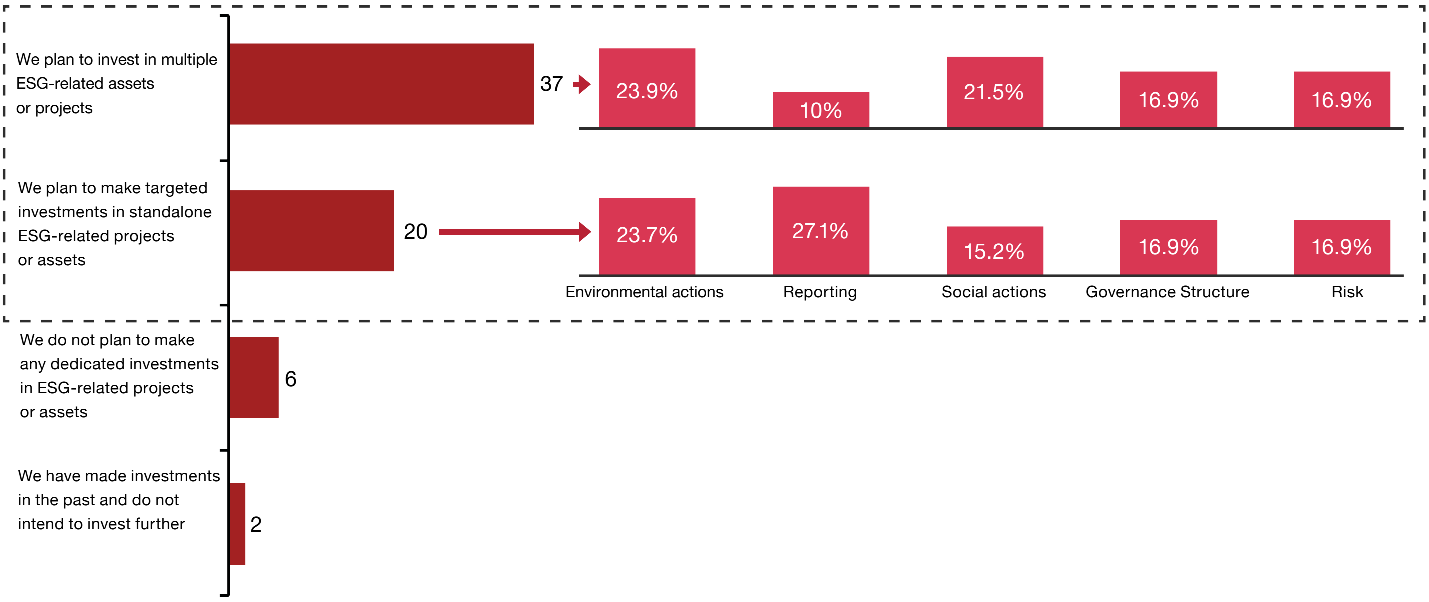
Insurers face **significant challenges in advancing ESG mandates**; these have and will continue to rapidly evolve. A particular challenge is that insurers are **unsure how to best act on ESG** and **match ESG initiatives with customer needs**. These two core challenges are directly linked to the **lack of transparent and accurate ESG data** – which has been hampering informed decision making.

Consequently, significant investment is required to address these issues and **80% of insurers are planning to invest in ESG-related assets or projects**, with 52% planning to invest in multiple assets or projects (see figure 3). Clearly despite the challenges, **insurers are aware of the importance of advancing their ESG maturity and are committing resources to do this**.

Figure 3

Q7: What investment are you planning to make within your organisation and in which areas?

Total responses to question - 71 for 2023 (6 respondents answered this question with "Other")



Conclusion

This once-in-a-lifetime transition presents risks for insurers who do not adapt their business model and products. But there are also significant opportunities for those who respond appropriately and accept this mission. Turning challenge into opportunity is not straightforward, it will require a bold and innovative approach from insurers.

We believe the key to doing so will require fusing corporate and ESG strategies. Indeed, respondents appear to have begun this journey with 50% looking to adopt ESG initiatives in line with their corporate strategy, hence making the imperative of designing an ESG strategy all the more important (see our ESG and Insurance paper, 'A chance to rethink strategy' for more information on that topic).

However, ambitions and strategy setting in themselves are not sufficient. Insurance market participants must move towards execution and act now by taking the brave step of asking difficult and complex questions around ESG. Those bold enough can use their extensive resources and capabilities to lead on ESG adoption, affirm their role as an essential link in society, grow the market, and benefit from capturing some of the broad set of ESG opportunities.

Authors

Christine Korwin-Szymanowska
Partner
christine.ks@pwc.com
+44 (0)79 8456 7298

Xavier Crepon
Partner
xavier.crepon@pwc.com
+33 6070 34795

Jack Hipwood
Manager
jack.hipwood@pwc.com
+44 7483 390546

George Margetson-Rushmore
Manager
george.margetson-rushmore@pwc.com
+44 7483 388523

Jonty Levitt
Senior Associate
jonathan.x.levitt@pwc.com
+44 7483 389015

Emma Wachtel
Senior Associate
emma.wachtel@pwc.com
+44 7483 934481

Tom Burke
Associate
thomas.x.burke@pwc.com
+44 7483 421824

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