

6.2 INTERVIEW WITH SIA

Climate risks – a twofold challenge for insurance companies



INTERVIEW WITH THOMAS HELBLING | CEO of the Swiss Insurance Association (SIA)

At your annual press conference back in January 2019, you highlighted sustainable investments as an important instrument for managing climate risks. Why do you think insurers have a duty here, and what opportunities arise from following a sustainable investment policy, in your opinion?

We were personally rather astonished – and of course also delighted – that this issue attracted so much media coverage. Climate risks and sustainability have been high on the SIA's agenda for a long time now, as climate risks present a twofold challenge for insurance companies: they have a direct impact on insurers' core business (risk coverage) on the one hand, and influence their investments on the other hand.

Added to that, Switzerland's insurance sector carries a lot of responsibility within the Swiss economy because its services are so relevant. We want to live up to this responsibility and create even greater momentum for sustainability as a core theme. To this end, we have already organised events with members of the Swiss parliament on the topic of "Responsible Investments" which not only dealt with climate change, but other environmental, social and governance (ESG) themes. After all, insurance clients, the general public and even investors are increasingly demanding clarity on ESG risks, and proof of appropriate behaviour. It is in particular the millennials and their firmly held convictions who are providing the driving force.

What progress have Swiss insurers already made in integrating sustainability issues into asset management? And how do they stand compared with insurance companies in other countries?

Last autumn, SIA corporate members committed themselves to consistently integrating ESG criteria into their investment processes. As far as we know, comparable sectors in Switzerland have not made such a commitment to date. This leaves the Swiss insurance industry well placed, also in terms of the international competition.

The big insurance groups such as Swiss Re or Zurich Insurance are certainly taking the lead and have already initiated concrete steps to integrate sustainability criteria into their investment business. This is because they operate in an international environment where they face substantial public pressure, a whole raft of regulatory requirements and intense competition, all of which demand high standards in the area of sustainability. Even if smaller and medium-sized insurance companies have not yet made the same progress, they can benefit from the best practices of the front runners.

What role do insurers play as large real estate investors and developers when it comes to sustainability in the construction industry?

Direct investments in real estate have gained in importance for insurers during the ongoing phase of low interest rates. Energy-efficient construction on the basis of standards such as Minergie is already very important today, as it contributes to the long-term preservation of the value of investments. Many insurance companies are over 100 years old and have been managing buildings and estates for decades. They therefore play a particularly important role in the renovation of housing stock, where they can use their expertise to promote energy-efficient buildings.

At the same time, however, criteria such as environmental compatibility, spatial planning requirements and, ultimately, commercial aspects must also be considered. Sustainable construction always involves a balancing act, for example between social compatibility (low rental costs) and high energy and environmental standards (renovation of old buildings).

The insurance business aims to reduce risks for individuals or organisations. This requires a sound understanding of risks. Does the extensive knowledge of risks help insurance companies to better manage their investments?

The evaluation and assessment of risks are core skills of insurers. This knowledge can be very useful for the integration of ESG criteria into asset management. Expertise is mainly bundled in the underwriting segment, and the transfer of that know-how could be made more effective. However, it should be noted that ESG factors cannot necessarily be evaluated in the same way in asset management as in risk coverage. The context for the insurance business is complex, especially for global activities.

What are the biggest challenges for insurers in implementing a sustainable investment policy? Do they vary from one asset class to another (e.g. infrastructure)?

The insurers' capital investments are very tightly regulated to assure consumer protection. Although these requirements allow for sensible diversification, they make sustainable investment more difficult. In the case of infrastructure investments, strict capital adequacy requirements mean that certain investments cannot be counted as tied assets (capital to cover technical provisions). This further reduces the scope for investing in this asset class. This applies in particular

to investments in infrastructure such as power plants, retirement homes, schools, etc. Our members would often like to invest more in the Swiss market and also do so sustainably. Here, the industry sees a need for action on the part of the regulator and the supervisory authority respectively. Within the asset classes, however, there are good reasons to adopt a sustainable investment strategy.

What is SIA's role in promoting sustainable investments: do you support your members with information or concrete recommendations? Or do you rather try and influence the general conditions?

Within our association there is a valuable exchange of knowledge, and particularly in relation to sustainability we are seeing a clear commitment from large companies to share their expertise. For SMEs especially, the SIA is an important forum for developing strategies and then implementing them.

I think one of the major advantages of our association is that our members on expert panels exchange ideas on pressing issues and through this collaborative transfer of know-how are able to come up with industry-wide solutions. The SIA is trying to encourage this voluntary process. The SIA is also in close contact with various national entities, including SSF, and participates in mixed working parties and forums.

So how could Swiss Sustainable Finance help overcome potential hurdles?

SSF already performs an important role and has established itself as a centre of excellence for sustainable finance. The studies it publishes, as well as the way it disseminates concrete knowledge through different channels, provide a valuable service and we have high regard for SSF as a trailblazer for a sustainable Swiss financial centre. SSF could expand this role even further with measures in the areas of transparency and impact, and provide insurers with even greater support in their endeavours to assume responsibility and sustainable business practices.

The Task Force on Climate-related Financial Disclosures (TCFD) has passed guidelines for reporting climate risks. How useful do you think these guidelines are, and to what extent has the market already implemented them?

The TCFD recommendations provide a good basis for establishing a market standard for corporate reporting of climate risks. We have noticed that these guidelines have been adopted on several fronts

and efforts in this area have gathered momentum. If more companies were to report in a standardised format, then insurers – as long-term investors – would obviously also benefit from greater transparency.

With their "Action Plan on Sustainable Finance", the EU is planning compulsory reporting for institutional investors (i.e. for insurers as well) on how sustainability factors are integrated into risk management. What are the pros and cons of the lawmaker becoming more proactive?

We are ambivalent about the EU's current aspirations. On the one hand, it is impressive to see how sustainability is gaining momentum and the issue is being tackled on a broad front. Government reporting standards can guide companies providing accountability towards the public, politicians, investors and other stakeholders. On the other hand, we prefer individual responsibility and a voluntary code, because the planned EU regulations are heavily standardised. They would entail a great deal of administrative work, especially for small and medium-sized insurers. In our opinion, the focus should not be on the producing complex reports, but on the direction and efficiency of responsible action.

Are you also engaged in an international dialogue – with other insurance associations, for example – about sustainable investments and appropriate framework conditions?

The SIA is working with various international players; we have representatives in Insurance Europe, and some of our members are also active in the Pan-European Insurance Forum (PEIF) for leading insurance and reinsurance companies. Our broad international network allows us to cover many themes. Of course, we are also proud of actively participating in the Swiss delegation for international climate conferences. Gunthard Niederbäumer for example, our Head of Property and Reinsurance, represented the Swiss industry at last year's global climate conference COP24 in Katowice, Poland.