Survey: U.S. Insurers Rapidly Adding ESG Factors to Investment Practices

By Terence Martin, a Director in Insurance Research, and Matt Daly, Head of Corporate and Municipal Teams

U.S. insurance companies appear to be rapidly incorporating ESG (environmental, social and governance) factors into their investment strategies, according to a recent survey of U.S. insurance decision-makers commissioned by Conning.

Nearly 80% of survey respondents indicated that their firms began addressing ESG concerns within the last two years (see Figure 1), apparently heeding the global clarion call regarding ESG investment practices. While U.S. insurers have long considered ESG and climate-related risks in underwriting, previous global surveys have indicated that U.S. insurers, in general, have trailed counterparts in Europe and Asia in incorporating ESG factors into their investment practices. However, U.S. insurers may be closing the gap.

With ESG interest rising among industry regulators, it is no surprise that respondents point to regulators as a key influencer in their greater attention to ESG. But according to survey respondents the greatest influencer—slightly ahead of regulators—is the insurers’ corporate reputation.

A large majority of survey respondents also said that they agree with the importance of including ESG criteria in their firms’ investment processes, regardless of whether the investments are handled internally or externally. While admitting that adding ESG considerations may require additional resources, respondents said they believe the reward is worth the cost. However, they also noted concerns over the lack of standardization with respect to ESG metrics and, less significantly, potential ESG constraints on portfolios. Although ESG considerations have increased in performance they do not dominate investment concerns as respondents remain more concerned about more traditional issues including inflation, market volatility and monetary and fiscal policy.

The following is a look at some highlights of the survey, including some variances by life/annuity versus P&C insurer respondents and by company size.

Broad-based Interest in ESG

Interest in ESG seems broad-based, according to the survey respondents. Only 9% had not yet made ESG a part of their investment considerations, and two-thirds of them said they plan to consider it during the next 12 months. Life/annuity companies had a slight edge as early movers: 16% of life/annuity company respondents said they had adopted ESG two or more years ago, compared to 11% of P&C respondents.
Larger companies, in general, have been leading the way, having adopted the inclusion of ESG in their investment considerations sooner than smaller companies. Companies with less than $500 million in assets were more likely to have adopted the principles in the past year, although there are quite a few “earlier adopters” among companies in the $500 million to $1 billion asset size.

The level of engagement among respondents’ firms is also growing: 35% of respondents said their firms have “high engagement” with ESG versus 21% three years ago. Much of that gain is reported by respondents who identified as having roles with their firms in investments rather than operations, which includes underwriting, risk management, claims and corporate development.

**Reputation and Regulation**

When asked what was influencing their firms’ ESG engagement, the highest-rated response referenced the potential impact on corporate reputation. Regulatory requirements, which could be considered a purely defensive reason to address ESG concerns, had the second highest proportion: 53% said it was “very important” and it was the third most common response when we combined those who answered either “very important” or “important” (88%).

Customers’ and clients’ concerns were less commonly considered “very important” but rose to second highest in influence when combined with the “important” response. Despite a common opinion that ESG can create a competitive advantage, the importance of that concept did not stand out from others, as it was ranked a middling fifth in importance out of 10 responses.

**Concern Over Metrics, Definitions**

While survey respondents agreed with the statement “ESG is an important aspect of assessing investments,” measurement standards and definitions are lacking, and this concerns insurers.

As illustrated in Figure 2, 59% agreed with the statement “It’s hard to know what standards are being applied and how effective our asset managers are in supporting ESG goals.” (Larger companies were much less concerned with clarity regarding “standards” than smaller companies.)

**Figure 2** Regarding ESG as it relates to your investments, indicate if you agree or disagree with the following statements.
According to survey respondents, ESG issues do not rise to the top of the list of investment portfolio concerns during the next two to three years (see Figure 3). With inflation emerging as more than a transitory problem in early 2022, more respondents noted that they were either “very concerned” or “concerned” about the effects of inflation on investment portfolios than any other risk category. There was a distinctive split related to the low-yield investment environment: life/annuity insurer respondents ranked it as their third most important concern, while it was ranked last of the 12 by P&C insurer respondents.

Concerns about ESG investment constraints on portfolio performance were second to last among the 12 areas considered among all respondents—although fully 69% of respondents did indicate that they were either “very concerned” or “concerned” about ESG investment constraints. While screening out a security for ESG reasons could constrain portfolios, incorporating ESG principles into the investment process provides a more holistic assessment of a security. It’s important to note that the survey results suggest that the “lack of standardization with respect to ESG metrics” carried greater weight than concern regarding investment constraints.

Four statements were aimed at capturing perceptions of the costs and benefits of including ESG in the investment process, and 79% of respondents agreed with the statement that there is a benefit to ESG-focused investing. Almost as many, 77%, agreed the implementation of ESG requires “significant resources,” 68% agreed there were “short-term risks but it was worth that risk” and 64% agreed that ESG imposes “a significant constraint on investment decision-making.” While the differences in the percentages are not particularly large, it is nonetheless noteworthy that the statement about the benefits of ESG had greater agreement among respondents than the three statements about ESG costs, constraints and risks.

The Road to Implementation

According to the survey respondents, incorporating ESG factors in their firms’ investment processes has clearly grown in importance to insurers. They see that adopting it in their investment practices will be important to their firms’ reputation and necessary to meet regulatory demands, and they generally believe that the challenges to implementation will be worth the cost and effort. However, what that implementation will be remains to be seen.

ESG, while an important issue to most respondents, does not rise to the top of the list as a critical concern, but rather is a new concern among more familiar issues such as inflation, regulation, RBC changes, and fiscal and monetary policy. ESG is also an aspect that for many neither is clearly defined nor does it have clear measurement criteria to assess progress.

Incorporating ESG factors into investment practices, in whatever form it takes, will likely add to the complexity of insurance portfolio management. Many insurance firms may find value in working with external asset managers that have deep experience in insurance portfolio management along with a broad understanding of ESG and can help insurers develop a customized strategy that incorporates ESG factors as part of their unique business needs.
About the Survey

The Conning ESG Survey of U.S. Insurers was conducted by Qualtrics, LLC in November 2021. The survey was sent to more than 7,000 insurance industry representatives, resulting in 280 qualified responses from U.S. insurance decision-makers in the life/annuity and P&C sectors. Results may not be representative of any one respondent’s experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision-makers. Conning paid Qualtrics, LLC a fee for services rendered. Analysis of results was done by Conning’s Insurance Research team with additional analysis by the firm’s investment team.

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Terence Martin, FSA, MAAA, is a Director and leads the research team responsible for the life and health insurance industry. Prior to joining Conning in 2004, he was director of actuarial reserving for Oxford Health Plans and previously was at Arthur Andersen, providing actuarial consulting regarding life insurance, health insurance and managed care, continuing care retirement communities, GAAP and statutory financial reporting, demutualization, and expert witness testimony. Mr. Martin earned BS and MS degrees in actuarial science from the University of Michigan.

Matthew Daly, CFA is a Managing Director and Head of Corporate and Municipal Teams and a member of Conning’s Investment Policy Committee. Prior to joining Conning in 2003, he held credit analyst roles with Webster Bank, Brown Brothers Harriman & Co. and FleetBoston. Mr. Daly earned a degree in economics and business administration from Gordon College.