

ESG Strategy and Reporting for Insurers

Stakeholder activism, combined with regulator and investor pressures, are quickly transforming the ESG landscape. Increasingly, these constituents have come to expect a detailed roadmap aligned with voluntary reporting frameworks and disclosure of a business plan for how companies intend to deliver long-term financial performance through the transition to a net-zero emissions economy.

Growing Focus on Insurers

Several regulatory developments have helped underscore the growing need for insurers to have a clearly defined ESG strategy. In 2022, the National Association of Insurance Commissioners (NAIC) released an updated climate risk disclosure survey, the U.S. Securities and Exchange Commission (SEC) released its climate disclosure requirements proposal and the Federal Insurance Office (FIO) released initial climate-related priorities for comment.^{1,2,3} Increased focus on climate emphasizes the environmental component of ESG, yet insurers must also illustrate their ability to navigate a range of economic, financial, and regulatory components across a range of timelines. More than ever, ESG strategy can play a central role in a company's efforts to reduce risk and create sustainable value.

FTI Consulting experts provide a broad range of services bridging ESG and insurance excellence in a variety of areas including:

Asset Modeling and Tracking

As insurers seek to demonstrate financial resilience under a variety of possible future economic scenarios and comply with regulations, the relevance of climate-related risk is growing.⁴

The ability to track and report exposure to risk factors such as fossil fuel-intensive industries, greenhouse gas emissions, and other industry-specific factors is important to risk management and regulatory compliance. Increasingly, insurance providers and underwriters are expected to understand the climate-related risks implicit in their portfolios, which requires strong data management and the ability to leverage these data inputs to model risk.



Catastrophe Modeling

Catastrophe modeling can help to understand and manage the potential effects of climate change or other complex scenarios to inform strategic planning, risk management and underwriting activities.

Approach – FTI Consulting’s experts can develop new catastrophe models or refine existing models, leveraging deep knowledge around the assumptions, underlying science, and loss drivers for specific events.

FTI Consulting’s approach employs continuously improving statistical analysis and scientific data across four core modules:

- Event module
- Intensity module
- Vulnerability module
- Financial module

Outcome – FTI Consulting’s experts can assist clients in understanding and quantifying catastrophe risk through useful metrics related to catastrophe risk such as:

- Exceedance Probability (EP) curve
- Probable Maximum Loss (PML)
- Average Annual Loss (AAL)



TCFD Alignment

The outputs from our six-step process for helping companies implement and respond to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) are well-positioned to address many of the recent regulatory developments affecting insurers – which align closely with the TCFD requirements.⁵

FTI Consulting’s TCFD process includes both internal and external components to educate members of your organization, leverage internal resources to identify the company’s climate-related risks and opportunities, and report the financial implications of a range of climate scenarios, accompanied by the company’s plans for oversight and risk management for long-term resilience:

1. Regulatory Overview and Education
2. Data Tracking and Improvement
3. Risk and Opportunity Identification
4. Quantitative Scenario Analysis
5. Governance Advisory
6. External Reporting

MSCI Scoring Improvement

MSCI ESG Ratings aim to measure a company’s management of financially relevant ESG risks and opportunities. The ratings use ESG policies, programs, and performance across a list of ESG key issues to produce a rating ranging from AAA-C to help stakeholders understand a company’s ESG risks and opportunities while allowing investors to integrate these factors into their portfolio construction and management process.⁶

As such, reporting and engagement around the MSCI key issues relevant to the insurance industry – which commonly include Carbon Emissions, Human Capital Development, Privacy & Data Security, among others – can result in a higher rating and with it, additional benefits.



FTI Consulting's team helps clients understand the MSCI ESG Rating process and engage the rating agency through in-depth analysis to understand rating improvement opportunities including: (i) methodology education, (ii) exhaustive identification and prioritization of improvement opportunities, (iii) in-depth peer disclosure research and benchmarking, and (iv) engagement with rating agencies for score improvement.

MSCI ESG indexes rely on ratings and rating trends (upgrade, downgrade, or no change to the rating) to establish index inclusion and weighting. MSCI's 1,500+ equity and fixed income ESG indexes are used by institutional investors for index-based investment products, risk and return analysis, compliance with ESG mandates, and to define an investment universe.⁷ A strong MSCI rating can result in access to expanded pools of capital and help to signal strong ESG performance to a range of stakeholders.⁸

Stakeholder Engagement and Communications

Successful ESG communications integrate key rating agencies, reporting frameworks, policies, controls and compliance procedures while fitting seamlessly into a company's larger strategy and messaging.

FTI Consulting's Strategic Communications team helps craft and communicate compelling and cohesive ESG messaging through sustainability reports, stakeholder content development, and stakeholder engagement to maximize the value of ESG communications across key audiences including customers, employees, investors, regulators and the media.

— ESG AND INSURANCE EXCELLENCE CORE SERVICE OFFERINGS:

1. Discovery and Assessment

- Peer, regulatory, ESG ecosystem landscape review and related education
- Current state assessment
- Internal stakeholder alignment on key program objectives and identification of most critical external stakeholders

2. Strategy Development

- Materiality assessment
- KPI identification, goal-setting
- Long-term roadmap

3. Implementation

- Programmatic investments
- Creation of procedures, policies, oversight mechanisms
- Adjusting accountability, lines of communication

4. Reporting and Engagement

- Sustainability report and website development inclusive of relevant framework disclosures; e.g., Taskforce on Climate-related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI)
- Related messaging for proxy, annual report, investor relations materials
- Direct engagement with rating agencies following disclosure

5. Measurement and Refinement

- Periodically take pulse of key stakeholders on progress vs. peers; monitor peer landscape
- Execute on critical roadmap items
- Seek and review third party ratings; make targeted improvements to improve active and passive capital flows

It's time to act if you have yet to:

- Assess your environmental data access and quality
- Conduct qualitative climate scenario analysis
- Set an emissions reduction or net-zero target
- Calculate Scope 1-3 GHG emissions
- Identify climate-related risks and opportunities and assign oversight
- Prepare for response to TCFD and related financial reporting requirements

Our team's experience spans insurance excellence, sustainable finance and integrated sustainability, investor reporting and disclosure, stakeholder engagement and public affairs, and digital insights and analytics. The result is an integrated team of experts ready to meet the specific needs of unique projects across the industry.

Expected Benefits and Outcomes

- Established metrics and programs
- Mature ESG risk management
- Increased transparency to stakeholders
- Reduced risk of regulatory scrutiny
- Potential higher ratings from rating agencies – S&P, Moody's, MSCI, Sustainalytics, etc.
- Decreased risk
- Increased access to capital

Read more about FTI Consulting's work at the intersection of insurance and ESG:

1. [Insurance Executive Brief – Spotlight on Climate-related Risks](#)
2. [How Insurers Can Ride the Wave of Change: Key Reflections from COP26](#)
3. [What's Next for Climate Risk Management?: Top Tips for Insurers to Address NY DFS's Climate Guidance](#)



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