Sustainable Insurance

An explorative research on the business case

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"Everybody talks about the weather, but nobody does anything about it"

(allegedly) by Mark Twain

Abstract

The purpose of this research is to assess what the current status of the business case is for sustainability in the life and non-life insurance industry on a global level. The goal of this explorative research and thesis is to link the concept of sustainability to the business model of the insurance industry and insurers at corporation level. Based on the insurance industry and sustainability challenges, indicators and sub indicators have been derived which cover the main elements of the insurance business model.

The main contribution of this thesis is the creation of a CSR framework based on the derived indicators. This framework addresses the insurance model and all behaviouristic consequences to go from a 'inactive' towards an 'pro-active' approach are described. This specific framework made it possible to study multinational insurers on a comparative basis, distinguish patterns and determinants of strategies.

In this research a convenience sample of 12 insurers was used, representing various regions, markets, credit ratings and types ownership. The majority are part of the top 25 of global insurers. Publicly available sources – such as annual and sustainability reports and company's websites - were used to gather statements and narratives on the specific indicators. The narratives and statements were analysed according to the developed CSR framework for the insurance industry. This research stays away from assessing the actual implementation of sustainability within the insurance companies.

The results show that the overall insurance industry business case towards sustainability is defensive and based on extrinsic motives. The perception of the primary (clients, competitors, shareholders) and secondary stakeholder (NGO's on human rights, health etc.) outside the corporation do define the attitude and approach of the corporation towards sustainability. The research results seem to support this conclusion. When zooming in into the CSR approach of insurers on region, credit rating, business size and length of history with CSR, these variables do seem to influence the business case and stance towards CSR.

Preface

My first academic encounter with ‘sustainability’ was during the courses of Business Society Management of Rob van Tulder.It gave me more insight in its broadness, complexity and its ethical aspects. Sustainability is clearly more than People, Planet, Earth.

Although I work at the back of the embroidery of insurance practice - within IT - it made me questioning the various business processes and the business model of the insurance industry from a sustainability perspective. There are so numerous links to society and regulators in the insurance industry, since it plays such a crucial role in our economy. If insurers were not ready to carry our risks and provide us financial back-up, we would have serious difficulties to still continue our current activities.

This all led to a challenging and confronting learning journey where I have been through the reflective cycle many times. Even as this thesis is lying before you, printed and well-lay out and ready to be read, I can still see opportunities for elaboration and/or clarification.

But I can also see a broad and initial CSR framework for the insurance industry that has been gradually created which can be used as a good starting point to implement sustainability initiatives into all aspects of the insurance business model and take it from the peripheral spheres to the core of the insurance organization. After having studied many reports and insurers, comparing CSR with the reflective learning only seems logical. In order to transform to a pro-active and innovative CSR approach, companies do need to adapt triple loop learning

“Reflect upon your blessings”
I would like to end this preface by expressing my words of gratitude. First a foremost, I would to thank Professor Rob van Tulder for his endless enthusiasm and energy to keep me going and coaching me in the right direction when needed. And not only with regards to this thesis. Secondly, a word of thanks to Maarten Dirks who gave me the necessary methodological feedback and supported from the side line.

Words of gratitude are also addressed to my employer for giving me this opportunity to learn and return my knowledge to our organization. Proudness and special acknowledgements go out to my team for showing interest, support and becoming quickly self-employed during a period of uncertainty and turmoil.

Last and certainly not least, I would like to express my tremendous love and appreciation for my parents, family and dearest friends for being there and supporting me. That truly meant a lot to me.

Jannette Cuperus
Rotterdam, October 2012

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1. Introduction

"We sell promises" is what CEO Alex Wijnaendts claimed in the economics edition of the Dutch newspaper NRC on 17 December 2011. AEGON wants to restore the customers´ trust in its products and organization. Away with the image of the usurer. "*We must give our customers the feeling and trust that we will stand by our promises. If both that feeling and trust are not present, we are not in the position to sell. If you have paid your premiums for many years, you should be able to count on your insurer to disburse the death benefit to the stated beneficiary at the death of the insured. Selling products belongs to the past. What is important is selling products that do fulfil the customers´ needs. Being an insurer, the central question is; do we sell products or are we a service provider? In my opinion we have to become a service provider and change..... We need to win the customer's trust back before we can start building up a stronger customer relationship*". With these statements Wijnaendts seems himself painfully aware of the reputational damage from which the insurance industry has been suffering since the 'Woekerpolis' affair in The Netherlands. As many other insurance companies, AEGON sold investment-linked[1] insurances at high premiums and considerable reimbursement costs if cancelled before the end of the policy[2] period. The combination of the product's complexity and the economic downturn resulted in a massive upheaval in the media. Restoring and acquiring an honest and trustworthy reputation with the customer, has currently become AEGON's key focus.

In 2010 the organization received a renowned price for its "Honest about AEGON" marketing campaign, with which the organization attempted to take a first step upon the road of change to create another perspective of the company in the insurance industry and consumer market. However, the realization that a sustainable approach will need to impact the organization to a much greater extent than just the outer appearance and communication, requires continuous emphasis and attention. A thorough reconsideration of the investment management strategy, pricing models, product portfolio and sales propositions is only just initiated, but behind that, all still appears to be 'business as usual'.

Recently the organization has carried out a large reorganization with as expressed argument, "the shareholder demands dividend on his shares". In a short period of time a transformation was rolled out on tactical and operational level which led to a decrease in operational expenses and reduction of jobs, all contributing to the 100 million euro savings target. Eventually all is initiated with the aim to make the organization more profitable.

The question now arises; does the shift to a more sustainable approach of CEO Alex Wijnaendts endure the internal strategy of cost reduction and the shareholders´ interests in the AEGON strategy? Which other dimensions might play a similar if not more substantial role in strategy making? What will remain of the sustainable intention if the shareholder's interests prevail? Will sustainable decisions, which could add value to AEGON long term, remain to be made? How can short term focus aimed at profitability and shareholder value coexist or even make room for more sustainable choices that do focus on achieving long term success?

Wijnaendts´s expressed vision is not unique. Several researches amongst CEOs in the last decade have shown their strong interest in sustainability and its potential to create sustainable competitive advantages for corporations. In a 2003 research executed by PwC almost 80% of the CEOs believed that sustainability was essential for the future profitability of their company. And 71% was prepared to trade short term profitability for long term shareholder value when implementing a sustainable strategy[3]. The most recent PwC research of 2012 again claims that CEOs will plan on making major strategic changes towards a sustainable approach. The CEOs recognize that sustainable business growth requires working closely with the civilians, governments and business industry partners and investing in communities. Over 60% plan to increase their investments on these initiatives.[4] However, a decade of intentions has not yet resulted in operationalizing sustainable policies on a broad level. According to Van Tulder this observed gap between sustainable intentions and practices can be attributed to the absence of thorough and convincing scientific insights which support the business case to invest in sustainability. That tipping point can only be reached when CEOs not only believe that sustainability improves their company's performance, but also know by fact that this is true and how it can be achieved (Tulder: 2012).

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[1] Investment-linked products are also referred to as 'unit-linked products'.
[2] The semantics of the word 'policy' is confusing in the context of insurances. The word 'policy' is generally used for the actual insurance product. However, 'policy' is also used in the context of 'policy making'. The latter has no link to the insurance product, but refers to the process of strategy making. Although arbitrary, 'policy' is not a complete matching synonym of 'strategy' and vice versa, in this thesis 'policy' will be replaced by 'strategy' if the textual context might create multiple perceptions.
[3] Price Waterhouse Cooper (PwC) – 6th Annual Global CEO Survey 2003.
[4] Price Waterhouse Cooper (PwC) – 15th Annual Global CEO Survey 2012, p.29

The aforementioned case and subsequently derived questions gave the impetus to a growing interest in doing more scientific research on sustainability, its current status and development towards more active approaches in the insurance industry.

1.1. Primary function

Before going into sustainable insurance and its context in the following chapters, it is good to start at the beginning. In order to succeed in any sort of business venture, it is necessary to have a clear profit or business model. It addresses the core elements of the operating structure that are needed to create the company's value proposition and to make it profitable. In other words, it portrays the generic practical and operational side with which the insurance company creates value for its customers and organization. However, discussing the business model of modern insurance companies and their challenges requires a thorough look into its origin and initial ´raison d´être'.

The insurance industry has a long and rich history going back to the end of the Middle Ages. The first occupational guilds were formed in the eighth century. Their members promised each other "*mutual assistance in times of adversity and compensated their members for losses caused by perils of the sea, fire, flood, accidents or cattle thievery*" (Cummins 2007:456), an early example of the current non-life insurance. Initially the revenues were spent for religious purposes (i.e. guild chapels, patron saints), but after the Reformation the use of the funds was shifted from financing religious activities to financing 'mutual' assistance to poor or disabled guild members and widows of guild members. Hence, this fundamental change gave a tremendous impulse to the guild's social (security) role. In the course of time it became common to put the money - earmarked for mutual financial support - aside. Civil society supported one another on the basis of solidarity.

Product innovations in insurance, 1720-1900: date of introduction

Type of insurance	*UK*	*Germany*	*Austria*	*France*	*Belgium*	*US*	*Switzerland*
River transport		1765	1768	1838		1849	
Credit	1820	1856	1837				
Treaty reinsurance	1824	1824	1845	1820	1820		
Fidelity guarantee	1840					1876	
Hailstorm	1840	1797	1828	1802		1870	
Livestock	1844	1720	1840	1805	1836		
Burglary	1846	1850	1865			1878	1898
Personal accident	1848	1853	1877			1864	
Traveller's luggage	1851					1870	
Plate glass	1852	1861	1867	1829		1874	
Boiler	1854					1866	
Engineering	1858						
Windstorm/tornado		1899		1887		1861	
Engine	1872						
Public liability	1875	1882		1829			
Employer's liability	1880	1871			1848		
Cycle	1883			1890			
Parcel post	1883						
Elevator/lift	1888						
Mortgage guarantee	1888						
Licence	1890						
Loss of salary		1892				1892	
Automobile	1896	1899					
Professional indemnity	1896						
Electrical machinery	1897						
Property owner's indemnity	1897						

Source: Pearson (1997:239)

Gradually funeral funds developed into life insurance products. This created an economic climate in which new ventures could be undertaken. Over the centuries, these mutually shared funds evolved into either cooperatives (or so-called mutuals) or shareholder-owned (also known as stock-owned) companies. In the 19th century the insurance industry had matured and was well established with a broad range of non-life and life insurance products (Pearson 1997:239).

Just as in the economist Adam Smith's era, entrepreneurship in a free market tends to benefit society and functions as an incentive for a constantly growing and evolving variety of goods and services. Smith's widely used metaphor of the "invisible hand" – individuals pursuing their own self-interest are led by this hand to act in ways which benefit the whole society (Sidelsky 2009:77) - can be derived and applied to the insurance industry as well. In an active and productive market, it is likely that the underlying activities have risks associated to them. There is very little one would do if the risk of financial ruin was part of the entrepreneurial undertaking. Taking on these risks would not be financially feasible either from a personal, business or governmental perspective. However, insurers do take on these risks and share them amongst themselves and their policy holders. By fulfilling that 'invisible' task, they *create an environment in which the civil society is financially supported in case of life changing events and in which entrepreneurship can flourish in the business society and risks are mutually carried (solidarity principle)*. That initial 'raison d'être' is still the primary function of the insurance industry today.

When engaging in theoretical premises, a secondary function is exposed. It finds its origins in the financial intermediation theory which is designed to account for the actual existence and economic purpose of financial institutions, which the insurance industry is part of. Arrow and Debreu introduced a framework which assumed that all trade takes place at one unique point and time (Sidelsky, 2009:32). So when the financial market is perfect and complete and that equilibrium has been achieved, the allocation of resources will be utmost efficient as a result of the full availability of information for all participants (Allen & Santomero,1998: 1474). Consequently the market will have a complete transparent character. In this traditional market-based theory of resources allocation, companies and households would interact directly with each other. Another important assumption was the non-existence of the division in time. "*Time only featured in the form of 'futures markets', you buy and sell goods which will be delivered in the future but at a time and price specified in that equilibrium moment. In other words, at that unique moment in time when trade takes place, a market-clearing equilibrium is established which is assumed to cover demand and supply until the end of time*" (Skidelsky: 2009:32). If so, none of the financial intermediaries would play a significant role. However, this is clearly at odds with reality. Although internet has made the financial markets more accessible for individual households, market imperfections such as asymmetry in information and time have always existed. Insurance companies – together with banks – play an important role in closing the gap of time and information and composing foresight to assess the risks associated to trade which they take on behalf of the market participants.

After having deduced the reason of being from the industry's history and the financial intermediation theory, it seems a small step away from defining ´insurance´. However, according to Rejda there seems to be no single nominal definition of insurance. Insurance originates from business practices and can in fact be defined from the viewpoint of many disciplines such as law, economics, history or sociology. However, his attempt does cover the majority of the functional aspects as described. *"Insurance is the pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify insureds for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk"* (Rejda 2011:3).

The first characteristic is the pooling of the losses. This means sharing the losses by the entire group of policy holders and predicting future losses with some accuracy based on the law of large numbers. This spreading of the losses incurred by few insured over the entire group is important, so that in the process, the accurately calculated average loss can be easily substituted for actual loss. The second characteristic is the 'fortuitous' loss. The loss is unforeseen and unexpected by the insured and occurred as a result of chance. If the loss is intentional, the insured will not be covered. The third characteristic is another essential element. The pure risk attached to the undertaking is transferred from the insured to the insurer. The insurance company, which is typically in a stronger financial position, will pay for the loss instead of the insured. The last and final characteristic 'indemnification' means that the insured is restored to his or her approximate financial position prior to the occurrence of the loss (Rejda 2011: 20-22).

Zweifel and Eisen struggle with the same dilemma as Rejda in their recent publication. *"Insurance can be said as a means or a procedure that reduces uncertainty with respect to the future"* (Zweifel & Eisen 2012:3). Acknowledging that this is a rather meagre definition, they chose to add and quote three other definitions which each cover a part of the complete range of activities of the insurance industry; risk mitigation, indemnification and information analysis.

Insurance is (Zweifel & Eisen 2012:3):

- *the exchange of an uncertain loss of unknown magnitude for a small and known loss (the premium)*
- *the exchange of money now for money payable contingent on the occurrence of certain events*
- *"guarantee information concerning certain states of its purchasers" which improves their information regarding outcomes of their decisions while not concerning states of nature*

To summarize the above mentioned, we can conclude by highlighting two important focal points. Firstly, uncertainty and risk is at the heart of insurance. In our civil and business society all our activities depend on uncertain and unknown circumstances beyond the control of individuals. And with respect to future endeavours, uncertainty looms still larger. The insurance industry derives its existence from facilitating risk transfer - associated to uncertainty - by reallocating individual risks over the group of policyholders and by taking on the insured's future risks to enable their social and entrepreneurial activities. Next, the insurance industry is a secondary branch of economic activity. It serves the production and consumption, (inter)national trade, transactions and the conservation of existing and creation of new wealth. Its effect is essentially indirect because it deals with consequences of economic activity that would occur if insurance did not exist. Reading this thesis with this knowledge in the back of our minds, we might become more aware of the dilemma between profitability and societal responsibility.

1.2 Research relevance

As the AEGON example in the introduction stipulates, the insurance industry is currently aiming for growth that is both profitable and sustainable. Risks are not underwritten at just any price, they have to add lasting value for the customers, shareholders and staff. This requires a framework, knowledge and understanding as to what sustainable insurance actually comprises of.

Currently academic and strategic thought on sustainability in the insurance industry is scarce. Where recent studies can be found on sustainable finance, theories and researches on sustainability in the insurance industry are far less available. Considering banks are at the core of our economic system, this seems plausible. However, a clear notion as to what is sustainable insurance and subsequently ways to implement it are not yet available. Industry initiatives were gradually initiated and insurers started to experiment by including sustainable elements in parts of their organizational model. However, economic downturns after 2008 hampered its progress. So there certainly is potential to link sustainability with insurance which could substantially facilitate the spread of business involvement in developing sustainable and future-proof strategies for the insurance industry. This requires that the concept of sustainable insurance needs a descriptive depth in order to study its current status on a comparative (multi-level) basis and to become better to operationalize.

Clearly, this knowledge is necessary to counter the constant stream of new challenges with solutions that are subject to all sorts of external changes as they are profitable.

1.3 Research objective and goal

As said ´sustainable insurance´ currently seems to be a concept in search of a definition. And once this might have been established, it might be a definition in search for an implementation. At the moment intergovernmental organizations and gradually politicians are claiming the issue. However a scientific framework has not yet been set up. The aim of this explorative research and thesis is to link the concept of sustainability to the business model of the insurance industry and insurer at corporation level.

The main contribution of this thesis is to create a taxonomy of CSR (Corporate Social Responsibility) for insurance business models in which the consequences on sustainability are taken into account. The taxonomy should make it possible to study multinational insurers on a comparative basis, distinguish patterns and determinants of strategies and identify more or less ‘credible stories’ of the issues of sustainable insurance at the level of the individual corporation.

The following deliverables will contribute to addressing the research question of this thesis:

- Define the term “sustainable insurance”
- Research the notion of sustainability in the insurance industry
    - Creating a clear understanding of the primary function of the insurance industry
    - Creating an overview of the different challenges which define the insurance industry
    - Creating an overview of the different indicators and sub-indicators which might impact a sustainable approach in the insurance industry
    - Setting up a framework of CSR approaches for assessing the insurer’s sustainability strategy
    - Providing insight on the current status of the global insurance industry on the ‘sustainability ladder’

1.4 Research questions

Eventually this paper aims to answer the thesis question:
What is the current status of the business case for sustainability in the life and non-life insurance industry on a global level?

In order to do so, the following research questions will guide us to the answer:

1. What are the current challenges of the insurance industry?
    a. What do we understand of the definition “insurance” and what is its primary function?
    b. What is the business model of the insurance industry?

Trend reports of the insurance industry, combined with scientific theory will be used to answer these questions.

2. What is sustainable insurance?
   a. What is sustainability?
   b. What defines sustainable insurance?
   c. Which dimensions of a corporation does it affect?
   d. Which initiatives are started on a macro-economic and micro-economic level?

3. What approaches of sustainable insurance can be assessed?
   a. Which indicators define sustainable insurance?
   b. What individual initiatives on microeconomic level (per insurer) can be observed?
   c. What components should the CSR assessment framework comprise?

Media analysis, intergovernmental reports combined with scientific theory will be used to attempt to answer these questions.

4. What is the CSR approach framework for the insurance industry?
   a. What are the sub indicators for each approach?
   b. What is the definition of the sub indicator on each type of CSR approach?

Translation of the scientific CSR theory of the indicators (Q3) will deliver a CSR approach framework.

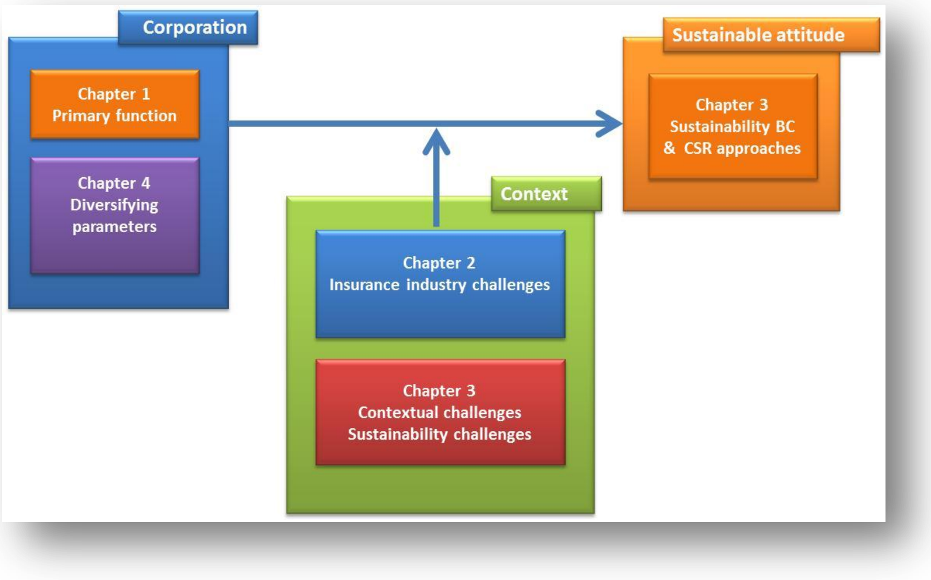
5. What is the current CSR approach for the global insurance industry?
   a. How do we assess the individual approach of global operating insurers towards CSR?
   b. What is the average current status within the insurance industry?
   c. In what way do the corporation variables - region, type of market, credit rating, type of ownership, business size and CSR history - impact the CSR approach?

The research plan in chapter 4, will provide more background on the methodological approach.

1.5 Structure of the research and thesis

This thesis consists of 7 chapters. Chapter 2 gives an overview of the challenges which the insurance industry currently faces and will answer the first research question. Chapter 3 discusses the concept of sustainability, the sustainability challenges within insurance industry, attempts to link its development to various influential aspects from the primary and secondary spheres of the insurance industry and closes with the sustainability business case and different Corporate Society Responsibility (CSR) approaches. Consequently, it will answer research questions 2 and 3. Chapter 4 deals with research question 4 and will describe the basis research methodology and gives insight in the diversifying corporation parameters and the applied CSR approach model for the insurance industry.

Figure 1.2 – Thesis structure



Chapter 5 will show us the actual research results, analysis and conclusion and will attempt to research question 5. In chapter 6 the overall research question will be answered based on the gathered research information in this thesis and will give more background on the scientific, societal value and limitations of the research outcome. The closing chapter 7 will provide a methodological reflection of the researcher.

A reading guide is provided in Appendix A, which might serve as a quick reference to the sections in which various topics and (sub) indicators are discussed.

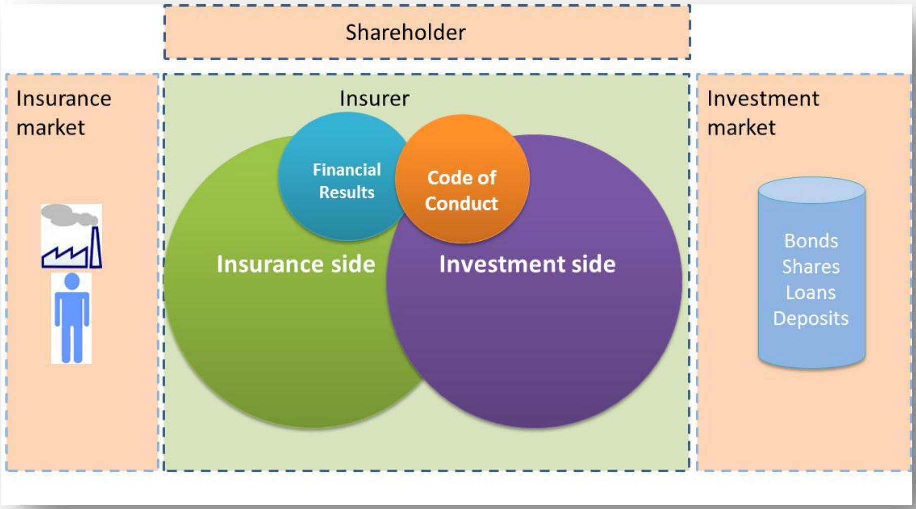
2 Insurance Industry Challenges

The insurance industry's responsibility reaches far and can indeed be seen as the driving force and facilitator behind our societies and market economy. Now knowing its roots and primary function, what are the challenges with which the industry is faced today? The insurance landscape is constantly moving and the forces shaping the industry in the next decade will differ from those that shaped it over the past.

In this chapter a set of forces is identified that challenge the current strategies and business models of insurance companies globally today. Below depicted is the model used to structure the analysis of the different challenges.

The important elements are the;
- insurance market with consumers (direct sales) and companies (b2b) forming the incoming premium revenues
- insurance company (insurer) with its insurance and investment activities, thriving for positive financial results
- investment market in which the insurer's assets are invested forming possibly incoming dividends revenues
- shareholder that invested in the insurer with the aim to receive dividends on shares.

Figure 2.1 Micro –economic environment of the insurer



The model and/or elements will serve in this chapter as a guide and highlights specific aspects of the micro-economic environment (at insurance company level) in a structured manner.

2.1 Upcoming Consumerization

Innovation and insurance together are viewed by many as contradictory. A short retrospective creates some background for these doubts. The insurance industry demonstrated innovation after the first wave of automation in the 1980's by creating new `best-in-class' products in depth and breadth, and setting up services and distribution methods using new technology. Aiming for market share per product emphasized the product-centric approach and resulted in a "siloed" organizational and IT structure[5].

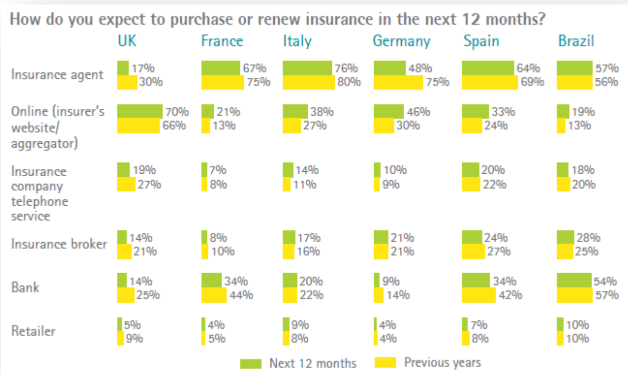
This technology and product-centric organization structure created the obstacles with which the industry is still faced today. Inactive insurance products that still need administration, payment or disbursement until expiration date are not always suitable to be upgraded to new technological platforms. The innovation power has been severely limited due to the frailty of legacy insurance and technological solutions. Its rather conservative industry climate aimed at risk aversion and compliancy accompanied with profitable growth rates in the past were not particularly challenging this status quo. In effect, long-held, traditional business and technology strategies inhibit future success.

Today's increased competition amongst peers and due to the arrival of new entrants, increasing costs and declining premium growth, changing customer loyalty and behaviour are ultimately forcing the industry to change. Insurers are pushed to reconsider their business model and focus on the fundamentals of insurance and its added value. Customer expectations, the actual products and access to insurance services as well, are each influenced by the internet and those who are operating on it. Internet has radically changed the way people communicate, interact and reconfigured their relationship to businesses.

As a result customer's mind-sets and consumption patterns are changing. Customers are empowered through information transparency and social network interactions providing recommendations or disapprovals and hence are able to familiarize themselves with a wide range of product choices. Customer experience of quality service levels are expected and no longer desired. A recent global study by Accenture Research confirms that "*customers are increasingly disloyal to their insurance providers*"[6] . Only 50% of their respondents who intend to purchase insurance in the next 12 months were planning to purchase from the existing provider again (see fig 2.2). And once they have decided, "43% of the customers intend to acquire an insurance product online". This trend can be observed on a global level and is at the expense of the more traditional sales channels, such as the insurance agents.

Figure 2.2 – Purchasing behaviour Insurance renewal

Source: Accenture Multi-Channel Distribution Insurance Consumer Survey: Changing Channels (2010)



In order to proceed and succeed insurers will need to incorporate customer innovation and adoption of new technologies into their business strategy and to support the "customer of the future".

One of the biggest advantages of the rise of internet and mobile devices is the access to real-time policyholder information. The constant available stream of data provides a valuable source for data analytics. From that enormous amount of data (popularly referred to as 'Big Data'[7]) consumer patterns and emerging trends can be

[5] *The Insurance industry in 2012,* Top Issues Volume 4 2012, PriceWaterhouseCoopers, p.24
[6] Jahn, Hendrik J., Gazendam, A, Schlieker, A., *The high-performance insurer of the future*, 2011, Accenture, p.24
[7] http://tinyurl.com/d93jksz

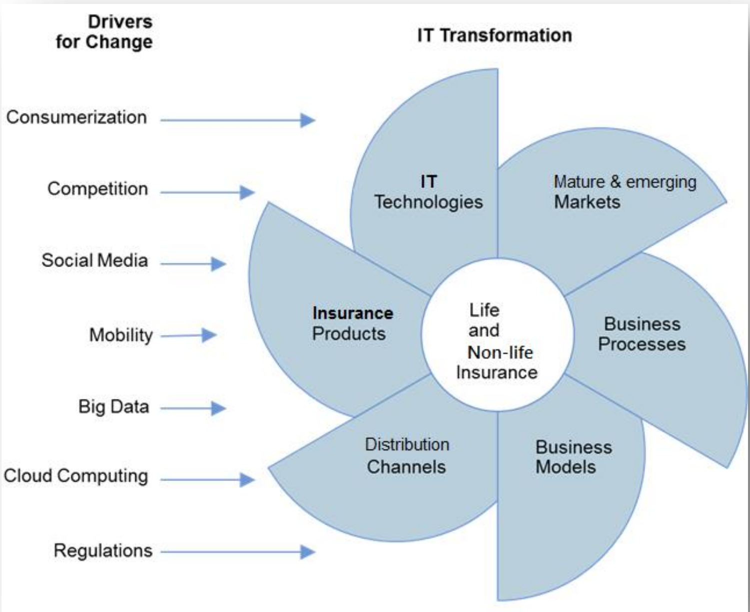
identified at a faster pace than currently is the case and will prove to be necessary to manage the rapidly growing number of self-directed customers. Customer intelligence is critical to determine product and service needs. Having always focused on rather passively identifying and pricing risk and reactively paying out claims once an event has occurred, to proactive usage of customer data and analytics to reduce losses, better risk management and understanding the customer is a challenge.

A fundamental power shift is happening and is moving away from the intermediaries and insurance companies towards the customer. The emergence of this so-called 'consumerization' requires innovation and a customer-centric business model.

2.2 Innovation and efficiency

As seen in the previous section, unparalleled developments on the technology front can be witnessed these past couple of years. In various ways, these are the drivers for change and transform the insurance industry as a whole—and will continue to do so. Investments in information technology (IT) will be critical for insurers. New entrants - pure-play internet companies – have been able to use these new technologies as their business model basis. Therefore they were able to reduce their cost of sales dramatically and raise user expectations relating to experience, communications, mobile access and real-time responsiveness. In contrast, most traditional insurance companies have fallen behind.

Figure 2.3 – IT Transformation
Source: based on Gartner model (2011), Jürgen Weiss[8]



The Society for Information Management (SIM) performs an annual survey amongst CIOs around the globe to understand important issues and trends. Over 365 CIOs responded to the 2010 survey, in which the insurance industry had the highest industry response rate and made 16, 9 % out of the total response[9].

The outcome of the five CIOs' management concerns were:
1. Business productivity and cost reduction
2. Business agility and speed to market
3. IT and business alignment
4. IT reliability and efficiency
5. Business process re-engineering

[8] http://tinyurl.com/8nyq9b7
[9] Luftman, J. and Ben-Zvi, T., *Key Issues for IT Executives 2010: Judicious IT Investments Continue Post-Recession*, MIS Quarterly Executive (2010), 49-59.

Again, business productivity and cost reduction were one of the top concerns in 2010, with 33 of the 172 American companies ranking it as number one. This was also ranked as the top concern in Europe, but less important in the Asia sample. The latter region is also often referred to as the emerging market by the insurance industry[10].

This concern has been acknowledged in the SIM survey results only since 2007, when it was ranked at a fourth place, but in 2010 it was on top of the priority list. These results seem consistent and in compliance with the outcomes of an earlier executed survey by Harvey Nash, also suggesting that cost saving and increasing operational efficiency are the top objectives for IT departments. This response by business management to the role of IT is unique in the sense that in past economic downturns, business executives simply asked CIOs to 'just' cut their budgets. After 2008, they are rethinking the role of IT in their business model and are now demanding IT to work with the business to cut costs and to improve the productivity of the rest of the business.

An extra strain on IT is the search for alternative ways of generating revenues by sales management. One way to generate new revenues is through IT innovations. Harvey Nash found in 2010 that over 60% of CIOs were shifting their innovation focus into growth activities and using innovation projects to improve the quality of products and services. Additionally, 58% of CIOs are innovating to speed up the delivery to market of their products and services to capitalize on emerging growth trends.

However, demanding increasing productivity and IT innovation do not come with additional financial resources. The economic downturn brought major changes to IT budgets as well. Budgets had been increasing since 2004 (51% of the SIM respondents reported rising budgets to 61.3% in 2007). In 2010 only 25% of the respondents said their IT budgets had increased. In fact, 62% of the organizations' 2011 IT budgets would be reduced or remain the same as the already smaller 2010 IT budgets.

Although the business need could not be more stressed, as stated earlier the insurance industry tends to respond more slowly than the innovative leaders in this area. The slow adoption rate could be attributed to[11]:
• inflexible legacy technology (the impact of aging IT systems)
• complex business models and processes.
• a mind-set focused on operations rather than innovation
• IT budgets that are dominated by non-discretionary spend
Analysts estimate that insurers spend only 20 per cent of their IT budgets on innovation.

To summarize, the challenges are poignant. There is the unavoidable need for insurers to invest in IT to improve efficiency. That will always be critical. Investment in IT innovation will also play an essential role for insurers to stay ahead of market trends. However, the current context is limiting its progress.

2.3 Diversification insurance products

The actual trade of marketing of insurance products has only been part of the industry since the end of 19th and early 20th century. Insurance companies then started to actively promote their products. The number of players on the insurance market increased which had an impact on the diversity of non-life and life insurance products too. Insurance companies started to transform savings – invested in life insurance policies by households - into investments in assets markets themselves. By the end of the 1970’s again “*new financial products, such as various mortgage backed securities and other securitized*[12] *assets, as well as derivative instruments such as swaps and complex options were introduced*” (Cummins, 2007:457). Their success amongst insurers and other financial intermediaries resulted in a virtual explosion in financial market volume and had been the result of quick adoption and use of these new investment-linked opportunities.

However, the rapid growth of the financial market and its increased complex products made direct participation for individuals more difficult. The high cost of trading in and the actual barriers to access these new financial products for individuals consequently stimulated an important shift towards new types of intermediaries such as non-bank financial firms (leasing and lending companies). They raised money by issuing securities for their customers instead of taking deposits or savings. The traditional intermediaries, such as banks and insurance

[10] Jahn, Hendrik J., Gazendam, A, Schlieker, A., *The high-performance insurer of the future*, 2011, Accenture, p.13
[11] Jahn, Hendrik J., Gazendam, A, Schlieker, A., *The high-performance insurer of the future*, 2011, Accenture, p.16
[12] Adjective of noun “securitization”, that is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, car loans or credit card debt obligations and selling said consolidated debt as bonds, pass-through securities, or collateralized mortgage obligation (CMOs) or credit default swaps (CDS) to various investors.

companies needed to address this increased competition and product diversification. For insurance companies this realization - that the original primary function of the insurance industry was but a minor part of their to acquire asset management capabilities - led to innovation and diversification of their products and services (Allen & Santomero, 1998).

So over the past three decades the demand for traditional insurance services has shifted from traditional insurance policies to new 'financial products'. This was accelerated by a sharp increase of interest rates in the 1980's and the outstanding performance of the financial stock markets in the 1990's. Traditional life policies – based on interest on premium deposits - underperformed to other available investments, for which these new products had to take care of. Insurance products indeed can be interpreted as contingent claims (Zweifel & Eisen 2012: 229), but what changed then is that its payments or profits depended on the success of the investments in assets of either the individual policy holder or the insurance company. Many consumers changed their focus from savings to investment-linked products. Especially life insurance products would yield higher returns which made the premium rates relatively low and hence attractive and profit perspectives for policyholder and insurer interesting. The recession which followed 2008 caused the opposite. The final payments by the insurer proved to be less than the total sum of the premiums paid (i.e. the emergence of the "Woekerpolis"), insurers were faced with a major decrease of their assets value on their balance sheets and the insured suffered severe losses compared to the paid premiums. It all led to the recent discussions on the financial illiteracy of the consumer and the insurer's responsibility to make consumers risk aware.

Looking back at the primary function of the insurance industry - *create an environment in which the civil society is financially supported in case of life changing events and in which entrepreneurship can flourish in the business society and risks are mutually carried (solidarity principle)* – the above mentioned trend of the past decade headed quite far off its roots. The original thought of solidarity and driver behind the emergence of insurances seems to be fallen into oblivion and has been replaced by personal interests in financial returns on insurance products. The perception of the value proposition of an insurance product has changed from having financial security with guaranteed value in case of an unfortunate event into a financial product which might yield higher returns than an ordinary savings account or traditional insurance product.

Although it might appear paradoxical, the challenge for the insurance companies is product innovation. It needs to be a key focus and includes both the product and its development process. One major difference with the past is the increased collaboration of customers either voluntary or even involuntary through social media. By doing so their feedback or active participation in product innovation by co-creating products with insurers is stimulated. This approach requires technology to link all partners of the insurance supply chain, hence including customers to co-create targeted, richer products and generally faster than traditional methods. But products with built-in customer input and value will challenge "products, conditions and fair pricing" discussions, redefine customer relationships and possibly direct the insurance industry back to its primary function.

2.4 Change in Ownership

The introduction of internet and mobile technology made it easier for new entrants to the insurance market. By aggressively advertising in various media, customers were invited to compare prices and register for immediate quotations. For the traditional insurance companies to compete, it requires extensive technological investments just to stay even with their peers. To raise funds for these substantial investments insurers were faced with a challenge. It forced a cultural change upon the industry to promote greater efficiency, cost reduction and more sophisticated marketing approaches and modern product portfolios.

By converting from a mutual fund to a stock-owned company – also referred to as 'demutualization'- it not only helped to raise the required investment capital by issuing shares in return for money, but also facilitated the switch to another mode of operation. Their own, now publicly traded, shares and future options could be used as valuable incentives for aligning the interests of the company's employees and management with those of the blockholders (Chaddad, Cook: 2004).

This trend from mutual ownership to stock-owned was indeed noticeable amongst the largest insurers globally from 6 mutually owned of a total of 10 in 1997 to 3 out of 10 in 2012. AEGON demutualized at an earlier stage to a stock-owned corporation.

Figure 2.4 – Demutualization chart
Source: Swiss Re, Sigma report No 4/1999, additional 2012 data derived from company's websites

Rank	Insurer	Country	Forms of Ownership (< 1997)	Forms of ownership (2012)
1	AXA	France	stock-owned	stock-owned
2	Nippon Life	Japan	mutual	mutual
3	Allianz	Germany	stock-owned	stock-owned
4	Prudential Insurance Company	USA	mutual	stock-owned (demutualized in 2001)
5	Zenkyoren	Japan	mutual	mutual
6	Dai-Ichi	Japan	mutual	stock-owned (demutualized in 2010)
7	Metlife (Metropolitan Life)	USa	mutual	stock-owned (demutualized in 2001)
8	AIG	USA	stock-owned	stock-owned
9	Sumitomo	Japan	mutual	mutual
10	Prudential	UK	stock-owned	stock-owned
#	AEGON	Netherlands	mutual	stock-owned (demutualized in 1983)

In reaction to these rapid changes in competition - after a long period of tranquillity and equilibrium - the insurance industry started to consolidate. Increasing numbers of insurers were merging with other insurers, both on a national and international level. In 1998 "*eight insurance-related merger and acquisition deals with a record transaction value exceeding $5 billion*"[13] were concluded. Companies such as AEGON, AXA, Citigroup and ING developed into large, diversified, financial firms. The industry needed to develop a strategy to defend their position and to remain competitive.

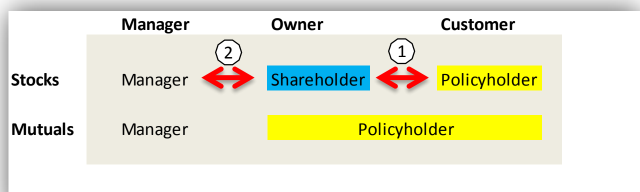
As the mentioned record transaction amount of might already have indicated, the percentage of acquisition that was funded entirely with own cash had fallen sharply from 70% in 1993 to under 40% in 1998[14]. The high valuation of company shares, made it almost effortless for stock-owned insurers to make an acquisition by using their company shares as the acquisition currency.

Changes in competition and consolidation of the business environment were the driving forces behind the wave of demutualization of the insurance industry. This conversion portrays the change in ownership structure of user-owned and controlled organizations such as mutually owned insurance companies to a for-profit, proprietary organization such as stock-owned insurance companies (Chaddad & Cook: 2004).

According to Chaddad provides the 'agency theory' the theoretical underpinning for the wave of demutualization. Through their extensive research of several empirical studies, they found that the choice of organizational form and ownership is driven by efficiency. If a company adopts a less than optimal organizational structure, it will not be able to compete against more efficient forms of organization (Chaddad & Cook: 2004).

Economists like Adam Smith have considered production costs – the costs of goods, labour and so forth – as leading. However, agency costs are an additional layer of expenses that arise from incentive conflicts within organizations. Large insurance companies have several groups of stakeholders – including customers, managers, and employees – whose interests often conflict. Agency costs are defined as the cost of reducing these conflicts. A continuous increase of these costs will precipitate the shift towards another organizational structure.

Insurance companies are especially prone to two types of conflict;
1. between customers and owners
2. between owners and management



Source: based on figure 2 in Sigma No.4, 1999, p.8

Figure 2.5 – Conflict types

[13] Conning & Company, *"Mergers & Acquisitions and Public Equity offerings"*, 1999, p.22
[14] Fox-Pitt, Kelton, *"Corporate Finance Outlook: Mutual Insurance Companies"*, October 1998, p.3

The first conflict type is between the policyholder (customers) and shareholder (owner). Management executives of a stock-owned insurer have some freedom in changing their dividend, financing and investment policies in ways that benefit shareholders at the expense of policyholders. If, for example, the company pays a generous common share dividend to shareholders, policyholders could be faced with an increased risk that the insurer will later prove unable to meet its obligations to them. The contingent claim would then prove not be backed. Moody's states that mutual insurers which change their organizational form to stock-owned are likely to become more focused on increasing their return on equity and improving shareholder returns, and that this focus will often cause a reduction of the insurer's creditworthiness[15].

This insight is supported from a rather unexpected side. In his recent book *Marketing 3.0* Philip Kotler takes a firm position and strongly opposes to the influence of short-term focused shareholders. He refers to a research of Alfred Rappaport who concluded that most stock-owned companies are striving to meet the shareholders' expectations to such an extent it severely impacts the company's long term investments and perspective. Kotler applauds to an initiative of Paul Myners – former British Financial Services Secretary – which would have long-term shareholders have a more prominent voice in defining the company's strategy compared to short-term shareholders (Kotler, 2009:106).

With mutually owned insurers the functions of customer and owner are merged into one, the policyholder, with no conflicting interests.

The second conflict type is between the shareholder (owner) and the executive management (BoD). The separation of ownership and control raises concerns about the extent to which management might pursue its own interests at the expense of the owners of the company. The ownership of an insurance company can mitigate or aggravate the owner-management conflict. The management board of stock-owned insurers are subject to the shareholder's pressure to create an increase in the share prices. In contrast, the management board of a mutually owned insurer face no corporate control by shareholders. In fact, most policyholders lack financial knowledge to assess the financial endeavours of their mutual.

The general expectation is that the 'profit motive' induces stock-owned insurers to keep their cost low. Under the pressure of the competition, any cost advantage will be passed on to the customer and shareholder. Less assumed efficiency with mutually owned insurers would lead to customers paying more for the insurance product than with a stock-owned company (Zweifel & Eisen 2012:340).

Consolidation in the insurance industry was not limited to mergers between insurers. Bancassurance[16], a package of financial services that encompasses commercial banking and insurance activities, had been growing rapidly since the 1980's in especially Europe. During that time interest margins on loans decreased and as a result banks started to explore new sources of revenues. Large European banks, i.e. Dresden Bank, Fortis and ING, had incorporated insurance activities in their business model. Until the repeal of the Glass-Steagall Act in 1999 (see section on Regulations), boundaries which were separating institutions with depository functions, institutions that underwrite risk, and securities businesses were still enacted in the United States. Financial conglomeration such as bancassurance only then became a growing phenomenon.

The distribution of insurance products through the bank distribution channel brought diversification advantages by generating non-interest related income. Both insurers and banks function as financial intermediaries and these pooled premiums and savings were channelled to the investments markets. In addition to insurance product diversification, this convergence has contributed to the increased use of capital markets by insurers.

2.5 Changing scope of Risk management

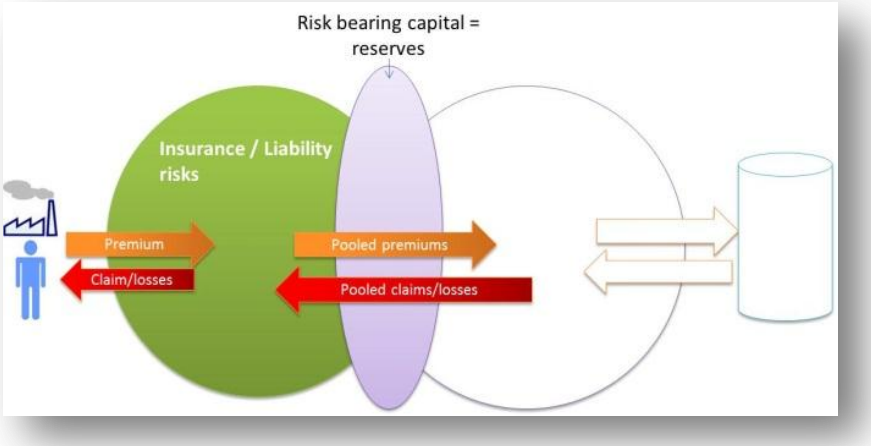
The field of risk management has currently undergone a monumental change. Traditionally risk management was limited in scope to mitigate the exposure to possible losses to keep the premium revenues in line with the claim payments. However, an interesting trend emerged in the 1990's as many insurance companies began to expand their scope of risk management to include their speculative financial risks, which they encountered in the financial markets, as well (Rejda: 62).

[15] Moody's investors Service, May 1998.
[16] Jongeneel, O.C.W., *Bancassurance: stale of staunch?,* (2011) Master thesis, Erasmus University, p.1

Underwriting Risk

As stated, the insurance industry is traditionally a risk transfer mechanism to compensate for financial losses and spread the risk over the policy holders. Insurers carry out loss prevention and loss mitigation actions in conducting their business and are incorporating this risk management as an essential element of their business model. Hence, insurers are risk carriers. In order to financially take on this task, the insurance company's capital needs to hold a buffer against unexpected claims or losses. This buffer – referred to as risk bearing capital - is necessary if the insurer is to fulfil the legitimate claims of policyholders. As stipulated in the introduction, this principle is the primary function and lies at the core of the insurance industry.

Figure 2.6 - Risk management – Underwriting



Within the non-life insurance product range (property and liability insurance) this risk bearing capital is generally subject to market conditions. If the market is 'soft', insurance products can be purchased at favourable conditions (i.e. lower premiums, more coverage). The competitive nature of the insurance industry has a synergetic effect in a 'soft' market and stimulates a further reduction of premiums and underwriting standards are usually less stringently applied. If the market is 'hard', more precaution is taken and the insurance coverage is limited in availability or may not even be affordable by the consumers (Rejda: 68).

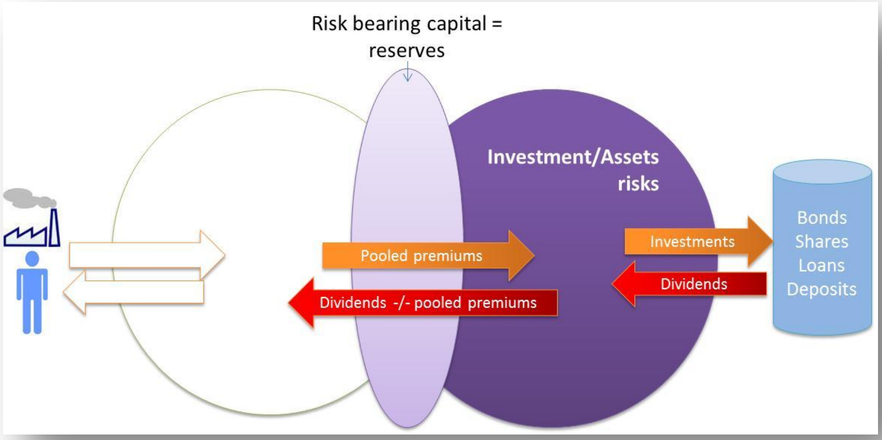
The continued soft market of the late 1990's tempted insurers to sell multiple-year insurance contract in an effort to lock in favourable conditions for both policyholder and insurer. Unfortunately the changing economic climate led to an increase in claims, but the multi-year contract period prohibits the insurer from increasing the premiums. Another aspect was the rise of claims against existing premium levels due to insufficient risk monitoring. As a result the combined ratio (generally used KPI for non-life insurers) is greater than 1. This means that the ratio of paid losses and underwriting expenses is higher than the premium revenues (Rejda: 69). This situation is still very present today. In the Netherlands the Dutch organization which represents the insurance industry - Verbond van Verzekeraars only recently published the August 2012 Key results and concluded that 1 eurocent loss was made compared to 1 euro premium[17].

Financial Risk Management

Insurers underwrite risks for which they assess premium rates that should reflect risk experience and exposure. These premiums are pooled and become part of a fund of financial assets, which insurers invest to generate additional income to enhance their ability to meet their obligations to policyholders (i.e. insurance claims). In conclusion, insurers are not only risk managers and risk carriers, but institutional investors as well.

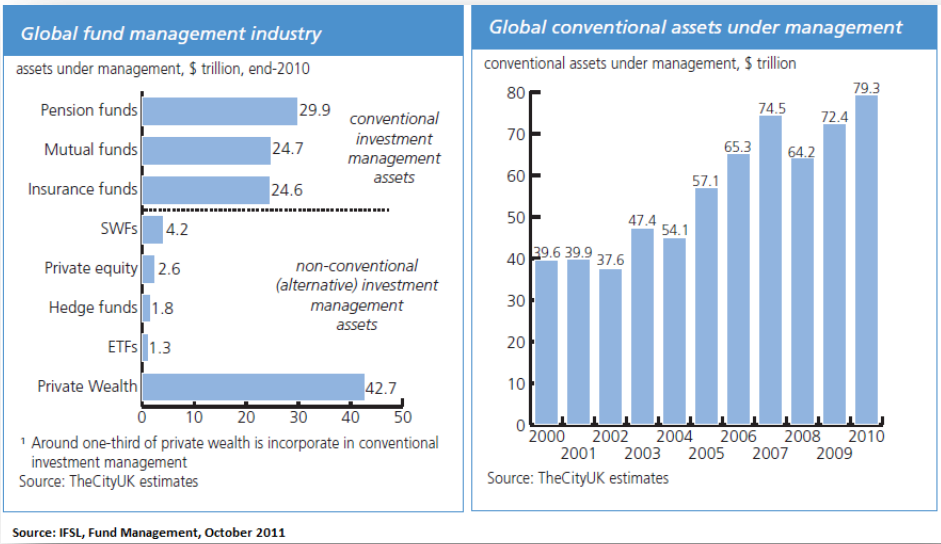
[17] *Key Facts Insurance in the Netherlands*, August 2012, Verbond van Verzekeraars

Figure 2.7 - Risk management – Investments



According to the International Financial Services London (IFSL) over 24% of the global assets in 2010 were managed by insurance funds. The institutional investor role of insurers has become of significant importance to insurance operations. The market for conventional managed assets – which are pension funds, mutual funds and insurance companies - has doubled from 2000 up to 2010 (see figure2.8). Insurers generate revenues from both sides of the company, underwriting income (premiums -/- claims and other costs) on the insurance side, and investment income on the other side.

Figure 2.8 – Overview global fund management industry



The investment market with its shares, bonds and obligations can be characterised as volatile. By shifting the weight of the insurance activities to investment management, policy holders are now more exposed to the threat of the insurer not being able to meet its obligations in the case of insolvency, due to a lack of risk bearing capital. While the asset management part of the insurance company and its shareholders on their part are exposed to the risk of not receiving the expected return on their investments. Policyholders and investors have different ideas of what constitutes risk. However, by diversifying the portfolio of investments, company-specific risks could be minimized by the investor or shareholder. In contrast, the policyholder usually cannot diversify away company-specific risks.

Enterprise Risk Management (ERM)

Having discussed the changes in ownership and diversification of the insurance product portfolio, the contrast between the Arrow and Debreu's framework and the reality of financial intermediation has become even more apparent in the area of risk management. In the past decade the most important change in intermediaries' activities is the growth of the importance of risk management activities. Risk management has now become a prominent activity of the industry and insurers gradually seem to start to adopt enterprise risk management. The lessons learnt by risk managers resulted in packaging all risks in a single and more holistic management approach. That implies that newly developed risks, as a result of the earlier addressed technology transformation such as cybercrime and reputational damage through social media should be incorporated as well.

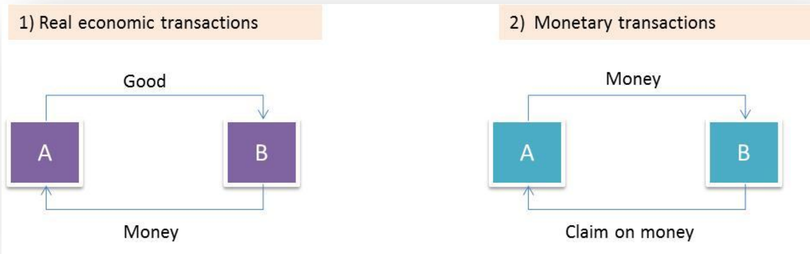
The challenge for the insurance industry is embedding risk management as a holistic concept in their mode of operation in order to guarantee all stakeholders' interests. A 2011 research amongst risk managers by the Risk and Insurance Management Society (RIMS) found that 17% had fully implemented ERM and 37% partially[18], compared to respectively 7% and 40% in 2007 this does not appear a swift adoption.

2.6 Increased Governance and leadership

It is fair to say that insurance industry has not been immune to the current recession. In 2008 AEGON and ING received a respectively EUR 3 and 10 billion bailout from the Dutch government[19]. On a bigger scale made the $182 billion bailout of insurance giant AIG by the American government the headlines[20]. All was blamed on excessively risk taking. In the current aftermath of crisis, regulators, investors, shareholders and policyholders all alike have reason to question the effectiveness of the existing corporate governance system overseeing the insurance companies and their risk taking profile.

Money is the linking pin between the markets of real goods and services, on the one hand, and the purely financial market, on the other. The crucial difference between the two types of transactions is the fiduciary element. Trust is far more important in monetary transactions, thus in the insurance industry, than in real economic transactions.

Figure 2.9 - Difference between monetary and real transactions
Source: Soppe 2009:10



In monetary transactions, both parties in the transaction are confronted with claims that cannot be consumed immediately, the contingent claim. The possession of money is a claim in itself, and the other part of the monetary transaction is future claim on money. This specific time lag between the money and the claim of money – referred to as 'asymmetry of time' in financial intermediation theory - makes financial transactions more vulnerable for moral hazard. Without trust, the financial industry cannot perform at all (Soppe 2009:10).

As concluded in the previous section, risk management is crucial in the insurance industry as well. A policyholder is exposed to the threat of the insurer's insolvency and shareholders of not receiving the expected return on their investments. If doing business with others, a mutual basis of trust needs to present. Hence, corporate governance has become increasingly important. Corporate governance is generally defined as "*a set of mechanisms that are put in place to oversee the way companies are managed and the long-term shareholder value is enhanced*" (Boubakri: 2011). In order to limit the self-service behaviour of management executives, the company's owners need to put these governance mechanisms in place.

Boubakri acknowledges two main categories, those internal and external of the insurance company.
All references in Boubakri's research article to the underlying studies are mentioned, but have not been separately researched for this thesis.

[18] http://www.rims.org/Sales/Documents/RIMS%202011%20ERM%20Benchmark%20Survey%20final.pdf
[19] http://www.rijksoverheid.nl/onderwerpen/kredietcrisis/financiele-sector-en-overheidsingrijpen-nederland/kapitaalinjecties
[20] http://www.nytimes.com/2008/09/17/business/17insure.html?pagewanted=all&_r=0

Internal mechanisms:

- *Board of Directors (BOD)*
  Outside directors appointed on the BODs are shown to be of a particular importance in effectively monitoring management (Linck, Netter & Yang: 2008)
- *Duality*
  Dual CEOs (chairing the BOD) exhibit high risk taking behaviour (Adams et al: 2005) and are positively related to mergers and acquisitions in the insurance industry (Boubakri, Dionne & Triki: 2008). Studies overall show that CEO duality is costly to shareholders and worsens the agency conflicts. Independence of the BODs contributes to closer monitoring of managerial behaviour.
- *Managerial compensation*
  Insurance companies with a CEO (stock-owned) exhibit more favourable performance changes (measured by revenues and cost efficiency) than mutually owned. The performance-based compensation aligns the interest of the shareholder and the BOD (Mayers & Smith: 2010).
  Within mutually owned insurers, managers are less effectively monitored (McNamara&Rhee: 1992).
- *Large shareholders & blockholders*
  According to Cheng, Elyasiani and Jia (2011) a majority of the insurers´ shares are held by institutional investors (59% in 2007). These so called 'blockholders' contribute to reduce the risks, both on the underwriting and investment side, which is given their expertise and their long-term profile understandable.

External mechanisms:

- *Takeover market*
  Existing studies on US and UK markets show that an active an hostile takeover market is indeed efficient as a watchdog (Denis & McDonell, 2005)
- *Financial analysts*
  The higher the number of analysts that follow the firm, the lower is the error dispersion in their earnings' forecast, and the higher the pressure on the BOD, which ultimately leads to higher value and lower cost of capital (Piotroski & Roulstone:2004)

The question arises whether the installation of the above mentioned governance mechanisms will indeed lead to a more transparent and trustworthy insurance industry. For sure managerial compensation does align the interest of the shareholders and the BOD, obviously the Board of Directors is appointed by the shareholders. But alignment of shareholder and BOD, does not necessarily mean that the policyholder's interests are represented equally.

2.7 Remuneration culture

One of the major and most sensitive issues in the current debate on how to restore financial stability is the design of remuneration schemes (or 'incentive systems') in the financial sector. Excessive risk-taking by banks was one of the underlying causes of the credit crisis, and it appears that remuneration schemes for key staff members (i.e., CEOs, senior management, traders) may have encouraged such risk-taking.

The competitive business climate in the insurance industry has changed over the past decades. Since it is a services industry, key staff members seem vital for corporate success. It appeared only natural that these members were able to receive proper incentives to perform in goal-oriented manners. Incentive systems, especially CEO remunerations, have been a popular topic since the 1990s, and this tendency increased until its climax during the financial crisis, which sparked in 2007.

The recent economic downturn and public debate on the societal responsibility of the finance and insurance industry, increasingly forced these companies – especially banks - to cutting their executive bonuses in order to tone down the criticism and suspiciousness towards large bonus payments. While the banking industry have been thoroughly scrutinised, the insurance industry appeared slightly untouched.

However, the basic concern remains that incentive systems might lead to biased decisions towards activities which are only yielding short-term profits and shield decision-makers from the possible downsides of risk-taking. With the extensive use of incentive schemes within financial institutions, the problems have gone beyond CEO level and it has affected many divisions including the dealing room (asset/investment management activities of an insurer) and the marketing and sales departments in which products are invented and sold.

The important role of remuneration schemes and its effects on the economic crisis makes the public demand and need for change now widely recognized. One of the recommendations made by policy-makers at the end of 2008 was for regulators and supervisors to work with market participants to design compensation schemes that avoid rewards for excessive risk-taking (Palmén & Suleyman: 2010).

2.8 Regulations

According to Zweifel and Eisen, "*it is certainly true that banks have been using securization for transferring liabilities to capital markets and that insurers have been catching up with them through their increased use of alternative risk transfer*" (Zweifel & Eisen: 343). Having said that, both banks and insurers are exposed to risks associated with these capital market products, which would all direct in favour of an integrated supervision of bank and insurers. The global character of capital market would assume a global regulatory authority, which has not been established to date. However, even if an authority was in place, a complicating factor would be the influencing regulations on the insurance practice on a national level.

In the aftermath of 2008 many local governments and regional unions have acknowledged the importance of a healthy and sound insurance industry. New regulations with regards to the corporate government were made mandatory for stock-owned insurance companies.

There a three types of regulations to be identified:

- Financial regulation
- Market-entry regulation
- Consumer-protection regulation

Financial regulation

By far the most influencing regulations have been introduced this last decade on the dimension of the insurer's finances, with the aim to secure the interests of the shareholder and policyholders through monitoring the financial position of insurers more closely by enforcing transparency.

Sarbanes-Oxley Act (SOX)

The Sarbanes-Oxley Act of 2002, or SOX, passed in response to corporate financial scandals such as Enron, requires stock-owned companies to report on their internal financial controls and to have those controls audited by outside auditors. The Act covers a very broad variety of issues.

At the heart of Sarbanes-Oxley is the requirement that CEOs, CFOs and auditors must attest to the effectiveness of internal controls for financial reporting along with an assessment of those procedures. Its intentions are to improve corporate responsibility, increase public disclosure, improve the quality and transparency of financial reporting and auditing, and strengthen penalties for securities fraud and other violations.

The law affects all stock-owned companies in the United States, but is imposed on foreign issuers as well and enhancing the responsibilities of issuers and their top management. The European Commission's concern is that if its issuers and auditing firms are already subject to robust measures in their home markets, double regulation will impose unnecessary burdens and costs. Petitions by i.e. Allianz AG - which opposed against the inclusion of non-American companies in the Sarbanes-Oxley Act - were rejected by the American government (Cardilli: 793)

New incentives for companies to spend money on internal controls, above and beyond the increases in audit costs, would have occurred after the corporate scandals of the early 2000s. In exchange for these higher costs, Sarbanes-Oxley promises a variety of long-term benefits. Investors will face a lower risk of losses from fraud and theft, and benefit from more reliable financial reporting, greater transparency, and accountability. Public companies will pay a lower cost of capital, and the economy will benefit because of a better allocation of resources and faster growth.

Solvency II

In Europe, the EC has set up a new framework for the supervision of the insurance sector titled Solvency II and is the successor of Solvency I (BCG, 2009[21]). Solvency II bases supervision more on the concept of aligning the required solvency buffers with the actual 'exposure to risks. It aims to achieve more security and guarantee for the shareholder.

[21]Blom, F., Keunen, J.W., *Bouwen aan een meer crisisbestending verzekeringssector in Nederland*, Boston Consulting Group (BCG), 2009, p.10

The Solvency II regulations cover three important areas:

1) *Quantitative requirements*
    a. Minimal Capital Requirements (MCR)
    b. Solvency Capital Requirement (SCR)

    Both stipulate that an insurance company is obliged to monitor and sufficiently cover and capitalize its market risks (decrease of assets value), credit risk (outstanding debts which cannot be claimed) and operational risks (fraud, system malfunctions etc.).

2) *Qualitative requirements*
    a. Own Risk and Solvency Assessment (ORSA)
    b. Supervisory Review Process (SRP) Both Riskmanagement modelling

3) *Transparency*

    It requires the insurance industry to become more transparent by sharing and publish more information through which the market and its risks could become more understandable and competition between insurers will increase.

Solvency II also entails the consolidation of the supervision of groups operating in more than one country. In addition, it is also desirable for Central Banks to increase the depth and frequency of its reports. Furthermore, the sector would also have to determine whether it is possible to gather more or better management information from the members of the Association on, for example, investments.

IFRS

The International Financial Reporting Standards (IFRS) were compiled by the International Accounting Standards Boards and form a set of rules that ideally would apply equally to financial reporting by public companies worldwide The primary users of financial reporting – such as potential investors, lenders and other creditors – will use this information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit. So the goal of these standards was to create more uniformity, transparency and harmonisation in financial reporting worldwide. Being a union which was established to create a European level playing field for competitors, the EU adopted the regulation that as from 1 January 2005[22] all stock-registered companies within the EU were obliged to financially report according to the IFR Standards.

This implied for insurers that they were considered to publish the valuation of their obligations (insurance contracts) and the valuation of their possessions (assets) at 'fair value'[23], which means at market value, whereas in the past the valuation was based on the purchasing price. To avoid market volatility from impacting their company value, insurance companies started to hedge their possessions in the financial market to stabilize their risks and own market share value. In general the IFRS aim to portray an honest view of the balance sheet. However, if all market values decline – as happened after the 2008 crisis – it will have a direct effect on the assets and solvency of the insurer. This decline endangers the minimally required solvency level and forced the insurers to sell more possessions (shares, bonds and properties) in order to improve their risk profile[24]. However more supply on the market leads and a declining demand, has a negative effect on the market in general and could possibly create a downwards spiral on which the IFRS might have reinforcing effect.

In the meantime many other countries have adopted IFRS (in 2005 and 2006: Australia, South Africa, and Turkey and in 2011: Canada[25]) or are slated to adopt them later (Japan, India, Taiwan, the United States).

Gramm-Leach-Bliley Act

The Glass-Steagall Act was passed in 1933 in response to the failure of the banks following the Great Depression. One out of every five banks failed in the aftermath of the stock market crash. Legislators and regulators questioned the role the underwriting of securities played in the financial collapse. Many believed these investment banking activities caused a conflict of interest in that banks often suggested that their customers purchase securities the banks had underwritten, which was not always the case. They believed that this conflict

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[22] http://nl.wikipedia.org/wiki/International_Financial_Reporting_Standards

[23] Ball, R*., International Financial Reporting Standards (IFRS): pros and cons for investors, Accounting and Business Research*, International Accounting Policy Forum (2006), p.12

[24] Blom, F., Keunen, J.W., *Bouwen aan een meer crisisbestending verzekeringssector in Nederland*, Boston Consulting Group (BCG), 2009, p.17

[25] http://www.pwc.com/us/en/issues/ifrs-reporting/country-adoption/index.jhtml

of interest contributed significantly to the stock market crash and the bank failures. The Glass-Steagall Act forced banks to choose between being a commercial or an investment bank, in effect constructing a wall between traditional commercial banking and investing banking activities.

But why is the Gramm-Leach-Bliley Act of importance to the insurance industry? In 1999 the elimination of Glass-Steagall by the Gramm-Leach-Bliley Act then allowed commercial banks to encroach on the investment banks and other traditional activities. Forcing commercial banks to compete for deposits on price in turn left them no choice but to pursue these new lines of business including bancassurance, which as explained implies selling insurances on behalf of the insurer.

Opponents claimed that the repeal of Glass-Steagall would enable the creation of financial conglomerates which would be too big to fail (Crawford: 2011). Furthermore, they believed that the regulatory structure would not be able to monitor the activities of these financial conglomerates due its increasing intransparency. Eventually they would fail due to engaging in excessively risky financial transactions. Ultimately, taxpayers would be forced to bail out these too-big-to-fail financial institutions. In hindsight that appeared to be an ingenuous observation.

Financial regulations and accountability are directly related to creating transparency. However, creating transparency might have a trade-off in actually creating risks. The luring pressure and threat of litigation might negatively impact the CSR transparency on certain characteristics (Van Tulder: 223).

Market-entry regulation

Insurers are currently looking for new markets. Market leaders in the life and non-life industry, such as Aviva, Liberty Mutual and AEGON are investing in new ventures in emerging markets in Asia and South-America. The quest for new markets is sometimes hindered by entrance barriers. Local and/or national regulations range from "imposed caps on foreign direct investments, set tariffs and conditions, restrictions on investments to low-return state and central governmental bonds"[26]. In addition more operational obstacles do impact the progress of the global expansion strategy. When attempting to enter the Indian market, foreign insurers are forced to enter into joint-ventures with local companies. Their direct investment should not exceed 26% of the share capital, and leaving the ownership to the Indian based insurer. The Chinese market shows similar regulations.

Consumer protection regulation

The World Bank estimates that each year 150 million consumers of financial services will be added to the global economy. The majority are in emerging markets where consumer protection and financial literacy are still in their infancy. But as seen recently in Western well-developed markets, consumers are just as well vulnerable to weak customer protection and often lack the necessary financial literacy too which led to arbitrary practices, especially with investment-linked insurance products[27] and non-disclosure of costs. At its heart, the need for consumer protection arises from the earlier discussed financial intermediation theory. The imbalance of power and asymmetry of information between the customer and the insurer do emphasize the market imperfection. As stipulated in the previous section on Governance, insurance is an industry where incentives and remuneration can be the main drivers of what products are sold.

The demand for a principles-based Code of Conduct for insurers is rising. Media and consumer associations increasingly play an important role in enforcing consumer financial protection in most industrial countries. Few countries have already established codes which encompass provisions that insurers do have to cooperate with consumer protection association before launching new insurance products. Yet, in European legislation codes are absent and the financial institutions can be held responsible directly by the customer.

[26] Jahn, Hendrik J., Gazendam, A, Schlieker, A., *The high-performance insurer of the future*, 2011, Accenture, p.22
[27] http://www.amweb.nl/nieuws/nederland/winst-aegon-gehalveerd-door-compensatie.191962.lynkx

Figure 2.10 – Overview use of Code of Conducts
Source: World Bank, 2009[28]

Country	Code of Conduct
Australia	General insurance Broker´s Code of Practice, General Insurance Code of Practice, Financial Planners´ Code of Ethics and Rules of Professional Conduct
India	Code of Best Practice for Indian Life Insurers - Life Insurance Council of India
Malaysia	Life Insurance Association of Malaysia Code of Ethics and Conduct (approved by Bank Nagara)
Russia	Russian Association of Motor Insurers - various codes including developing a register of insurance agents and insurance brokers against whom complaints have been made; rules of professional conduct entitled "Improving the level of service in the MTPL market'; rules covering the review of claims made by victims and the payment of compensation
South Africa	Life Offices Association Code - 24 Chapters covering a range of products and activities
UK	ABI Codes including - Statement of long-term insurance practice, Mortgage endowment Policy reviews; Statement of Best Practice for Critical Insurance Cover, with Profit Bonds etc.

An increasing pressure from the public opinion and the absence of general guidelines for Code of Conduct or legislation challenges the ability of self-reflection for the insurance industry. Creating transparency by providing full, plain and adequate information on prices and terms and conditions from an intrinsic motive in a strongly competitive market, might impact the market position and opportunities for insurers.

2.9 Changing face of competition and distribution

According to Zweifel & Eisen, the distribution systems of the insurance industry provide a case study in itself of vertical integration. At one end of the spectrum, direct writers and sellers representing full vertical integration, at the other end, brokers and bancassurance with little to no integration at all.

Figure 2.11 - Trend distribution channels
Source: based on Zweifel & Eisen, Insurance Economics (2012)

Zweifel and Eisen have identified 5 distribution methods (2012:170-171):

- Direct writers
  Insurance companies globally used to have sales offices with employed sales personnel, but due to the substantial costs involved and little premium volume generated, this distribution channel has lost its importance.
- Direct selling
  The activities comprise the expansion of the direct writing activities on the internet.
- Exclusive agents
  This distribution method is more prevalent in the United States than Europe, where sales agents have an exclusive dealership with the insurance company.
- Bancassurance
  Insurance companies are using the distribution network of other firms – amongst which are banks. This variant is little known in the United States (see: Regulations), but increasingly popular in Europe. From the 1990's in France, more than half of the life insurances were sold through banks.

[28] Lester, R., *Consumer Protection Insurance*, World Bank Primer Series On Insurance, Issue 7, August 2009 p.8

- Independent agents / brokers

  For insurance companies this is an easy access to the local market at little costs. However, the fear of being disadvantaged in terms of risk selection which may be performed by a broker in such a way to subtly benefit some insurance companies.

Figure 2.12 - Expenses relative to premium

Expenses relative to premiums written by 46 Insurance companies, United States (1978-1990)

Total expenses relative to	Independent agents	Mixed distribution	Exclusive agents	Direct selling	Average
- net premiums (a)	39,6%	37,5%	29,5%	26,3%	36,4%
- premiums earned	35,7%	34,8%	29,5%	25,6%	33,9%

Source: Zweifel & Eisen (2012:173)

Insurance products are sold and distributed in many ways, each with its advantages and costs to the insurer and customer. But research amongst American insurers showed that the expenses required for the distribution method are considerably higher (+10%) with independent agents than distributing through direct selling channels. This will both generate lower premiums for the customer and possibly increased profitability for the insurer. The challenge of using internet as a distribution partner and to its full extent is imminent.

The trend towards more direct-selling distribution methods is quite likely to be subject to several changes of competition of the global insurance market. Brokers were among the most significant sales channels in mature markets. However, in the UK only brokers have lost most of their foothold to direct channels. In the German life insurance market their market share stagnated at 32% since 2005[29]. It is assumed that this trend will continue, but agents will remain to play a part in the insurance market. One of these direct channels is the aggregator. Acting as price comparison platforms and online intermediaries, aggregators have changed the distribution of insurances revolutionary globally (i.e. www.confused.com (UK), www.independer.nl (Netherlands), www.niceprice.com.au (Australia) , www.policybazaar.com (India)). The competition has become fierce as these online intermediaries not only compare prices amongst existing insurers but facilitate the entry of new market players as well. As a result the latter group will not have to invest in sales power to gain market share. So in order to stay successful, the traditional insurers need to differentiate through excellence in servicing which put a strain on their current operational processes (see 2.1).

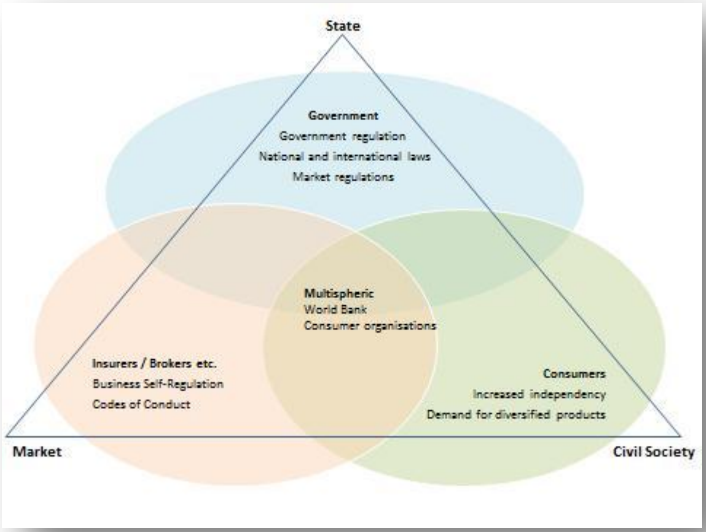
As we have seen, accessing new emerging markets is usually subject to entry-regulations. Gradually joint ventures and partnering models have been changing the competitive landscape of the insurance industry. Insurers are working together with non-traditional players or companies from another industry sector. According to Accenture, "*40% of almost 400 joint ventures in the insurance industry since 200 were established in the Far East and Central Asian region, with about 30% in Western Europe*"[30]. With the aim of establishing a sustainable market position, insurers are challenged to consider sharing ownership in a competitive market.

[29] Jahn, Hendrik J., Gazendam, A, Schlieker, A., *The high-performance insurer of the future*, 2011, Accenture, p.26
[30] Jahn, Hendrik J., Gazendam, A, Schlieker, A., *The high-performance insurer of the future*, 2011, Accenture, p.27

2.10 Conclusion

With its information asymmetry, agency-principle, moral hazard and regulatory voids, the insurance industry emBoDies many characteristics that define the “bargaining society” (Van Tulder: 94). The competitive insurance market, (non)interfering governments and customers are increasingly moving into each other’s territory and attempting to bargain the ‘best deal’ in their own interest.

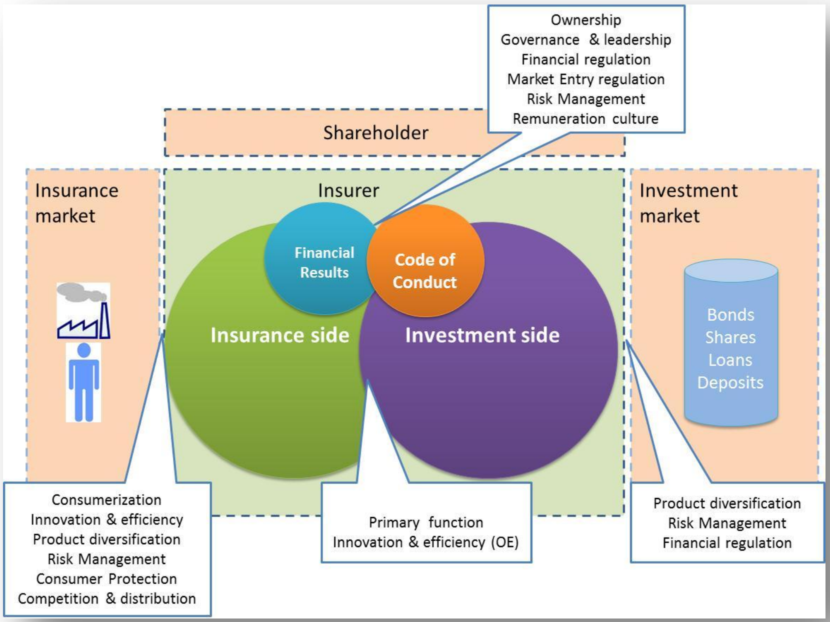
Figure 2.13 - Societal *Interfaces Insurance Industry*
Source: based on Societal Triangle (Van Tulder 2008:8)



As can be concluded from the previous sections, in the bargaining environment of the insurance industry there are no single decision-making authorities. So the way international insurers manage their various interfaces with the consumers (civil society) and governments (states) requires “*the mastering of a complex game with a large number of stakeholders engaged in an increasing number of clashes that leave ample room for regulatory voids and conflicts. It appears that it is not that simple to make declarations about the best social arrangements without running the risk of being exposed or labelled as ideologue. Best practices are difficult to identify if one has a sustainable economy in mind*” (Van Tulder: 104).

The initial micro-economic model for the insurance company – as introduced at the beginning of this chapter - offers a clear basis to show and emphasize these so-called ‘clashes’ between the different societal interfaces.

Figure 2.14 Challenges in the micro –economic environment of the insurer



Although the clashes between the insurance market – in fact the policyholders – and the shareholders on the one hand and the insurance company on the other have been described in much more detail in this chapter, it is good to conclude by summarizing these challenges.

Within the insurance market the insurers are faced with increasing influence of customers that require simple and clear insurance products with a (long) lasting value and - if dependent on assets performance with guarantee - and offered through channels they prefer at a competitive price, without losing sight of the newly occurring risks that might be involved. If the responsiveness to the changing market is not intrinsic, than the legislation with regards to customer protection is increasing rapidly and forcing insurers to move towards these customer requirements. Another challenge is the changing competitive landscape with new entrants and new distribution channels. To be able to respond to these challenges, insurers are faced with the investments into innovation in order to become more efficient and setting up new distribution channels.

The insurance company in itself is in the aftermath of the economic downturn challenged with the question of their own reason of being. The primary function of the core activity has gained renewed interest. Operating at an excellent level to fulfil the customer's requirements demands efficiency and innovation. Executive management is faced with increased financial regulations, governance which monitors their financial reporting and performance, but also limits the remuneration schemes. Without a doubt this will impact the risk-taking attitude of the BoD or CEOs to a more modest level and protect the policyholder's and long-term shareholder's interests. The challenge for the executives lies in balancing the interests of all stakeholders and convincing them of this new sustainable approach, instead of shareholder value and their own remuneration only.

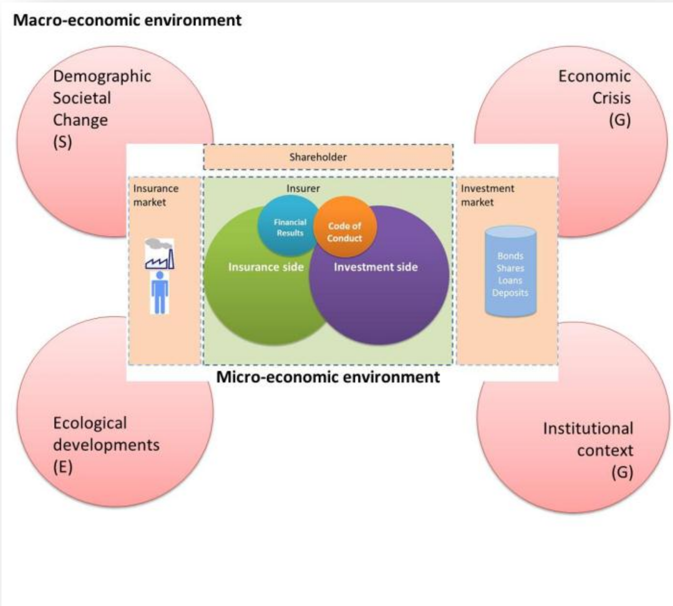
With regards to investment management, financial regulations already prevent insurers from unacceptable risk-taking endeavours. The challenge is to invest the pooled premiums of shareholders in responsible funds and wit guarantees. Not striving for highest dividend, but for long term and stable financial results.

In conclusion, insurers have increasingly various interests to address and relationships to support. Thus, the bargaining game increases.

3. Sustainability challenges

Now that we had a look at the insurance industry's challenges and trade-offs, this chapter will discuss the sustainability challenges in the macro-economic environment (industry and/ global level), give an overview of the definition on sustainability and sustainable insurance particular and will give an insight into the various sustainability initiatives.

Figure 3.1 – Macro-economic Sustainability challenges



3.1 Sustainability challenges in the macro-economic environment

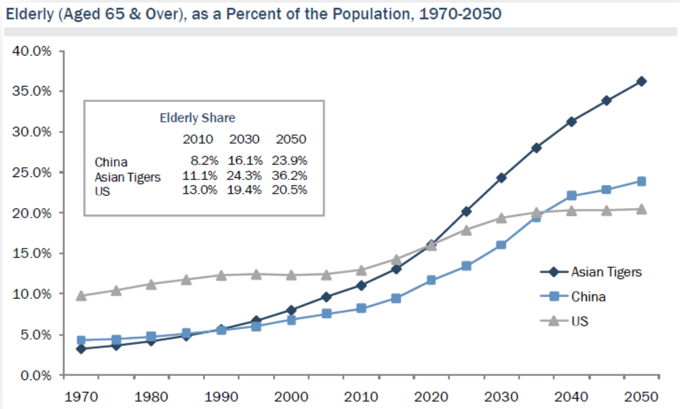
In this and the following sections, the various contextual elements which have impacted the insurance industry are described in more detail.

Socio-demographic change

The world is growing older. This trend is particularly noticeable in the so-called advanced economies. The United Nations estimates that the average age will rise from 39,7 today to 45,6 by 2050[31]. Not only will the population get older, but new consumption and spending patterns in insurances will go with these changes. Although the medical facilities and living conditions have improved over the last decades, aging in a healthy way remains a challenge. Aging population means actually an increase in longevity. In West-European societies the number of people aged 85 and above will presumably double over the next 20 years. Thus, the demand for residential and medical care will increase. This trend is accompanied by other socio-demographic developments. A majority of women is increasingly less active in the care industry and the number of single households is rising. In order to service this growing aging segment of society and decreasing informal care and social network, insurers are challenged to change and create existing and new insurance product propositions. Life insurers should adjust their premium and reimbursement calculations, simply because people live longer. And non-life (including health insurance) insurers are expected to reconsider their risk coverage and include opportunities to hire extra individual care.

[31] Jahn, Hendrik J., Gazendam, A, Schlieker, A., *The high-performance insurer of the future*, 2011, Accenture, p.9

Figure 3.2 – Elderly (aged 65+) as % of population
Source: *World Population Prospects* (UN, 2009)



Major demographic changes can also be observed in emerging markets. Not only the growth in population but also the increasing urbanization has become a social and economic issue in these countries. According to the United Nations (UN) 2010 report on World Population Prospects, the total urban population will be more than double between now and 2050, from almost 7 billion in 2010 to 9,3 billion[32]. Naturally this will put a strain on infrastructure and housing, which both need to be insured. That rapid growth is partly created by economic prosperity. In the cities a new growing middle class will emerge and the demand for health, car and property insurance products is quite likely to rise.

But what makes the upcoming middle class in emerging markets quite distinct, is their relatively low average income and financial illiteracy, which results in lower volumes compared to advanced markets.

Figure 3.3 – Projected growth of insurance (Life & Non-life)

Projected growth of insurance	2009-2015 (based on USD)
Total business	
World	3.9%
Industrialized countries	2.2%
Emerging markets	11.4%
Life business	
World	3.3%
Industrialized countries	1.6%
Emerging markets	10.1%
Non-life business	
World	4.3%
Industrialized countries	2.5%
Emerging markets	12.8%

Sources: Swiss Re Sigma, BMI, Accenture estimates

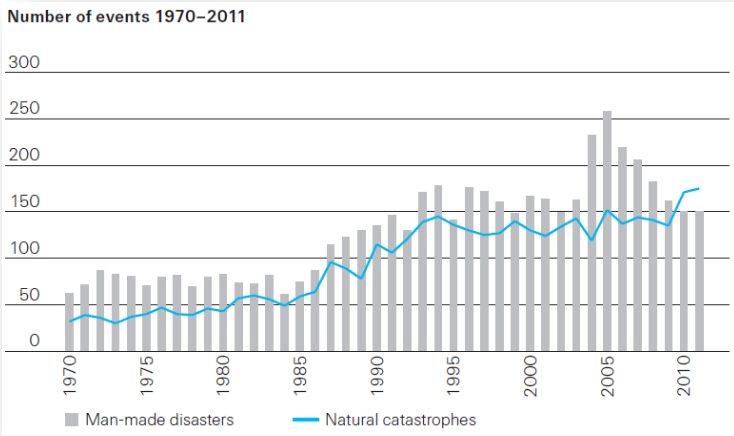
These new niche markets provide opportunities for insurers, but come with specific requirements. Insurance products need to be fairly simple and low-priced and flexible enough to withdraw their money in case it needs to be used for other basic necessities. Looking at the UNEPFI definition of sustainable insurance in one of the next section, these emerging markets deliver a fascinating case for insurers. Required low premium, simple and flexible product conditions at yet unknown future costs. Creating a positive sum game for insurers and customers is a challenge. Accessing new territory does not always come with accurate risk calculations as is preferred in sustainability.

[32] http://esa.un.org/unpd/wpp/Documentation/pdf/WPP2010_Press_Release.pdf

Ecological developments

The insurance industry is often referred to as the "canary in the coal mine" in discussions on climate change. In 2002, a UNEPFI study predicted that economic losses from climate change and natural catastrophes would reach USD 150 billion a year by 2012. That figure was reached seven years early in 2005. Munich Re Group stated that 2008 was the third most expensive year on record due to by losses which were directly connected to weather-related natural catastrophes (Clements-Hunt: 192). Dealing with these risks requires specific risk assessment skills from insurers. The employment and retention of experts in this field, as well as the development of predictive models are key requirements.

Figure 3.4 – Number of catastrophic events
Source: Swiss Re Economic Research & Consulting – Sigma No.02/2012



Last year's catastrophe in Japan - has highlighted the importance of non-life insurance in mitigating the financial impact of such an event. But the increase in the frequency and intensity of weather related catastrophic events have increased insurance risks. It directly affected the number of claims and thus put the insurer's profitability under pressure. Only few insurers with sufficient risk bearing capital and solvency base will be able to underwrite these risks with profit.

What are these emerging risks to our planet and the economies and societies at a global level? In 2006 the UNEP released its 4th Global Environment Outlook report, known as GEO-4. It gives an insight in the state of the world, but this time the findings were unprecedented[33].

1. **Environmental exposures cause almost 25% of all diseases, including respiratory diseases, cancers and emerging animal-to-human disease transfers.**
2. **More than 2 million people die prematurely because of air pollution**
3. **2 Billion people are likely to suffer absolute water scarcity by 2025**
4. **Only 1 in 10 of the world's major rivers reaches the sea all year round**
5. **All species are becoming extinct at rates 100 times faster than those derived from fossil records**
6. **Fish stocks are in crisis. Some 30% of global fish stocks are classed and collapsed and 40% is over exploited.**

The insurance industry is a strong lever for implementing sustainability due to its size, the extent of its reach into communities and the significant role it plays in the global economy. In 2007, the worldwide premium volume exceeded USD 4 trillion, making insurance the largest industry in the global economy, while its global assets under management stood at USD 19,9 trillion (UNEP: 12).

As stated the economic consequences of climate change and the ecosystem destruction become more apparent. The insurance industry is challenged to come up with an answer. However, this is more complicated than one at first instance might assume. How can the insurer place a future value and price on a current insurance product of which it does not know the actual risks and subsequently costs in advance? How does the insurer value and price systems that support life in general and enable economic and social development (all part of the 'invisible

[33] http://www.unep.org/geo/geo4/media/GEO4%20SDM_launch.pdf (consulted 08.04.2012)

hand' or primary function of insurance)? How does the insurer value its options to secure the economy, society and environment for the future generation? Putting a price tag on those risks and responsibilities, without making the industry subject to financial underperformance, is hard, hazardous and not particularly appealing for the insurance industry.

In dealing with these ecological threats and risks there exists the seed for future opportunities for the financial sector in general. In addition to the role of insurer which is underwriting risks, opportunities are also present in the way the insurer is fulfilling its institutional investment role. According to Clements-Hunt, "*acting sustainable could save money and would be a concrete way of leading by example. Beyond the raison-d'être of managing and carrying risks, insurers are major institutional investors and increasingly recognize that responsible investment is a critical component of the overall sustainable insurance agenda. The insurance industry needs to begin to see the value in the business case of values*" (Clements-Hunt: 206). Pursuing Clement-Hunts' argument that implies that for each economic, social and environmental risk exists an investment opportunity to take on by investors or funds that strive for sustainability and innovation. Subsequently that would have a positive trade-off in the long run and create a less harmed ecological environment. Indirectly the insurer is able to steer the ecological developments and gradually decrease its own insurance risks.

Economic crisis

The value of the insurers decreased tremendously in and after the 2008 crisis. This caused a value reduction of USD 851 billion in the American financial market of which USD 143 billion were within the insurance industry. AIG was responsible for a majority of the value loss – USD 61 billion – but largely due to its banking activities in financial derivatives (credit default swaps = CDS) and not specifically as a result of irresponsible risk taking in their insurance activities[34]. These huge amounts had a considerable impact on the global financial market. As seen with AIG, these huge losses were mainly caused by the trade in financial derivatives of a few companies. The reductions are the result of investment (assets) portfolios which were not hedged against stock markets falls and underestimation of the credit risks on asset backed bonds and 'counterparty' risks (the risk of a large player going bankrupt).

Due to the shift from its primary function towards profits on asset management (see 2.5 on 'financial risk management'), the insurance industry had taken on larger risks than tolerable. The often short-term focus on high returns of all stakeholders has put pressure on the insurer's market conduct. Policyholders - often instigated by brokers/agents – demanded both high returns and low risks. When these requirements were not met by the insurer with traditional products, customers would change to other competitors that did offer that product or even changed to investment funds or bank products. As a consequence the insurers started taking on higher risks, in order to yield higher profits and returns for their existing policyholders. Shareholders started to unite and claim higher dividends on the taken risks by the insurer with their invested capital. Managers and Board of Directors (BODs) were expected to achieve high returns to attract new customers and yield high profits for the shareholders. Remuneration packages were used as incentives to have management strive for the best results. Unfortunately these were usually designed for short term successes and did not have a penalty clause if the financial performance was below expectations in the subsequent years.

Life insurers were more prone to high losses as a result of the structure of its insurance products. These products know the highest leverage (more assets compared to own equity, a 12:1 ratio on the balance sheet)[35]. This means that 1% decrease in the assets value creates a 12% decrease in their own equity. In addition they offer their customers generally high guarantees (especially in collective life contracts) with high risk profiles – and because of the longer contract time – they have limited opportunities to increase the premium in order to create extra reserves. Life insurers have ample moving space to alter their guarantee provisions, increase the premium rates for an improvement in profit margin to strengthen their solvency.

Investment-linked products (life insurance products largely invested in assets without value guarantees, i.e. 'Woekerpolissen') delivered the life insurance industry less concerns with regards to the impact of the risks on the investment portfolio, since these products do reallocate this responsibility to the customer and not so much the insurer. However, the intransparency and often high "agency costs" resulted in a major reputation risk and caused a serious dent in the trust of the customer-insurer relationship.

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[34] Blom, F., Keunen, J.W., *Bouwen aan een meer crisisbestending verzekeringssector in Nederland*, Boston Consulting Group (BCG), 2009
[35] ipidem

In Europe the Dutch market was harder hit than other European competitors. Partly this can be attributed to the number of combined institutions present (SNS Reaal, Fortis, ING), which have bank facilities and sell insurances at the same time. This model is less practiced in the rest of Europe and the world. Only after the repeal of the Glass Steagall Act, bancassurance became possible and due to its short history it did not impact the American market that severely. The Dutch based insurers AEGON and ING both have a strong presence in the United States and were much more involved and at the core of the financial crisis, partly due to their large market share of life insurances in the Netherlands (investment-linked products) and their intertwined activities with their American offices.

The impact on non-life insurers is far less severe. The leverage on non-life insurance products is considerably lower than with life insurance (4:1 ratio) due to the short-term time scale it leaves less money available for investments in assets. A one-to-one back-up between premiums and the risk-bearing capital is more clear and necessary.

In small contrast, the insurance industry has had a somewhat stabilising influence on the financial markets as well due to its primary function. By being part of the institutional investors, insurers generally do have longer-term investment horizons than other financials, such as banks. By adhering to the long term strategy, the insurance industry has the capacity to hold the majority of their investments in mature securities, which helps the financial system withstand the short-term shocks[36]. Governments are currently under pressure to reduce budget deficits and consequently address the huge liabilities of the governmental pension schemes as well (Ponds:2011), the role of life insurance to secure long-term income and thus purchasing power is also likely to increase.

Unfortunately the financial crisis created a vast decrease of value and increase in cost savings and redundancies across the insurance industry in general. The growing awareness of the impact of ESG-issues stagnated and led to a demotion of their importance on the insurer's agenda. Sustainability lost its importance, as running a healthy and profitable business prevailed and rapidly turned into a 'short term results' focus.

Institutional context

Another macro-economic element that challenges the sustainability initiatives of insurers is the institutional context the insurer operates in. According to Van Tulder (2008:30), "*the extent in which actors have economic interests with or within other institutional environments, in turn, affects the nature of domestic institutions. In the business environment, the degree of internationalization affects the openness of the bargaining environment*". Over the past decades the insurance industry showed increasing international transactions, establishing subsidiaries and subsequently creating economic dependencies between countries and intertwining institutions.

The extent of openness and flexibility of the institutional context are different in each country and provides a different context. Hence, each country or region represents a different context for a CSR strategy. This is also referred to as CSR regime and reflects the national societal environment in which "*corporate strategies develop and are judged as successful or not*" (Van Tulder 2008:220-221).

What constitutes an adequate measure for a company's performance differs across national systems and cultures, but generally is shaped by three main elements:

- Legal requirements
- Government policy practices
- Nature of interaction between business and civil society

There are three leading CSR regimes of which the main characteristics will be described.

- CSR regime America
- CSR regime Europe
- CSR regime Asia

[36] Blom, F., Keunen, J.W., *Bouwen aan een meer crisisbestending verzekeringssector in Nederland*, Boston Consulting Group (BCG), 2009

CSR regime America
This type of regime is also labelled as the liberal or neo-liberal approach. The attitude towards CSR is "*well advanced and stimulates a relatively narrow approach to the efficiency-ethics trade-off (Triple-E)"*
(Van Tulder: 225).

A few main characteristics are:
- Strongly rooted in protection of rights
- CSR regime is shaped base on jurisprudence than strong centralistic law
- Code of conducts tend to be used as rule-based contracts
- Adopting higher labour/environment/social standards only if it boosts short-term profitability
- Corporate responsibility primarily mediated through shareholders and stock exchange
- SRI principles are adapted as a result of 'negative screening' in order to avoid 'wrong' investments
- Corporate volunteering is output oriented

Although many large American companies have developed CSR and ICR approaches, these are regularly tested in court. One specific phenomenon is contributing to this. Host country citizens are able to call American multinationals to account for (possible mis)conduct in host countries that is in offence with the American Legislation. The threat of claims by the local population is clearly present.

In short, a mainly reactive and instrumentalist approach towards CSR is to be expected as a result of the legalistic and instrumental-oriented regime of liberal countries such as America.

CSR regime Europe
This type of regime is also labelled as the neo-corporatist approach. The attitude towards CSR is compared to the American regime shows a much broader trade-off between efficiency and equity. Generally governments and well-organized NGO's are deeply involved in the actual implementation of national and regional CSR regimes.

A few main characteristics are (Van Tulder 2008: 226):
- Public advocacy of CSR in most European countries is strong
- Stock market is generally NOT regarded as the main arena for influencing CSR strategy
- Stakeholders from 3 spheres (civil society, business and government) are included in the formation of CSR regimes (based on mutual support and agreement)
- Law is characterized by stricter rules
- Sanctions are weakly formulated, objective is to stimulate
- Regulatory principle that guides European CSR is 'precautionary principle'
- Corporate volunteering aimed at participation and membership than output oriented

The overall CSR climate in Europe is aimed at 'voluntary integration of CSR' and principle-based, rather than rule-based and legislation driven.

CSR regime Asia
This last type of regime is also labelled as the corporate-statist approach. This region comprises both the leading economies of East Asia which are among the most liberal (Hong Kong, Singapore) in the world and the least liberal economies (i.e. India). However, they share one similarity. They both have a very pragmatic approach to business and do not display major trade-offs between efficiency and equity

A few main characteristics are (Van Tulder 2008: 228):
- Asian CSR regimes not very well advanced
- Strongly efficiency-oriented CSR regime focused on avoiding opposing firms' abuse of power unless it undermines the competitive position of the national economy
- Regime is depending on level of (industrial) development
- CSR regime hardly set any minimal standards of their own, unless related to efficiency goals and control.
- CSR regulation primarily developed in the area of environmental protection (directly affects their strategy).

3.2 Sustainability

From the primary function of the insurance industry in the introduction to a definition of sustainability insurance seems a long stretch. But maybe not surprisingly, similarities can be found in the following two sections. It is good to start at the beginning of the sustainability debate and place it in this thesis´ background of the financial and insurance industry. Both industries are characterised by intangible products and are part of the services industry. Thus, until recently the term “sustainability” did not appear in many annual reports, let alone being an integral part of a corporation´s strategy.

What and who initiated the sustainability debate these last two decades? Since the WCED[37] council in 1987 a slowly evolving, push-and-pull dynamic between public policy and public sentiment regarding environment and sustainability emerged. Only then capital markets and financial institutions started to realize the potential financial impact and value of environmental, social and governance issues (also referred to as ESG-issues) on their territory. “*It shows that the manner in which the financial services sector and the broader investment chain integrate natural and social value at risk into their risk considerations is changing*” (Clements-Hunt: 191). To sustain in the future, the markets were challenged to incorporate the changing contextual environment into their organizational dependencies to keep their trading environment stable.

Corporate Sustainable Responsibility (CSR) is evolving. Well-known business professors as Porter and Prahalad (The Economist: 2012) have lent their support to the movement and many of the world’s large companies have divisions devoted to sustainability. The days when it was mainly about managing corporate reputations — “greenwashing” – seem to be over and it is now more about the business fundamentals such as how products are designed and how supply chains are managed. Although “sustainability” currently seems the buzzword, the uniformity of the concept of sustainable development has been subject to many discussions since its emergence in the 1980’s until today. There is a growing understanding that sustainability is not the exclusive responsibility of one society, country or industry. “*Sustainability - in practice - constitutes a set of actions. Therefore sustainable development is incremental and builds on what already exists*” (Soppe: 2009).

Having said that, the question we need to address first is what actually defines the term ´sustainability´ in general and within its financial context, before the attempt can be made to state what sustainable insurance comprises of.

Figure 3.5 - Interconnectedness market environment and “sustainability” definition

According to Van Tulder the notion of social responsibility - to operate and take on responsibilities beyond the boundaries of their company - is as ‘old as capitalism itself’. The landmark for modern capitalism was set by Adam Smith in 1776 (Van Tulder, 2006: 133). His proposition stated that when companies are free to pursue profits and efficiency, eventually the common good will benefit.

Milton Friedman added that “*profitability was the ultimate social responsibility of business, if done in an ethical way and in obedience to the law* “(Kakabadse et al, 2005: 278). Indeed, during the 19th century the company owner’s initiatives were usually driven by self-interest and avoidance of increasing governmental legislation. An

[37] WCED = World Commission on Environment and Development

observant reader might realize that this reminds of the primary function of the insurance industry as discussed at the beginning of this thesis. "*There is very little one would do if the risk of financial ruin was part of the entrepreneurial undertaking. By taking on the risks by the insurer, the industry creates an environment in which entrepreneurship can flourish".* At its core the insurance practice can be identified as sustainable.

In the post-war period the boundaries of the social responsibility expanded to the corporation's direct environment which included customers, distributors and suppliers and consequently corporate responsibility took on more 'societal' dimensions since 1960. The establishment of consumer organizations during that period and the first protests against the exhaustion of the environment emphasized the need to focus on more commitment to society and hence, corporations were becoming societal actors (Van Tulder, 2006: 135).

As an intergovernmental organization, the United Nations (UN) was amongst the first to acknowledge that companies could be societal actors and drivers for change. A widely used definition of sustainable development is the one established by the Brundtland Commission, generally accepted by the WCED[38] and published in the so-called Brundtland Commission's report "Our Common Future" in the 1980's. The commission defined sustainable development as "*development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs*" (WCED, 1987). In hindsight, this was the first step initiating a process that demanded a new way of thinking for corporations.

Our Common Future emphasized that "*the ability to choose policy paths that are sustainable, requires that the ecological dimensions of a policy are being considered at the same time as the economic, trade, energy, agricultural, industrial and other dimensions – on the same agendas and in the same national and international institutions*" (Clements-Hunt: 193). This point of view and the acknowledgement of the interdependency of the various dimensions on a company´s strategy

A historical model of the development of CSR in general compiled by Kakabadse ascertains the growing understanding of the concept sustainability, from a one-dimensional 'making profit for the shareholder' approach to the current debate on how to integrate sustainability in existing management theories. It could also be referred to as the development 'from shareholder to stakeholder' approach in which consumerism and corporate scandals are forward driving forces (Kakabadse et al. 2005:279).

By acknowledging three arguments in favour of sustainable development, Soppe practically attempts to summarize and define the scope of the term 'sustainability' as initiated by Brundtland and Kakabadse (Soppe 2009: 17):

1. Sustainability incorporates a two-dimensional commitment to **equity**:
    - between present- and future generations
    - between the rich and poor of the world's population

   Its goal is to ensure "fair" distribution between current costs and future benefits
2. Sustainability is a **holistic** concept based on the idea that "the whole is greater than the sum of the parts". This is a powerful aspect of sustainability, but at the same time a major obstacle for progress.
3. Sustainability requires **integration of stakeholder** approach into existing management theories.
4. Sustainability emphasizes the need to **stop environmental** degradation caused by traditional development.

Soppe adds that all these initiatives to improve the business climate are "*supply-driven*" and defined by the corporations themselves in redefining their goals and reorganizing business processes into a more sustainable entity with broader goals that just profitability. However, despite his attempt he also concludes that having analysed the development of and arguments for sustainability, the contents of the concept still remains ambiguous and vague at some points which makes the actual policymaking more difficult (Soppe: 2009).

[38] WCED = World Commission on Environment and Development

3.3 Sustainable finance

The current financial crisis as described in section 3.1 has illustrated that excessive risk taking on the asset management side of the insurance practice has affected the interests of the shareholder, the primary stakeholder, but civil society as well that did not have a direct connection with the insurer. The governmental bailouts of i.e. AIG, ING and AEGON were financed through taxes.

Due to the shift from its primary function towards profits on asset management (see 2.5 on 'financial risk management'), the insurance industry had taken on higher risks than tolerable. AIG was hedging its risks with credit-default swaps and used these as risk transfer mechanisms. The extent of counterparty credit risks, involved in the securitization, is still unknown and underpin the growing need to reconsider the current view on finance and financial markets, and it particular the role of sustainability.

In his book *Keynes: The return of the master*, Sidelsky refers to some philosophical pages on 'love for money' written by Keynes in 1925. By love he meant "*the inordinate desire of getting and holding wealth"*. Keynes' speculations on love for money are originally derived from Aristotle, who saw that the good life is endangered when acquisition of money comes to be seen as intrinsically valuable. Eventually people want goods or tangible value and not money. Since Keyne's days, as stated the tendency has been the opposite of what he would have wanted. Financial innovation has made stocks and shares increasingly 'abstract', disembodied from the business and products they represent (Sidelsky: 138).The current financial situation emerged from this as a result.

In traditional finance, sustainability is usually described in terms of sustainable growth rates and sustainable dividends on future claims. This growth ought to be created by keeping the profitability and financial strategies unchanged and stable (Soppe: 2009) and eventually generate financial success for its owners, or to be more precise – to guarantee shareholders' wealth.

From the perspective of sustainable finance the word '*shareholder'* means that the holder owns a share in the company, but it particularly stipulates that the shareholder owns more than just a financial claim. Sharing is used in a broader definition. By being shareholder one is expected to consider the company's total performance, which not only involves financial success. It also includes the company's social and environmental performance and consequently that responsibility is now shared as well. Thus, to strive for sustainable finance it requires financial decisions aimed at a long term integrated approach which ensures optimisation of the company's social, environmental and financial mission statement (Soppe 2009: 11). A stakeholder dialogue is crucial to grasp the impact of sustainable finance, to discuss its dilemma's, but foremost to align. Some stakeholders might like to obtain the maximum return on their investments while others would like to avoid redundancies (Jeucken 2001:43).

Just as Keynes already stipulated almost a century ago that same discussion and shift from 'love of money' towards the good life is today's challenge for not only the shareholder, but all actors in the financial markets.

3.4 Sustainable insurance

In the introduction, it was claimed that academic and strategic thought on sustainability in the insurance industry was scarce. A quick search on the actual term `sustainable insurance´ in Lexis Nexis and Google Scholar reveals a small number of publications which lack a clear definition and common understanding of sustainable insurance.

Figure 3.6 – Media analysis Lexis Nexis
Source: LexisNexis – All publications: newspapers & magazines

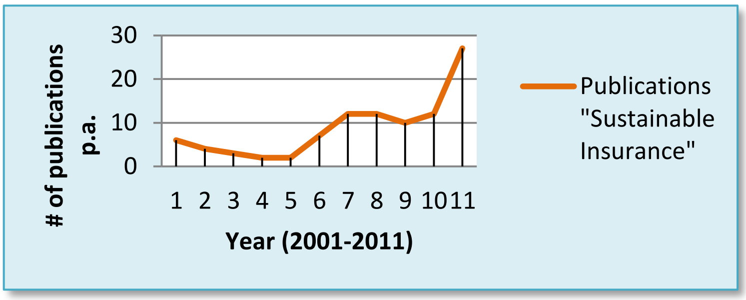
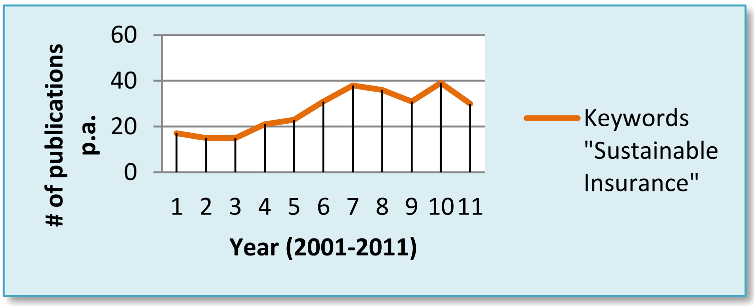


Figure 3.7 – Media analysis Google Scholar
Source: Google Scholar – All scientific publications



Again after Brundtland, due to the active concern of an intergovernmental organization for sustainability in the insurance industry, a distinct definition only just came to life. Over the past six years, the UN Environment Programme's Finance Initiative (UNEPFI) has been exploring the possibility of establishing sustainability principles for the global insurance industry that could catalyse and stimulate transformational change. Principles that would fit the needs and aspirations of the insurance industry and the customers and society it serves.

Clearly the issue of acting more sustainable within the insurance industry is at its birth phase. The absence of a global single decision-making authority (see 2.9), the increasing environmental consequences for consumers and insurers and the trust gap as a result of the financial crisis, urged the intergovernmental organization (UNEPFI) to step up and fill the regulatory void. There is a growing need for insurers and societal networks to work together and create an institution and common standards to regulate the insurance industry conduct (Van Tulder, 2008: 164).

At the Rio+20 Summit in June 2012, more than two decades after Brundtland report, a first formal definition of sustainable insurance was presented.
"Sustainable insurance is a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues. Sustainable insurance aims to reduce risk, develop innovative solutions, improve business performance and contribute to environmental, social and economic sustainability" (PSI, UNEPFI, 2012).

3.5 General sustainability initiatives

The insurance industry might be called a 'late bloomer' as it comes to industry initiatives to make sustainability a more integral part of their strategy making. As stated, this can partly be attributed to the absence of one single global authority – acknowledged by all insurers – and partly because of the lack of public pressure to reconsider the current business model. The mainly financial consequences of ecological and socio-demographic changes led to the establishment of the UNEP Finance Initiative (UNEPFI).

Remarkably an international governmental organization took the initiative to approach industry CEOs and appeal upon their societal responsibility to create a common ground for action. The customer's damaged trust in the insurance industry as a result of selling unit-linked products with disappointing outcomes and excessive risks as institutional investors made sustainability rise on the priority ladder.

UNEPFI

Since the establishment of the UNEP Finance Initiative (UNEPFI) in 2002, the financial services and investment industry is challenged and encouraged to integrate ecological and social risks into their risk management strategy. Fortunately the industry did not take its responsibility lightly. In June 2007 a group of 23 CEO's of mainly financial institutions - brought together by the UNEPFI - warned the Heads of State for the financial consequences, if not stimulating the transition to less ecologically impacting low-carbon economies. As a result, the main discussion of the 2008 United Nation's annual climate change summit was focused on the creation of awareness that climate change in itself has the enormous potential to bring devastating economic and financial losses. How did come to the point where CEOs of the world's largest financial institutions are warning governmental policymakers - in clear economic and environmental terms - of the oncoming environmental threats to our societies, natural environment, economic markets and organizations? Was this just the spur of the moment, or is there something more underlying?

To answer these questions, we have to cast our attention back to 1987 when the report “Our common future” was published by the Brundtland Commission.

As concluded earlier it was the first report in which the phenomena environment and economic development were both placed in a political context. Up until June 2007, it appeared that the global financial services sector had managed, eventually, to understand and calculate ´risk´ with the evolution of complex financial analysis models. The concept of valuing risk and its expression in financial parameters appeared to be anchored in a system that enabled more adventurous financial undertakings. In order to keep this system up-to-date, it was crucial to identify risks at an early stage. The increasing number of unpredictable ecological catastrophes as a result of climate change interfered with these carefully composed valuation systems and insurers were now financially struck. This forced CEO’s to take on their seemingly societal responsibility to make the appeal to politics to take on actions. Although mainly driven by financial stimulus, the UNEPFI continued its activities and gradually broadened its issues spectrum which not always does have a financial motive.

Indices and ranking

In order to provide companies with a standardised set of indicators – covering the main aspects of sustainable development – several institutions and organizations have developed a mechanism to assess companies. These indicators are increasingly recognized as a useful tool for policy making and public communication in providing insight on countries’ performances in fields such as environment, economy, society or technological development. In short, sustainability indicators are an effective means of determining whether companies have actually progressed towards more sustainable development or have not. What might have started as ‘green washing’ and part of reputation management, these indices have slowly become significant indicators of the company’s current state on sustainability.

A recent research carried out by Singh et al. in 2009 shows that internationally there are various indices and ratings. In their research they examined 41 indices and ratings, but earlier research has found larger numbers such as 51[39]. The questions that arise are what defines an indicator, what is its driving force in sustainable development and to what extent does it cover the level of the current activities for each individual company when being assessed? “*Indicators arise from values (we measure what we care about), and they create values (we care about what we measure*)” (Singh:191).

The Singh research emphasized the widely recognized need to find models, metrics and tools for assessing to which extent companies are sustainable. And this need is present on multiple levels ranging from global, international, national and regional. A high-level comparative overview of the indices mentioned is to be found in appendix B.

DJSI

The most accepted and elaborated index is the Dow Jones Sustainability Index (DSJI). The Dow Jones Index in New York created together with Robeco and the SAM Sustainability Group the first collection of global sustainability indices in September 1999.

The DJSI allows for the benchmarking of the performance of investments in sustainability companies and funds. It tracks the performance of the top 10% of the companies in the Dow Jones global index that lead the field in sustainability. The criteria by which the sustainability companies are identified and ranked are based on five ‘sustainability’ principles (Dow Jones/SAM 2007):

- technology: innovative technology and organization that uses financial, natural and social resources efficiently, effectively and economically;
- governance: high standards of corporate governance including management responsibility, organizational capability, corporate culture and stakeholder relations;
- shareholders: demands should be met by sound financial return, long-term economic growth, long-term productivity increases, sharpened global competitiveness and contributions to intellectual capital;
- industry: lead an industry shift towards sustainability by demonstrating commitment and publishing superior performance;
- society: encourage lasting social well-being by appropriate and timely responses to social change, evolving demographics, migratory flows, shifting cultural patterns and the need for continuing education.

[39] Yung-Jaan Lee, Ching-Ming Huang, *Sustainability index for Taipei*, Environmental Impact Assessment Review, Volume 27, Issue 6, August 2007, Pages 505-52

The criteria facilitate a financial quantification of sustainability performance by focusing on a company's pursuit of sustainability opportunities, and reduction and avoidance of sustainability risks and costs. Each company's sustainability performance is given a score, and the companies are ranked according to their score (Singh: 201).

As stated the DJSI has the longest global presence on sustainability reporting and were the first to seize this opportunity. Although DJSI has the image of being independent, one has to take into account its initiators. The participation of Robeco might create the impression that it was 'just' an addition to their business model as an investment company. Together with SAM they were then able to set up a benchmark for the industry, gather specific knowledge and create extra consulting opportunities.

Despite this hesitance towards this combined initiative, the global business society has slowly adapted the DSJI and it has now become the leading index which covers the most general indicators. Over time that list has grown due to criticism from its participants through which it evolved into an elaborate generic model. And over time its importance grew. Consequently the DJSI has now created a critical mass and became an important global indicator for corporations to give insight into their CSR endeavours to all stakeholders.

Nonetheless, the editing of the model is done by DJSI, which might feel as if these standards and criteria are externally imposed on participants. Any luring intrinsic motivation by industries to add or alter criteria to improve the overall performance on sustainability seems not be stimulated. Another observation is that the criteria do occasionally change (i.e. based on global CSR issue, remuneration was added in 2011) which makes comparisons to performance in previous years difficult. One of the major points of criticism towards the DJSI is non-disclosing of the ranking and its details, which makes it more complicated to assess the effect as a result of implemented sustainability measures.

Due to its global approach it is more difficult for non-American corporations with many subsidiaries in the US to get high up in the ranking, due to other regulations which are not met (i.e. employer representation and role of labour unions). A corporation 'as a whole' has to perform up to a certain standard. Many good performing corporations in their own region still might be ranked poorly on a global level due to this structure.

FTSE4Good

FTSE4Good too is a combined initiative of Pearson publishers (owner of the Financial Times) and the London Stock Exchange. The FTSE4Good Index Series has been designed to measure the performance of companies that meet globally recognized corporate responsibility standards, and to facilitate investment in those companies. The FTSE4Good selection criteria have been designed to reflect a broad consensus on what constitutes good corporate responsibility practice globally. It takes the regional factors far more into account than DJSI, by making the discrepancies visible between the global average and the regional differences. Using a widespread market consultation process, the criteria are regularly revised to ensure that they continue to reflect standards of responsible business practice, and developments in socially responsible investment as they evolve (Singh: 203).

FTSE4Good is not reporting on acquired data from companies, but assesses reviews based on analysis of CSR policies executed by an external agency. This could have less effect on the willingness of companies to change their CSR approaches as the outcome of the analysis is not shared with a wider public, which is not particularly stimulating participation in order to achieve a higher ranking the next year.

3.6 Insurance industry initiatives

As seen, acting as an 'invisible hand' and providing insurance products, the insurance industry does play an important role in facilitating economic growth. But what explains its responsibility towards sustainable development?

Despite the strong appeal of the 23 CEOs on the heads of state to stimulate low-carbon economies by implementing strict regulation and legislation, not the insurance industry itself, but the UNEPFI stepped into the void by initiating a more thorough research on the opportunities to integrate ESG factors into the core insurance processes.

By doing so, it operated in two interfacing spheres:

(a) Between the state and civil society
   i. By setting up a practical framework for sustainable insurance (PSI), it stimulates the industry to self-impose regulations on their business practices
   ii. By integrating ESG factors into the insurance side and investment side (PRI) it stimulates environmentally healthy initiatives and corporations and improves the climate conditions for society.

(b) Between the market and civil society
   i. By supervising the progress of integrating the ESG factors in the insurers policy it consequently protects the position of the insured

If these Principles of Responsible Investment (PRI) and Sustainable insurance (PSI) have become widely adapted and effective, due to the absence of a global single decision-making authority, the UNEPFI might become a supervisory intergovernmental organization.

This attitude seems to be from a defensive business case perspective. Setting up the PRI and PSI implicitly means the acknowledgement of the crucial role of ESG factors in the insurance business risk and pricing model and could regarded as a way of to avoid further financial losses.

However, the objectives as stipulated by the UNEPFI imply a more fundamental and long term approach in which integration of sustainability into core insurance processes is the ultimate goal. Consequently, sustainability could be seen as an integral part of the long term strategy for insurers in order to create and maintain competitiveness (Tulder: 93).

PRI (Principles of Responsible Investment)

In 2005 the United Nations started working together with the largest institutional investors in a process of developing the Principles for Responsible Investment. Around 20 institutional investors from 12 countries were part of this think-tank and agreed to participate in the Investor Group. This process led January 2006 to the emergence of the Principles for Responsible Investment, which are:

- ☐ *We will incorporate ESG issues into investment analysis and decision-making processes*
- ☐ *We will be active owners and incorporate ESG issues into our ownership policies and practices*
- ☐ *We will seek appropriate disclosure on ESG issues by the entities in which we invest*
- ☐ *We will promote acceptance and implementation of the Principles within the investment industry*
- ☐ *We will work together to enhance our effectiveness in implementing the Principles*
- ☐ *We will each report on our activities and progress towards implementing the Principles*

Due to its fast adaptation by investors, as of April 2012, over 1000 investment institutions globally have become signatories representing an asset portfolio of approximately $ 30 trillion[40]. Starting a sustainability initiative with a small number of investors sparked by an intergovernmental organization quickly raised the level playing field in the aftermath of 2008 and was embraced by the insurance industry itself as well. The PRI are now used as a trading standard and conditionally for any contractual arrangements. The governance structure is slowly taken over by financial and insurance market representatives and the PRI are moving forward to become an industry based and driven standard.

PSI (Principles of Sustainable Insurance)

Similar to the PRI, the UNEPFI established an Academic Working Group in 2008. This group of academics - lead by the Fox School of Business of the Temple University - was given the task to assess the existing research done on the relationship between the ESG factors and core insurance processes in order to create a well-balanced view of what sustainability in fact meant and could be for the insurance industry. A multi-stakeholder process of developing and conducting a global survey was used, solely aimed for the private insurance market players, which was the first of its kind in the insurance industry. To structure the collected survey data a 'taxonomy' of sustainability' was used to categorize its contents and organise the results.

A high-level comparative overview of the discussed indices and UNEPFI survey is to be found in appendix B.

[40] http://www.unpri.org

The research output and shared experience of industry employees, academics and other interested parties finally resulted in the formulation of a definition of “sustainable insurance” (see 3.4) practical framework of key Principles for Sustainable Insurance (PSI) and an approach to their implementation.

These were launched at the Rio summit in June 2012, and state[41]:

- ☐ *We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.*
- ☐ *We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.*
- ☐ *We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.*
- ☐ *We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues*

Amongst the initial supporters are 32 insurers and institutions, which signed the PSI and have become signatory parties.

Table 3.1: Signatory insurers to PSI
Source: see appendix C

Region signatory insurers	n	%
Europe	14	44%
N-America	2	6%
Pacific	7	22%
S-Africa	3	9%
S-America	6	19%
Total	32	

* = (incl Canadian insurer & International Insurance Corporation)

The majority of signatory companies are European insurers, followed by Pacific-based insurers. The Asian and North-American insurers remain absent. Motivation for not signing up at the moment and withdrawing from the PSI at a later stage is that it would harm the reputation severely, since it is an initiative with self-imposed principles, instead of an external organization which expels you from a list, without a clear explanation. Compared to the DJSI this could be regarded as a more internal initiative. By participating in this initiative, the insurance industry has taken on the responsibility to change their strategy to a more sustainable approach. To a great extent they seem to address the same criteria as the DJSI, but instead of a regulation with a standard to live up to, it is more based on principles.

The PSI are not meant to be a merely a corporate vision of promises to make the world a better place. They suggest that the insurance industry embraces the ESG issues and sustainable insurance as part of its strategic and operating fabric of day-to-day operations. That is, the PSI call on insurance companies to address ESG issues in risk management, underwriting, product and service development, claims management, sales and marketing and investment. This will bring all of the industry skills areas and innovation potential into the implementation process.

Looking at the progress of the PRI made by becoming an industry standard, there is a challenge for the PSI. But for them to reach this goal, it is crucial to have measurable KPI’s and have these audited by an external independent institution.

[41] http://www.unepfi.org/fileadmin/documents/PSI_document-en.pdf

3.7 Business case and CSR approach model

A well-known academic in the field of CSR, Carroll, characterized the current state on sustainability, definitions and classifications as "*an eclectic field with loose boundaries, multiple memberships, and differing perspectives*" (Garriga & Melé 2004: 52).

However, according to Van Tulder each model can essentially be traced back to two basic motives (Van Tulder: 2012).

1) Resource-based vision based on intrinsic motives
The attitude of the manager and corporation towards sustainability can either be inactive or active and is mostly depending on self-initiatives or self-imposed goals and targets. The biggest challenge is convincing the internal stakeholders (staff) to change their attitude on sustainability. If a CEO aims to make a transition from an inactive to a reactive approach, he might face internal alignment issues.

2) Stakeholder approach based on extrinsic motives
The relationship that a corporation has with society (societal responsiveness) can either be reactive or pro-active. The perception of the primary (clients, competitors, shareholders) and secondary stakeholder (NGO's on human rights, health etc.) outside the corporation does define the attitude and approach of the corporation towards sustainability. Primary stakeholders do have a direct interest in the business model of the insurer. The dialogue is at a strategic level and provides a permanent source of mutual influence. Secondary stakeholders are often focused on a 'single issue' and do use techniques as indices, benchmarks to pressure organizations to change. The difficulty with these secondary stakeholders is their role attachment. Even if an organization is in transition, NGO's will remain suspicious and critical. This is referred to as the external alignment issue.

Despite intrinsic or extrinsic motives, in every business case the costs-benefit balance plays a major role. Consequently, the business case for transition towards sustainable insurance is no exception. Complicating factor is that many of the sustainable initiatives are undertaken from isolated perspectives, which makes a clear calculation of the cost-benefits challenging.

The quest for the sustainability business case acknowledges four variants (Van Tulder, 2012):

1. *Classic business case*
The sole driver to change towards sustainability is gaining financial profit
i.e. improving the quality of staff, creating product innovation, cost saving in environmental area
2. *Defensive business case*
Sustainability is perceived and used as a method to avoid financial losses.
i.e. building or protecting a company's reputation, avoidance of stricter regulations
3. *Strategic/moral business case*
Sustainability is an integral part of the long term insurer's competitive strategy
i.e. reducing dependency on finite natural resources from a moral standpoint, investments in sustainability is ethically correct
4. *"New Economy" business case*
Sustainability is perceived as a continuous quest to create synergetic value and readjust the mind-set to innovate, manage risks in a dynamic and complex environment.

These variants might give some structure but it needs to be emphasized that to continue and prove the development of the business case is strongly depending on the industry's context.

In this thesis, the CSR approach model of Van Tulder & Van der Zwart is used as a basis for a translation to the insurance industry context. But before that will be done, it is necessary to explain the general approaches in more detail first.

Table 3.2 – Generic CSR approach framework
Source: Van Tulder & Van der Zwart 2006: 144

Passive		Active	
Inactive	**Reactive**	**Active: go-it-alone**	**Pro-active: partnership**
Definition of CSR			
"Corporate *Self* Responsibility"	"Corporate Social *Responsiveness*"	"Corporate Social *Responsibility*"	"Corporate *Societal* Responsibility"
Main characteristics			
Legal compliance and utilitarian motives: profit maximalisation	Moral (negative) duty compliance: short term profit and market capitalization	Choice for responsiblity and virtue: long term profit	Choice for interactive responsibility: midterm and sustainable profit
Indifference	Compliance/reputation	Integrity	Discourse ethics
Efficiency	Limit inefficiency	Equity/Ethics	Effectiveness
Inside-In	Outside-in	Inside-out	In-outside-in/out
"Doing things right"	"Don't do things wrong"	"Doing the right things"	"Doing the right things right"
"Doing well"	"Doing well and doing good"	"Doing good"	"Doing well by doing good"
Resource based view	Shareholder view	Capabilities view	Stakeholder view
Marketing and demand approach		Marketing and production: supply and demand	

"The inactive approach reflects the classical notion of Friedman that the only responsibility companies (can) have is generate profits. This is fundamentally inward-looking (inside-in) business perspective, aimed at efficiency and competitiveness in the immediate market environment. Entrepreneurs are particularly concerned with doing things right, without reflection on ethics. Good business equals operational excellence. CSR thus amounts to "corporate self-responsibility".

A slight variation on the inactive attitude is the reactive approach, which shares the focus on efficiency but with particular attention to not making any mistakes. This requires an outside-in orientation where entrepreneurs monitor their environment and manage their primary stakeholders. Entrepreneurs are socially responsive, but mainly from reputation protection perspective. Activities in the field of philanthropy are modern expressions of charity and manifestations of social responsiveness (example: AEGON/Industry reaction to Woekerpolis).

Both inactive and reactive approaches focus largely on output indicators such as (short-term) returns and productivity and are strongly means and wealth oriented.

An active approach represents the most ethical entrepreneurial orientation. Entrepreneurs who take on this approach are explicitly inspired by ethical values and virtues on the basis of which company objectives are formulated. These objectives are subsequently realized in a socially responsible manner regardless of actual or potential social pressures by stakeholders. Such entrepreneurs are strongly outward-oriented (outward-in) and display a creating 'missionary urge' which makes them heroes to NGO's but annoyance to 'true' entrepreneurs.

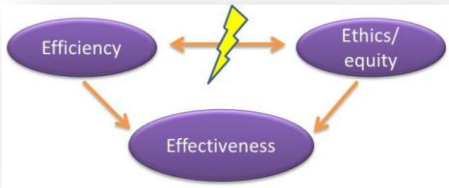
All three approaches have their managerial shortcomings: purely ethical business practice can result in managers doing the 'right things' wrong, while competitive market-oriented business practice can lead managers to doing the 'wrong things' right. Society is complex, which generates a variety of 'right' answers. A new perspective is required where the field of tension between ethics and efficiency is engaged with in a socially responsible manner. This requires a synthesis of both ethics and efficiency which can best be described as the proactive approach. Entrepreneurship is aimed at the beginning undertaking at external stakeholders right at the beginning of an issue life cycle" (Van Tulder 2008: 144-145).

3.8 Tipping points towards Sustainable Insurance

In his recent publication Van Tulder claims that the knowledge on how to manage a sustainable efficient and effective company and its relation with financial performance (business case) is still rather dispersed over the various operational areas and not at its required level. Possibly the academic ambiguity on the concept and implementation of sustainability might contribute to the slow pace (Van Tulder: 2012).

However, the current and previous chapters have shown that in various aspects of the micro-economic environment of insurance company, business cases do exist and investments in sustainability will repay the insurer on more than just the financial level. These investments should decide the insurance industry's challenges to move from the tipping points to turning points.

Figure 3.8 – Triple E model
Source: Van Tulder (2008: 153)



Translating the defined industry challenges with the knowledge of concept 'sustainability' into tipping points towards sustainability, that would state the sustainability challenges for the insurance industry. From efficiency to combining ethics into an effective sustainable strategy, searching for effective trade-offs, the so called Triple E of societal interface management: efficiency, equity and effectiveness (Van Tulder 2008: 153)

Table 3.2: Tipping points towards sustainable insurance

Challenge	Tipping point towards sustainable insurance
Consumerization	From product-focused towards customer-oriented business models From declining customer loyality towards creating customer relationships From traditional distribution channels to open, accessible and affordable distribution channels From sales-oriented towards value-added customer approach
Innovation	From traditional product and service development to pro-active and open innovation From traditional sales methods to use of (mobile) internet From 'siloed' and costly organization toward efficiency and agility
Product diversification	From complex (investment-linked) products to simple and fixed-value products From 'just' offering coverage to built-in customer input in products (co-creation) From financial and risk aversion illiteracy towards literacy
Ownership	From shareholder to stakeholder approach
Risk management	From reactive risk management to pro-active risk mitigation management
Governance	From profit focus to restoring trust and 'independent' governance and monitoring
Regulations	From negative (focus on control) to positive self-imposed Code of Conducts (ethical/behaviouristic) From absence of regulations to increased regulatory intervention (despite absence global single authority)
Distribution	From traditional distribution channels to open, accessible and affordable distribution channels
Remuneration	From high incentives with short-term profit focus towards well-balanced remuneration based upon sustainable objectives
People Development	From 'only' recruiting and employing towards creating a development climate where diversity is welcomed

3.9 Conclusion

In addition to the challenges for an insurance company described in previous chapter, the macro-economic environment puts the societal interface management (Triple E) to the test.

The socio-demographic developments deliver new opportunities. New emerging markets offer many profitable opportunities, but the vulnerability and financial illiteracy of the civil and business society ethically require insurers to question the way how they will enter these markets. The increase of ecological effects on the rise of claims due to losses, impacts the profit margin and pricing of non-life insurance products. Raising premiums and improving risk calculations represent the efficiency approach and do imply that the policyholders will pay for costs. But taking on the challenge to attract the right underwriters for these risks that are willing to invest in opportunities which would have long-term beneficial ESG effects requires an ethical approach. The sustainability challenge for insurers in the financial market seems quite apparent and has partly been addressed by the PRI. By fulfilling its role as an institutional investor, the insurer is able to influence the stability of the financial market by using risk aversion tools and products that do have a fixed-value. But the insurer is also able to invest in assets that will be beneficial to society and environment in general. However, as the theory on institutional context has shown, is what constitutes an adequate structure for a company's performance differs per region and reflects on the chosen CSR approach. As a global insurer that might reveal internal sustainability as well. Good practices in advanced economies might exceed and not match the local expectations and consequently limit the competitive strength in the emerging markets.

But few initiatives are gradually trying to progress sustainability towards increased integration in business models. Although the independent character of the indices can be question, they are responsible for having created a certain standard and goal to achieve when 'going sustainable'. The downsides are that these indices cannot be compared and do not address all elements of the core business model of the insurer.

This was acknowledged by the UNEPFI and an initiative by the insurance industry resulted in the PSI, which delivered the first definition of sustainable insurance in June 2012. However, the high level principles still leaves the industry with a definition in search of an implementation.

The insurance industry now face the opportunity to take the 'road less travelled' and embed the sustainability considerations into their strategy-making, their business practice and, critically, the culture of finance and investment, in a manner that delivers results which are aligned with the shifting public policy and sentiment.

In the next chapter, the theoretical CSR approach framework (table 3.2) has been translated into a practical framework for the discussed insurance industry and contextual challenges. This might help the industry as a guideline to implement sustainable insurance initiatives. In addition this framework provides a model which enables us to see and compare how various non-life and life insurers have attempted to address, manage and implement these issues in their insurance practice.

4 Research plan on Sustainable Insurance

The introduction of this thesis started with the statement "We sell promises" and was clearly meant as a farewell to the insurance industry's recent history - with various malpractices and exuberant remuneration schemes for members of the BoD – and a clear choice to become a 'sustainable insurer'.

As we have attempted to assess in the previous chapters and within the context of this thesis paper, what sustainable insurance is and which dimensions of the insurer's business model it comprises, the next step will be setting up the conceptual research framework and the generation of the CSR approaches specifically for sustainable insurance. With these essential research tools, the answer of the main research question - "what is the current business case of sustainability within the insurance industry?" – can be addressed in the next chapter.

4.1 Conceptual model

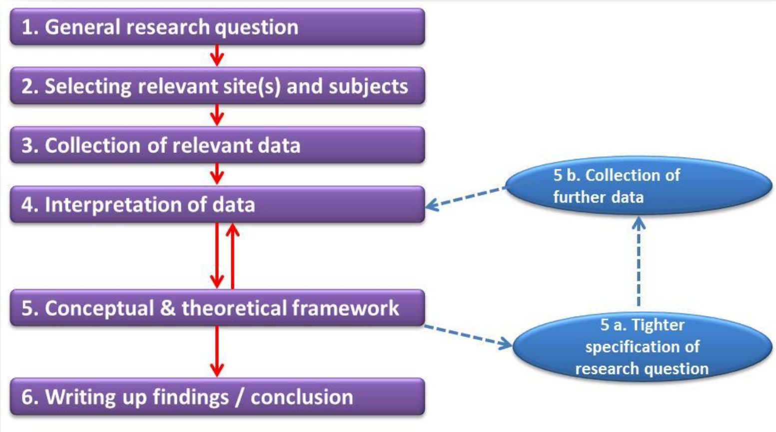
The conceptual framework depicted below gives insight in the structure and purpose of this thesis and the research design. Th CSR achievements of various insurance companies will be assessed on how they cope with the industry and sustainability challenges in the context they operate. Based on the research results, claims might be made with regards to the exposed approach and attitude towards sustainability and how to transition from a passive to an active and holistic approach of sustainability.

Figure 4.1 – Conceptual framework

4.2 Research plan and sources

As stated in the introduction of this thesis, academic research and policy thought on sustainability in the insurance industry is scarce. Hence, this research has an explorative nature and regarded as a qualitative research. The methodology followed the below depicted sequential steps. Firstly, the general research question was posed as to what the current status of sustainability is within the insurance industry. Various sources of published data were examined on the insurance industry and sustainability in general. For the specific case study, a detailed overview of each firm and its sustainability activities was generated by consulting company websites and some internal research. Secondary sources of information including annual reports, company presentations, analysts' conference presentations and market research data were collected.

Figure 4.2 – Qualitative research outline
Source: Bryman & Bell, 2003:406



This research is based on non-life and life insurance companies, regardless of whether they are stock-owned, mutual or largely owned by the government. Twelve life and non-life companies were examined.

The quotes, narratives, insurance data and estimates cited in this research, originate primarily from officially published and accessible annual reports and - if available – sustainability reports by the insurance companies. Generally the 2011 reports have been used. Macroeconomic data was sourced from open interviews and the Swiss Re academic research institute reports and other scientific resources.

Assessing the actual implementation of the sustainability initiatives is not part of this research.

4.3 Sample

To answer the research question at hand, an explorative research with convenience sampling method is most applicable as the research aims for a sample of leading companies within the population of interest - the global insurance industry.

Twelve cases were selected from the Forbes Top 25 biggest Insurance companies [42] (May, 2010) to illustrate the current status of sustainability in the insurance industry. By reviewing these globally present insurers, a closer insight is created as to what extent sustainability is addressed and what attitude can be observed in dealing with the described current challenges on a microeconomic and macroeconomic scale.

Defining criteria for the choice of the convenience sample were:

- Information accessible in English, German, Spanish or Dutch
- Only non-life and life insurers (no pension funds)
- (Preferably) link to global insurer or independently globally active
- Representing at least 3 regions (America, Europe and Asia)
- Having insurance activities in emerging markets
- Preferably distinction between mutual, government-owned and stock-owned insurers.

These criteria excluded the currently two world´s largest insurance companies – China Life Insurance and Ping An Insurance – for which no English site or documentation were available.

Four insurers were not ranked in the Forbes list, but were added to the convenience sample in order to cover all the above mentioned criteria.

42 http://www.economywatch.com/insurance-in-world/top-insurance-companies.html?page=full

Table 4.1 – Convencience sample

# ranking	Insurer	# ranking	Insurer
3	Allianz	15	Tokio Marine
4	AXA	17	QBE
11	Metlife		AEGON
12	AIG		Mapfre
13	Prudential		LIC
14	Aflac		Bajaj Allianz

4.4 Independent variables

Particular interest was put into the geographic split of the insurance companies to determine which indicators and what approach is chosen in different countries and which services are offered in different segments (life and non-life business). This information is essential to identify the possible different CSR approach in the respective region and product portfolio.

Another interest was the influence of credit rating of the insurance companies on CSR performance on the various indicators. Thus, as independent variables for this research the following indicators are used to analyse the gather data:

- Business size (annual turnover)
- Type of ownership
- History CSR reporting
- Region
- Type of market
- Credit Rating

Business size
Business size is based on the annual total amount of revenues.

Type of ownership
Type of ownership describes whether the insurer is registered at a stock-exchange and has issued more than 50% of its share on the public market or mutually and/or governmentally owned.

History of CSR reporting
This is defined as the first year when the insurer started reporting on CSR in a separate section and has been doing so since that first year.

Region
The region refers to the CSR regime regions (see chapter 3), which are N-America, Europe and Asia. Two other 'hybrid' regions have been added - Pacific and S-America – to define and cover all relevant parts of the world in this sample.

Type of market
The designation of the type of market or economies mentioned as "advanced" or "emerging" is generally in keeping with the conventions of the International Monetary Fund (IMF). Advanced economies include US, Canada, Western Europe (excluding Turkey), Israel, Oceania, Japan en the newly industrialised Asian economies (Hong Kong, Singapore, South Korea and Taiwan). All other countries are as "emerging" and generally correspond to the IMF's definitions.

Credit rating
The credit rating of Standard & Poor is used to classify the creditworthiness of the insurer.

Table 4.2 – S&P Credit rating and explanation
Source: Standard & Poor's rating services

Rating	Explanation
AAA	Extremely strong capacity to meet financial commitments. Highest Rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BBB-	Considered lowest investment grade by market participants.
BB+	Considered highest speculative grade by market participants.
BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable.
C	Currently highly vulnerable obligations and other defined circumstances.
D	Payment default on financial commitments.

Note: Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

4.5 Sample data

Based on the available data in the company's annual report, the following data has been gathered and will be used in the research.

Table 4.3 – Sample data of independent variables

Insurer	Annual turnover *	Stock-owned	1st CSR report	Region	Market	Credit rating (S&P)
AEGON	$38,0 billion	yes	2003	Europe	A	A-
Mapfre	$30,7 billion	yes	2004	S-America	E	A-
Allianz	$135,0 billion	yes	2005	Europe	A	AA-
Tokio Marine	$38,4 billion	yes	2005	Pacific	A	AA-
AXA	$112,1 billion	yes	2005	Europe	A	AA-
Prudential	$63,8 billion	yes	2011	N-America	A	AA-
Metlife	$65,3 billion	yes	2011	N-America	A	A-
Aflac	$22,4 billion	yes	2012	N-America	A	AA-
AIG	$64 billion	no	**N/A	Europe	A	A-
LIC	$10,9 billion	no	N/A	Asia	E	BBB-
QBE	$18,3 billion	yes	N/A	Pacific	A	A-
Bajaj Allianz	$894 million	yes	N/A	Asia	E	AA-

* = turnover in EURO are recalculated in USD with exchange rate 1 euro= 1,302 usd

** = first and last CSR report of 2007

4.6 CSR approach framework for sustainable insurance

In order to classify the current business case of sustainable insurance, the theoretical CSR approach framework (see table 3.2) has been translated into a practical framework for the discussed insurance industry and contextual challenges. The specific approaches per indicator and sub indicator are described and form the model which is used as classification framework for this research.

Table 4.4 – CSR approach framework – Sustainable Insurance (part 1)

Indicator	Subindicator	Inactive	Reactive	Active	Pro-active
CSR	**General attitude**	No ambition for CSR. However, some steps labelled as CSR might be initiated if forced form outside.	Our CSR initiatives are providing to the welfare of society, within the limits of regulations.	Our CSR policy is aimed at integrating social, ethical and ecological aspects into our business operation and decidion making, provied it contributes to our mission.	We are constantly striving for solutions which create value in the economic, ecological and social environment and do have a win-win approach together with all stakeholders.
Consumerization	**Customer oriented focus** (kw: customer, strategy, focus, satisfaction)	We have an organizational focus on the customer which in turn contributes to a good growth in business and profitability.	Customer oriented focus is important.We are constantly challenged as our market is intensely competitive, and every day our customers are more informed, demanding, and restless. We need to stay tuned to their behavior.	We constantly ensure we understand our customers' expectations and pursue innovative ways to exceed them. We constantly challenge ourselves and each other to excel and are accountable for what we do and how we do it. We constantly ask ourselves if we are truly attentive to customers in everything we do.	We have a continuous dialogue with our customers and Consumer Associations to co-create a strategy in which we together anticipate on oncoming trends, legal changes or governmental policies to create the best options for our customers.
	Customer knowledge (kw: customer, data, knowledge, consumer, report, db, crm)	We do know the profitability of our customers.	We use the customer feedback in surveys to adjust our products and/or services.	We are building up data on our customers from all sources to serve and provide them proactively with advice, service, products that will fit their needs and personal conditions.	Customer knowledge and thus their participation are at the centre of our business and define all our business choices. We are striving to maintain the continuity of our and our customer's social environment through the conversation. In constant dialogue participants will focus their attention to the context surrounding them, sharing their drivers to one another. The result of this co-orienting is the mutual framing and thus aligned response in business focus.
	Long term relationships (kw: long term, relationship, customer)	We provide good insurance products and services for the long term.	We focus on retention and prolongation of our policies with our customers to keep our marketshare and stay ahead of competition.	We work together with our customers to build long-term relationships based on mutual respect. We listen actively, speak honestly and act fairly with one another.	Our mission is creating a customer base with the longest long-term relationships based on trust instead of focus on profitability and marketshare. We strongly believe that is the only way to support and safeguard our customers in life changing moments.
	Financial literacy (kw: training, consumer, education, communication, explanation)	We provide our customers with insurance product information in the terms and conditions documentation enclosed in the quote and/or when purchased.	We provide our customers financial information for personal planning and information on our products in a simple manner and avoiding 'small prints'. We do have helplines available if required (call centre or website FAQ).	We feel responsible for informing and educating citizens in general extensively on the financial context and impact of their choices by offering them personal advice, courses and special (web)training programmes.	We co-operate with educational institutes, government and consumer organization to educate all citizens and business on finances in general in order to enforce them to be able to make and assess independent choices for their own situation.
	Risk eduction customers (kw: risk, training, customer, education, explanation)	We provide risk information in the terms and conditions documentation enclosed in the quote and/or when purchased.	We educate our customers on risk exposure when purchasing the insurance product and/or if the exceedingly high customer claims history inclines us to do so.	We are stimulating research/setting up programmes on risk management in order to educate and prevent citizens and businesses to reduce risk exposure in general and financially.	To make our society a safer place, we have joined forces with all kinds of stakeholders (customers, research institutes, SME's, governments) to educate civil and business society on risks in life and work and how to mitigate or anticipate on them.
	Social inclusive approach (kw: customer, inclusion, participation, social, low, minority)	Our products and services are reasonable priced.	We provide our products for specific segments in the market with lower prices and coverage to remain competitive.	Insurance should be available for anyone. We feel it is important to provide micro-insurance products for low-income groups and/or social minorities to safeguard them from financial/personal losses at affordable premiums.	We co-create insurance products and services with customers, NGO's, regulators and customer associations that will match with the interests of low-income groups in order to safeguard them and provide them with opportunities to leave the poverty trap.

Table 4.4 – CSR approach framework – Sustainable Insurance (part 2)

Indicator	Subindicator	Inactive	Reactive	Active	Pro-active
Innovation	**E-delivery** (kw: e-commerce, internet, channels, distribution)	We use e-commerce to reduce our operational expenses on communication and document sharing.	All policy issuance is now done through an automated module which allows customers as well as intermediaries to track the status of their proposals through the customer portal.	We offer websolutions for all our stakeholders to view, change and pay their insurance policies at any time required. Documents can be down- and uploaded to save time and money for all parties.	We strive to engage our employees and external stakeholders in our e-delivery and have developed a symbol that represents commitment to all those participating in environmentally sound printing and e-delivery.
	Organizational agility (kw: agile, flexibility, structure, organizational, response, responsiveness, reorganize, adjust)	We only reorganize if our costs force us to do so.	We respond by adjusting our organization model and/or structure if required by market opportunities	Our organizational agility enables us to create and take advantage of new growth opportunities and respond to new customer requirements in advance.	All relevant stakeholders, customers and employees have incorporated agility in their way of working in which win-win project objectives do define the organizational structure and focus.
	Simple business processes (kw: processes, simple, operational, excellence, efficiency)	Our processes need to be efficient and cost-effective.	We have made our business processes simple to be more operationally effective and efficient, to deliver our commitment to the customer.	We want to be transparant and understandable in everything we do and therefore constantly strive for simplicity in our business model and processes to offer our customers operational excellence.	We strive for complete transparency, simplicity and understanding of our business processes in everything we do for our all stakeholders and work alongside each other to achieve that.
Product diversification	**Built-in customer input** (kw: customer, participation, forum, feedback, products, input, co-creation, product development)	We develop and adjust products and services that we believe will add value for customers.	We use customer feedback forms and claims history to adjust our products and services to comply with their needs.	Product and services are developed based on input and feedback directly from customers through consumer panels and laboratories.	We co-create insurance products and services with customers, regulators and consumer organizations that will match with the interests of all stakeholders.
	Unit (or investment)-linked products (kw: unit-linked, investment-linked, products, communication, responsiblity, risk)	We are convinced that unit-linked products are good insurance products.	We are aware of the risks involved with unit-linked products and do inform our customers of the risks involved. However, the products could still yield interesting profits.	We no longer want to expose our consumers to intransparant products and possible losses and have taken these products out of the current portfolio.	We developed together with pension funds, regulators and consumers new life insurance products for long term investments and clear.
	Sustainable/new products (kw: new, sustainable, green, products, financial, insurances, eco)	We only develop new sustainable products if the business model is profitable and they do not require any major organizational adjustments.	We respond to (new) legislation, competition or customer demand to develop new and sustainable insurance products and services.	The economic and ecological climate in which our customers operate and live in, stimulate us to provide them with efficent and green new insurance products (i.e. weather insurance, eco-car insurance) to reduce pollution.	Together with the industrial industry, government, consumer organizations and NGO's we are interactively developing ethically honest products that will serve society, business and environment in the long term.
	Financial safety (kw: customer, product, financial, safety, stability, trust, safe)	We will only pay out claims on our policies, if the conditions are met.	We understand that our insurance products form a financial safety net for our customers in times they need it.	Our customers need to feel safe, confident and secure in times of uncertainty. We have our business processes designed to process and pay out their claims asap and support them through this process.	We work together with customers, other insurers, governmental organizations to set up a financial safety network for all citizens and businesses, to provide complement insurance products for financial safety in all uncertainties.
	Targeted products (kw: segment, target, product, group)	We only develop target products for customer segments if the business model is profitable.	We develop target products for specific segments to keep up with the competition and not to lose market share.	All our customers are unique. We are aware of the socio-demographic heterogeinity of our customers and the specific insurance products that need to fit their social/cultural/ financial circumstances.	Together with NGO's, regulators and other stakeholders we strive to provide financial safety in insurance products that will enable each civilian to live and undertake and create equal opportunities for everyone.
	Pricing / Premiums (kw: product, price, pricing, premiums, tariff, fixing)	Our pricing is done by us and based on the risks involved and maximised profit margins.	Our pricing is based on the competitor's pricing and needs to comply with acceptable profit margins.	Our customers are constantly consulted to price the value the insurance products provide them. The outcome is leading in our pricing strategy.	Our pricing is set in close co-operation with our stakeholders based on complete transparency (required for financial legislation, solvency and risk bearing capital and margin). If profit margin is higher than accepted, together is decided margin is refunded or otherwise.
	Guarantees (kw: guarantee, customer, future, conditions, product)	We are exposed to various risks and therefore can and do not offer guaranteed values in our products.	We inform our customers on the risks involved of our products and offer them less profitable alternatives.	We realize that guaranteed value gives our customers certainty and offer minimum benefit guarantee if premiums are invested in safe funds or offer policy renewal options to lock in such a guarantee.	Customers and stakeholders are actively engaged in setting up guarantee constructions or other alternative that would provide future financial safety for all parties involved.

Table 4.4 – CSR approach framework – Sustainable Insurance (part 3)

Indicator	Subindicator	Inactive	Reactive	Active	Pro-active
Ownership	**Shareholder interests** (kw: shareholder, interest)	Shareholders are invited to the annual shareholder meeting and will receive dividend, if - according to the regulations - financially feasible.	We will continue to look for opportunities to build our business and are keeping our operating expense ratio low to allow us to give the best premium to customers, which should ultimately create margin and return on dividends for our shareholders.	We have an active Investor Relationship programme that facilitates dialogues with and surveys amongst (private) shareholders, bridging the gap between our organization and our investors and informing them of business decisions that might impact share value.	Shareholders fully participate in the management of our organization by involving them in business strategy and management decisions in order to create mutually accepted and beneficial objectives to ensure long-term sustainable insurance and acknowledge the insurer's role in society (invisible hand).
	Stakeholder interests (kw: stakeholder, NGO, government, dialogue, interest)	Stakeholder interests are met and covered in our general communication strategy.	We interact with our stakeholders on integrity and liability issues to secure our reputation and market share.	We value our stakeholders as important enablers and gauge meters for our long-term business success. We seek co-operation and are constantly looking for opportunities in which all can win.	All stakeholders are involved in discussing our business strategy and model in which 'listening before speaking' and constructive and open dialogues are crucial. By co-creating strategy together with focus on combining of social ethics and business efficiency we are creating long-term social value.
	Blockholder interests (kw: stockholder, institutional investor, majority, shareholder)	Blockholders are invited to the annual shareholder meeting and will receive dividend, if - according to the regulations - financially feasible.	We will continue to look for opportunities to build our business and are keeping our operating expense ratio low to allow us to give the best premium to customers, which should ultimately create margin and return on dividends for our blockholders.	We have an active Investor Relationship programme that facilitates dialogues with and surveys amongst our blockholders, bridging the gap between our organization and our largest investors and informing them of business decisions that might impact share value.	We realize that blockholders are our primary owners and we do need to be in constant dialogue with each other to engage ourselves in business strategy and management decisions which create mutually accepted and beneficial objectives to ensure long-term sustainable insurance and acknowledge the insurer's role in society (invisible hand).
Risk management	**Investment policy** (kw: investment, portfolio, risk, mitigation, value)	We invest in businesses that will deliver the highest risk-adjusted returns for shareholders in relation to the expenses .	We periodically adjust limits and review exposures for risk mitigation to provide reasonable assurance that we do not incur excessive levels of asset risks.	We need to guarantee solvency to our customers and strongly believe that diversified investments are necessary. Earnings from these investments which could provide additional income allows us to charge lower premiums and return value to the policyholder.	All stakeholders are involved in setting up an investment policy that will mitigate risks, spreading over various safe investment funds and contributing to the long-term oriented solvency and offering financial safety to customers and society in general.
	Responsible investments (RI) (kw: responsible, investment, P(RI), ethics, adaptation)	We invest in assets that will deliver us the best yields in our own interests.	Disclosure provisions issued by governmental regulators stimulate us to rethink our investment portfolio.	We are signatories to the Principels of Responsible Investment (PRI) and acknowledge that in our role as institutional investor we do have responsibiilties towards improving society and the environment. Thus we invest into an ESG friendly portfolio.	We employ an open dialogue with our stakeholders, fund managers and company's management to urge policy change towards long term sustainability if necessary. If the dialogue with these funds/ companies has been satisfactory investments will be reconsidered. If not, funds will be withdrawn. CSR is completely integrated.
	Long term risk mitigation (kw: long term, mitigation, strategy, risk,erm)	We are using traditional derivative products to hedge and mitigate risks in our investment portfolio (i.e. CDS).	We are setting up a risk management framework that will evolve as the business and the environment in which we operate changes.	We have implemented an enterprise risk management system to proactively manage the various risk throughout our organization with a framework that supports informed and controlled decision making and allows us to effectively identify and deal with opportunities and issues.	Together with stakeholders in the financial markets and regulators we are working together for the design and implementation of a global risk analysis system and alternative instruments to hedge risks long-term in order to guarantee the insurer's solvency and its commitment to the policyholder and society.
	Risk eduction staff (kw: risk, education, culture, embedding, erm)	We have a risk culture and are emphasizing low tolerance for operational risks as they can severly impact our financial results and shareholder returns.	We encourage an environment and culture in which employees understand their responsibilities and feel comfortable in raising concerns, to avoid these from happening and to safeguard our reputation.	We have risk responsibility training sessions and our first role is to facilitate safe risk-taking in our day-to-day insurance practice. We want as many employees as possible to adopt the behaviour of a risk manager and incorporate it into their day-to-day work and have risk managers actively refreshing and monitoring its progress.	We are working together with financial institutions, law enforcers and police to continuously train and create awareness to our employees for possible risks in underwriting or claims, but also on how to educate customers to avoid risks from occurring for their own safety.
	Equity (investments) market risk (kw: equity, assets, risk, derivatives, market)	We use derivatives to mitigate our equity exposure.	Our asset management works closely with risk management to ensure that the specific characteristics of the insurance products portfolio are matched into the risk profile of the equity investments.	Our overall portfolio is dominated by fixed-maturity securities.We actively try to limit our exposure to derivatives and tend to invest in governmental bonds, despite lower returns, in order to guarantee long-term financial safety for our customers.	Together with stakeholders in the financial markets and regulators we are working together for the design and implementation of alternative instruments to hedge risks long-term in order to guarantee the insurer's solvency and its commitment to the policyholder and society.
	Insurance risk (kw: insurance, underwriting, risk, moral hazard, management)	We underwrite each risk, as long as it complies with our terms and conditions and is profitable.	We diversify in region and products when underwriting risks, to avoid risk concentration whilst attentive to our reputation.	We actively use our historic knowledge and business ethics in underwriting insurance risks and are considering this as if entering in a long term relationship with our customers.	Together with other stakeholders we combined knowledge and have set up social and ethical criteria as to which risks we underwrite to stimulate and steer social and business initiatives in sustainable value for society and environment.

Table 4.4 – CSR approach framework – Sustainable Insurance (part 4)

Indicator	Subindicator	Inactive	Reactive	Active	Pro-active
Governance	**Primary responsibility BoD** (kw: Board of Directors, responsibility)	CSR and sustainability do not belong to the primary responsiblity of the BoD.	The BoD is responsible for managing corporate social responsiblity issues to safeguard the company's reputation.	The BoD is charged with the overall management of the company and is responsible for achieving the corporate social responsibility goals and managing those issues.	Together with all stakeholders, the BoD defines its primary responsibilitieswhich need to cover the interests of all stakeholders. The BoD will act accordingly and focus on long-term oriented strategy.
	Value of trust (kw: BoD, trust, promise, worthy, regain, restore)	Trust does not play a role in our governance model.	Our customers demand us to be trustworthy.	Trust is an important element in insurance. We challenge ourselves to communicate with honesty and integrity towards our customers.	We only operate in complete trust and honesty towards and with our customers and stakeholders and ask them frequently to assess our integrity and transparancy based on mutually designed requirements.
	Board structure (kw: indirect, direct)	Our BoD does not have independent directors in the BoD	Independent directors need to be a part of our BoD.	More than 50% of our BoD are independent directors.	More than 50% of our BoD are independent and all our stakeholders ought to be represented (if not conflicting)
Regulations	**(Self-imposed) Code of Conduct** (kw:sustainability, conduct, ethics, partners, responsibility)	We have a Codes of Conduct.	We have Codes of Conduct for employees to outline the terms to be followed while conducting insurance activities, so they don't do things wrong.	We have established committees / training teams to involve employees in internalizing the code of conducts and constantly engage them and make them aware of new risks/compiancy issues that might occur.	We have established a dialogue with our staff, regulators and stakeholders to participate in setting up a mutally supported code of conduct and focus on training all employees continuously to internalise it into their own work ethics.
	Adherence to Financial regulations (kw: IFRS, SoX, Gramm, Dodd Frank, Solvency, compliance)	We comply with the financial regulations if the benefits will pay-out the expenses.	We comply with the financial regulations to avoid litigation, reputational damage or losing our licence to operate.	We anticipate on oncoming regulations and want to be as transparent as possible towards all stakeholders.	We co-operate with regulators and government as an equal sparring partner in a think-thank to co-create new legislation that will benefit all stakeholders (incl. customers).
Distribution	**Multi-channel availability** (kw: availability, access, distribution, channels, customer, preferences, needs)	If sales channels prove to be profitable, we will use them to reach our customers.	We have expertise in all four distribution channels — face-to-face, bancassurance, brokers and direct — which allows customers to purchase our products how they wish.	We are constantly developing and focused on providing access for all customers to our services in any available and affordable way to support them in times when they need us.	Together with our stakeholders we contiously monitor all technical and traditional communication opportunities to develop new and affordable ways to support and include all our customers in any possible way that fits their living condition and budget.
	Company values & partnerships (kw: conduct, code, values, partners, share, compliance)	We ask our partners to sign our code of Conduct when we enter in a partnership.	Our business partners, such as agents, and brokers represent us and our brand to the customers, and they are expected to adhere to the spirit of our Code, and to any applicable contractual provisions, when working on behalf of us.	Our partners should share our convictions and provide similar quality of services and showing socially and environmentally responsible behavior. We are monitoring the behaviour actively.	We are working with all partners and competitors to set up a generic framework for industry ethics and focus on harmonizing our standards on fair business to create a fair and honest playing field.
	Supply chain responsibility (kw: supervision, responsible, code, conduct, fair, transparency, incentives, fees)	We focus on economies of scale and profit maximization. Each partner that contributes to our goal, is welcomed.	We enter in partnership that will contribute to our objectives, our reputation and profitability.	We participates in mutually beneficial partnerships with partners and institutions that deliver value to our customers and reflect our position towards our sustainability standards (i.e. diversity, social inclusive business).	We are in constant dialogue with all partners of our supply chain to challenge each other on staying close to the primary function of the insurance industry and act accordingly in a ethical, social and environmentally responsible manner.
Remuneration	**Disclosure BoD remuneration** (kw: compensation, remuneration, policy)	We do not publicly disclose the remuneration policy of the BoD.	Due to public pressure, we do disclose the general BoD remuneration policy with low level detail.	We do disclose the BoD remuneration policy with high level detail and are open for criticism.	We do disclose the BoD remuneration policy with high level detail, achieved results and actual pay-out per BoD member.
	"Claw back" provision (kw: compensation, shareholder, vote, call back)	The BoD approves on the remuneration proposal for the BoD independently.	The Compensation committee (or equivalent) approves on the remuneration proposal by their own committee for the BoD before pay-out.	The shareholders approve on the remuneration approval by the Compensation committee for the BoD before pay-out.	All stakeholders - including tradeunions and regulators - approve on the remuneration proposal by the Compensation committee for the BoD before pay-out.
	Sustainability objectives (kw: BoD, compensation, remuneration, CSR, sustainability, objectives)	Sustainability objectives are not part of the BoD's targets.	Sustainability objectives are only part of the BoD's targets if legislation obliges us to do so.	Sustainability objectives are part of the BoD targets and will be assessed as part of the remuneration package accordingly.	Sustainability objectives will be discussed and set in dialogue with all stakeholders, NGO's and trade unions and will be assessed on gained achievements before pay-out.
People Development	**Diversity** (kw: diversity, HR, people, staff)	We recruit new employees that fit in our culture and can contribute to our company's profitability.	We feel that all ethnic and social segments of society should be represented in our staff and could be a source of strength for our company.	Bringing in all different flavours or society in our company enriches our culture and improves our understanding of the community we operate in to provide our customers with better aligned service.	Each qualified employee - thus including women and ethnic minorites - should be able to engage in management positions and bridge the social and cultural distance of the organization on board level and truly reflect the equality and equity principles. The trade union will supervise the progress.
	Development (kw: people, staff, employees, development)	We only develop employees if required for their job and when adding value to their productivity.	We provide employees opportunities to develop themselves and offer them support and budget to excel in their job, add value to their career within our organization.	We have set up various development programmes - in cooperation with renowned educational institutes - for employees at all levels to develop themselves and provide them opportunities for the next step.	Together with talent review experts we assess and work on your talents and are constantly striving for the best match between your talents and opportunities within our organizations to do just to your own personal needs and align this with the company's objectives.
Traditional CSR indicators					
Environment		Environment is exploited for short-term gain withough concern for long-term consequences	Environmental measures reduce our impact on the environment and directly improve our profitability . It will improve our reputation through project participation or philanthropy.	We finance knowledge institutes to provide more research on economic, societal or ecological changes to inform customers to reduce environmental pollution and risks.	The expertise of all stakeholders (i.e. universities, NGO's, government etc) is shared to counter the environmental risks from a holistic perspective and reducing the effects on the environment.
Society		Social welfare is the responsibility of the state or trusts, and not an insurer.	We invest in various social projects (through our corporate philanthropy organization) which are close to our customers.	We feel responsible for contributing actively in improving the social and/or environmental conditions of society by voluntary work of our employees or participating in partnerships.	As an insurer our primary function is to provide the 'invisible hand' and security for society. With all stakeholders we actively set up long-term partnerships or co-found new non-profit organizations to improve societal issues.

5 Research results of sustainable insurance

In the previous chapters various initiatives are described that have been undertaken, by acknowledging the commercial opportunities and economic necessity of sustainability. However, as has been concluded as well, it is too soon to state that the term 'sustainable insurance' does have a clear notion of implementation and defined and extensive set of principles to operate on. If so the industry would have a good understanding of these principles and implementation of sustainable insurance.

However, this research may suggest the opposite. Very little has been published and even less academic research has been done on defining the actual concept of "sustainable insurance". Narratives from the annual sustainability reports of two global players of the insurance industry seem to support this initial conclusion.

Narratives from two global insurers:

"*We have a role as an international corporate citizen; and as a company whose business is to protect people over the long term, we have a responsibility to help build a more sustainable society. It is essential to build the trust of employees (CR is a key driver of employee motivation and engagement, and influences graduates' choice of employers), and the trust of customers, as CR is an increasingly significant driver of brand trust. It is a risk / opportunity management imperative: CR enables AXA to cut costs and to limit certain business and operational risks, while maximising market opportunities in emerging or future commercial segments to generate new revenue streams*". (AXA Group, 2012)

By taking on responsibility to create a more sustainable society, AXA clearly perceives its role in building trust with employees and customers. This social element seems closely related to financial drivers which are limiting corporation's risks and generating new revenue opportunities.

"We believe that business success is not incompatible with respect for the environment, human rights, and the broader communities in which we operate. We endeavour to provide products and services that are transparent and easy to understand, helping customers secure their long-term financial futures. We act as a responsible employer, providing the conditions, incentives and formal training its employees require for personal success. AEGON takes measures to help reduce the impact of its business operations on the environment, seeking to limit energy use and curb unnecessary waste. We recognize our position as a leading institutional investor and strive to ensure that its investment decisions take into account not only the need for profit but also the interests of all legitimate stakeholders and the wider communities in which the company operates. We endeavour always to provide clear, accurate, timely and transparent information so that investors, customers and other stakeholders can make the right financial decisions for themselves and their families." (Aegon, 2010)

AEGON is aware of its responsibility with and the impact of its activities on various stakeholders and wider communities. Products provided ought to be transparent and investments responsibly made and with profit. Although both insurers seem to commonly strive for a more sustainable society, each seems to have its own definition of sustainable insurance. This results in differences in scope and implementation.

This chapter will start by analysing the insurer's vision and mission statements and compare them with the primary function of insurance, as found and established in the introduction. In order to arrive at a fair comparison of each insurer, a self-elaborated and developed CSR approach framework (see table 4.4) will function as the basis for assessment. The research results will be presented in sections 5.2 until 5.5 and this chapter close with conclusions.

5.1 Analysis of primary function and vision

Based on the definition of primary function "*create an environment in which the civil society is financially supported in case of life changing events and in which entrepreneurship can flourish in the business society and risks are mutually carried (solidarity principle)*", the vision and mission of the studied insurer have been analysed whether they did address these aspects in their corporation's goal.

Table 5.1. – Vision & Mission overview

Insurer & source	Vision	Mission	Link to Primary function
AEGON www.aegon.com	We want bo be a leader in all our chosen markets by 2015. This means becoming the most recommended life and pensions provider among customers, the preferred partner among distributors and the employer of choice for both current and prospective employees.	To reach our goal, we have set 4 strategic objectives: - Optimize portfolio - Loyal customers - Operational excellence - Empower employees	no
Aflac www.aflac.com	"We've got you under our wing" We pledge to be there for our policyholders in time of need.	Aflac's philosophy is to combine innovative strategic marketing with quality products and services at competitive prices to provide the best insurance value for consumers. * Building better value for our shareholders. * Supplying quality service for our agents. * Providing an enriching and rewarding workplace for our employees.	yes, in vision
AIG www.aigcorporate.com	Delivering on Our Commitments. At the core of AIG's business is a promise that we will stand behind our products and services. Personal and organizational integrity are critical to delivering on this promise and protecting our reputation.	N/A	no
Allianz www.allianz.com	To be the outstanding competitor in our chosen markets by delivering: * products and services that our clients recommend * a great company to work for * the best combination of profit and growth.	We will achieve our mission: * through outstanding technical, sales and leadership skills' * by being professional, socially responsible, dynamic, innovative and focused * with pace, teamwork, passion and style.	no
AXA www.axa.com/en	Help customers live their lives with more peace of mind...	Our ambition is to become the preferred company in our industry for all of our key stakeholders: our customers, our distributors, our employees, our shareholders and the society we live in. To deserve the trust our key stakeholders place in us we truly differentiate ourselves by redefining the standards of our business and by being available, attentive and reliable.	yes, in vision
BAJAJ Allianz www.bajajallianz.com	Vision - to be the first choice insurer for customers - to be the preferred employer for staff in the insurance industry - to be the number one insurer for creating shareholder value	As a responsible, customer focused market leader, we will strive to understand the insurance needs of the consumers and translate it into affordable products that deliver value for money.	no
LIC www.licindia.in	A trans-nationally competitive financial conglomerate of significance to societies and Pride of India	Explore and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development.	no
MAPFRE www.mapfre.com	To be the most preferred insurance company for its excellent customer service, enduring partnership with intermediaries, and highly professional way of conducting its business.	To deliver quality and innovative products and services to our valued policyholders and clients.	
MetLife www.global.metlife.com	The MetLife vision is to build financial freedom for everyone and emphasize our outward focus on customers and their needs	To be the leading global provider of life, accident and health, and retirement products and employee benefits. As a life insurer, we protect policyholders and their beneficiaries from loss of income resulting from death, disability or retirement. The promises we make are only as strong as the company that backs them up.	no
Prudential www.prudential.com	We are passionate about becoming the unrivaled financial services leader, trusted partner, and provider of innovative solutions for growing and protecting wealth.	To help our customers achieve financial prosperity and peace of mind.	yes, in mission
TOKIO MARINE www.tokiomarinehd.com	With customer trust as the foundation for all its activities, Tokio Marine continually strives to raise corporate value	* Through provision of the highest quality products and services, TMG aims to deliver safety and security to all our customers * By developing sound, profitable and growing businesses throughout the world, TMG will fulfill its mandate to shareholders * TMG will continue to build an open and dynamic corporate cultre that enables each and every employee to demonstrate creative potential * Acting as a good corporate citizen through fair and responbile management, TMG will broadly contribute to the development of society.	no
QBE www.qbe.com	To be the most successful global insurer and reinsurer in the eyes of our customers, our people, our shareholders and the community.	We will: * grow and deliver market-leading profitability in all our chosen businesses * excel in the design and delivery of our products and services. * develop "can do" people who live our essential behaviours in everything they do * increase the long-term wealth of our shareholders	no

A company's vision is a mental representation of the strategy[43]. This vision should inspire and steer the activities in the right direction. Based on the quotes, the majority of the insurers have a more instrumentalist interpretation and strategy with regards to their purpose of being than initially intended.

[43] Mintzberg, H., *Strategie Safari* (2009), p. 132

5.2 Overview CSR approaches on sustainable insurance indicators

The research results per insurance company and (sub) indicator are shown in the tables below. The most present approaches are accentuated.

Table 5.2 – Total sample: overview approaches (part 1)

Insurer		Metlife	AIG	Prudential	AXA	Allianz	AEGON	LIC	Aflac	QBE	Bajaj Allianz	Mapfre	Tokio Marine	Approach per (sub) indicator				
Indicator	Subindicator	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	N/A	I	R	A	P
CSR	**General attitude** (kw: CSR, strategy, embedding, values)	Reactive	Inactive	Reactive	Active	Active	Active	Inactive	Reactive	Inactive	Reactive	Active	Reactive	0	3	**5**	4	0
Consumerisation	**Customer oriented focus** (kw: customer, strategy, focus, satisfaction)	Reactive	Reactive	Active	Reactive	Reactive	Active	Reactive	Active	Reactive	Reactive	Active	Active	0	0	**7**	5	0
	Customer knowledge (kw: customer, data, knowledge, consumer, report, db, crm)	N/A	N/A	Active	Reactive	Reactive	Reactive	Active	N/A	N/A	Reactive	Active	Reactive	4	0	**5**	3	0
	Long term relationships (kw: long term, relationship, customer)	Reactive	Reactive	Active	Reactive	Reactive	Active	N/A	Active	N/A	Reactive	Reactive	N/A	3	0	**6**	3	0
	Financial literacy (kw: training, consumer, education, communication, explanation)	Reactive	Reactive	Active	Active	Active	Active	Inactive	Inactive	Reactive	Active	Active	Reactive	0	2	4	**6**	0
	Risk eduction customers (kw: risk, training, customer, education, explanation)	N/A	N/A	Reactive	Active	Reactive	N/A	N/A	N/A	Reactive	Active	Reactive	Active	**5**	0	4	3	0
	Social inclusive approach (kw: customer, inclusion, participation, social, low, minority)	N/A	N/A	Inactive	Reactive	Active	Active	Active	N/A	N/A	Active	Active	Reactive	4	1	2	**5**	0
Innovation	**E-delivery** (kw: e-commerce, internet, channels, distribution)	Reactive	Inactive	Active	Reactive	Active	Active	Active	Active	Inactive	Reactive	Active	Active	0	2	3	**7**	0
	Organizational agility (kw: agile, flexibility, structure, organizational, response, responsiveness, reorganize, adjust)	Reactive	Active	Reactive	N/A	Active	Reactive	N/A	N/A	Reactive	N/A	Reactive	N/A	**5**	0	5	2	0
	Simple business processes (kw: processes, simple, operational, excellence, efficiency)	Reactive	Active	Reactive	Inactive	Reactive	Inactive	Reactive	Reactive	N/A	Active	Reactive	Active	1	2	**6**	3	0
Product diversification	**Built-in customer input** (kw: customer, participation, forum, feedback,	Inactive	N/A	N/A	N/A	Reactive	Reactive	Inactive	Active	N/A	Reactive	Reactive	Reactive	4	2	**5**	1	0
	Unit (or investment)-linked products (kw: unit-linked, investment-linked, products,	Inactive	N/A	Reactive	Reactive	Inactive	Active	Inactive	Active	N/A	Inactive	Reactive	Inactive	2	**5**	3	2	0
	Sustainable/new products (kw: new, sustainable, green, products, financial, insurances, eco)	N/A	N/A	Inactive	Reactive	Active	Inactive	N/A	N/A	N/A	N/A	Active	Active	**6**	2	1	3	0
	Financial safety (kw: customer, product, financial, safety, stability, trust, safe)	Inactive	N/A	Reactive	Reactive	Reactive	Inactive	Inactive	Active	N/A	Reactive	Reactive	Reactive	2	3	**6**	1	0
	Targeted products (kw: segment, target, product, group)	Inactive	Inactive	N/A	Reactive	N/A	Reactive	Reactive	Active	Inactive	Active	Active	Active	2	3	3	**4**	0
	Pricing / Premiums (kw: product, price, pricing, premiums, tariff, fixing)	Inactive	Active	Reactive	Active	Reactive	Reactive	Inactive	Inactive	Reactive	Inactive	Inactive	N/A	1	**5**	4	2	0
	Guarantees (kw: guarantee, customer, future, conditions, product)	Inactive	Active	Reactive	Reactive	Reactive	Active	Reactive	Reactive	N/A	Inactive	Inactive	N/A	2	3	**5**	2	0
Ownership	**Shareholder interests** (kw: shareholder, interest)	Reactive	Reactive	Active	Active	Active	Active	N/A	Reactive	Inactive	N/A	Reactive	Reactive	2	1	**5**	4	0
	Stakeholder interests (kw: stakeholder, NGO, government, dialogue,	Inactive	N/A	Reactive	N/A	Active	Reactive	Reactive	N/A	N/A	Inactive	Active	Active	**4**	2	3	3	0
	Stockholder interests (kw: stockholder, institutional investor, majority, shareholder)	Inactive	Inactive	Inactive	N/A	Active	Active	N/A	N/A	N/A	N/A	N/A	N/A	**7**	3	0	2	0

		Metlife	AIG	Prudential	AXA	Allianz	AEGON	LIC	Aflac	QBE	Bajaj Allianz	Mapfre	Tokio Marine	N/A	I	R	A	P
Approach per insurer	N/A	9	13	3	5	3	1	**17**	14	15	15	4	8	107				
	Inactive	14	8	4	4	2	4	10	3	5	6	2	2		64			
	Reactive	**18**	**15**	**24**	**17**	**21**	16	8	7	**18**	**15**	16	**17**			**192**		
	Active	0	5	10	15	15	**20**	6	**17**	3	5	**19**	14				129	
	Pro-active	0	0	0	0	0	0	0	0	0	0	0	0					0

Table 5.2 – Total sample: overview approaches (part 2)

Insurer		Metlife	AIG	Prudential	AXA	Allianz	AEGON	LIC	Aflac	QBE	Bajaj Allianz	Mapfre	Tokio Marine	Approach per (sub) indicator				
Indicator	Subindicator	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	N/A	I	R	A	P
Risk management	**Investment policy** (kw: investment, portfolio, risk, mitigation, value)	Inactive	Inactive	Reactive	Reactive	Reactive	Reactive	N/A	Active	Reactive	Reactive	Reactive	Reactive	1	2	**8**	1	0
	Responsible investments (RI) (kw: responsible, investment, P(RI), ethics, adaptation)	N/A	N/A	Reactive	Active	Active	Active	Inactive	N/A	N/A	N/A	N/A	Active	**6**	1	1	4	0
	Long term risk mitigation (kw: long term, mitigation, strategy, risk)	Inactive	Reactive	Active	Active	Reactive	Reactive	Reactive	Active	Reactive	Reactive	Reactive	Reactive	0	1	**8**	3	0
	Risk eduction staff (kw: risk, education, culture, embedding, erm)	Reactive	Reactive	Reactive	Active	Reactive	Inactive	N/A	N/A	Reactive	N/A	Active	Reactive	3	1	**6**	2	0
	Equity (investments) market risk (kw: equity, assets, risk, derivatives, market)	Inactive	Inactive	Reactive	Reactive	Reactive	Active	Inactive	N/A	N/A	Reactive	Active	Active	2	3	**4**	3	0
	Insurance risk (kw: insurance, underwriting, risk, moral hazard, management)	N/A	Reactive	N/A	Reactive	N/A	Reactive	Reactive	N/A	Reactive	N/A	Reactive	N/A	**6**	0	6	0	0
Governance	**Primary responsibility BoD** (kw: Board of Directors, responsibility)	Inactive	Inactive	Active	Inactive	Inactive	Active	N/A	N/A	Reactive	N/A	Active	Reactive	3	**4**	2	3	0
	Value of trust (kw: BoD, trust, promise, worthy, regain, restore)	N/A	Reactive	Inactive	Active	Reactive	Active	N/A	Active	N/A	N/A	N/A	Reactive	**5**	1	3	3	0
	Board structure (kw: indirect, direct)	N/A	Active	Reactive	Active	Reactive	Active	N/A	Active	Active	Reactive	Active	N/A	3	0	3	**6**	0
Regulations	**(Self-imposed) Code of Conduct** (kw:sustainability, conduct, ethics, partners, responsibility)	Reactive	Reactive	Reactive	Reactive	Active	Reactive	N/A	Active	Reactive	N/A	Active	Reactive	2	0	**7**	3	0
	Adherence to Financial regulations (kw: IFRS, SoX, Gramm, Dodd Frank, Solvency, compliance)	Reactive	Reactive	Reactive	Reactive	Reactive	Reactive	Inactive	Inactive	Reactive	Inactive	Reactive	Inactive	0	4	**8**	0	0
Distribution	**Multi-channel availability** (kw: availability, access, distribution, channels, customer, preferences, needs)	Reactive	Reactive	Reactive	Active	Reactive	Reactive	Active	Reactive	Reactive	Reactive	Active	Reactive	0	0	**9**	3	0
	Company values & partnerships (kw: conduct, code, values, partners, share,	Reactive	Reactive	Reactive	Active	N/A	Active	Inactive	Active	Reactive	N/A	Reactive	Reactive	2	1	**6**	3	0
	Supply chain responsibility (kw: supervision, responsible, code, conduct, fair, transparency, incentives, fees)	Inactive	Reactive	Active	Inactive	Active	Active	Reactive	Active	Inactive	N/A	Active	Active	1	3	2	**6**	0
Remuneration	**Disclosure BoD remuneration** (kw: compensation, remuneration, policy)	Inactive	N/A	Reactive	Reactive	Reactive	Active	N/A	N/A	Active	N/A	Active	Active	4	1	3	4	0
	"Claw back" provision (kw: compensation, shareholder, vote, call back)	Reactive	Inactive	Active	N/A	Reactive	Reactive	N/A	Active	Active	N/A	Active	Reactive	3	1	4	4	0
	Sustainability objectives (kw: BoD, compensation, remuneration, CSR, sustainability, objectives)	N/A	N/A	Reactive	Inactive	Active	Active	N/A	N/A	N/A	N/A	N/A	N/A	8	1	1	2	0
Traditional CSR indicators																		
People Development	**Diversity** *(kw: diversity, HR, people, staff)*	Reactive	Reactive	Reactive	Reactive	Reactive	Reactive	N/A	Reactive	Reactive	Reactive	Reactive	Reactive	1	0	**11**	0	0
	Development *(kw: people, staff, employees, development)*	Reactive	Reactive	Reactive	Active	Reactive	Reactive	Active	Reactive	Reactive	Reactive	Reactive	Active	0	0	**9**	3	0
Environment		Reactive	N/A	Reactive	Active	Active	Reactive	N/A	Active	Reactive	Reactive	Reactive	Active	2	0	**6**	4	0
Society		Reactive	N/A	Reactive	Active	Active	Active	Active	Active	Reactive	Inactive	Active	Active	1	1	3	**7**	0

		Metlife	AIG	Prudential	AXA	Allianz	AEGON	LIC	Aflac	QBE	Bajaj Allianz	Mapfre	Tokio Marine	N/A	I	R	A	P
Approach per insurer	N/A	9	13	3	5	3	1	**17**	14	15	15	4	8	107				
	Inactive	14	8	4	4	2	4	10	3	5	6	2	2		64			
	Reactive	**18**	**15**	**24**	**17**	**21**	16	8	7	**18**	**15**	16	**17**			**192**		
	Active	0	5	10	15	15	**20**	6	**17**	3	5	**19**	14				129	
	Pro-active	0	0	0	0	0	0	0	0	0	0	0	0					0

In the next section, firstly an analysis will be made on the research result per (sub) indicator. In the subsequent section, secondly the potential impact of the various independent variables on the analysed sub indicators will be discussed.

5.3 Analysis CSR approaches on sustainable insurance indicators

In this section the research results as shown in table 5.2 will be discussed and analysed in more detail.

Consumerization

The indicator consumerization is built up by six sub indicators (see below). These elements combined should give an insight into approach of insurers towards the consumers and whether their changing consumer behaviour might have impact on that.

Table 5.3

		Approach per (sub) indicator				
Indicator	**Subindicator**	N/A	I	R	A	P
Consumerisation	**Customer oriented focus** *(kw: customer, strategy, focus, satisfaction)*	0	0	**7**	5	0
	Customer knowledge *(kw: customer, data, knowledge, consumer, report, db, crm)*	4	0	**5**	3	0
	Long term relationships *(kw: long term, relationship, customer)*	3	0	**6**	3	0
	Financial literacy *(kw: training, consumer, education, communication, explanation)*	0	2	4	**6**	0
	Risk eduction customers *(kw: risk, training, customer, education, explanation)*	**5**	0	4	3	0
	Social inclusive approach *(kw: customer, inclusion, participation, social, low, minority)*	4	1	2	**5**	0

Customer-oriented focus & knowledge

Based on the classification of the quotes found, the majority of the insurers do have a **reactive** approach towards consumers. This can also be said for the customer-oriented focus. When zooming in on building up customer knowledge and striving for long customer relationships, the same can be deducted, however a considerable number did not address these issues in the consulted sources at all.

Financial literacy

The responsibility to financially educate customers is taken on primarily with an **active** approach. The urge to inform customers more extensively on their financial choices and consequently its impact is present. However, the contents of the message are generally focused on the financial climate or industry in which the consumer has to make its choices and not the actual products.

Risk education customers

The extent to which the consumer is informed on the risks involved is not addressed by the majority. And if addressed, then it is mostly in a **reactive** manner. AXA has taken on a more **active** approach with their own research institute, which shares its results with customers and peers, and participation in local societal initiatives to educate consumers on risks.

Social inclusive approach

Offering micro-insurance products and services to usually low-income groups in society seems to be on the agenda with an **active** approach of five insurers. AEGON, AXA, Mapfre but also the Indian insurer LIC, are making it to their concern to include and cover the poorest segment of society.

Innovation

The indicator Innovation is built up by three sub indicators (see below). These elements are aimed at efficiency and simplification of processes for customers. All three combined do give an insight on innovative attitude and the extent to which innovative solutions might have impact on the operational performance towards stakeholders.

Table 5.4

Indicator	Subindicator	Approach per (sub) indicator: N/A	I	R	A	P
Innovation	**E-delivery** *(kw: e-commerce, internet, channels, distribution)*	0	2	3	**7**	0
	Organizational agility *(kw: agile, flexibility, structure, organizational, response, responsiveness, reorganize, adjust)*	**5**	0	5	2	0
	Simple business processes *(kw: processes, simple, operational, excellence, efficiency)*	1	2	**6**	3	0

E-delivery

The increasing use of internet as a distribution channel, with the help of portals and mobile devices, has raised the level of implementation of e-delivery solutions and explains the **active** approach of insurers. When classified as active, the insurers offer webportals for customers and brokers where they can view, change and pay their insurance products. When clicking to these 'login' buttons generally more login buttons appeared for each product and/or type of stakeholder. It needs to mentioned that cost reduction on paper usage, and then additionally customer value seem to be the main drivers behind this development.

Organizational agility

The organizational responsiveness or agility of insurers towards changes in the market or customer behaviour is rather **reactive or not addressed**. If addressed, the context of cost reduction and process optimization resulting in reorganization of organizational structure are mentioned. Metlife states that adjusting their company structure has increased the efficiency and collaboration between the American division and their satellites in the rest of the world.

Simple business processes

A rather **reactive** approach is taken on 'simplifying business processes' in order to improve on operational efficiency and excellence. AIG could be regarded as an active player in this field "*We have become simpler, divesting businesses to get us back to our roots in insurance and delivering on our commitment to help our clients*". Back to roots, seem to imply that they let go of all processes which were not contributing to their core insurance practice.

Product diversification

The indicator product diversification is built up by seven sub indicators, which all might have influence on the insurer's attitude towards adjusting insurance products. Generally the response to customer input and incentives to develop new and/or transparent products are taken into account, but all in a **reactive** manner.

Table 5.5

Indicator	Subindicator	Approach per (sub) indicator: N/A	I	R	A	P
Product diversification	**Built-in customer input** *(kw: customer, participation, forum, feedback, products, input, co-creation, product development)*	4	2	**5**	1	0
	Unit (or investment)-linked products *(kw: unit-linked, investment-linked, products, communication, responsiblity, risk)*	2	**5**	3	2	0
	Sustainable/new products *(kw: new, sustainable, green, products, financial, insurances, eco)*	**6**	2	1	3	0
	Financial safety *(kw: customer, product, financial, safety, stability, trust, safe)*	2	3	**6**	1	0
	Targeted products *(kw: segment, target, product, group)*	2	3	3	**4**	0
	Pricing / Premiums *(kw: product, price, pricing, premiums, tariff, fixing)*	1	**5**	4	2	0
	Guarantees *(kw: guarantee, customer, future, conditions, product)*	2	3	**5**	2	0

Customer input
Product development based on input from the customer directly is only described by Aflac. *"Our product development team continually researches financial burdens Japanese consumers face and present them to potential policyholders*". This might suggest that consumer panels are involved in their product development process. The majority of the insurers interact only with their brokers and employees in brainstorm session to gather input for product development. Bajaj Allianz describes that process as; *"various methods are adopted to build a pool of ideas for a new product such as group discussions, brain storming, suggestions from employees and insurance consultants. Ideas are also received from external sources such as customer survey, distributors as well as on the lines of products being offered by competitors*". However, the use of a survey from customers is only described in a responsive way where recurrent complaints or claims force insurers to adjust their products and/or services towards customers which was then classified as **reactive**. Classified as **inactive** and mostly inside-in, was a statement made by Metlife, which said; *"Metlife includes provisions limiting withdrawal rights on many of its products, including general account institutional pension products sold to employee benefit plan sponsors. Certain of these provisions prevent the customer from making withdrawals prior to the maturity date of the product*". Internal provision rules have impact on the product lay-out for customers and its flexibility.

Unit-linked products
Those insurers who sold or still sell unit-linked products only seem to have changed their sales approach slightly. The majority is focused on being present in a competitive market and are convinced that linking the insurance coverage to asset performance is acceptable when interest rates are low. That has been classified as an **inactive** approach. For example Allianz states that, *"in the highly competitive life market, we respond to the needs of our customers with an attractive range of traditional and unit-linked products in both group and individual business. Flexible and liquid unit-linked products became more competitive, as interest rates on bank deposits decreased (Eastern Europe)*". Interestingly, the countries where this practice is present are specifically mentioned.

Guarantees
With regards to building in guarantees to protect the customers for sudden drops in coverage, the approach seems more **reactive**. The majority seems to acknowledge that built-in guarantee are necessary, but do not make commitments. Prudential states, *"we seek to capitalize on the growing need of baby boomers for products that provide guaranteed income for longer retirement periods. Prudential believes that giving people the tools to manage savings to last a lifetime, such as products that offer guaranteed income for life, is a critical component of a sound retirement security policy*". AEGON is the one of the two insurers that do take on a more **active** approach by give customers a guaranteed lump sum, when invested in specific funds *"Variable unit-linked products: these products now have a minimum benefit guarantee if premiums are invested in certain funds*".

Pricing
Little is stated on pricing methods or structures. All insurers generally quote that pricing is based on risks involved and have an **inactive** approach which seem to address more their concerns with profitability than affordability for consumers. As Prudential states *"our profitability depends principally on our ability to price and manage risk on insurance".*

AXA has an **active** approach towards pricing and links pricing to a modular structure of their product portfolio. *"AXA today applies a simple approach for developing its offers: selling the right product at the right price. The rationale is to offer basic cover meeting essential needs at a competitive price. This base can then be supplemented by additional guarantees and services according to the customer's real needs. The method therefore takes into account the appropriateness of different types of cover for customers, their willingness to pay for this cover and the underwriting cost of the guarantee".*

Financial safety
The importance of the insurance product as a financial safety net – referring to the industry's primary function – is only addressed in a **reactive** way. The majority do acknowledge that "people do want to feel safe confident and secure in the face of uncertainty" but no action or commitment is attached to it. Aflac is the only insurer that links safety and process commitment, *"Our claims are processed quickly. Filing a claim with Aflac is never a 'wait and see.' Claims are usually processed within 4 days. Our forms are also easy to complete. So while you're focusing on your health, we focus on getting you a check quickly*". This has been classified as an **active** approach.

Sustainable products
The trend to develop more green and sustainable products is not visible. The majority of the insurers **do not address** this at all. There might be a link with the absence of customer built-in input. However there are also

good examples of **active** approaches. In their *"desire as an insurance company to counter the situation in India has led to the development of a weather insurance"* Tokio Marine show their concern and the consequence on their product lay-out. Mapfre specially designed *"the GAP (Guaranteed Asset Protection) policy for ecological cars or the Eco MAPFRE policy, which offer a discount at renewal for customers who passed the environmental vehicle inspection"* in order to stimulate the reduction of climate polluting cars.

Targeted products
The one sub indicator that stands out in product diversification is the development of targeted products. The majority of the insurers that do put effort in developing and designing products for a specific target group are of non-European and non-American origin.

Bajaj Allianz and Tokio Marine both seem to be aware of the socio-demographic heterogeneity of society. Various insurance products are targeted for specific segments in their insurance market, such as *"Critical Illness Cover Women"* - a women-specific critical illness insurance scheme that provides protection against the risk of 8 critical illnesses – and the *"Senior Citizen Travel Insurance"*. Aflac offers specific cancer insurances in the United States, knowing that in that country men have a one in two lifetime risk of developing cancer and women one in three. Their responsiveness and is regarded as **active**. Aflac seem to be taking on its 'positive duties' on the basis of which its insurance practice objectives were formulated, *"we pledge to be there in times of need".*

This in slight contrast to the as **reactive** defined approach of other insurers that do describe that they distinguish *"between the specific needs and expectations of different customers that helps building relevant solutions that combine the right products with the appropriate guarantees and associated services and the distribution channels that suit them best".* However that translation into locally and/or socially apt insurance products seem to lacks in their product portfolio.

Ownership

The indicator Product diversification is built up by three sub indicators, the way in which the interests are addressed of its owners, the shareholders and stockholders, and stakeholders.

Table 5.6

		Approach per (sub) indicator				
Indicator	**Subindicator**	N/A	I	R	A	P
Ownership	**Shareholder interests** (kw: shareholder, interest)	2	1	**5**	4	0
	Stakeholder interests (kw: stakeholder, NGO, government, dialogue, interest)	**4**	2	3	3	0
	Blockholder interests (kw: stockholder, institutional investor, majority, shareholder)	**7**	3	0	2	0

In general stockholder interests are **not addressed** specifically and possibly could be regarded as shareholders**.** More statements are made on shareholder's interest, but in a rather **reactive** manner.

Prudential, AXA, Allianz and AEGON are insurers with a more **active** approach towards shareholders. They each claim to have an active Investors Relationship programme which is focused on continuous interaction with stakeholders, and shareholders in particular. A quote from *"dialogue with private shareholders is another key component of our IR work. As in the previous year, we processed around 8,500 private shareholder enquiries in 2011"*.

Risk management

Management of risk exposure within the insurance industry has become a complex discipline. Not only its complexity, but the dynamics and possible correlation between the various risks make the management a challenge. The indicator risk management is built up by six sub indicators, which all might have influence on the insurer's attitude towards managing risks in the asset and insurance management practice. The majority of the responses can be classified as **reactive**

Table 5.7

Indicator	Subindicator	N/A	I	R	A	P
		Approach per (sub) indicator				
Risk management	**Investment policy** *(kw: investment, portfolio, risk, mitigation, value)*	1	2	**8**	1	0
	Responsible investments (RI) *(kw: responsible, investment, P(RI), ethics, adaptation)*	**6**	1	1	4	0
	Long term risk mitigation *(kw: long term, mitigation, strategy, risk)*	0	1	**8**	3	0
	Risk eduction staff *(kw: risk, education, culture, embedding, erm)*	3	1	**6**	2	0
	Equity (investments) market risk *(kw: equity, assets, risk, derivatives, market)*	2	3	**4**	3	0
	Insurance risk *(kw: insurance, risk, moral hazard, management)*	**6**	0	6	0	0

Investment policy
A largely **reactive and inactive** approach towards a description of the current investment policy is displayed. Insurers as AIG do not address or reveal details on their risk policy or possible alterations that might have been made recently. AIG states in their annual report 2011 that *"investments continue to be made in risk and marketing analytics, which will further strengthen AIG/Chartis' capabilities in these areas"*. Links between the economic downturn and subsequently necessary changes in investment policy as a result are not discussed. QBE claims that "*the foundation of our risk management is the obligation and desire to manage our future and create wealth for our shareholders by maximising profitable opportunities*". With the shareholder's interest in mind, risk management is seen as an obligation in order to guarantee dividend value.

The only insurer that actually claims to invest in risk management to protect its policyholders is Aflac. In their statement they seem to refer to the insurer's primary function by covering their expenses and returning extra profits. *"Our investment portfolio backs up the most important promise an insurance company makes: to protect our policyholders when they need it most by paying cash benefits in response to their claim. We invest premiums in various global assets. Earnings from these investments provide additional income that allows us to charge lower premiums and return value to the policyholder".* This is classified as **active**, since it appeals to a more virtue based approach and a corporate social responsibility of Aflac to take on this role.

Responsible investments
Insurers as institutional investors have a duty to act in the best long-term interests of their beneficiaries. In this fiduciary role, environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). Applying responsible investments may better align insurers with broader objectives of society. The four insurers that are classified as **active** are all signing parties to the PRI (see 3.5). This voluntary initiative instigated by the UNEPFI has been adapted and plays a role in their institutional investment activities.

All other insurers **do not make statements** at all or from a rather inactive or **reactive** perspective – such as LIC - by only stating that we need to "*bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return*". However, actively implementing ESG issues in their investment strategy is not addressed.

Long-term mitigation
Despite the considerable losses in their investment activities, the overall approach to embedding long-term risk mitigation measures into the insurance practice seems to be **reactive**. Few systematic changes were mentioned. Some of them, such as LIC, have appointed a Risk Management Committee to review the risk positions on a regular basis. Others have set up a risk framework or Enterprise Risk Management endeavours to monitor and compare risks on a corporate level.

The Metlife statement *"purchased credit default swaps (CDS) are utilized by the Company to mitigate credit risk in its investment portfolio*" is classified as an **inactive** approach to risk mitigation. A certain indifference to the risks that are involved with CDS are not addressed or acknowledged. As seen in chapter 3, that way of risk mitigation became popular by the end of the 1990's. However, the CDS markets have been the focus of much attention as they appeared not to be without risks. It was AIG's massive losses on credit default swap positions that led to their bailout.

The only insurer that clearly makes a statement with regards to their actual investments is Aflac. They claim that their investment portfolio is dominated by fixed-maturity securities. "*The vast majority of our investments in Japan are in Japanese Government Bonds (JGBs). As an insurance company, we are mindful of the changing investment landscape and will invest in a way that is in the best interest of our stakeholders*". Due to their implicitly expressed responsibility for the stakeholders, they try to invest in the right things. This approach has therefore been classified as **active**.

Risk education staff
The approach to training staff to create awareness for the risks involved in the insurance practice is largely **reactive** or not addressed. In most cases it mentioned that the insurer is involved in Enterprise Risk Management.

However, actively engaging employees and making them aware of the risks and ethics involved, AXA seem to have chosen a more **active** approach. Each employee should act as risk manager. They express this ambition by the quote, "*we use a set of stress tests to assess our ability to cope with extreme and rare events having multiple impacts. To effectively fulfil these two essential missions, every player, from our top executives to our on the ground team members, must be strongly aware of the importance of risk management. We are working to develop a stronger risk culture through training and communications*".

Equity (investments) market risk
The insurers Aflac and QBE **do not make statements** on this particular risk.

The American insurers MetLife states that it *"uses derivatives to mitigate its equity exposure both in certain liability guarantees such as variable annuities with guaranteed minimum benefit and equity securities. These derivatives include exchange-traded equity futures, equity index options contracts and equity variance swaps".* This statement fits well with their long-term view on investments and is again classified as **inactive** with a utilitarian approach.

Four insurers – Prudential, AXA, Allianz and Bajaj Allianz - seem to acknowledge the risk involved in the equity market and acknowledge the possibility of losing investment value, but active measures are not addressed from the insurer´s perspective. Allianz writes that *"premiums collected from our customers and shareholders' capital, which is required to support the risks underwritten, are invested to a great extent in fixed income instruments. These investment portfolios ultimately cover the future claims to our customers. However, for certain life insurance products, losses due to credit events can be shared with the policyholder, as described in the context of market risks."* From this quote it does seem that equity risks are shared with the policyholder. This has been classified as **reactive** approach.

Only three insurers seem to have taken responsibility from their insurer's perspective to actively reduce the possible losses of equity on their investment portfolio. These approaches have been classified as **active**. MAPFRE *"mitigates its exposure to this type of risk by means of a prudent investment policy, with the portfolio being heavily weighted in top quality fixed income securities. In the management of investment portfolios, differentiation is made between those seeking to match the obligations arising from insurance contracts and those subject to active management. The former minimise exchange rate risks as well as interest rate and other risks of variation in prices, while the latter maintain a management policy with a certain degree of market risk assumption, along the following lines:*

- *In the portfolios that do not cover long-term liability commitments, the risk management variable interest rate is the modified duration*
- *Exposure to exchange rate risk is minimised in the case of insurance liabilities. Exposure to this type of risk may not exceed a fixed percentage of assets qualified for the cover.*
- *Investments in shares are subject to an investment portfolio ceiling.*
- *Risk limitations are established in terms of quantitative variables that are easily observable.*

Nevertheless, risk analysis in probability terms is carried out, according to historical volatilities and correlations. With respect to credit risk, MAPFRE 's policy is based on holding a diversified portfolio comprising securities being prudently selected on the basis of the issuer's solvency. Investments in fixed income and equity securities are subject to concentration limits per issuer".

Insurance risk
Insurance risks (taking on risks through policyholders) are **not addressed** by half the sample.

The other half is classified as **reactive** in their approach to reduce insurance risks. Diversification is regularly mentioned as a way of reducing risks, but with the driver of not negatively impacting the results or to prevent accepted risks from going wrong. QBE's quote represents this reactive approach. *"Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures, thereby reducing the volatility of results. QBE's approach is to diversify insurance risk, both by product and geographically".*

Governance

The indicator governance is built up by three sub indicators, which focus on the BoD's attitude towards incorporating sustainability in their objectives and structure. It lacks an overall response which might represent the overall attitude. Therefore the sub indicators will be examined in more depth.

Table 5.8

		Approach per (sub) indicator				
Indicator	**Subindicator**	**N/A**	**I**	**R**	**A**	**P**
Governance	**Primary responsibility BoD** *(kw: Board of Directors, responsibility)*	3	**4**	2	3	0
	Value of trust *(kw: BoD, trust, promise, worthy, regain, restore)*	**5**	1	3	3	0
	Board structure *(kw: indirect, direct)*	3	0	3	**6**	0

Primary responsibility
The responsibility of the Board of Director towards sustainability is either not addressed or inactive by seven insurers. The primary responsibility of AXA's BoD is described as *"the Board of Directors determines the strategic orientations of the Company's activities and ensures their implementation"* and classified as **inactive**.

AEGON has taken on an **active** approach and makes a clear statement on the importance and responsibility of sustainability in their Governance policy document of the BoD. It says that *"the Executive Board is charged with the overall management of the company and, as such, is responsible for achieving the company's aims, strategy and associated risk profile, as well as overseeing any relevant corporate social responsibility issues and the development of the company's earnings*".

For Prudential the **active** approach means leadership *"by a management team of integrity under disciplined oversight from the Board of Directors, a commitment to shareholder and stakeholder engagement, and creation of sustainable value through business fundamentals, corporate social responsibility and environmental stewardship"*.

Value of trust
Five insurers **did not address** the issue trust in their publications or website and they represent the majority.

Prudential takes an **inactive** approach by emphasizing the value of trust, but more in the context of regulators and securing the business. Customers or clients are not specifically mentioned. *"We keep our promises and are committed to doing business the right way. Trust that Prudential will keep its promises and trust that Prudential will continue to do so in the right ways is the foundation of our business. We aspire to that trust with all of our stakeholders, including our regulators"*. They are focused on 'doing things right'.

As **reactive** is classified the AIG response which addresses the clients specifically, but the manner in which promises will be kept is not addressed *."We're dedicated to keeping our promises to clients, shareholders, and the public. While we know there's still work to be done".*

AEGON and AXA both acknowledge in their statements that trust is an essential factor in their success and underpins their commitments to customers, stakeholders and communities. AEGON states *"as a financial services company that has as its mission to help individuals and families take responsibility for their financial security, earning each and every day the trust of our many customers, business partners and other stakeholders around the world is the responsibility of us all".* Referring to the mission and the responsibility sensed by the insurers, it seems to appeal to their integrity and fulfilment of a positive duty in society. This was classified as an **active** approach.

Board structure
The importance of presence of independent directors is approached **actively** by largely all insurers. Six insurers do have a majority (>50%) of independent directors in their BoD. AXA, Allianz and AEGON strive for and realized even more than 65% presence of independent directors. With less than half of the members being independent, it was classified as **reactive**. Three insurers – Tokio Marine, LIC and Metlife - did not disclose that information publicly.

Regulations

The indicator governance is built up by two sub indicators, which focuses on the attitude of insurers towards imposing regulations on staff themselves and adhering to (upcoming) legal regulations in general. The general approach is reactive, which is from a compliancy perspective understandable.

Table 5.9

		Approach per (sub) indicator				
Indicator	**Subindicator**	**N/A**	**I**	**R**	**A**	**P**
Regulations	**(Self-imposed) Code of Conduct** *(kw:sustainability, conduct, ethics, partners, responsibility)*	2	0	8	2	0
	Adherence to Financial regulations *(kw: IFRS, SoX, Gramm, Dodd Frank, Solvency, compliance)*	0	4	8	0	0

Code of Conduct
Two insurers did not address codes of conducts in their publications.

Seven insurers did mention the existence of codes of conducts in their organizations and emphasize the need 'not to do things wrong'. The Tokio Marine & Nichido Group *"formulated the Group Code of Conduct and the Principle Transactions, which outlines the items that should be followed in terms of conducting transactions".* However it was generally not linked to supporting activities to incorporate these in day-to-day insurance practice. This approach has been classified as **reactive**.

Only three were classified as **active**, as they describe actions which focus on active knowledge transfer or supervision. MAPFRE has established an Ethics Committee, which is made responsible for *"ensuring the implementation of this code of conduct, with advisory, adjudicative, monitoring and promotional functions, which reports annually to the Committee in charge of the activities carried out during the year".*

Allianz has a group-wide Code of Conduct for Business Ethics and Compliance which sets the standards for their business conduct. "*In 2011, numerous measures were undertaken to further strengthen the effectiveness of compliance management. For example, the implementation of the Allianz Anti-Corruption Program continued with further training courses. The aim of this compulsory training is to inform employees about the main anti-corruption and anti-fraud rules and principles, as well as the essentials of the Anti-Corruption and Gifts and Entertainment Policies".*

Adherence to financial regulations
Aflac states that their annual reports are in *"adherence to changes in law or regulation by governmental US and/or Japanese accounting standards*". Any information as to which legislation or regulations is not mentioned which is classified as **inactive**.

The overall approach towards financial regulations from other insurers is generally **reactive**. Insurers emphasize their compliancy with regulations and they more insight into the extent to which regulations are implemented or scheduled. Like AXA, most is made transparent in its reporting. With regards to IFRS: *"The Company publishes its accounts in accordance with IFRS and the interpretations of the IFRS interpretations committee that were definitive and effective as of December 31, 2011 as adopted by the European Union"*. With regards to Dodd-Frank: *"While the focus of the Dodd-Frank Act is on US financial institutions, many of its provisions could significantly affect non-US companies, with financial operations in the United States, such as AXA".* With regards to SolvencyII: *"The current SolvencyII framework may need to be applied effective as of October 31, 2012".* None of the insurers is currently already fully compliant with all oncoming regulation. An intrinsic motivation could not be observed.

Distribution

The indicator distribution is built up by three sub indicators, which focus on the attitude of insurers towards the distribution strategy (accessibility and methods: bancassurance, brokers etc.) and to what extent they enforce their own code of conduct and cultural imprint in their partnerships and supply chain. Generally the approach is in a reactive manner, except for the supply chain responsibility which is active.

Table 5.10

		Approach per (sub) indicator				
Indicator	**Subindicator**	N/A	I	R	A	P
Distribution	**Multi-channel availability** *(kw: availability, access, distribution, channels, customer, preferences, needs)*	0	1	**9**	2	0
	Company values & partnerships *(kw: conduct, code, values, partners, share, compliance)*	2	1	**6**	3	0
	Supply chain responsibility *(kw: supervision, responsible, code, conduct, fair, transparency, incentives, fees)*	1	3	2	**6**	0

Multi-channel availability

With regards to the accessibility and therefore availability of insurance products for the customer base, nine insurers seem to take on a **reactive** approach in which they describe the channels through which their products can be purchased. Metlife states *"we have expertise in all four distribution channels — face-to-face, bancassurance, broker and direct — which allows customers to do business with us how they wish".*

Only three insurers have a more **active** approach, by knowing who their customers are and their possible limitations and anticipating on that by creating new distribution channels for their products and services. The Indian insurer LIC is good example of actively approaching customers in a country with relatively poor infrastructure*. "We have set up 150 Interactive Touch screen based Multimedia Information kiosks in prime locations in metros and some major cities for dissemination information to general public on our products and services. These kiosks are enabled to provide policy details and accept premium payments".* By being aware of the access of internet by a limited amount of their customers, they extended their distribution channel and not only sell and service via brokers, bancassurance or internet.

Company values & partnerships

The importance of company values and their reflection in partnerships in distribution is generally treated in a reactive manner. LIC takes on a rather **inactive** approach, by not making statements on values at all and showing a factual list of numbers *"13,37,064 individual agents, 242 Corporate Agents, 79 Referral Agents, 98 Brokers and 42 Banks".*

Expecting partners to adhere to the insurer's code of conduct without active supervision or emphasis on behaviour is classified as a **reactive** approach*. "Certain AIG business partners, such as agents, and consultants represent AIG to the public, and they are expected to adhere to the spirit of the Code, and to any applicable contractual provisions, when working on behalf of AIG companies.*

AXA, AEGON and Aflac do stress the importance of sharing their conviction and core values with their partners. This approach seems less instrumental and appeals on the positive duty of both insurer and partner in working together. AXA states that it *"is working to maintain strong and sustained relationships with its suppliers and non-exclusive distributors. For this reason, it is important that they share our conviction that their long-term survival and the quality of services depend on adopting socially and environmentally responsible behaviour".* The classification **active** seems applicable.

Supply chain responsibility

With regards to taking on responsibility for the supply chain the majority of the insurers practice an **active** approach. AEGON and Allianz both instituted processes to ensure that suppliers and vendors of their services and products comply with their sustainability standards.

Allianz states, *"the Supplier Selection Process run by AMOS for global purchasing projects or the subsidiary's purchasing unit for local projects controls the environmental and social standards of potential suppliers. All suppliers are sent a sustainability questionnaire tailored to the potential risks arising from their respective line of business. Contracts between Allianz and suppliers contain a clause committing them to comply with Allianz' ESG* *standards. The Vendor Integrity Screening as part of the general Supplier Selection Process controls the governance and compliance performance of vendors and ensures a proper integrity due diligence before they are engaged. In addition, Allianz conducts its own, independent research to validate a potential vendor's integrity and ensure comprehensive screening. This process is carried out by local purchasing departments (IT and non-IT) with the support of the respective Allianz compliance departments".*

Stating supply chain responsibility, but not having any actions attached to this, is classified as a **reactive** approach. LIC articulates that they *"promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objective".* However, using screening or assessment to enforce this required behaviour is not addressed.

Without making statements on the manner in which partnerships are taken on and a possible responsibility for embedding sustainability objectives in the cooperation, is classified as **inactive**. The AXA statement could be regarded as representative for this approach. "*Double our size organically in Asia, Central and Eastern Europe, the Middle East and Latin America, by leveraging existing operations and partnerships, and seize bolt-on acquisition opportunities to expand our footprint*". The reference to expanding the footprint by seizing acquisition opportunities do seem to have a rather utilitarian motive and aimed at market growth and eventually profit maximization.

Remuneration

The indicator remuneration is built up by three sub indicators, which focus on the attitude of the BoD towards disclosing remuneration policies, remuneration approving authority and the incorporation of sustainability objectives in the remuneration policy.

Patterns in approach seem to differ and a trend is difficult to observe. Only with regards to including sustainability objectives in the BoD's remuneration policy it is safe to say that this is largely not addressed.

Table 5.11

		Approach per (sub) indicator				
Indicator	**Subindicator**	N/A	I	R	A	P
Remuneration	**Disclosure BoD remuneration** *(kw: compensation, remuneration, policy)*	4	1	3	4	0
	"Claw back" provision (kw: compensation, shareholder, vote, call back)	3	1	4	4	0
	Sustainability objectives *(kw: BoD, compensation, remuneration, CSR, sustainability, objectives)*	8	1	1	2	0

Disclosure

Four insurers do not make any statements on remuneration or compensation in the sources consulted. Metlife does refer to existence of remuneration, but does not disclose any more information to its audience. *"Compensation Committee Charter, 15 March 2010. The Compensation Committee is appointed by the Board of Directors to assist the Board in fulfilling its responsibility to oversee the compensation and benefits of the Company's executives and other employees of the MetLife enterprise".* An **inactive** approach with only a short reference to compensation seems to be sufficient from Metlife's perspective.

Few insurers give more insight on the required performance in specific areas, but on a high level.
"Our "Total Reward Strategy" has been defined to meet three key criteria:

- *attract and retain talents from the market, by offering competitive packages and differentiating high performers*
- *define fairness as the combination of internal equity and meritocracy (for any given job responsibilities, superior performance deserves greater compensation)*
- *the overall compensation costs must be in line with our economic performance as compared to the market"*

It is difficult for the outside world to assess whether the BoD's objectives have been met and if the remuneration package has been proportioned to these achievements. This is regarded as **reactive**.

Complete disclosure on the achieved performance on the individual objectives, their assessment criteria and height of the remuneration package is only given by four insurers. AEGON, QBE, Mapfre and Tokio Marine together have been classified as acting **actively** in showing integrity.

Claw back provisions

The opportunity to reconsider and retain the proposed remuneration sum widely differs.

As **inactive** has been classified the approach in which the Compensation Committee's proposal for executive remuneration needs to be approved by the Board itself. Transparency towards criteria or challenging the proposal by external parties, do not seem to be the case. AIG states *"the determination of the Compensation and Management Resources Committee with respect to the Chief Executive Officer's compensation shall be subject to the approval or ratification of the Board as provided in the by-laws".*

Involving external committees – which are not part of the BoD - in the approval process has been classified as **reactive**. Tokio Marine has set up a structure in which it attempts to separate the calculation of the remuneration and approval. *"We have set up the Nomination Committee and the Compensation Committee, which consist mainly of outside directors, to further raise the transparency of the processes for selecting as well as determining compensation for directors and auditors of the Company and principal Group Companies".* However the committee is sometimes – despite the presence of external members - appointed by the Board of Directors.

Mapfre has taken the field of authority to approve a little step further outside the organization. *"The basic remuneration of external directors is approved by the Annual General Meeting following a proposal from the Board of Directors and a prior report from the Appointments and Remuneration Committee".* The annual meeting of shareholders has the final say on the remuneration package of the BoD. The alignment of interests between shareholder and BoD and participation in taking the decision seem to take it more to a societal interest level. Therefore this approach has been classified as **active**.

Prudential, QBE and Aflac do follow a similar procedure.

Sustainability objectives

Little or many can be stated on the incorporating sustainability objectives as part of the BoD's objectives. Eight insurers **did not mention** this in the publicly available information.

In only two cases the incorporation of sustainability objectives was addressed in detail and are regarded as **active** approaches.

Allianz and AEGON are transparent on the importance of sustainability objectives. AEGON created full insight on the spread of remuneration over the various targets, including sustainability objectives.

"The mix of Group Targets versus Personal Objectives is 75%-25%. Group targets, consisting of:

- 40% Financial targets measuring the performance of the Company on an IFRS basis.

- 40% Financial targets measuring the performance of the Company on a risk-adjusted basis.

- 20% Sustainability-related objectives.

Personal Objectives, related to AEGON's strategy, selected for each Executive Board member individually. The Supervisory Board will ask the Compensation Committee to review these criteria."

People development

The indicator people development is built up by two sub indicators, which focus on diversity management amongst staff and opportunities to invest and develop new knowledge. Both generally show a reactive approach by the insurers towards issues.

Table 5.12

Insurer		Metlife	AIG	Prudential	AXA	Allianz	AEGON	LIC	Aflac	QBE	Bajaj	Mapfre	Tokio	Approach per (sub) indicator				
Diversity(BoD)		BoD = 13 of which 4 women (31%)	BoD = 14 of which 2 = women (14%)	BoD = 13 of which 3 = women (23%)	BoD = 14 of which 3 = women (21,4%)	BoD = 12 of which 1 = women (8%)	BoD = 9 of which 1 woman = (11%)	BoD only men = (0%)	BoD = 15 of which 2 women = (13%)	BoD = 8 of which 3 women = (38%)	BoD only men = (0%)	BoD = 22 of which 1 woman = (4,5%)	BoD = 8 of which 8 men = (0%)					
Indicator	**Subindicator**	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	Approach	N/A	I	R	A	P
People Development	**Diversity** *(kw: diversity, HR, people, staff)*	Reactive	Reactive	Reactive	Reactive	Reactive	Reactive	N/A	Reactive	Reactive	Reactive	Reactive	Reactive	1	0	**11**	0	0
	Development *(kw: people, staff, employees, development)*	Reactive	Reactive	Reactive	Active	Reactive	Reactive	Active	Reactive	Reactive	Reactive	Reactive	Active	0	0	**9**	3	0

Diversity
No statements are made by LIC on diversity management. Looking from a gender perspective to diversity, women are absent in the LIC BoD which is fully represented by men.

The majority – eleven insurers - of the insurers do have a **reactive** approach towards diversity management. Similar statements represent the same generic message as AEGON, which states

- *“AEGON recognizes that employees have different backgrounds, perspectives and experience values these differences and believes they are a source of strength for the company*
- *recognizes that such differences may be based on physical traits or less visible qualities such as differences in education, personality, family status, political beliefs, experience or culture*
- *believes that each employee has a unique contribution to make to the company, and is determined to create conditions necessary for each employee to fulfil his or her potential in the workplace, regardless of race, disability, religious belief, sexual orientation, age or gender”*

Each insurer seems to realize that their staff should represent the diversity of society in order to respond to development within and outside the organization. Although classified as reactive based on their statement, on BoD level both Bajaj Allianz and Tokio Marine are represented by men. QBE has the largest representation of females in the BoD (3 out of 8 members).

Development
As well as with diversity, people development is approached **reactively** by the majority of the insurers.
The value of employees is largely mentioned and insurers emphasize their learning environment, as AIG does by stating *“we provide employees with opportunities to learn, excel in their jobs, grow with the organization and profit financially”.* However, further information as to what this development environment comprises is not mentioned and it seems as if the reader has to trust the insurer in this.

Insurers with an **active** approach are Tokio Marine, LIC and AXA. Extensive development programmes on various levels and partnerships with renowned business schools such as INSEAD (i.e. Tokio Marine) offer many opportunities for employees to develop themselves. For AXA a specific reference is made to AXA Asia.

5.4 Analysis CSR approaches on traditional sustainability indicators

In addition to its specific insurance practice, the industry also takes a standpoint with regards to more traditional sustainability indicators.

Table 5.13

	Approach per (sub) indicator				
Indicator	N/A	I	R	A	P
Environment	2	0	**7**	3	0
Society	1	1	3	**7**	0

Environment

AIG and LIC **do not make** any statements on possible sustainability endeavours in the field of the environment.

Metlife acknowledges its role as responsible corporate citizen, but remains on the side line and real visible initiatives which do go further than the boundaries of the organization are not mentioned. *“We embrace our role as a responsible corporate citizen through an effective energy management policy, investments in renewable energy ventures and the integration of energy efficient practices into our operations.”* The same can be said of AXA. *“This year, we implemented environmental guidelines for our motor vehicle fleet and for business travel by air and train. In 2011, the Group had 46 videoconferencing studios, whose use saved 16,000 tons of CO2 between 2008 and 2011”.* Reducing their impact on the environment seems firstly more focused on their own organization. Both is classified as **reactive**.

Active partnering with universities or research institutes and insurers as Tokio Marine and AXA does take place. *“The AXA Research Fund, a global initiative of scientific philanthropy supported by the worldwide insurance group AXA, was created to encourage scientific research that would contribute to understanding and preventing environmental, life, and socio-economic risk.”* Currently AXA has invested in 91 research projects concerning the reduction of environmental risks in society and the insurance industry. Within the currently used scale between inactive and pro-active these initiatives have been classified as active. The approach is regarded as **active** and not pro-active, since the insurers finance researchers to enable them to do research which can be seen as inside-out. Interaction, such as putting in equal effort or using mutual knowledge, and ethical discourse on the outcome do not take place.

Society

AIG **does not make any statements** on its possible involvement in societal initiatives.

Only one insurer, the Indian Bajaj Allianz practices a rather principal-agent approach towards participation in societal activities or managing the company's reputation*. "Bajaj Group is involved in a variety of welfare activities, which are carried out with the support of trusts".* By funding these trusts, Bajaj seems to act as a principal to the agent, which is the trust fund. This has been classified as an **inactive** approach.

Prudential established its own foundation and branding. It has set up a professional corporate philanthropy organization which finances many initiatives*. "Prudential established - what is now - Social Investments in 1976. Since then, it has invested more than $1.4 billion, supporting projects that develop and preserve affordable housing, improve access to quality education, and connect neighborhoods and residents to economic opportunities. Social Investments provides financing in a variety of forms and works with a diverse array of partners, including for-profits and non-profits*". Prudential tends to opt for solutions to inadequacies in the public sphere in Western countries that are relatively easily linked to their own interests. This is classified as a **reactive** approach.

Most insurers do represent a more **active** approach. They make a more positive contribution to addressing some non-profit interfacing issues, albeit largely within the insurers' operational context.
They engage in corporate volunteering schemes or support local communities through sponsoring.

AXA entered into a three-year partnership with CARE (Cooperative for Assistance and Relief Everywhere) to use research and education to help vulnerable populations be better prepared in the face of climate-related risks

LIC has set up two projects which contribute considerable to the living conditions on Indians.
"Aam Admi Bima Yojana, a new Social Security Scheme for rural landless household was launched on 2nd October, 2007 at the hands of the then Hon'ble Finance Minister at Shimla. The head of the family or one earning member in the family of rural landless household is covered under the scheme".
The second project is focused on elderly people*. "Saluting the exponentially growing population of Senior Citizens, LIC with its Caring hand has taken up the social responsibility of building assisted living centres for the elderlies, providing them with a roof at a competitive price, for a peaceful and enjoyable retired life".*

However, initiatives like these in emerging markets or non-Western regions might have the side-effect that governments or citizens as a result lack own initiative to solve the issues on a permanent basis.

In developed economies, the active approach towards corporate social responsibility the achievements are aimed at establishing a discourse on social issues. Such as the Allianz' initiative, that
"engages in regular discussions with political, academic and societal circles on fundamental developments that have a strategic impact on the company's business. An example is the first Berlin Demography Forum, initiated by Allianz and the German Ministry for Family, Senior Citizens, Women and Youth, to discuss the challenges of demographic change."

5.5 Analysis effect independent variables on CSR approaches sustainable insurance

In this section the research results are clarified based on the five independent variables, which are:

1) Region
2) Type of market
3) Business size
4) Credit rating
5) Type of ownership

These variables have been assessed on their impact and possible behavioural patterns for the researched insurers with regards to sustainable insurance and the underlying (sub) indicators.

Region

Table 5.14

Region		North-America					Europe					Asia					Pacific					South-America				
Indicator	Subindicator	N/A	I	R	A	P	N/A	I	R	A	P	N/A	I	R	A	P	N/A	I	R	A	P	N/A	I	R	A	P
CSR	General attitude	0	1	3	0	0	0	0	0	3	0	0	1	1	0	0	0	1	1	0	0	0	0	0	1	0
Consumerization	Customer oriented focus	0	0	2	2	0	0	0	2	1	0	0	0	2	0	0	0	0	1	1	0	0	0	0	1	0
	Customer knowledge	3	0	1	0	0	0	0	3	0	0	0	0	1	1	0	1	0	1	0	0	0	0	0	1	0
	Long term relationships	0	2	2	0	0	0	0	2	1	0	1	0	1	0	0	2	0	0	0	0	0	0	1	0	0
	Financial literacy	0	1	1	2	0	0	0	0	3	0	0	1	0	1	0	0	0	2	0	0	0	0	0	1	0
	Risk eduction customers	3	0	0	1	0	1	0	1	1	0	1	0	0	1	0	0	0	1	1	0	0	0	1	0	0
	Social inclusive approach	3	1	0	0	0	0	0	1	2	0	0	0	0	2	0	1	0	1	0	0	0	0	0	1	0
Innovation	E-delivery	0	1	1	2	0	0	0	1	2	0	0	0	1	1	0	0	1	0	1	0	0	0	0	1	0
	Organizational agility	1	0	2	1	0	1	0	1	1	0	2	0	0	0	0	1	0	1	0	0	0	0	1	0	0
	Simple business processes	0	0	3	1	0	0	2	1	0	0	0	0	1	1	0	1	0	0	1	0	0	0	1	0	0
Product diversification	Built-in customer input	2	1	0	1	0	1	0	2	0	0	0	1	1	0	0	1	0	1	0	0	0	0	1	0	0
	Unit (investment)-linked	1	1	1	1	0	0	1	1	1	0	0	2	0	0	0	1	1	0	0	0	0	0	1	0	0
	Sustainable/new products	3	1	0	0	0	0	1	1	1	0	2	0	0	0	0	1	0	0	1	0	0	0	0	1	0
	Financial safety	1	1	1	1	0	0	0	2	1	0	0	1	1	0	0	1	0	1	0	0	0	0	1	0	0
	Targeted products	1	2	0	1	0	1	0	2	0	0	0	0	1	1	0	0	1	0	1	0	0	0	0	1	0
	Pricing / Premiums	0	2	1	1	0	0	0	2	1	0	0	2	0	0	0	1	0	1	0	0	0	1	0	0	0
	Guarantees	0	1	2	1	0	0	0	2	1	0	0	1	1	0	0	2	0	0	0	0	0	1	0	0	0
Ownership	Shareholder interests	0	0	3	1	0	0	0	0	3	0	2	0	0	0	0	0	1	1	0	0	0	0	1	0	0
	Stakeholder interests	2	1	1	0	0	1	0	1	1	0	0	1	1	0	0	1	0	0	1	0	0	0	0	1	0
	Stockholder interests	1	3	0	0	0	1	0	0	2	0	2	0	0	0	0	2	0	0	0	0	1	0	0	0	0
Risk management	Investment policy	0	2	1	1	0	0	0	3	0	0	1	0	1	0	0	0	0	2	0	0	0	0	1	0	0
	Responsible investments (RI)	3	0	1	0	0	0	0	0	3	0	1	1	0	0	0	1	0	0	1	0	1	0	0	0	0
	Long term risk mitigation	1	0	1	2	0	0	0	2	1	0	0	0	2	0	0	0	0	2	0	0	0	0	1	0	0
	Risk eduction staff	1	0	3	0	0	0	1	1	1	0	2	0	0	0	0	0	0	2	0	0	0	0	0	1	0
	Equity (investments) market risk	1	2	1	0	0	0	0	2	1	0	0	1	1	0	0	1	0	0	1	0	0	0	0	1	0
	Insurance risk	3	0	1	0	0	1	0	2	0	0	1	0	1	0	0	1	0	1	0	0	0	0	1	0	0
Governance	Primary responsibility BoD	1	2	0	1	0	0	2	0	1	0	2	0	0	0	0	0	0	2	0	0	0	0	0	1	0
	Value of trust	1	1	1	1	0	0	0	1	2	0	2	0	0	0	0	1	0	1	0	0	1	0	0	0	0
	Board structure	1	0	1	2	0	0	0	1	2	0	1	0	1	0	0	1	0	0	1	0	0	0	0	1	0
Regulations	(Self-imposed) Code of Conduct	0	0	3	1	0	0	0	2	1	0	2	0	0	0	0	0	0	2	0	0	0	0	0	1	0
	Adherence to Financial	0	1	3	0	0	0	0	3	0	0	0	2	0	0	0	0	1	1	0	0	0	0	1	0	0
Distribution	Multi-channel availability	0	0	4	0	0	0	0	2	1	0	0	0	1	1	0	0	0	2	0	0	0	0	0	1	0
	Company values & partnerships	0	0	3	1	0	1	0	0	2	0	1	1	0	0	0	0	0	2	0	0	0	0	1	0	0
	Supply chain responsibility	0	1	1	2	0	0	1	0	2	0	1	0	1	0	0	0	1	0	1	0	0	0	0	1	0
Remuneration	Disclosure BoD remuneration	2	1	1	0	0	0	0	2	1	0	2	0	0	0	0	0	0	0	2	0	0	0	0	1	0
	"Claw back" provision	0	1	1	2	0	1	0	2	0	0	2	0	0	0	0	0	0	1	1	0	0	0	0	1	0
	Sustainability objectives	3	0	1	0	0	0	1	0	2	0	2	0	0	0	0	2	0	0	0	0	1	0	0	0	0
People Development	Diversity	0	0	4	0	0	0	0	3	0	0	1	0	1	0	0	0	0	2	0	0	0	0	1	0	0
	Development	0	0	4	0	0	0	0	2	1	0	0	0	1	1	0	0	0	1	1	0	0	0	1	0	0
Traditional CSR indicators																										
Environment		1	0	3	0	0	0	0	2	1	0	1	0	1	0	0	0	0	1	1	0	0	0	1	0	0
Society		1	0	2	1	0	0	0	0	3	0	0	1	0	1	0	0	0	1	1	0	0	0	0	1	0

Approach per region	N/A	40					9					32					23					4				
	Inactive		30					9					16					7					2			
	Reactive			64					55					23					35					16		
	Active				30					50					11					17					19	
	Pro-active					0					0					0					0					0
in %		24%	18%	39%	18%		7%	7%	45%	41%		40%	19%	28%	13%		28%	9%	43%	20%		10%	5%	38%	47%	

See below into which region the insurers are categorized.

Table 5.15

Insurer	Region	Insurer	Region
Bajaj Allianz	Asia	Metlife	N-America
LIC	Asia	Aflac	N-America
AEGON	Europe	AIG	N-America
AXA	Europe	Tokio Marine	Pacific
Allianz	Europe	QBE	Pacific
Prudential	N-America	Mapfre	S-America

Based on the research results there are differences to be observed between the overall CSR approach per region. Consequently, the region where the insurer is based does seem to have influence on the CSR approach on the various indicators and sub indicators.

Insurers in the North-American region tend to choose a reactive stance towards CSR in their strategy. Of all quotes and statements, 39% has been categorised "reactive" according to the CSR framework for sustainable insurance (see table 4.2). Another characteristic for this region is the relatively high number of unaddressed sub indicators which even outweighs the Asian region. These are particularly sub indicators that direct towards customer participation and education and embedding sustainability initiatives (such as PRI) into products, investment and remuneration practices. Referring to neo-liberal approach of the American region this might not be surprising. The relatively hostile bargaining environment has stimulated a rather legalistic stance on CSR. Any voluntaristic or 'principle based' (PRI/PSI) initiatives towards becoming more sustainable could be regarded as not contributing to the insurer's profitability and not relevant for shareholders.

At first glance the European region seems to show a reactive stance as well. But taking a closer look at the other results, the region has the tendency to tip over to the active approach. Over 45% of their quotes have been categorised as "reactive", but almost the same percentage, 41%, is categorised as "active" and only 7% is not addressed. That observation, might also explain the fact why all European insurers have made it their ambition to incorporate CSR in their strategy and the general attitude is categorised as "active".

AXA's statement:
"We believe that corporate responsibility is a key differentiator that inspires the trust of our customers and drives the engagement of our employees. Since 2009, strong progress has been made on Corporate Responsibility, including: 1) the formal integration of CR into local and Group strategic planning processes, 2) the creation of a senior executive-level network of Chief Corporate Responsibility Officers charged with a broad CR mandate, 3) the definition of a CR key performance indicator which enables precise tracking of local and Group CR performance, and is included in annual management objectives"

Another observation is that the indicators that were not addressed in the America region do generally encounter a more active stance from European insurers. Social inclusive business, realizing the importance of actively managing shareholder and stockholder interests and making sure that their sustainability and corporate values are trickling down in the supply chain (with partners from all three spheres) and part of the BoD targets, do show a positive and virtue based attitude in bridging efficiency and equity and becoming more effective on CSR. These characteristics are typical for the European CSR regime which avoids rule-based principles, but rather appeals on the intrinsic responsibility of companies to voluntarily integrate social and environmental issues into their strategy.

The third region is Asia. Only two insurers are part of this batch and generally they have not addressed many sustainability indicators yet. Quotes or statements on these indicators could not be derived from the used sources, which is around 40% of all statements. The three indicators that are not addressed and stand out are remuneration, governance and ownership management. With regards to the infancy of the industrialisation of particularly the East-Asian region, these indicators might be more applicable to more mature organizations and subsequently understandable that addressing these is not top priority for these Asian insurers. This does comply with the institutional theory on Asia CSR regimes which were stipulated as not very well advanced. However, the active stance on social inclusive business and customer oriented focus seem to reveal a certain pragmatism and efficiency

The Pacific and South-American region do have a status on their own, since they comprise of a Japanese and Australian insurer and a Spanish/South-American insurer. The first region does have some ecological particularities (number of natural catastrophes) that do not place them directly under either the European or American CSR regimes, but shows a generally reactive approach. The insurer that represents South-America is Mapfre. Although a meagre basis, it shows an overall active CSR approach with a strong customer orientation and awareness of its social and ecological context, which is reflecting in its attitude towards developing targeted and sustainable products.

Type of market

Table 5.16

Type of market		Advanced					Emerging				
Indicator	Subindicator	N/A	I	R	A	P	N/A	I	R	A	P
CSR	General attitude	0	2	4	3	0	0	1	1	1	0
Consumerization	Customer oriented focus	0	0	5	4	0	0	0	2	1	0
	Customer knowledge	4	0	4	1	0	0	0	1	2	0
	Long term relationships	2	0	4	3	0	1	0	2	0	0
	Financial literacy	0	1	4	4	0	0	1	0	2	0
	Risk eduction customers	4	0	3	2	0	1	0	1	1	0
	Social inclusive approach	4	1	2	2	0	0	0	0	3	0
Innovation	E-delivery	0	2	2	5	0	0	0	1	2	0
	Organizational agility	3	0	4	2	0	2	0	1	0	0
	Simple business processes	1	2	4	2	0	0	0	2	1	0
Product diversification	Built-in customer input	4	1	3	1	0	0	1	2	0	0
	Unit (investment)-linked products	2	3	3	1	0	0	2	1	0	0
	Sustainable/new products	4	2	1	2	0	2	0	0	1	0
	Financial safety	2	2	4	1	0	0	1	2	0	0
	Targeted products	2	3	2	2	0	0	0	1	2	0
	Pricing / Premiums	1	2	4	2	0	0	3	0	0	0
	Guarantees	2	1	4	2	0	0	2	1	0	0
Ownership	Shareholder interests	0	1	4	4	0	2	0	1	0	0
	Stakeholder interests	4	1	2	2	0	0	1	1	1	0
	Stockholder interests	4	3	0	2	0	3	0	0	0	0
Risk management	Investment policy	0	2	6	1	0	1	0	3	0	0
	Responsible investments (RI)	4	0	1	4	0	2	1	0	0	0
	Long term risk mitigation	0	1	5	3	0	0	0	3	0	0
	Risk eduction staff	1	1	6	1	0	2	0	0	1	0
	Equity (investments) market risk	2	2	3	2	0	0	1	1	1	0
	Insurance risk	5	0	3	0	0	1	0	2	0	0
Governance	Primary responsibility BoD	1	4	2	2	0	2	0	0	1	0
	Value of trust	2	1	3	3	0	3	0	0	0	0
	Board structure	2	0	2	5	0	1	0	1	1	0
Regulations	(Self-imposed) Code of Conduct	0	0	7	2	0	2	0	0	1	0
	Adherence to Financial regulations	0	2	7	0	0	0	2	1	0	0
Distribution	Multi-channel availability	0	0	8	1	0	0	0	1	2	0
	Company values & partnerships	1	0	5	3	0	1	1	1	0	0
	Supply chain responsibility	0	3	1	5	0	1	0	1	1	0
Remuneration	Disclosure BoD remuneration	2	1	3	3	0	2	0	0	1	0
	"Claw back" provision	1	1	4	3	0	2	0	0	1	0
	Sustainability objectives	5	1	1	2	0	3	0	0	0	0
People Development	Diversity	0	0	9	0	0	1	0	2	0	0
	Development	0	0	7	2	0	0	0	2	1	0
Traditional CSR indicators											
Environment		1	0	5	3	0	1	0	2	0	0
Society		1	0	3	5	0	0	1	0	2	0

Approach per market type	N/A	71					36				
	Inactive		46					18			
	Reactive			154					40		
	Active				97					30	
	Pro-active					0					0
in %		19%	13%	42%	26%		29%	15%	32%	24%	

See below in which type of market the insurers are categorized.

Table 5.17

Insurer	Market type	Insurer	Market type
LIC	A	Prudential	A
Bajaj Allianz	E	Metlife	A
AEGON	A	Aflac	A
Allianz	A	Tokio Marine	E
AXA	A	QBE	A
AIG	A	Mapfre	E

E = emerging / A = advanced

Based on the research results, reflecting the overall approach per type of market, there is no difference to be noticed. Nonetheless, stating that the type of market – either advanced or emerging - in which the insurer is based does not seem to have any influence on the CSR approach, could be premature. There are a few similarities that can be traced back to the region in which these emerging markets are situated.

Of all statements made by insurers in the emerging markets, 44% is either not addressed or "inactive". If compared to the advanced markets this is 32%. The young history of insurers in the emerging markets (i.e. Bajaj Allianz was only founded in 2001) might explain the focus on efficiency to achieve their profit objectives by establishing a stable market share and handle CSR issues when they do occur and might impact achieving these objectives negatively. The unaddressed indicators, governance, remuneration and risk management do seem to support this perspective.

But when taking a closer look the emerging markets reveal to have certain positive effect on few sub indicators, which are financial literacy, social inclusive business, targeted products and multichannel distribution. Considering the vulnerability of the customer base – limited financial knowledge and financial budget – that seems a plausible argument to support the insurer's choices.

Credit rating

Table 5.18

Credit Rating

Indicator	Subindicator	AA- N/A	AA- I	AA- R	AA- A	AA- P	A- N/A	A- I	A- R	A- A	A- P	BBB- N/A	BBB- I	BBB- R	BBB- A	BBB- P
CSR	General attitude	0	0	4	2	0	0	2	1	2	0	0	1	0	0	0
Consumerization	Customer oriented focus	0	0	3	3	0	0	0	3	2	0	0	0	1	0	0
	Customer knowledge	1	0	4	1	0	3	0	1	1	0	0	0	0	1	0
	Long term relationships	1	0	3	2	0	1	0	3	1	0	1	0	0	0	0
	Financial literacy	0	1	1	4	0	0	0	3	2	0	0	1	0	0	0
	Risk eduction customers	1	0	2	3	0	3	0	2	0	0	1	0	0	0	0
	Social inclusive approach	1	1	2	2	0	3	0	0	2	0	0	0	0	1	0
Innovation	E-delivery	0	0	2	4	0	0	2	1	2	0	0	0	0	1	0
	Organizational agility	4	0	1	1	0	0	0	4	1	0	1	0	0	0	0
	Simple business processes	0	1	3	2	0	1	1	2	1	0	0	0	1	0	0
Product diversification	Built-in customer input	2	0	3	1	0	2	1	2	0	0	0	1	0	0	0
	Unit (investment)-linked products	0	3	2	1	0	2	1	1	1	0	0	1	0	0	0
	Sustainable/new products	2	1	1	2	0	3	1	0	1	0	1	0	0	0	0
	Financial safety	0	0	5	1	0	2	2	1	0	0	0	1	0	0	0
	Targeted products	2	0	1	3	0	0	3	1	1	0	0	0	1	0	0
	Pricing / Premiums	1	2	2	1	0	0	2	2	1	0	0	1	0	0	0
	Guarantees	1	1	4	0	0	1	2	0	2	0	0	0	1	0	0
Ownership	Shareholder interests	1	0	2	3	0	0	1	3	1	0	1	0	0	0	0
	Stakeholder interests	2	1	1	2	0	2	1	1	1	0	0	0	1	0	0
	Stockholder interests	4	1	0	1	0	2	2	0	1	0	1	0	0	0	0
Risk management	Investment policy	0	0	5	1	0	0	2	3	0	0	1	0	0	0	0
	Responsible investments (RI)	2	0	1	3	0	4	0	0	1	0	0	1	0	0	0
	Long term risk mitigation	0	0	3	3	0	0	1	4	0	0	0	0	1	0	0
	Risk eduction staff	2	0	3	1	0	0	1	3	1	0	1	0	0	0	0
	Equity (investments) market risk	1	0	4	1	0	1	2	0	2	0	0	1	0	0	0
	Insurance risk	5	0	1	0	0	1	0	4	0	0	0	0	1	0	0
Governance	Primary responsibility BoD	2	2	1	1	0	0	1	1	2	0	1	0	0	0	0
	Value of trust	1	1	2	2	0	3	0	1	1	0	1	0	0	0	0
	Board structure	1	0	3	2	0	1	0	0	4	0	1	0	0	0	0
Regulations	(Self-imposed) Code of Conduct	1	0	3	2	0	0	0	4	1	0	1	0	0	0	0
	Adherence to Financial regulations	0	3	3	0	0	0	0	5	0	0	0	1	0	0	0
Distribution	Multi-channel availability	0	0	5	1	0	0	0	4	1	0	0	0	0	1	0
	Company values & partnerships	2	0	2	2	0	0	0	4	1	0	0	1	0	0	0
	Supply chain responsibility	1	1	0	4	0	0	2	1	2	0	0	0	1	0	0
Remuneration	Disclosure BoD remuneration	2	0	3	1	0	1	1	0	3	0	1	0	0	0	0
	"Claw back" provision	2	0	2	2	0	0	1	2	2	0	1	0	0	0	0
	Sustainability objectives	3	1	1	1	0	4	0	0	1	0	1	0	0	0	0
People Development	Diversity	0	0	6	0	0	0	0	5	0	0	1	0	0	0	0
	Development	0	0	4	2	0	0	0	5	0	0	0	0	0	1	0
Traditional CSR indicators																
Environment		0	0	2	4	0	1	0	4	0	0	1	0	0	0	0
Society		0	1	1	4	0	1	0	2	2	0	0	0	0	1	0

		AA-					A-					BBB-				
Approach per credit rate	N/A	48					42					17				
	Inactive		21					32					10			
	Reactive			101					83					8		
	Active				76					47					6	
	Pro-active					0					0					0
in %		20%	9%	41%	31%		21%	16%	41%	23%		41%	24%	20%	15%	

See below how the insurers have been rated by Standard and Poor's and what is used for categorization.

Table 5.19

Insurer	Credit rating	Insurer	Credit rating
LIC	A-	Prudential	A-
Bajaj Allianz	A-	Metlife	AA-
AEGON	AA-	Aflac	A-
Allianz	AA-	Tokio Marine	BBB-
AXA	AA-	QBE	A-
AIG	AA-	Mapfre	AA-

Based on the research results, reflecting the credit rating per main category (A/B/C….), a difference can be noticed. The financially stronger insurers (category A) do take on generally reactive approach, whereas the insurer with a B-category rating and which is considerably less solvent, addresses CSR either not at all (41%) or

with an inactive (24%) attitude. Considering the financial state of the organization, it is understandable that the focus on improving the financial health of the insurer prevails over the sustainability ambitions.
The majority of the insurers are rated in the A-category, which implies a strong capacity to meet their financial commitments and somewhat susceptible to changes in the economic environment. Differences in CSR attitude on the various sub indicators between the AA- and A- category are almost negligible.

Business size

Table 5.20

Annual turnover		< $ 25 billion					$ 25-50 billion					$ 50-75 billion					$ >75 billion				
Indicator	Subindicator	N/A	I	R	A	P	N/A	I	R	A	P	N/A	I	R	A	P	N/A	I	R	A	P
CSR	General attitude	0	2	2	0	0	0	0	1	2	0	0	1	2	0	0	0	0	0	2	0
Consumerization	Customer oriented focus	0	0	3	1	0	0	0	0	3	0	0	0	2	1	0	0	0	2	0	0
	Customer knowledge	2	0	1	1	0	0	0	2	1	0	2	0	0	1	0	0	0	2	0	0
	Long term relationships	2	0	1	1	0	1	0	1	1	0	0	0	2	1	0	0	0	2	0	0
	Financial literacy	0	2	1	1	0	0	0	1	2	0	0	0	2	1	0	0	0	0	2	0
	Risk eduction customers	2	0	1	1	0	1	0	1	1	0	2	0	1	0	0	0	0	1	1	0
	Social inclusive approach	2	0	0	2	0	0	0	1	2	0	2	1	0	0	0	0	0	1	1	0
Innovation	E-delivery	0	1	1	2	0	0	0	0	3	0	0	1	1	1	0	0	0	1	1	0
	Organizational agility	3	0	1	0	0	1	0	2	0	0	0	0	2	1	0	1	0	0	1	0
	Simple business processes	1	0	2	1	0	0	1	1	1	0	0	0	2	1	0	0	1	1	0	0
Product diversification	Built-in customer input	1	1	1	1	0	0	0	3	0	0	2	1	0	0	0	1	0	1	0	0
	Unit (investment)-linked products	1	2	0	1	0	0	1	1	1	0	1	1	1	0	0	0	1	1	0	0
	Sustainable/new products	4	0	0	0	0	0	1	0	2	0	2	1	0	0	0	0	1	1	0	0
	Financial safety	1	1	1	1	0	0	1	2	0	0	1	1	1	0	0	0	0	2	0	0
	Targeted products	0	1	1	2	0	0	0	2	1	0	1	2	0	0	0	1	0	1	0	0
	Pricing / Premiums	0	3	1	0	0	1	1	1	0	0	0	1	1	1	0	0	0	1	1	0
	Guarantees	1	1	2	0	0	1	1	0	1	0	0	1	1	1	0	0	0	2	0	0
Ownership	Shareholder interests	2	1	1	0	0	0	0	2	1	0	0	0	2	1	0	0	0	0	2	0
	Stakeholder interests	2	1	1	0	0	0	0	1	2	0	1	1	1	0	0	1	0	0	1	0
	Stockholder interests	4	0	0	0	0	2	0	0	1	0	0	3	0	0	0	1	0	0	1	0
Risk management	Investment policy	1	0	2	1	0	0	0	3	0	0	0	2	1	0	0	0	0	2	0	0
	Responsible investments (RI)	3	1	0	0	0	1	0	0	2	0	2	0	1	0	0	0	0	0	2	0
	Long term risk mitigation	0	0	3	1	0	0	0	3	0	0	0	1	1	1	0	0	0	1	1	0
	Risk eduction staff	3	0	1	0	0	0	1	1	1	0	0	0	3	0	0	0	0	1	1	0
	Equity (investments) market risk	2	1	1	0	0	0	0	0	3	0	0	2	1	0	0	0	0	2	0	0
	Insurance risk	2	0	2	0	0	1	0	2	0	0	2	0	1	0	0	1	0	1	0	0
Governance	Primary responsibility BoD	3	0	1	0	0	0	0	1	2	0	0	2	0	1	0	0	2	0	0	0
	Value of trust	3	0	0	1	0	1	0	1	1	0	1	1	1	0	0	0	0	1	1	0
	Board structure	1	0	1	2	0	1	0	0	2	0	1	0	1	1	0	0	0	1	1	0
Regulations	(Self-imposed) Code of Conduct	0	0	0	0	0	0	0	1	2	0	0	0	3	0	0	0	0	1	1	0
	Adherence to Financial regulations	0	3	1	0	0	0	1	2	0	0	0	0	3	0	0	0	0	2	0	0
Distribution	Multi-channel availability	0	0	3	1	0	0	0	2	1	0	0	0	3	0	0	0	0	1	1	0
	Company values & partnerships	1	1	1	1	0	0	0	2	1	0	0	0	3	0	0	1	0	0	1	0
	Supply chain responsibility	1	1	1	1	0	0	0	0	3	0	0	1	1	1	0	0	1	0	1	0
Remuneration	Disclosure BoD remuneration	3	0	0	1	0	0	0	0	3	0	1	1	1	0	0	0	0	2	0	0
	"Claw back" provision	2	0	0	2	0	0	0	2	1	0	0	1	1	1	0	1	0	1	0	0
	Sustainability objectives	4	0	0	0	0	2	0	0	1	0	2	0	1	0	0	0	1	0	1	0
People Development	Diversity	1	0	3	0	0	0	0	3	0	0	0	0	3	0	0	0	0	2	0	0
	Development	0	0	3	1	0	0	0	2	1	0	0	0	3	0	0	0	0	1	1	0
Traditional CSR indicators																					
Environment		1	0	2	1	0	0	0	2	1	0	1	0	2	0	0	0	0	0	2	0
Society		0	1	1	2	0	0	0	0	3	0	1	0	2	0	0	0	0	0	2	0

Approach per business size	N/A	59					13					25					8				
	Inactive		24					8					26					7			
	Reactive			47					49					57					38		
	Active				30					53					15					29	
	Pro-active					0					0					0					0
in %		37%	15%	29%	19%		11%	7%	40%	43%		20%	21%	46%	12%		10%	9%	46%	35%	

See below which insurers are categorized in which annual turnover category.

Table 5.21

Insurer	Annual turnover	Insurer	Annual turnover
Bajaj Allianz	$894 million	Tokio Marine	$38,4 billion
LIC	$10,9 billion	Prudential	$63,8 billion
QBE	$18,3 billion	AIG	$64 billion
Aflac	$22,4 billion	Metlife	$65,3 billion
Mapfre	$30,7 billion	AXA	$112,1 billion
AEGON	$38,0 billion	Allianz	$135,0 billion

Based on the research results, business size (or actually, turnover) does have influence on the CSR approach of insurers. The smallest category shows the largest number of unaddressed sub indicators, subsequently the overall attitude towards CSR is unaddressed. This could explained by the fact that the East-Asian insurers are amongst the smallest insurers.

The second category (USD 25-50 billion) represents the insurers that generally depict an active approach, especially with regards to social inclusive business, equity risk management and BoD remuneration disclosure. The insurers that are part of this category differ in region and market. Based on the theoretical and gathered research data, an explanatory reason could be provided.

The biggest insurers are represented in the third and fourth category that both show a generally ‘reactive’ CSR approach. Given the fact that these insurers do have a large network of subsidiaries worldwide and the earlier ascertained influence of region on the CSR approach in general, a global ‘active’ approach would be difficult to maintain and therefore quite unlikely.

Type of ownership

Table 5.22

Ownership		Non stock-owned					Stock-owned				
Indicator	Subindicator	N/A	I	R	A	P	N/A	I	R	A	P
CSR	General attitude	0	2	0	0	0	0	1	5	4	0
Consumerization	Customer oriented focus	0	0	2	0	0	0	0	5	5	0
	Customer knowledge	1	0	1	0	0	3	0	5	2	0
	Long term relationships	1	0	1	0	0	2	0	5	3	0
	Financial literacy	0	1	1	0	0	0	1	3	6	0
	Risk eduction customers	2	0	1	0	0	3	0	4	3	0
	Social inclusive approach	1	0	0	1	0	3	1	2	4	0
Innovation	E-delivery	0	1	0	1	0	0	1	3	7	0
	Organizational agility	1	0	0	1	0	4	0	5	1	0
	Simple business processes	0	0	1	1	0	1	1	5	3	0
Product diversification	Built-in customer input	1	1	0	0	0	3	1	5	1	0
	Unit (investment)-linked products	1	1	0	0	0	1	4	3	2	0
	Sustainable/new products	2	0	0	0	0	4	2	1	3	0
	Financial safety	1	1	0	0	0	1	1	6	2	0
	Targeted products	0	1	1	0	0	2	2	2	4	0
	Pricing / Premiums	0	1	0	1	0	1	4	4	1	0
	Guarantees	0	0	1	1	0	2	3	4	1	0
Ownership	Shareholder interests	1	0	1	0	0	1	1	4	4	0
	Stakeholder interests	1	0	1	0	0	3	2	2	2	0
	Stockholder interests	1	1	0	0	0	6	2	0	2	0
Risk management	Investment policy	1	1	0	0	0	0	1	8	1	0
	Responsible investments (RI)	1	1	0	0	0	5	0	1	4	0
	Long term risk mitigation	0	0	2	0	0	0	1	6	3	0
	Risk eduction staff	1	0	1	0	0	2	1	5	2	0
	Equity (investments) market risk	0	2	0	0	0	2	1	4	3	0
	Insurance risk	0	0	2	0	0	6	0	4	0	0
Governance	Primary responsibility BoD	1	1	0	0	0	2	3	2	3	0
	Value of trust	1	0	1	0	0	4	1	2	3	0
	Board structure	1	0	0	1	0	2	0	3	5	0
Regulations	(Self-imposed) Code of Conduct	1	0	1	0	0	1	0	6	3	0
	Adherence to Financial regulations	0	1	1	0	0	0	3	7	0	0
Distribution	Multi-channel availability	0	0	1	1	0	0	0	8	2	0
	Company values & partnerships	0	1	1	0	0	2	0	5	3	0
	Supply chain responsibility	0	0	2	0	0	1	3	0	6	0
Remuneration	Disclosure BoD remuneration	2	0	0	0	0	2	1	3	4	0
	"Claw back" provision	1	1	0	0	0	2	0	4	4	0
	Sustainability objectives	2	0	0	0	0	6	1	1	2	0
People Development	Diversity	1	0	1	0	0	0	0	10	0	0
	Development	0	0	1	1	0	0	0	8	2	0
Traditional CSR indicators											
Environment		2	0	0	0	0	0	0	6	4	0
Society		1	0	0	1	0	0	1	3	6	0

		Non stock-owned					Stock-owned				
Approach per type ownership	N/A	30					77				
	Inactive		18					44			
	Reactive			25					169		
	Active				10					120	
	Pro-active					0					0
in %		36%	22%	30%	12%		19%	11%	41%	29%	

See below in which annual turnover category which insurance company is represented.

<u>Note</u>:
In this research AIG has been classified as a non-stockowned insurance company, since the federal government owned the majority of the shares after the 2008 bailout and the research comprises data from 2011.

Table 5.23

Insurer	Ownership	Insurer	Ownership
Bajaj Allianz	yes	Tokio Marine	yes
LIC	no	Prudential	yes
QBE	yes	AIG	no
Aflac	yes	Metlife	yes
Mapfre	yes	AXA	yes
AEGON	yes	Allianz	yes

Although the batch that represents the non stock-owned companies is small, there is a difference in CSR approach attitude noticeable between stock-owned and non-stock-owned insurers. Both insurers that are non stock-owned (LIC and AIG) during during this research are owned by their governments. The majority of the shares were owned governmental institutions (i.e. Fed).

Based on these research results - the expressed "inactive" general attitude towards CSR by the non stock-owned insurers - does comply with the overall CSR research results. Over 36% of the sub indicators are not addressed and only 12% is focused of the sub indicators are actively approached. When zooming in on these sub indicators they seem to concentrate on innovation and have a generally efficiency driven motive and focused on creating a profitable business model. The AIG statement contributes to this idea *"We have become simpler, divesting businesses to get us back to our roots in insurance and delivering".* Stating that governments indirectly do take on an inactive approach towards CSR, would be too bold.

CSR history

Table 5.24

History CSR reporting

Indicator	Subindicator	< 2008 N/A	< 2008 I	< 2008 R	< 2008 A	< 2008 P	> 2008 N/A	> 2008 I	> 2008 R	> 2008 A	> 2008 P	N/A N/A	N/A I	N/A R	N/A A	N/A P
CSR	General attitude	0	0	1	4	0	0	0	3	0	0	0	3	1	0	0
Consumerization	Customer oriented focus	0	0	2	3	0	0	0	2	1	0	0	0	4	0	0
	Customer knowledge	0	0	4	1	0	2	0	0	1	0	2	0	1	1	0
	Long term relationships	1	0	3	1	0	0	0	1	2	0	2	0	2	0	0
	Financial literacy	0	0	1	4	0	0	1	1	1	0	0	1	2	1	0
	Risk eduction customers	1	0	2	2	0	2	0	1	0	0	2	0	1	1	0
	Social inclusive approach	0	0	2	3	0	2	1	0	0	0	2	0	0	2	0
Innovation	E-delivery	0	0	1	4	0	0	0	1	2	0	0	2	1	1	0
	Organizational agility	2	0	2	1	0	1	0	2	0	0	2	0	1	1	0
	Simple business processes	0	2	2	1	0	0	0	3	0	0	1	0	1	2	0
Product diversification	Built-in customer input	1	0	4	0	0	1	1	0	1	0	2	1	1	0	0
	Unit (investment)-linked products	0	2	2	1	0	0	1	1	1	0	2	2	0	0	0
	Sustainable/new products	0	1	1	3	0	2	1	0	0	0	4	0	0	0	0
	Financial safety	0	1	4	0	0	0	1	1	1	0	2	1	1	0	0
	Targeted products	1	0	2	2	0	1	1	0	1	0	0	2	1	1	0
	Pricing / Premiums	1	1	2	1	0	0	2	1	0	0	0	2	1	1	0
	Guarantees	1	1	2	1	0	0	1	2	0	0	1	1	1	1	0
Ownership	Shareholder interests	0	0	2	3	0	0	0	2	1	0	2	1	1	0	0
	Stakeholder interests	1	0	1	3	0	1	1	1	0	0	2	1	1	0	0
	Stockholder interests	3	0	0	2	0	1	2	0	0	0	3	1	0	0	0
Risk management	Investment policy	0	0	5	0	0	0	1	1	1	0	1	1	2	0	0
	Responsible investments (RI)	1	0	0	4	0	2	0	1	0	0	3	1	0	0	0
	Long term risk mitigation	0	0	4	1	0	0	1	0	2	0	0	0	4	0	0
	Risk eduction staff	0	1	2	2	0	1	0	2	0	0	2	0	2	0	0
	Equity (investments) market risk	0	0	2	3	0	1	1	1	0	0	1	2	1	0	0
	Insurance risk	2	0	3	0	0	3	0	0	0	0	1	0	3	0	0
Governance	Primary responsibility BoD	0	2	1	2	0	1	1	0	1	0	2	1	1	0	0
	Value of trust	1	0	2	2	0	1	1	0	1	0	3	0	1	0	0
	Board structure	1	0	1	3	0	1	0	1	1	0	1	0	1	2	0
Regulations	(Self-imposed) Code of Conduct	0	0	3	2	0	0	0	2	1	0	2	0	2	0	0
	Adherence to Financial regulations	0	1	4	0	0	0	1	2	0	0	0	2	2	0	0
Distribution	Multi-channel availability	0	0	3	2	0	0	0	3	0	0	0	0	3	1	0
	Company values & partnerships	1	0	2	2	0	0	0	2	1	0	1	1	2	0	0
	Supply chain responsibility	0	1	0	4	0	0	1	0	2	0	1	1	2	0	0
Remuneration	Disclosure BoD remuneration	0	0	2	3	0	1	1	1	0	0	3	0	1	0	0
	"Claw back" provision	1	0	3	1	0	0	0	1	2	0	2	1	0	1	0
	Sustainability objectives	1	1	0	2	0	2	0	1	0	0	4	0	0	0	0
People Development	Diversity	0	0	0	5	0	0	0	3	0	0	1	0	3	0	0
	Development	0	0	3	2	0	0	0	3	0	0	0	0	3	1	0
Traditional CSR indicators																
Environment		0	0	2	3	0	0	0	2	1	0	2	0	2	0	0
Society		0	0	0	5	0	0	0	2	1	0	1	1	1	1	0

Approach per history CSR reporting		< 2008 N/A	< 2008 I	< 2008 R	< 2008 A	< 2008 P	> 2008 N/A	> 2008 I	> 2008 R	> 2008 A	> 2008 P	N/A N/A	N/A I	N/A R	N/A A	N/A P
	N/A	20					26					60				
	Inactive		14					21					29			
	Reactive			82					50					57		
	Active				88					26					18	
	Pro-active					0					0					0
in %		10%	7%	40%	43%		21%	17%	41%	21%		37%	18%	35%	11%	

See below in which period the insurers are categorized.

Table 5.25

Insurer	1st CSR report	Insurer	1st CSR report
AEGON	2003	Metlife	2011
Mapfre	2004	Aflac	2012
Tokio Marine	2005	AIG	N/A
AXA	2005	Bajaj Allianz	N/A
Allianz	2005	LIC	N/A
Prudential	2011	QBE	N/A

The time length of CSR adaptation with the researched population does seem to have influence on the CSR attitude. The longer the length of time in which CSR plays a part in the business strategy, the more progressive the CSR attitude. This would assume a growth model in implementing and embedding CSR into the company's strategy. The insurers that started to publish CSR reports after 2008 – start of the recession – are based in the American region and similar to the insurers that do not publish CSR reports at all, seem to focus on compliancy with regulations and embedding company values in partnerships. That could be attributed to the enormous impact of securitization and its network in the American market.

5.6 Conclusion on CSR approach sustainable insurance

Vision and CSR

Looking back at history of the insurance industry and its the primary function, only three insurers seem aware of its roots. Others do express a rather instrumentalist approach towards their role in society and focus on financial or competitive aspects. This does comply with the general ‘reactive’ attitude towards CSR in general by the industry.

It seems that a larger business size and presence in the European region do influence that attitude towards a more ‘active’ approach. The size might imply presence in more countries and subsidiaries which puts a higher strain on dealing with the three spheres (state, public and business) of society. The European regime in general shows a more ‘voluntarily’ involvement with CSR.

Consumerization

Based on the research results, the increasing importance of consumerization on the customer interaction has not yet led to an overall active approach by all insurers. The responsibility to inform customers on the product terms and conditions seems to be more prominent, although only few insurers regard it as their obligation to educate customers on the financial system in general to enable them to make their own well-balanced choices. The answer with regards to this reactive attitude on customer knowledge and orientation may well be attributed to the ‘siloed’ organization structure which creates obstacles when implementing a corporation wide approach towards customers, and upholds the current limited product perspective.

However, the most important element of insurance – the risks involved - is not addressed by the majority of the insurers. Only insurers who have been severely impacted by largely ecological catastrophes have taken on an active attitude to inform customers on risk coverage and risk prevention.

Innovation

The use of e-delivery solutions has become more common practice and is embraced by the industry.
Not the increase of accessibility for all stakeholders or improved transparency of the insurance practice for society were the main drivers, but generally cost reduction was mentioned as the instigator behind this development. European and American insurers seem to suffer from the handicap of a head start, since the insurers in emerging markets do have a higher level of digitalization of their services.

Although accessibility and transparency seem merely considered as positive side-effects, they do have beneficial value in narrowing the gap of the asymmetry of information and time that currently defines the presence of financial intermediation. Combined with the increase in financial literacy, this could have positive effects on the industry by restoring its focus towards the primary function of insurance.

Organizational agility and simple business processes do not seem to be part of the insurance industry’s DNA. But can it be expected? The internal inflexible legacy systems and product focus due it ‘siloed’ structure are definitely obstructing. But the absence of global regulations and thus various national regulations do have an important limiting effect on the insurer’s flexibility. If adjustments are made than they usually have a profit-driven motive.

Being agile and adapting quickly to the cultural, ecological and societal context of the organization would create easier identification with stakeholders and customers and form a good basis for developing solutions that will provide safety and value in that particular context. Active performer AXA has used technology to cover these known limitations by developing *“flexible, reusable and adaptable components that will allow us local customization while leveraging economies of scale and skill for the entire Group and accelerating our time-to-market”.* Despite the good efforts, the value proposition still remains the same.

Product diversification

The research results show that customer oriented focus was generally classified as reactive or even active based on the quotes found. But when it comes to actually involving customers and their input in the product development process, this seems not to be the case.

Although acknowledging that people do want to feel safe, confident and secure in times of uncertainty that has not led to a public and complete rejection of unit-linked products despite the risks involved and suffered losses by customers in the recent past. Only few European insurers took a stand in their home market. In fact, in emerging markets insurers feel a certain necessity to still offer these highly profitable products (given the current prosperous regional financial markets) otherwise they will lose market share to their competitors. For it to become a positive sum game, the way these products are offered to customers is important. Are guarantees offered and is the shared information understood and thoroughly explained with regards to the risks involved? As stated by the World Bank in chapter 2, this assumption for consumers in emerging markets is quite likely not to be true. These consumers are vulnerable and lack the necessary financial literacy to assess the actual value proposition on its long-term merits. From a positive perspective small changes are visible, but as a result of the reactive response to the media attention on unit-linked products and the lack of guarantees. With regards to the strong competitive influence, an intrinsic motivation to change these products will only occur if competitors are willing to work together towards more sustainable and fixed-value products.

Although pricing and particularly activities towards fair pricing cannot be observed, the approach towards targeted products for specific customer segments stands out. The development of modular products (so-called 'riders') and specific targeted products create the opportunity to purchase products at lower or acceptable premiums, instead of complete insurance products of which the coverage exceeds the required or necessary demand, i.e. the traditional health insurance versus a critical illness insurance for women.

While European insurers have entered into that way of developing products, insurers in emerging markets and the Asian and South-American region seem to be leading. Budget constraints require focus and by linking specific risks to specific insurance products, it makes the value proposition of the insurance product more understandable and tangible for its policyholders.

Ownership

Stakeholders and active co-operation with stakeholders to innovate and create new partnerships are not on the agenda. If dialogue is mentioned, than usually as part of the Investor Relationship format and in all other circumstances as a necessity to deal with when CSR 'issues' do occur.

The earlier attributed importance of the shareholder can be observed and is addressed by insurers from a financial perspective. The shareholder is addressed as a financial entity accordingly, emphasizing its important role while investing their capital in the insurer and promising returns on their investments. Attempts to change the investment horizon of the shareholder to long-term or add more colour to the financial paradigm, which would subsequently create a longer implementation period for the insurer to embed and harvest the results of their sustainable strategy, yet remain unmentioned.

Blockholders are largely not addressed. Considering the percentage of ownership they have in the insurance company, it is quite likely that public sources and publication are only an addition to the bilateral active dialogue, but will remain nothing more than an assumption.

Risk management

The repackaging or distribution of risks in derivative products (CDS, CMO etc.) through securitization has been indicated as one of the primary causes behind the current economic recession. The spread of the risks involved was not transparent, which led to devaluation and even losses on derivatives. The asset management side of the insurer was faced with serious threats to solvency and their commitments to policyholders, which forced governments to bailout insurers. Despite these events from happening embedding long-term risk mitigation measures, reducing equity market risks and redesigning the investment policy all are generally reactive approached. Some insurers, as Metlife and AIG, continue to see CDS as risk transferring products, despite malpractices litigation. Possibly the CSR regime gives more background to this phenomenon in which profits prevail over ethics and they could outweigh the litigation costs. This observation has interesting link to the comparison of the various sustainable initiatives and indices (appendix B). The DJSI does address risk management on a broader basis, whereas FTSE4Good, UNEPFI and the currently released PSI only focus ecological risks and not operational or asset risks. It could be that active assessment and interference with the asset management activities directly impacts the profits that can be generated in this area in a severe manner. But that remains to be researched in more detail. European insurers seem to feel more pressured from consumer associations and have changed their risk management policies slightly to retain their market position and safe their reputation.

Governance

When having a closer look on the responsibilities and leadership goals that are published, the majority seems to solely focus on achieving the company's aims. Little or nothing is stated on CSR. This might explain the general reactive approach towards CSR and emphasizes that sustainability and reclaiming or maintaining trust amongst all stakeholders is not a priority on the insurer's agenda.

Theory on Governance in chapter 2 showed that the presence of more independent directors in the BoD would have a positive effect on the importance of sustainability in the company's strategy. Six insurers do have a majority of independent directors (classified as 'active') and indeed include the top 3 insurers when it comes to most active and less N/A approaches. However, AIG and Metlife were both amongst these six but this might be due to the sharpened regulations in the US.

Regulations

Regulations seem to be regarded as bare necessities one just has to comply with, or in short needed as the 'licence to operate'. The question though arises, when drawing the conclusions and noticing the considerable limiting impact of legislation, why insurers do not take on a more pro-active approach in attempting to influence or even co-create new legislation together with regulators. This could again be related to the competitive character of the industry, where generic legislation might lead to more transparency amongst insurers and create less unique selling advantages eventually. Or insurers are not prepared to put the effort in by themselves, if others are going to benefit from the outcome as well. The latter question remains unanswered.

Distribution

Being accessible and available on the main platforms is important for customers. Nonetheless, insurers are primarily stimulated by the (non)presence of competitors in these distribution channels (brokers, bancassurance, direct writing).

The trend towards more use of internet and direct writing is gradually visible in advanced economies. The emerging markets and Asia region seem to make a jumpstart and benefit from the proven technology (in advanced markets). The agency theory quoted by Chaddad in 2.4 seems applicable if referring to lowering the agency costs by increasingly using the direct channels of internet and excluding the incentive driven brokers and other intermediaries. No links towards reduction of premiums or other socially beneficial side-effects are mentioned.

With regards to the kind of accessibility and therefore availability of insurance products for the customer base, nine insurers seem to take on a reactive approach in which they only describe the channels through which their products can be purchased. Few insurers - generally insurers in emerging markets - have a more active approach and show more creativity. They are able to anticipate by creating new distribution channels for their products and services. By being aware that the access of internet can only be afforded by a limited amount of their customers, they extended their distribution channels and not only sell and service their customers via brokers, bancassurance or internet.

The importance of company values and their reflection in partnerships in distribution is generally treated in a reactive manner. Though still in a reactive manner, the insurers based in the American region (incl. Aflac) seem to focus on embedding company values in partnerships. As stated earlier that could be attributed to the enormous impact of securitization and its attached network of risk carriers in the American market. Long term 'adapters' of CSR into their company strategy - AXA and AEGON – do emphasize the importance of sharing their conviction and core values with their partners. This approach appeals on the positive duty of both insurer and partner in working and co-creating value in the supply chain for the customers. This could be explained by the antagonistic climate of the recent "Woekerpolis" affair and the dubious role of product distributors in this.

Remuneration

The mist around remuneration and incentives is slowly descending in the Pacific and gradually in Europe. This could be attributed to the public discussions on the impact of remuneration after the 2008 debacle and the and regulative measures that followed. However, the majority still are quite hesitant and reluctant in presenting all the details. With the majority of insurers, sustainability objectives are not part of BoD remuneration objectives. If this could be regarded as the gauge meter for the insurance industry overall, this means that not having sustainability on the priority list of the highest strategy making level in the organization, embedding sustainability on each operational indicator could a challenge. Only four insurers – Prudential, Aflac, QBE and Mapfre - have actually given the authority of approval on the BoD remuneration to the shareholder. This is classified as 'active', but a more dimensional authority, including secondary stakeholders would progress these insurers to a pro-active level. Possibly the pressure from society and regulators could the deciding factors in this.

People Development
Almost all insurers are classified as 'reactive' with regards to diversity management. Metlife states that "*commitment to diversity and inclusion makes MetLife a more competitive company and allows us to better serve our customers*". But when looking at the possible benefits of diversity by incorporating cultural and social input into the product development process, Metlife is classified as 'inactive' and the majority 'reactive'. This then seems congruent.

Insurers in the Asian and Pacific regions do have a less active stance towards development and diversity. Considering the relatively poor economic conditions, presumably providing and having paid employment is more important.

Environment
The average CSR approach of the insurance industry towards environmental issues is "reactive". Despite the larger number of ecological catastrophes, the Pacific and Asian insurer do not seem to act more active than the industry in general. Most insurers are aware of the ecological imprint they make and try to reduce these effects. But these initiatives generally remain between the realms of their office premises.

But the insurer's influence on the environment can be stretched much further than its premises. The establishment of the PRI and quick adaptation shows its potential. In the sample, Allianz gives more insight on the opportunities that lie ahead. "*The energy turnaround in Germany, and we hope in the EU as well, must now be followed by a suitable business environment for investors like Allianz to invest in renewable energy installations, up-to-date energy networks and energy efficiency projects*".

Aligning investment strategies, as Allianz, with environmental interests brings sustainable insurance close to the Brundtlandt definition of sustainability and touches Soppe's theory (see 3.3) on sustainable finance. Insurers does have the ability to choose paths that are sustainable and invest in "*developments that meet the need of the present generation without compromising the ability of future generations*"

Society
The general CSR approach towards society issues is 'active'. The majority of these insurers are based in Europe and the Asian region. Referring to the theory on CRS regimes, the explanation could be the face that the European region is characterized by a strong involvement of governments and NGO's in the implementation of CSR regimes on a national or regional level. As seen in the research results Asian insurers are generally more involved in social inclusive business and local initiatives to improve the economic and education standards locally. American insurers tend to show a 'reactive' CSR approach and do use corporate philanthropy for supporting local initiatives. This behaviour can also be derived from the American CSR regime theory, which is rather reactive and mainly instrumental-oriented.

5.7 Conclusion on CSR approach insurance industry
In addition to the conclusion on the sustainable insurance indicators, a short section with brief conclusions on insurance industry level.

Overall leaders
After having assessed the individual insurers – which in this thesis represent the insurance industry - on all indicators, it can be concluded that the majority practices a reactive approach towards CSR.

There are two leaders to be recognized based on the currently researched indicators and within the composition of the convenience sample. Mapfre and AEGON both stand out with the largest number of active approaches. Mapfre and AEGON do respond to the trend of customerization in an active manner and take a special social responsibility in educating customers on the financial market (and not only their products) and are aware of the importance of social inclusive business by offering micro insurance products.

AEGON is particularly active in the field of product diversification by offering more 'guaranteed value' life insurance products and taking unit-linked products out of its current product portfolio. Another important indicator is its risk management in which the insurer is actively striving to reduce its equity exposure. And lastly the indicators governance and remuneration show that the insurer values its social responsibility highly by including sustainability objectives in the BoD remuneration targets, creating full disclosure and allow 'claw provisions' to the shareholders.

With the 'Woekerpolis' affair and the necessary EUR 3 billion bailout of the Dutch government in 2008 fresh in mind, this active approach depicts an organization with a double loop learning curve. It has changed its insights and patterns, while reflecting on these past events. Not ignoring these substantial achievements, it is interesting to see that risk management has increased on the asset management side of the insurance practice, but the social side by educating customers and employees remain inactive and so is the development of new and sustainable products. This does affect a congruent Triple-E approach.
Although Aflac is also in the top 3, it is not regarded as an overall leader as they have not addressed 14 indicators in their strategy. Especially important indicators as consumerization, risk management and remuneration policy are not addressed. Looking at the American home base of Aflac, the liberal CSR regime with its litigation threats could explain this.

Overall leading indicators

Indicator	Sub indicator	# insurers `Active`
Society		7
Innovation	E-delivery	7
Consumerization	Financial literacy	6
Distribution	Supply chain responsibility	6
Governance	Board structure	6

Overall laggards

Based on the results the two insurers which have been qualified as 'laggards' are LIC and Bajaj Allianz. Not surprisingly, based on the results with leading numbers on not addressed indicators. The motivation is to be found in the CSR regime theory in chapter 3. What constitutes an adequate structure for a company's performance differs per region and reflects on the chosen CSR approach. The young history of insurers in the emerging markets (i.e. Bajaj Allianz was only founded in 2001) might explain the focus on efficiency to achieve their profit objectives by establishing a stable market share and handle CSR issues when they do occur and might impact achieving these objectives negatively

Lagging indicators

Indicator	Sub indicator	# insurers `N-A`
Remuneration	sustainability objectives	8
Ownership	Stockholder interests	7
Risk Management	Responsible investments	6
Risk Management	Insurance risk	6
Risk Management	Principles Sustainable Investments	6

6 Overall conclusion

6.1 Answering research question Sustainable Insurance

The last chapter brings us back to the beginning of this research and will give an answer to the research question.

What is the current status of the business case for sustainability in the life and non-life insurance industry on a global level? The research results show that the overall insurance industry business case towards sustainability is defensive and largely based on extrinsic motives instead of the preferred intrinsic motivation.

As concluded the insurance industry lacks a single decision-making authority. This requires managing of the various interfaces with consumers (civil society), competitors (business) and governments and legislators (states) and mastering of a large number of stakeholders. Looking from broader perspective many macro-economic challenges also puts the insurers' societal interface management (Triple E) to the test.

Yet, the research results have shown that the stance towards CSR and the majority of the indicators remains 'reactive'. The perception of the primary (clients, competitors, shareholders) and secondary stakeholder (NGO's on human rights, health etc.) outside the corporation do define the attitude and approach of the corporation towards sustainability. Sustainability is perceived and used as a method to avoid financial losses (i.e. building or protecting a company's reputation, avoidance of stricter regulations). When zooming in into the CSR approach of insurers on region, business size, ownership, CSR history, these seem deciding factors as to which approach is chosen.

Without reviewing the conclusions of all indicators again, one indicator - risk management - deserves extra attention and might be actually exemplary for the concluded 'defensive business case'. Securitization has been indicated as one of the primary causes behind the current economic recession. The spread of the risks involved was not transparent, which led to devaluation and even losses on derivatives and forced governments to bailout insurers. Despite these events from happening embedding long-term risk mitigation measures, reducing equity market risks and redesigning the investment policy all are still generally reactively approached.

"Everyone is talking about the weather, but no one does anything about it".

6.2 Limitations research

The characteristics of the insurance companies within this research's convenience sample are relatively homogenous. It comprises largely, Western-oriented, international and stock-owned insurers with a wide variety of non-life and life insurance products and services. This research excludes pension funds and more locally operating and publicly owned insurance companies with different types of ownership structures and product specialisation.

In addition to the lack of variety and size of the convenience sample, the sustainability approach has been researched on publicly available information resources. The selected quotes from financial and sustainability reports only reflect the formal vision, strategy and managed policy as communicated towards primary and secondary stakeholders. Despite the researcher's awareness of the context and relevance of quotes, these are subject to interpretation. Further research on the actual alignment of the implementation and performance of sustainability of the researched insurance companies in their day-to-day insurance practices was outside the boundaries of this thesis.

A third limitation of this cross-sectional research is that the current state of sustainable insurance has been researched, which refers to the year 2011. No statements can be made with regards to the long-term effect of the identified CSR approaches. Considering the influence of the macro-economic environment – as stated in the conclusion - and its effect on the insurance industry, it is quite likely that approaches will change in time.

The last limitation is the definition of the concept "sustainable insurance" as used in this thesis and the chosen (sub) indicators which should define it. The *theoretical* part of this thesis showed that it still lacks a clear and widely accepted definition and therefore subject to the interpretation of the researcher.

6.3 Advice

This thesis has made an attempt to close the gap between the essential elements of the business model of the insurance practice and Corporate Sustainable Responsibility. The various Sustainability reports particularly focus their attention on ESG issues, at the periphery of the corporation and not at the core, whereas the important elements of the insurance practice are not addressed. Responsible risk management, social inclusion through diversifying product portfolios and a well-balanced stakeholder's interest management could take the insurance industry from its side track back to its roots, its primary function again. The aim of this thesis was to assess the current status of the business case for sustainable insurance, which left other possibly vital questions untouched, such as: is it a primary responsibility of insurers to be sustainable? To what extent does customer trust impact the financial performance of an insurer? In what way does the complexity of the indicators influence the current CSR approach? To enrich the outcome of this research with more background, these questions would be good starting points.

7 Methodological reflection

Researcher bias

Obviously the researcher is based in The Netherlands and undoubtedly has written this thesis from a European/ Western perspective. This might have impacted the interpretation of the results in assessing the approaches of the various insurers. Although Van Tulder's model has been used, the set up for the industry does not exclude the potential subjective interpretation of each quote. What is assessed as reactive from the researcher's perspective might actually be regarded 'active' within the context in which the insurer operates in.

Sources used

The absence of (recent) abundant independent scientific research on insurance industry data, made the use of other sources unavoidable. However, these documentation and sources do have their own perspective and possibly interests in the insurance industry. Although the research institute of SwissRe is quoted by industry leaders and the NAIC frequently and regarded as an authority due to its close cooperation with various universities, does not prove its complete independency and unbiased view on the industry.

The Boubakri article used on governance and ownership, does take an Anglo-Saxon stance towards optimizing the governance model of corporations. Subsequently the indicators do reflect this perspective. Orientation on more European and Asían management practices might have given more broadened option or definition on how to achieve a more sustainable governance structure.

Theoretical approach

The challenges described are found based on industry reports and media analysis. Additionally the issues of risk management and remuneration have been added based on the primary drivers which initiated this research, the 'Woekerpolis' affaire. A theoretical model to assess the insurance industry was not at hand. Hence, each challenge has been enriched individually with scientific articles to set up a research framework with scientific theory supporting it. Having said that, in hindsight, this thesis needs to be approached and read as an issue paper rather than a traditional academic research report. Relevance seems to have prevailed over rigour.

Research methodology

The research is primarily done based on desk research with public sources available, such as websites, annual reports, sustainability reports, Code of Conducts and Remuneration policies. It needs to be said that these are public resources which might a socially preferable answer and perception of the insurers. Data triangulation based on interviews could have given more insight on the potential discrepancy between external communication and actual implementation practice. However, the paid involvement of the researcher with one of the studied insurers made easy access to peers not possible as it was regarded as a 'competitor nosing around in their kitchen'.

Information provided by KPMG, Verbond van Verzekeraars, UNEPFI and the Sustainability team of AEGON in interviews has been used as background information in setting up a research framework with the important industry issue at present.

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Appendix A – Reading Guide

This guide functions as a quick reference to the thesis framework and in which section themes and indicators can be found.

Issue	Sub indicator	Section
	Primary function	1.1
	Financial mediation theory	1.1
Customer-centric	Clear and effective products and conditions	2.1
Customer-centric	Financial literacy	2.1
Customer-centric	Measurement of customer loyalty	2.1
Customer-centric	Brand value	2.1
Innovation	Productivity and cost reduction	2.2.
Innovation	Organization agility	2.2
Innovation	IT Legacy	2.1
Innovation	Use of internet as sales/communication channel (e-delivery)	2.2
Innovation	Big data	2.2
Product diversifcation	Product portfolio	2.3
Product diversifcation	Investment-linked products	2.3
Product diversifcation	"Woekerpolis" issue management policy	2.3
Product diversifcation	Targeted products	2.3
Product diversifcation	Risk awareness	2.3
Product diversifcation	Guaranteed value	2.3
Product diversifcation	Customer built-in input	2.3
Ownership	demutualization	2.4
Ownership	shareholders	2.4
Ownership	stakeholders	2.4
Ownership	blockholders	2.4
Ownership	agency theory	2.4
	bancassurance	2.4
Risk management	credit en financial ratings	2.5
	Underwriting riskmanagement	2.5
	Soft and hard insurance market	2.5
	Moral hazard (agents)	2.5
	Mitigating risks by monitoring	2.5
	Financial Risk management	2.5
	Responsible investments / assests	2.5
	Focus on maintaining solvent	2.5
	Strategic risk management (ERM)	2.5
	Integral risk mitigation management	2.5
	Increase in cyber crime	2.5
	Reputional damage	2.5
Governance	corporate governance	2.6
	political contributions / vision	2.6
	Performance-related pay	2.6
	Insight in % compensation vs management layers	2.6
	Remuneration policy	2.6
Regulations	Code of Conduct	2.7
	Business principles	2.7
Distribution		2.8
Remumeration BoD	Transparancy	2.9
	Sustainability targets	2.9
Sustainability Indices	DJSI	3.5
	FTSE4Good	3.5
	UNEPFI	3.5

Appendix B – Comparison Sustainability Indices and Initiatives

Economic Dimension		DJSI	FTSE4GOOD	UNEP FI		Framework
Corporate Governance	Board Structure	●	●	●		●
	Non-executive Chairman/lead Director	●				●
	Responsibilities & committees	●	●			●
	Transparancy & Accountability: Corporate Governance Policy	●				●
	Diversity - Gender	●				●
	Board Effectiveness	●				
	Audit Conflict of Interest	●				
	Transparancy of Senior Management Remuneration	●		●		●
	Disclore of Median Compensation of all Employees & CEO Compensation	●		●		●
Risk & Crisis Management	Risk Governance	●				●
	Risk Strategy	●				●
	Risk Review	●				●
	Risk Map	●				●
	Risk Optimization	●				●
Codes of Conduct	Focus	●				
	Systems & Procedures	●				
	Corruption & bribery - scope of policy	●	●	●		●
	Codes of conduct/anti-corruption&bribery - Business relationships	●		●		●
Customer Relationship	Satisfaction Measurement	●				●
	Customer Feedback Process	●				●
	Online services (insurance)	●				●
	Online financial services: success	●				●
	Online financial services: Quality & Security	●				●
Brand Management	Brand Evaluation	●				
	Brand Metrics Used	●				
	Brand Management Approach	●				
Supply Chain Management	Risk Exposure	●				
	Risk Management Measures	●				●
	Opportunities	●				●
	Transparancy & Accountability: Corporate Governance Policy	●				●
Stakeholder Engagement	Stakeholder Engagement Framework	●				●
	Stakeholder Expectations Management	●				●
Environmental						
Environment reporting	Quality of Environmental Reporting	●	●	●		●
Environmental Policy	Corporate Environmental Policy, Areas	●	●			●
	Environmental Management Systems Database / IS	●	●			●
	EMS: Certification / Audit / Verification	●				
	EMS: Coverage of Certification	●				
Operational Eco-Efficiency	Denominators - FTEs	●	●			
	Direct Greenhouse Gas Emissions	●	●	●		●
	Carbon Neutral Business Operations	●	●	●		●
	Energy Consumption	●	●	●		●
	Paper Consumption	●	●			
	Renewable Energy Consumption	●	●	●		●
	Total Business Travel	●	●			
	Waste Recycled	●	●	●		●
	Water	●	●	●		●
	Waste to landfill	●	●	●		●
Eco Riskmanagement	Pollution			●		●
	Ecosystem degradation (brown clouds / reef destruction etc.)			●		●
	Climate change			●		●
	Biodiversity loss			●		
Social Dimension						
Business Risks and	Environmental / Social / Ethical elements of Underwriting / Business Policy	●				●
	Products/Services	●				●
	Investments	●				●
	MSA Environmental liabilities / accidents	●				●
Risk Detection	Early detection of risks in product development	●				
	Risk training	●				●
	MSA Environmental Accidents/liabilities: asbestos	●		●		●
	Public Health risks			●		●
	Food insecurity			●		●
	(Nano) Technology risks			●		●
	Pandemics			●		●
Social reporting	Quality of Social Reporting	●		●		●
	Social reporting - materiality	●				
Labor Practice Indicators & Human Rights	Labor KPI's	●	●			
	Grievance Resolution	●	●			
	Business and Human Rights	●	●			
	Supply chain labour standards		●	●		●
Human Capital Development	Human Resource Skill Mapping and Developing Process	●				
	Human Capital Performance Indicators	●				
	Personal and Organizational Learning & Development	●		●		●
Talent Attraction & Retention	Coverage of employees through predefined performance Appraisal Process	●				
	% of performance related compensation for each employee	●				
	Balance of Variable based on corporate and individual performance	●				
	Corporate indicators for performance-related compensation	●				
	Type of individual performance appraisal	●				
	Payout type of total performance-related compensation	●				
	Employee turnover rate	●				
	Trend of employee satisfaction	●				
Corporate Citizenship and	Group-wide strategy	●				●
	Type of Philanthropic Activities	●				●
	Input	●				●
	Measuring Benefits					
Occupational Health & Safety	Governance Framework & Oversight	●				
	Health Risks/Prevention Training	●		●		●
	Absenteeism: sickness & injuries	●				
	Absenteeism: work-related stress	●				
	Health Safety & Well-being	●		●		●
Financial Inclusion	Access to insurance / social value added	●		●		●

Appendix C – Signatory insurers to PSI

Overview – June 2012
Source: UNEPFI, 2012

Classification of region according to region criteria in section 4.4.

Signatory insurers	Region
Achmea (Netherlands)	Europe
AEGON (Netherlands)	Europe
Aviva (United Kingdom)	Europe
AXA (France)	Europe
Delta Lloyd (Netherlands)	Europe
ING (Netherlands)	Europe
Interamerican Hellenic Insurance Group (Greece)	Europe
La Banque Postale (France)	Europe
MAPFRE (Spain)	Europe
Munich Re (Germany)	Europe
RSA Insurance Group (United Kingdom)	Europe
Swiss Re (Switzerland)	Europe
Zwitserleven (Netherlands)	Europe
International Cooperative and Mutual Insurance Federation (United Kingdom)	Europe
The Co-operators Group (Canada)	N-America
International Insurance Society (United States)	N-America
Insurance Australia Group (Australia)	Pacific
Mitsui Sumitomo Insurance (Japan)	Pacific
SCOR (France, Sompo Japan Insurance (Japan)	Pacific
Sovereign (New Zealand), Storebrand (Norway)	Pacific
Tokio Marine and Nichido Fire Insurance (Japan)	Pacific
Insurance Council of Australia (Australia)	Pacific
Insurance Council of New Zealand (New Zealand)	Pacific
Sanlam (South Africa)	S-Africa
Santam (South Africa)	S-Africa
South African Insurance Association (South Africa)	S-Africa
Bradesco Seguros (Brazil)	S-America
Itaú Seguros (Brazil)	S-America
Mongeral AEGON (Brazil)	S-America
SulAmérica (Brazil)	S-America
Brazilian Insurance Confederation (Brazil)	S-America
Insurance Association of the Caribbean (Barbados)	S-America