

Benchmark Responsible Investment by Insurance Companies in the Netherlands 2011: At the Crossroads





Pieterstraat 11
3512 JT Utrecht
T +31 (0) 30 234 00 31
info@vbdo.nl
www.vbdo.nl

Benchmark Responsible Investment by Insurance Companies in the Netherlands 2011: At the Crossroads

A research paper by
VBDO (Dutch Association of Investors for Sustainable Development)

VBDO:

Kees Gootjes en Rudy Verstappen

In cooperation with

Profundo: Anniek Herder, Jan Willem van Gelder

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Foreword

To realize our mission of addressing sustainability through capital markets, the VBDO is working on a range of benchmarks on the status of SRI (Sustainable Responsible Investments) within several sectors. Earlier this year, reports on pension funds, charities and foundations and religious institutions were made. Our objective is twofold: to create awareness within these sectors, to propose a common perspective on SRI, and to share best practices. By indicating the relative performance of insurance companies and including a profile of each participating company, we facilitate the assessment of their current situation and provide options for improvement.

This survey showed a clear division between the haves and the have-nots. Those companies that have a sound SRI performance improved this in 2011, while companies that lacked an SRI policy did not show progress. Especially relevant is the lack of positive movement of some international insurance companies, even when those companies have international SRI policies. For reasons that are unclear, these policies are not implemented in our country.

I would like to express my gratitude to Oxfam Novib, as this research would not have been possible without their support.

It is our aim to repeat this research in 2012, and to work together with this sector to improve their SRI performance to the levels we see in other sectors, like the pension funds. Finally, I would like to congratulate the number one insurance company in this year's benchmark, REAAL Verzekeringen.

Giuseppe van der Helm
Executive Director VBDO

Executive Summary

Insurance companies in the Netherlands are institutional investors. They invest the premiums of their policyholders not just in the Netherlands, but also internationally. These investments in public equity, bonds, real estate and alternative investments such as private equity and hedge funds have an impact on the environment and the lives of people around the world. The Dutch Association of Investors for Sustainable Development (VBDO), in association with research consultancy Profundo, has put together a benchmark report that surveys and ranks the responsible investment policies of 30 insurance companies active in the Netherlands.

This third edition of the benchmark is the second time with the revised methodology focused on multiple asset classes. Because of this, the efforts of insurance companies can be compared in a much more meaningful way. The VBDO hopes that this benchmark will be used by (potential) policyholders to make an informed choice when selecting an insurance company. At the same time, the VBDO hopes that this report will encourage the insurance companies themselves to (further) develop the formulation, implementation and accountability of their responsible investment policy.

Research methodology

This year, the methodology remained largely unchanged to maintain the comparability of the benchmark research. The responsible investment policies of 30 Dutch insurance companies were scored and ranked using 29 assessment issues divided into three categories with the following weightings:

- Policy (3 assessment issues) 25%
- Implementation 50%
 - o Public equity (6 assessment issues)
 - o Corporate bonds (4 assessment issues)
 - o Government bonds (3 assessment issues)
 - o Real estate (3 assessment issues)
 - o Alternative investments (2 assessment issues)
- Accountability (8 assessment issues) 25%

Based on these 29 assessment issues, scores were assigned to the different insurance companies and the final scores tabulated.

Conclusions

This year's edition of the benchmark reveals that there are two distinct groups of insurance companies in the Netherlands. The first group of insurance companies, 16 in total, are active in responsible investment. It is remarkable that all these insurance companies in have improved (or in one case maintained) their scores in comparison to last year. These insurance companies are, in order of ranking:

- REAAL Verzekeringen
- Zwitserleven
- ASR Verzekeringen
- Loyalis Verzekeringen
- Achmea Holding
- Menzis
- Delta Lloyd
- AEGON
- ONVZ Zorgverzekeraars
- CZ

- **Nationale-Nederlanden**
- **De Goudse**
- **Allianz Nederland**
- **Generali Verzekeringsgroep**
- **UVM Verzekeringsmaatschappij**

The VBDO is encouraged by the fact that all of these insurance companies are taking steps to further implement responsible investment in their investment portfolios. This improvement can be seen in all asset classes, with the biggest improvement in the government bond asset class. Within this group, a number of insurance companies made significant progress. These are Achmea, Allianz Nederland, De Goudse and ONVZ Zorgverzekeraar.

The second group of insurance companies are not taking any noticeable steps in the area of responsible investment. Some of these insurance companies are part of international groups that do have responsible investment activities. These activities have not, however, been applied to the Dutch subsidiaries that the VBDO is able to identify. Other insurance companies simply do not provide any information, in annual reports, on websites or completed questionnaires. These insurance companies are:

- **ARAG Rechtsbijstand**
- **Bovemij Verzekeringen**
- **Cardif Verzekeringen**
- **Chartis**
- **DAS Rechtsbijstand**
- **De Friesland Zorgverzekeraar**
- **DSW Zorgverzekeraar**
- **HDI-Gerling Verzekeringen**
- **Klaverblad Verzekeringen**
- **Legal & General Nederland**
- **Onderlinge 's-Gravenhage**
- **SwissRe NL**
- **TVM Verzekeringen**
- **Zorg en Zekerheid**

Recommendations

On the basis of these conclusions, the VBDO makes a number of recommendations to the two groups of insurance companies. For those insurance companies active in the area of responsible investment, the following recommendations are made:

- Insurance companies can work to develop a policy which is based on international guidelines, such as the UN Global Compact, and should include specific measures to better adhere to the principles on UN Global Compact.
- Insurance companies should implement a responsible investment policy in all the asset classes in which they are invested.
- Concerning accountability, significant steps can be taken by the insurance sector. Transparency and accountability can accelerate responsible investment within the sector and is an integral part of sustainability.
- Insurance companies can use best practices within the sector and can also look at the responsible investment activities that are implemented by the pension fund sector in the Netherlands.



For the insurance companies not yet active in responsible investment, the following recommendations are made:

- The insurance company should start by getting responsible investment on the agenda of the organization.
- The most common first instrument applied is exclusion, where companies and countries whose products or activities are seen as unwanted or controversial are excluded from the investment universe.
- Many insurance companies, both in the Netherlands and abroad, are very knowledgeable on the topic of responsible investment. Use this report to see how they compose, implement and report on their responsible investment policies.
- Choosing an asset manager that is advanced in responsible investment is also a good strategy for insurance companies looking to implement a responsible investment policy.

The final chapter of the report is provided by Sustainalytics, a sustainability research and analysis provider. This chapter makes clear that the insurance industry has a significant degree of diversification and the room for responsible investment critically depends on factors such as ultimate asset ownership, the investment horizon, and the chosen investment mandate. Nevertheless, there are often plenty of responsible investment opportunities and asset managers can (pro-actively) support insurance companies in bringing responsible investment forward.

1 Introduction

In front of you is the third edition of the VBDO Benchmark Responsible Investment by Insurance Companies in the Netherlands 2011. This report is published by the Dutch Association of Investors for Sustainable Development (VBDO), in association with research consultancy Profundo, and presents the development of Dutch insurance companies in formulating, implementing and reporting on their responsible investment policies.

The first edition of the benchmark for insurance companies showed that 9 out of the 30 insurance companies had a responsible investment policy. This increased to 14 (out of 29 insurers) in the second edition of the benchmark. Furthermore, it became clear that implementation across the public equity and corporate bonds is head and shoulders above the rest of the asset classes. And finally, last year's report showed that insurance companies were not very transparent about their responsible investment activities.

This year, the methodology remained largely unchanged to maintain the comparability of the benchmark research. The responsible investment policies of 30 Dutch pension funds have been scored and ranked using 29 assessment issues divided into three categories with the following weightings:

- Policy (3 assessment issues) 25%
- Implementation 50%
 - o Public equity (6 assessment issues)
 - o Corporate bonds (4 assessment issues)
 - o Government bonds (3 assessment issues)
 - o Real estate (3 assessment issues)
 - o Alternative investments (2 assessment issues)
- Accountability (8 assessment issues) 25%

Based on these 29 assessment issues, scores were assigned to the different insurance companies and the final scores tabulated. The insurance companies are in this way motivated to develop and/or adapt their responsible investment policy.

The contents of this research report are as follows: chapter 2 provides an introduction to the Dutch insurance sector and states the different developments in this sector throughout the years. Furthermore, it summarizes the development in the field of responsible investment and describes the relevant initiatives in this field. The subsequent chapter, chapter 3, describes the research objective and the methodology used. This chapter provides insight into how the information was gathered, and the scoring model according to which the insurance companies are assessed.

Chapter 4 details the results of this research, starting with the research group and response rate. This is followed by the overall results and an analysis of the average scores according to a number of different variables such as size. The results of the three categories (policy, implementation and accountability) are then put forward. Chapter five provides recommendations for insurance companies to improve their responsible investment activities.

The final chapter is put together by Sustainalytics, a global sustainable research provider and institutional member of the VBDO, and focuses on a number of issues. Why should an insurance company care about responsible investment? Which considerations determine an insurance company's responsible investment possibilities? Which responsible investment policy instruments can an insurance company use? Finally, how can an insurance company engage its asset managers to advance with responsible investment?

A breakdown of the individual scores of the insurance companies can be found in the first appendix and the profiles of all 50 insurance companies can be found on the VBDO website (www.vbdo.nl).



2 Insurance companies and responsible investment

2 Towards responsibly invested insurance premiums

2.1 Introduction

This chapter provides background information for the benchmark VBDO Responsible Investment by Dutch Insurance Companies. Section 1.2 introduces the Dutch insurance sector, describing the types of companies, the regulatory regime and the branch organisations. Figures on incomes and investments of Dutch insurance companies are also provided.

Section 1.3 summarizes the public discussion on whether insurance companies should or should not invest responsibly. Section 1.4 then summarizes figures on the size of responsible investments and instruments used to invest responsibly. Finally, section 1.5 discusses initiatives and standards for responsible investment which are relevant for insurance companies.

2.2 The Dutch insurance sector

2.2.1 Types of insurance companies

De Nederlandsche Bank (DNB) distinguishes three types of insurers, broken down by license: life insurers, non-life insurers (including healthcare) and funeral in-kind insurers. In 2010, a total of 294 insurers were operating in the Netherlands, divided by type as follows: 53 life insurers, 209 non-life insurers and 32 funeral in-kind insurers. Overall, the number of insurers in the Netherlands is slowly decreasing, mainly because of mergers and take-overs. Compared to a total of 329 companies in 2008, the past two years showed a decrease of 10%. The net premium income earned by life insurers in 2010 was € 21.5 billion and by non-life insurers € 51.6 billion.¹

Life insurance companies pay out an agreed amount in the event of the death of the insured before or on the maturity date. Non-life insurance companies provide protection against specific losses of either material kind - a car or fire insurance - or non-material kind, as in the case of health or legal expenses insurance.² Within the non-life insurance sector various market segments can be differentiated: healthcare, motor, transport, fire and other (for example travel and legal insurances). Especially the healthcare insurers are commonly seen as a separate group of non-life insurers.³ The difference between life and non-life insurers on the one hand and funeral in-kind insurers is that the last group pays out in kind rather than cash. When the policyholder dies, the insurer takes care of the funeral arrangements.⁴

Based on their organisation structures, two forms of insurance companies are allowed by insurance regulations: limited companies (naamloze vennootschappen) and mutual insurance associations (onderlinge waarborgmaatschappijen):

- A limited company is a legal form in which external investors provide the necessary financial resources to the company. Obviously these investors expect to receive a remuneration (dividends) on their invested capital.
- A mutual insurance association is an association of members (insured persons) who have decided to provide each other the required reinsurance on a reciprocal basis. The capital of the mutual insurance association is no more than the combined members' capital and the members have control over their association.⁵

Finally, the distribution channels used differ between various types of insurers. An insurance company may offer its products via branch offices, intermediaries or through 'direct writing': direct contact between client and company. Increased use of the internet has strengthened direct writing in the past decade.

2.2.2 Regulation of insurance companies

The main supervisor for the Dutch insurance sector is the DNB. The DNB grants licenses to those insurers with regulatory requirements and monitors compliance with the regulations of the Financial Supervision Act (Wet financieel toezicht, Wft). This law is in force since January 2007 and sets requirements for financial service providers in the areas of competence and due care. Foreign insurance companies (from Europe) may offer products via their insurance branches in The Netherlands, based on a license obtained in another European country. These insurers are not supervised by DNB, but by a supervisory body in the country where they have their headquarters.

Intermediaries that offer products of insurance companies are supervised by the Financial Markets Authority (Autoriteit Financiële Markten, AFM). The AFM has been responsible for supervising the operation of the financial markets since 1 March 2002. The AFM also oversees the Financial Information Leaflet (Financiële Bijsluiter) that explains the complex agreements behind insurance and other financial products to customers. Such information is mandatory with investment insurances.

Both pension funds and life insurers that execute collective pension contracts are under supervision of the AFM. Besides the Wft, these pension insurers are also regulated by the Pension Act (Pensioenwet, PW).⁶

Finally, healthcare insurers have to comply with the Health Insurance Act (Zorgverzekeringswet, ZvW), in force since January 2006. Anyone living in the Netherlands and/or paying tax is required to have a basic health care insurance. Private health insurance companies are obliged to provide a package with a defined set of insured treatments. Insurers negotiate with healthcare providers about proper care at competitive prices. Monitoring health insurance is the responsibility of the Dutch Healthcare Authority (Nederlandse Zorgautoriteit, NZA). NZA also supervises the agencies that perform the Exceptional Medical Expenses Act (Algemene Wet Bijzondere Ziektekosten, AWBZ).⁷

Solvency II, also called Basel for insurers, is the updated set of regulatory requirements for insurance firms that operate in the European Union and intends to make companies comparable, transparent and more safe for investors and customers. The directive is scheduled to come into effect on 31 December 2012.

Solvency II assigns capital weightings to different asset classes, based on their perceived risks. Various financial institutions criticise the rules after they explored how these would affect their investment strategies. According to the London Evening Standard “Solvency II could sound the death knell for investing in equities, it will be bad news for long-dated corporate bonds and it would force insurance companies to commit themselves even more to buying government debt. This is a direct consequence of the capital weighting - or the perceived risk the different asset classes have in the new system”. The Chief Investment Officer of APG expects that investors like pension funds will be limited in their possibilities to buy shares.⁸ Rating agency Fitch said in June 2011 that the requirement would reduce insurers’ allocations to long-dated and low-rated corporate bonds, property, equity and some alternative investments.⁹ Very recently, in December 2011, a group of large insurers was calling on policy makers to relax regulation such as Solvency II, as it is one of the barriers for investment in assets such as green bonds.¹⁰

As a response to this criticism, the European Insurance and Occupational Pensions Authority (EIOPA) conducted various quantitative impact studies. The latest has been published in March 2011 and concludes that the approach that has been proposed and tested is a workable proposition. According to Michel Barnier, the Commissioner for Internal Market and Services, the



criticism against Solvency II has not been confirmed by evidence: “The results so far show that the insurance industry is well-positioned to meet the new Solvency criteria”.¹¹ The Dutch Association of Insurers mentioned in its Annual Report that especially Dutch insurers had good results in the tests, “which is good news as it will eventually contribute to better protection of consumers”.¹²

2.2.3 Branch organisations



Most Dutch insurance companies are organised in the Verbond van Verzekeraars, the Dutch Association of Insurers. The Association represents the interests of approximately 128 or 95% of the insurers operating in the Netherlands, both limited companies and mutual insurance association, but no health care insurers.¹³

The Association works with a Code of Conduct since 2002, which was reviewed in 2011 and defines a base reference for corporate social responsibility of insurance companies. This Code includes the intention to avoid doing business with persons, institutions or companies that practice activities prohibited by law or are generally considered as socially unacceptable. By signing the Code, insurers also promise to carefully and responsibly manage the entrusted premiums. With regard to their role as institutional investors, insurers promise to involve their social responsibility in their investment policy: “We do not only include economic, but also social and ecological interests in our corporate governance and investment policy and are accountable in this context.”¹⁴ An updated version of this Code is expected in the near future.



The Federatie van Onderlinge Verzekeringsmaatschappijen (FOV) is the umbrella organization of mutual insurance companies in the Netherlands. In spring 2010, 115 companies were affiliated with the federation, which together generated a premium income of € 5 billion. The FOV is an associate member of the Verbond van Verzekeraars.¹⁵



The trade association of health insurers is Zorgverzekeraars Nederland (ZN) and has 15 members.¹⁶ With the establishment of the Health Insurance Governance Committee, ZN pays special attention to corporate governance. It developed a Health Insurance Governance Code with 10 recommendations regarding responsibility and accountability of the board of directors and supervisors.¹⁷

In 2007 Zorgverzekeraars Nederland and Verbond Verzekeraars researched possibilities for deepening cooperation between the two organisations or even a merger.¹⁸ But this was not confirmed in other articles nor on their websites until recently.

2.2.4 Income and investments

The global premium income of the insurance sector increased from US\$ 4.11 trillion in 2009 to US\$ 4.34 trillion in 2010. With an estimated 2.24 per cent (US\$ 97 billion) of global direct premium income, the Dutch insurance market has switched places with Canada and South Korea, compared to 2009, and now ranks 10th after United States, Japan, United Kingdom, France, Germany, China, Italy, Canada and South Korea.¹⁹

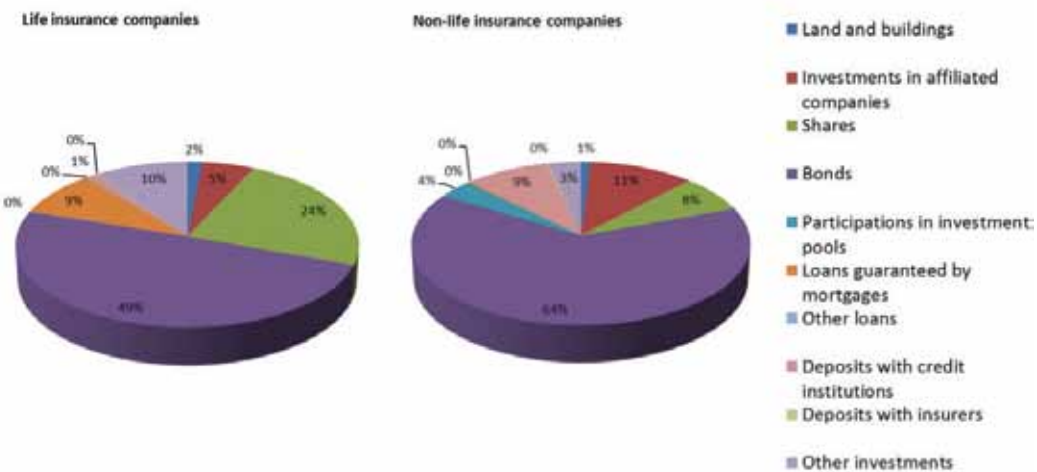
Dutch consumers spend relatively more on insurance and health premiums than consumers in other countries. They do not pay a higher premium, but buy more insurance products. One reason for this is that a life insurance is often required to obtain a mortgage in the Netherlands. But according to the Dutch Centre for Insurance Statistics (Centrum voor Verzekeringsstatistiek), the insurance density in the Netherlands is also high because “we are a risk-averse nation. Moreover, our health insurance market is fully privatized. The premium revenue of health insurance companies accounts for nearly half of the total.”²⁰

If all these insurance premiums are well-spent is doubted by some experts. “Besides a life and health insurance, Dutch consumers still pay a few thousand euro’s per year for unnecessary insurance products”, says Henk Keuzenkamp of the University of Amsterdam. “These product just cover events that are not very rare (bike stolen) and can easily be paid by the consumer itself.”²¹

Besides insurance premiums, insurers’ revenues also come from their return on investments. In the second half of 2011, supervised insurers in the Netherlands had a net premium income of € 38.4 billion and return on investments of € 23.4 billion. The total value of the outstanding investments of Dutch insurance companies amounted to € 358.9 billion.²²

According to the Dutch Association of Insurers, insurance companies invest a relatively small portion of their investments in equity, to limit the risk of large losses. The majority of insurers’ investments consist of fixed income securities such as government and corporate bonds, receivables from (mortgage) loans and real estate.²³ The following figure confirms this, but also shows major differences between life and non-life insurers. Life insurers still invest 24% in equity, while this is only 8% of non-life insurers’ investments. Furthermore, non-life insurance companies invest a large part in deposits (9%) compared to life insurers (1.1%).

Figure 1. Investments of Dutch insurance companies in 2nd quarter of 2011



Source: DNB, “Supervisory data on insurers - Table 7.2 Balance sheet and current value of investments of supervised insurers”, De Nederlandsche Bank, 13 October 2011.

For healthcare insurers, the income is more diverse than for other types of insurers. Premium income partly comes from the insured (nominal premium) and partly from the health insurance fund (income-based premium and government funding). The insurer determines the level of the nominal part of the premium, which can vary by the selected insurance type (in kind or by reimbursement), the level of excess, group discount, and since 2009 by rewarding loyal customers through a discount on the premium. There is fierce price competition among health insurers, although this rarely leads to switches in providers.²⁴

2.2.5 Financial crisis

After the credit crunch struck in 2008 and the recession that followed thereafter, the equity portfolio of insurers decreased from € 112 to € 101 billion. The financial crisis had a greater impact on life insurance corporations than non-life insurers, because they have a huge amount of investments compared to their equity capital (high leverage) and limited resources to respond to a crisis than non-life insurers.²⁵ The crisis also hit Dutch insurance companies harder than

European insurance companies. This is because the business mix of Dutch insurance companies is much more focused on life insurance and because they often have banking activities as well.²⁶

The branch organisations concluded that the Dutch insurance sector proved healthy enough to survive an event such as the financial crisis in 2008. Although insurance companies' equity capital was under pressure, it was never below the required solvency level. With the recovery of the economy and improving stock exchanges in 2009, the solvency of insurers also increased and at the start of 2010 their initial position was considerably better than the year before. The credit spread decreased and the value of government bonds increased, which gave return on investments of insurers a major impulse.²⁷

But then, further into 2010, it appeared that the value of government bonds proved uncertain as well. For life insurers the competition from bank saving schemes was also fierce, resulting in a drop in production of individual policies, and the fuss about investment-linked insurance and stock exchange sentiment also affected these products adversely. Trust in insurance companies has decreased significantly and both premium income and results fell. Despite these developments, Dutch insurers succeeded in maintaining solvency levels.²⁸

2.3 Motivations for investing responsibly

2.3.1 Expectations from society

Public attention for responsible investment by institutional investors (pension funds, insurance companies and fund managers) is increasing globally since the turn of the century. In the Netherlands, most attention was initially focussed on corporate governance issues instead of social and environmental issues, as revealed by a 2006 VBDO report into pension fund annual reporting.²⁹ But gradually, attention for social and environmental issues increased. This can be derived from publications such as:

- “Toekomstagenda Milieu” (Environmental Future Plan), April 2006;³⁰
- “De Kracht van Pensioenfondsen” (The Strength of Pension Funds), April 2007;³¹
- Zembla documentary “Het Clusterbomgevoel” (The Cluster Bomb Sensation), March 2007;
- “Maatschappelijke belangenafweging en transparantie in het beleggingsproces” (Societal interests and transparency in the investment process), April 2007;³²
- “De gearriveerde Toekomst” (The Future has arrived), November 2007 (to be reviewed in 2012);³³
- “Stille kapitalisten: een sociologisch onderzoek over de invloed en controle van deelnemers op het beleggingsbeleid van hun pensioenfondsen” (Silent capitalists: a social science research about the influence and control of participants on the investment policy of their pension funds), July 2008.³⁴

According to Eurosif, the European SRI market's growth is still driven by external pressure from NGOs and media and an increasing demand from institutional investors, but also by a growing interest from retail investors.³⁵

These examples make clear that society expects social and environmental issues to be part of their responsible investment practices. Institutional investors should use their position as capital providers to deny notorious polluters and human rights offenders access to capital, stimulate the large majority of companies to invest in sustainable development and production methods and grant smaller, truly innovative companies easier access to capital. This expectation can be traced back to the role of pension funds as ‘universal owners’.

Such investors invest in a broad cross-section of the economy, often holding a portfolio that is a representative sample of the total universe of available investment options and, as a consequence, 'own' a stake in the entire economy. As shareholders, universal owners are able to influence thousands of companies through participation at annual meetings and by engaging. And they have two other particular characteristics: very long time horizons and a large number of beneficiaries.³⁶

Because universal owners have a clear financial interest in the enduring health of capital markets and the economy, these markets and companies listed thereof will increasingly be shaped by their long-term interests that are increasingly aligned by the interests of their beneficiaries and of the general public. This makes institutional investors an important driver of corporate social responsibility.³⁷

2.3.2 Fiduciary responsibility

Many in the pension and insurance sector for too long took the viewpoint that a socially responsible investment policy would be incompatible with the sector's primary task, meaning the guarantee of a stable and inflation-proof pension or life insurance for its participants or premium-payers. This so-called fiduciary responsibility was supposed to be at odds with any socially responsible investment policy, which was believed to yield a lower return on investment.

But in October 2005, one of the largest law firms in the world, *Freshfields Bruckhaus Deringer*, compiled a report for the UNEP Finance Initiative (UNEP FI). It demonstrated that different jurisdictions have different interpretations of the *fiduciary responsibility* of pension funds. This responsibility, however, does not force pension funds to merely consider financial criteria: '*... integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.*'³⁸

The same applies to the Dutch Pensioenwet (Pension Act), although it does not specifically mention the subject of responsible investment. Article 135 of the Pension Act does demand from pension funds that they follow an investment policy that is in accordance with the 'prudent person' principle. The 'prudent person' principle implies that pension funds are to invest their capital with due regard to the interests of entitled and pensionable persons. No pension fund may pursue interests that are not related to the pension rights and claims of participants. This restriction does not mean, however, that pension funds may not consider non-financial issues. They may do so, as long as non-financial interests do not dominate to the extent that the fund's investment policy no longer leads to an acceptable risk-profit profile.³⁹

In July 2009, the UNEP FI's Asset Management Working Group (AMWG) published a follow-up report to the 2005 Freshfields report. This report, often called *Fiduciary II*, articulates the evolving nature of fiduciary duties and ESG issues. According to the legal advice of, amongst others, Paul Watchman, it is now broadly recognised that pension funds have the duty to have regard for ESG considerations. Merely, they have an obligation to state what the fund's guidelines are on responsible investment and to what extent social, environment or ethical considerations are taken into account.⁴⁰

Likewise, investment management agreements should include language in order to clarify the expectations of the parties (i.e. institutional investors and asset managers) and to make clear that ESG is regarded as a mainstream consideration. *Fiduciary II* also highlights that institutional investment consultants and asset managers have a professional duty of care to proactively raise ESG considerations with their clients. Failure to do so may have serious consequences because there is a very real risk that they will be sued for negligence. To this extent *Fiduciary II* shows how a pension fund can operationalize ESG integration in investment mandates.⁴¹

In March 2011, the FairPensions campaign in the United Kingdom released a report with its vision on fiduciary duties of investors, discussing its implications in today's changing pension and investment landscape. One of the questions was whether fiduciary obligation presents a barrier to the consideration of social environmental and ethical issues - a potential other 'best interest' of beneficiaries besides securing financial return. Because the legal position of fiduciary obligation is murky, partly due to lack of authority, "statutory clarification may be needed to free trustees from perceived restrictions on their exercise of judgement". Moreover, the increasing acceptance that serving the best interest of beneficiaries requires consideration of ESG issues is not fully reflected in mainstream investment practice. FairPensions' report suggests that this might be connected to a perception of ESG as client-driven ethical preference instead of an integral part of financial analysis.⁴²

On the other hand, pension fund members that provide the capital to be invested should be given more of a say in the management of their money. Furthermore, it appears that the actors exercising fiduciary responsibilities are no longer those making many of the key decisions affecting beneficiaries, which results in the undermining of the effectiveness of fiduciary accountability. Based on these and other issues, FairPensions pleads for a fundamental review of the fiduciary obligation. "Its goals should be to ensure the legal framework is serving its purpose: to protect us all from irresponsible, short-sighted or self-serving behaviour by those on whom we depend to act on our behalf." Such a review would not only encourage a responsible long-term approach to serving beneficiaries' interests but would also contribute to great policy challenges, such as providing for an ageing society and ensuring that financial systems acts on behalf of the people whose money is at stake.⁴³

2.3.3 Risk management

Besides a professional duty to invest responsibly, the financial sector also considers responsible investment activities as a matter of risk management which may eventually even yield higher returns. In January 2010, the Dutch Committee on Investment Policy and Risk Management (also referred to as *Committee Frijns*) recommended that pension funds should include objectives in the field of sustainable development and corporate social responsibility in their risk and investment policies. Such recommendations are increasingly being put into practice, with more and more investors that want companies to include information about their impact on the environment in their annual reports, to help judge potential risks.⁴⁴

While investors have long acquaintance with the financial materiality of environmental and social disasters, many still need to be convinced of the materiality of ESG issues and their link to financial value. The UNEP FI concluded in 2006 that there is robust evidence that ESG issues affect shareholder value in the short and long term, and the impact on share price can be valued and quantified, and key material ESG issues become apparent but their importance varies between sectors.⁴⁵

A UNEP FI survey amongst insurance companies in 2009 revealed that ESG factors are judged as a substantial influence in risk underwriting. Many of the respondents also believe that "an insured's superior management of ESG factors signals better overall risk management philosophy and practice, and is a key consideration in the underwriting process that determines the price and coverage of insurance" and that "underwriting the ESG performance of their insured's is an important part of their company's own risk management, and that they seek to manage or avoid the reputational risk associated with having as clients those known for performing poorly on ESG factors".⁴⁶ The report is the basis for developing 'Principles for Sustainable Insurance', see also paragraph 1.4.2.

A study of Risklab, published in March 2010, focused on the connection of ESG to strategic asset allocation and the portfolio context. This had been missing in earlier research on ESG risk, while strategic asset allocation could be the main factor driving long-term portfolio returns. Risklab pointed out that the integration of ESG factors into portfolio construction could significantly reduce long-term investment risk and potentially boost returns because of the high probability that companies that do not manage ESG issues will be more volatile. The study involved building a quantitative model of ESG risk factors in a portfolio to determine their influence on equity risk over a 20-year horizon. According to Risklab, investors should strive to optimize their global equity investments and minimize exposure to ESG risks.⁴⁷

In 2011, Trucost calculated the cost of global environmental damage and examined the importance of the matter for capital markets, companies and institutional investors. Therefore it assessed the financial implications of unsustainable natural resource use and pollution by business. According to their report, annual environmental costs from global human activity amounted to US\$ 6.6 trillion in 2008, equivalent to 11% of GDP and are increasing. Of these costs the top 3000 public companies cause over US\$ 2.15 trillion. Such externalities can reduce returns to investors.⁴⁸

In February 2011, the consultancy firm Mercer reported about a project on investment implications of climate change impact on economies and financial markets at total-portfolio level. This is especially important for strategic asset allocation because traditional approaches to modeling, mostly based on historical quantitative analysis, fail to take account of climate change risk. The report models climate change risks using the TIP-framework (Technology, Impact, Policy), that suggests climate policy could contribute 10% to overall portfolio risk. To manage this and other risks, investors need to think about diversification across asset classes.⁴⁹

Many respondents to Eurosif's annual study said the financial crisis had made them more aware of the need to integrate ESG risks into their investment decisions.⁵⁰

The Penrose Financial Survey 2010, about the future of the investment industry in the United Kingdom, asked 100 organizations (60% asset managers, 14.2% pension funds, 16.0% consultants/advisory and 9.4% other) in August 2010 about their reasons for including environmental factors in their investment strategy. The results showed that a significant part of the respondents sees environmental factors both as a risk and an opportunity. The major part (43.6%) of the respondents answered that "environmental factors pose a significant risk to investment portfolios, so these non-financial factors must be taken into consideration" and 23.6% thought that it is a "growth sector with potential for outperformance".⁵¹

2.3.4 Financial performance

The financial performance resulting from the implementation of any responsible investment policy is determined by a number of different factors. It is fully clear that a number of the instruments used to implement a responsible investment policy, such as voting and engagement policies, do not have any negative effect on returns whatsoever. Other instruments, such as the inclusion of the ESG criteria in the selection of shares might have that effect. In theory, any restriction of the investment universe could lead to a lower return. But at the other hand, there are also sufficient theoretical reasons to believe that companies paying more attention to social and environmental issues will reach better financial results, because better investment choices are made. The question therefore remains: which effect on returns will outweigh the other?

Research by financial specialists has not yet lead to a simple conclusion on the question whether non-financial criteria have an effect on returns, particularly where long-term effects are concerned. In 2007, a joint report of the UNEP FI Asset Management Working Group and Mercer

highlighted that the belief that responsible investment will automatically limit the investment universe and thereby limit returns, is narrow in its focus and conclusion. A number of tools are available for integrating ESG into the investment process and a full assessment of their merits needs to consider the relative merit of each approach and the preferences of the beneficiaries that asset owners represent, and then balance those considerations against available evidence on the performance indication of each approach.⁵²

Since then, the breadth and depth of academic research measuring the relationship between responsible investment and financial performance have expanded. In November 2009, a review by the consultancy firm Mercer of 36 academic studies (from which 16 were released since 2007) concluded that:⁵³

- 20 studies showed evidence of a positive relationship between ESG factors and financial performance;
- two studies showed evidence of a neutral-positive relationship
- eight studies reported a neutral relationship;
- three found a negative-neutral relationship; and
- three studies showed evidence of a negative relationship.

Because a variety of factors determines how ESG factors influence investment performance, it is not certain that taking ESG criteria into account will have a uniform impact on portfolio performance. The results of the Mercer review also show significant variations in ESG materiality across industrial sectors and may be misleading at aggregate level. Many of the academic studies relied on specialist ESG research firms and focus on the link between ESG and listed equity investments. Academic studies are beginning to broaden their scope, so that forthcoming papers will focus on other asset classes as well.⁵⁴

So far, most research on corporate sustainability was grounded in the context of equity, despite the fact that the market for corporate bonds is considerably larger. This gap is filled by a paper published by the Dutch researchers Bauer and Hann in November 2010. The paper investigates the credit risk implications of corporate environmental management for bond investors. The research is based on the view that “environmental practices influence the solvency of borrowing firms by determining their exposure to legal, reputational, and regulatory risks”, and aims to provide a better understanding of how the different corporate environmental activities relate to credit risk. Such understanding is required for investors who want to protect themselves against environmental performance related losses. The study finds that corporations with limited sustainability policies and bad environmental management already pay higher interest rates. Apparently, investors already take the quality of a company’s environmental management into account when investing in bonds.⁵⁵

A study by RCM tested the impact of ESG issues over the period 2006-2010 and found evidence that there is a probability of outperformance over the longer term. Investors could have added over 1.6% a year over five years to their returns if they had allocated to portfolios that invest in companies with above-average ESG ratings.⁵⁶

As can be drawn from the reports above, calculating the sustainability ‘value’ of ESG related investments has become increasingly important to institutional investors. They look to justify both the financial and social benefits of responsible investing strategies. Therefore, in 2010, Dutch asset manager PGGM, together with Rotterdam University, measured the ‘social impact’ of its growing portfolio of targeted ESG (environmental, social and governance) investments. This way, PGGM hopes to determine for which investments sustainability is a clear potential driving factor of returns.⁵⁷

2.4 Responsible investment

2.4.1 Market volume

SRI funds in Europe have grown considerably in number and size over the past years, in spite of the fall-out from the financial crises. *The 2010 European SRI Study* by Eurosif, the European Sustainable Investment Forum, in October 2010 estimated total SRI assets under management have increased from € 2.7 trillion in 2009 to € 5 trillion in 2007, a growth of 87%.⁵⁸

Not all these assets are managed at the same level of responsible investment practices. Eurosif distinguishes *Core SRI* activities, which consists of norms- and values based exclusions and different types of positive screens (estimated at €1.2 trillion), and *Broad SRI*, which encompasses simple exclusion, engagement and integration approaches (estimated at €3.8 trillion). In 2010, bonds were the favoured asset class of SRI investors in Europe at 53% of assets, while equities have dropped to 33%. Microfinance is starting to interest investors and Eurosif said it expected alternative asset classes to rise in the future. Eurosif's report is based on self-reporting of asset managers and asset owners operating in European countries.⁵⁹

Globally the *PRI Report on Progress 2011* gives an indication of the volume of SRI assets under management. This report, published in September 2011, is based on a mandatory assessment survey of PRI signatories, which asks organisations how they are putting the six Principles for Responsible Investment (PRI) into practice. In 2011, the survey covered 539 respondents (of 765 asset owners and managers that have signed the PRI), managing assets of US\$ 29.6 trillion. To what extent these assets are management responsible can be derived from the instruments the investors use.⁶⁰

2.4.2 Instruments

The PRI report in September 2011 found that 95% of the asset owners and 93% of the investment managers have a responsible investment policy that addresses ESG issues. Growth in the percentage of signatories with a RI policy is only found in Brazil (from 84% to 96%) and Asia (from 71% to 81%). Almost half of the respondents have an internal management process in place to a large extent in relation to listed equities in developed markets (47%). For other asset classes this varies from 11% (hedge funds) to 36% (non-listed real estate investments).⁶¹

With regard to active ownership, all respondents have a voting policy that covers corporate governance issues, although fewer policies include environmental and social issues. Almost 90% of signatories vote at company meetings, and 61% of asset owners monitors to a large or moderate extent whether their external managers vote in accordance with their RI policy.⁶²

Besides voting, 67% of the asset owners and 61% of the investment managers have a shareholder engagement policy in place for listed equities. For corporate fixed income only around 40% of the signatories have such a policy in place. Investors reported a significant amount of engagement on ESG issues, but they vary in intensity from sending a letter to having multiple interactions at high levels. Investment managers generally manage engagements internally while asset owners report that only 41% of engagement is run by internal staff. The remaining is run by external investment managers or specialist services providers.⁶³

UNCTAD's review, published in August 2010, about social responsibility and responsible investment amongst the 100 largest institutional investors and the 100 largest transnational corporations worldwide, had set up 6 indicators, based on the PRI, for measuring responsible investment practices and analysed the social responsibility reports of the largest institutional investors. It appears that almost half of the world's largest pension funds are disclosing information on one or more of the 6 indicators and the other half report no activity at all. As the research shows

two distinct groups, UNCTAD gives a recommendation for regulators to strengthen the mechanisms through which institutional shareholders are able to influence the ESG practices of the companies in which they invest and to encourage investors to formally articulate their stance on ESG issues in public reports.⁶⁴

The UNCTAD report shows two other interesting outcomes. While only 27 funds disclosed four or more of the responsible investment indicators, these 27 funds accounted for 42%, or US\$ 3.7 trillion, of the total assets of the top 100 funds. This makes clear that the larger funds tend to be the early and more active adopters of responsible investment practices. Furthermore, the relative proportion of PRI signatories disclosing on each of the responsible investment indicators is much higher than the proportion of non-signatories. The majority of the 25 UN PRI signatories in this research are disclosing each of the indicators.⁶⁵

A study of the UNEPFI Insurance Working Group in 2009 showed that there is increasing awareness in the insurance industry of the importance of ESG factors but as procedures to report ESG performance by insured companies are still underdeveloped, it is challenging for insurers to take these factors into account in the underwriting process. Other obstacles for insurers to effectively adopt integrated ESG risk management are amongst others lack of communication between insurers and investment managers, and between underwriters and corporate social responsibility managers, and material ESG factors have not been formally documented in underwriting guidelines. The report concludes that “in order to sustain the long-term economic health and resilience of the insurance industry—and unleash its immense capacity to tackle ESG factors as risk managers, risk carriers and institutional investors—material ESG factors must be systematically integrated into underwriting guidelines and product development, and other core insurance processes.”⁶⁶

2.4.3 Services of third parties

The *Fiduciary II* report of UNEP FI in July 2009 highlighted the crucial role of investment management consulting firms in the investment chain. Because they help pension funds with selecting asset managers they shape and transmit client demand to asset managers, so have significant influence over what asset managers do. Whether asset manager use their influence on companies they own on behalf of their clients, the pension funds, depends on whether investment consultant assess an asset managers performance in this area.⁶⁷

But in the consultancy industry there seems to be a lack of ESG integration and confusion between ESG integration and traditional ethical investment approaches. Consultants have not sufficiently developed measures to assess asset managers' competence on ESG integration and engagement. Consultants also don't see their responsibility to raise ESG consideration with trustees and have not embedded this in their investment management contracts.⁶⁸ However, ESG issues begin to form a piece of the investment consultants' agenda due to growing investor demand. A Eurosif study on the integration of ESG issues by investment consultancies found that 89% of investment consultants anticipate an increase of client interest when it comes to environmental, social and governance issues.

Pension fund executives have made clear that institutional investors highly depend on the information of specialised research providers, and are not always satisfied with their services. Some have called on SRI/ESG service and product providers to come up with innovative and customized products to help pension funds adapt their investments responsibly. Others think that ESG research providers have to be more transparent about their methodology for ratings, which sometimes looks like a 'black box' to pension funds and is hard to trust.⁷⁰

In 2011, SustainAbility concluded its research programme *Rate the Raters* with a presentation of their vision for the future of sustainable, responsible or ethical ratings. The rating agencies and service providers should be more financially viable, fewer and of higher quality, competing on analysis, value-adding to all parties, focused on core issues, consistent yet adaptive, and transparent. The insight is based on an exploration of key trends and changes in ratings over the last decade, an inventory over 100 ratings globally, and a thorough study of 21 prominent ratings work in practice.⁷¹

2.4.4 Reporting

Although about half of institutional investors disclose some information regarding responsible investment, only 13 of the 100 largest pension funds worldwide had an explicit annual report on responsible investment practices, said UNCTAD in August 2010. It is also worth mentioning that 10 of those funds are signatories of the Principles for Responsible Investment (see paragraph 1.4.2).⁷²

According to UNCTAD both communications on social responsibility by corporations and ESG analyses by investors must be improved to better indicate the contributions and impacts of business. Better reporting practices should start with generating more consistent, coherent and comparable information. Voluntary initiatives for encouraging reporting on CSR and RI, such as ISO, GRI, and AccountAbility, deliver different levels of disclosure and will need to continue to transition from merely mentioning ESG issues, to measuring actual impacts, which is necessary for investors and regulators to shift from commentary on, to comparability of corporate performance.⁷³

The International Integrated Reporting Committee (IIRC), established in August 2010 by the Prince of Wales, might be a first step in that direction. The organization explores new ways for integrating social responsibility reports and financial annual reports. This is good news for investors and analysts who have to assess both reports to get a complete picture of an enterprise. Further integration of sustainability information in financial reporting guidelines would strongly promote sustainability in business and create a level playing field that allows a full sustainability assessment of any company. Moreover, the reporting process will be more efficient, as producing two separate reports always lead to inefficiencies.⁷⁴ The IIRC held a convention in June 2011 and released a Discussion Paper on Integrated Reporting for public consultation in September 2011.⁷⁵

In Australia two groups of investors, the Australian Council of Superannuation Investors (ACSI) and the Financial Services Council, in August 2011 published a guide to help companies to identify and report their ESG risks. It outlines the essential information and data that investors require to accurately analyse ESG information so that companies can understand the form that information should take. If companies use the same method, it would make analysis and comparison much simpler.⁷⁶

2.5 Relevant international standards and initiatives

2.5.1 International standards

International directives, guidelines and principles that institutional investors can refer to in their responsible investment policy, include:

- Universal Declaration of Human Rights
- Convention on the Rights of the Child
- ILO Declaration on the Fundamental Principles and Rights to Work
- Rio Declaration on Environment and Development
- OECD Guidelines for Multinational Enterprises
- OECD Principles of Corporate Governance
- UN Convention on Biological Diversity

2.5.2 Initiatives

In order to encourage institutional investors to develop (better) responsible investment policies, this paragraph will discuss international initiatives concerning responsible investment. We will discuss initiatives developed by the government, the sector itself and social institutions. The overview is non-limitative, but does include the best-known global examples.

- **United Nations Global Compact**

The United Nations Global Compact was founded in July 2000 as a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. The main purpose is the worldwide integration of the principles in industry and the promotion of all activities that aim to support broader UN goals, such as UN resolutions and the Millennium Development Goals. Global Compact principles are observed voluntarily and considered as complement rather than substitute for regulatory regimes. It has over 8,700 corporate participants and other stakeholders in 130 countries.⁷⁷

- **UN Principles for Responsible Investment**

In May 1992, the UNEP (United Nations Environmental Programme) launched the UNEP Finance Initiative, that organizes all kinds of supportive meetings and work groups for the signatories to effect the objective to “consider environmental, social and governance issues in their investment policy”. One of these working groups in July 2004 focused explicitly on players in the investment sector: asset managers, investment funds and pension funds. The result was the *Principles for Responsible Investment (PRI)*, launched by UN Secretary Kofi Annan in April 2006.⁷⁸

The PRI reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The *PRI Initiative* was created to help investors to implement the Principles and is funded by an annual subscription fee of the signatories.⁷⁹

The PRI is a voluntary framework, but participation in the annual survey (after an optional one year grace period) is the one mandatory requirement for all signatories. Those that do not fulfil this requirement will be publicly delisted from the Initiative.⁸⁰ The results of the Report on Progress 2011 can be found in paragraph 1.3.

PRI signatories can join collaborative engagements that seek to improve company behaviour, policies or systemic conditions. The PRI Clearinghouse is specifically designed to facilitate joint initiatives of signatories, and supports over 50 collaborative engagements each year.⁸¹

As of October 2011, the PRI has been signed to by a total of 917 organizations and the value of assets under management stands at € 22 trillion. The signatories include 240 asset owners, 525 investment managers and 152 professional service partners. Of these signatories 24 asset owners, 29 investment managers and 4 professional service partners come from the Netherlands.⁸²

- **UN Principles for Sustainable Insurance**

The UNEP FI Insurance Commission (formerly the Insurance Working Group -IWG) addresses sustainability issues concerning the insurance sector. Its current project is to develop the *Principles for Sustainable Insurance (PSI)*. As part of a pioneering global process amongst insurers the Commission held 7 consultation meetings in various regions worldwide.⁸³ The Principles will be signed in the beginning of December 2011 and officially launched at the United Nations' conference on sustainable development in Rio de Janeiro in 2012.

The insurance principles are almost similar to the PRI, but differ from them in looking at insurance-specific areas such as casualty and property insurance risk and at areas for insurance premium development such as for project financing in the environmental space.⁸⁴

- **Carbon Disclosure Project**

The Carbon Disclosure Project was launched in 2000 with the aim of accelerating “solutions to climate change by putting relevant information at the heart of business, policy and investment decisions”.⁸⁵ About 3,000 organisations in 60 countries now measure and disclose their and climate change strategies through CDP. This data is made available for use by a wide audience including institutional investors, corporations, policymakers and their advisors, public sector organizations, government bodies, academics and the public. CDP acts on behalf of 551 institutional investors, holding US\$ 71 trillion in assets under management and some 50 purchasing organizations.⁸⁶

Institutional investors can become a CDP signatory and enjoy access to over 5,000 corporate responses to CDP, by signing the CDP questionnaire. Signatories also can become a member which offers a number of other benefits such as exclusive access to the DP database and member reports.⁸⁷

- **Institutional Investor Group on Climate Change (IIGCC)**

The Institutional Investor Group on Climate Change (IIGCC) is a network of European institutional investors that stimulates research which contributes towards climate change awareness, and also stimulates investment markets and companies to reduce CO2 emissions. There are currently over 70 members, including some of the largest pension funds and asset managers in Europe, representing around € 6 trillion of assets under management.⁸⁸

- **International Corporate Governance Network**

The ICGN is a global membership organisation of over 500 leaders in corporate governance based in 50 countries, representing funds under management of over US\$ 18 trillion. Its mission is to raise standards of corporate governance worldwide. It organises conferences and offers a range of publications such as best practice guidance and discussion papers.⁸⁹ ICGN has developed a set of principles, the Global Corporate Governance Principles, that are intended to be of general application around the world, irrespective of legislative background or listing rules.⁹⁰

- **Global Reporting Initiative (GRI)**

Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework for the preparation of annual sustainability. The framework contains general principles to define report content, but also Protocols and Sector Supplements, including a Financial Sector Supplement, which concentrate on the transparency requirements for specific types of companies and sectors.⁹¹

- **Integrated Reporting**

GRI's vision is that disclosure on economic, environmental, and social performance become as commonplace and comparable as financial reporting. Therefore, GRI is involved in the establishment of the International Integrated Reporting Committee (IIRC), that explores new ways for integrating social responsibility reports and financial annual reports.⁹² In September 2011 the IIRC published the first draft of its Discussion Paper *Toward Integrated Reporting: Communicating Value in the 21st Century* offering initial proposals for the development of an International Integrated Reporting Framework. The IIRC welcome comments and responses to the discussion questions.⁹³

- **EFFAS Commission on ESG (CESG)**

As part of the search for measuring a companies' performance on social responsibility, the EFFAS (the umbrella organisation of all European analyst associations with a total of more than 16,000 members in Europe) founded a Commission on Environmental, Social & Governance (CESG) in October 2007 in Vienna. Its objective is to facilitate the integration of ESG aspects of corporate performance into investment processes. The Commission consists of investment professionals from leading European fund managers, financial analysts, and equity sector specialists.⁹⁴

In order to gain meaningful data for investment analysis and decision-making, corporates need to report all aspects relevant to understanding risk - be it environmental, social, governance issues or data which help to understand market impacts, drivers and product development. To support companies in providing such data the Commission defined Key Performance Indicators (KPIs) on extra-financials. In September 2010, it released the draft *KPIs for ESG 3.0*, a standard reporting framework for ecological, social and corporate governance aspects built on the requirements of investment professionals, which is available to the public.⁹⁵

3 Research objective and methodology

3.1 Research objective

The objective of the VBDO 'Benchmark Responsible Investment by Insurance Companies in the Netherlands 2011' is to provide insurance companies, their policyholders and all interested in this matter insight into the current status of responsible investment among the 30 largest Dutch insurance companies. This comparative research offers insurance companies an impartial instrument with which they are able to assess the extent to which their responsible investment policy adequately reflects their social responsibilities and how it compares to their peers' policies. The report is of equal value to the policyholders that are able to assess the various insurance companies and can determine whether to choose for or to change an insurance company on the basis of their responsible investment policy. Furthermore, it provides policyholders and others that are interested with the means to engage with the boards of the insurance companies.

In 2007, the VBDO published the first 'Benchmark Responsible Investment by Dutch Pension Funds and Pension Insurance Companies'. This report is the third edition, focusing only on insurance companies after the VBDO started publishing a separate benchmark report on pension funds in September 2009. In the end, the VBDO aims to ensure that as many Dutch insurance companies as possible develop a sound responsible investment policy, that they implement this policy in a consequent way using various instruments and account for it in a clear and transparent manner. With the new methodology implemented in the second edition, the scope of responsible investment is expanded considerably, taking multiple asset classes and asset allocation into account. This scope is maintained in this edition of the benchmark research and the VBDO plans to maintain the updated methodology for the next few years, thus providing an accurate assessment of the changes in responsible investment policy, implementation and accountability in the Dutch insurance company sector.

3.2 Selection of organizations

For the selection of the insurance companies, the VBDO maintained last year's list. However, a few changes have taken place at some insurance companies in the past year. Alhermij has changed its name to SwissRe Nederland. The names of OHRA and ABN Amro Verzekeringen have been integrated in the profile of Delta Lloyd. REAAL and Zwitserleven have indicated and shown that the responsible investment policies of these organisations differ and therefore they have been assessed as two different insurance companies.

Achmea

- Achmea
- Achmea Vitale
- Agis Zorgverzekeringen
- Avero Achmea
- Centraal Beheer
- FBTO
- Interpolis
- Syntrus Achmea
- Zilveren Kruis

AEGON

- AEGON
- AEGON Bank
- TKP
- Unirobe Meeus Groep

Allianz Nederland

- Allianz
- Mondial assistance
- Allsecur
- London
- Universal Leven

ARAG Rechtsbijstand

- ARAG Rechtsbijstand

ASR

- ASR Verzekeringen
- ASR Pensioenen
- De Amersfoortse
- Falcon
- Interlloyd
- VSB Leven

• Europeesche

- Ardanta
- Ditzo

Bovemij

- Schadeverzekering-Maatschappij Bovemij
- ENRA Verzekeringen
- Bedrijfsfietsen Nederland
- Bike Smiles
- Helepolis Verzekeringen
- Polis Direct
- Dekavas Holding
- Dekavas
- Bovemij Services
- SRM Rechtsbijstand

Cardif	Generali verzekeringsgroep	REAAL
<ul style="list-style-type: none"> • Cardif Schadeverzekeringen • Cardif Levensverzekeringen 	<ul style="list-style-type: none"> • Generali 	<ul style="list-style-type: none"> • REAAL • Proteq • Route Mobiel • Zelf.nl
Chartis	HDI-Gerling	Swiss Re Nederland
<ul style="list-style-type: none"> • Chartis 	<ul style="list-style-type: none"> • HDI-Gerling 	<ul style="list-style-type: none"> • Swiss Re Nederland
CZ	Klaverblad Verzekeringen	TVM
<ul style="list-style-type: none"> • CZ • Delta Lloyd • OHRA 	<ul style="list-style-type: none"> • Klaverblad Verzekeringen 	<ul style="list-style-type: none"> • TVM adviesgroep • TVM intermediair • TVM letselschaderegeling
DAS	Legal & General Nederland	Europa
<ul style="list-style-type: none"> • DAS Rechtsbijstand • DAS Support • DAS Legal Finance 	<ul style="list-style-type: none"> • Legal & General Nederland 	<ul style="list-style-type: none"> • TVM rechtshulp • TVM verzuimmanagement • TVM zorg en inkomen
De Friesland	Loyalis	Univé-VGZ-IZA-Trias
<ul style="list-style-type: none"> • De Friesland Zorgverzekeraar 	<ul style="list-style-type: none"> • Loyalis Leven • Loyalis Schade 	<ul style="list-style-type: none"> • Univé • VGZ • IZA • Trias • Zekur
De Goudse	Menzis	UVM
<ul style="list-style-type: none"> • De Goudse 	<ul style="list-style-type: none"> • Menzis • Anderzorg • Azivo 	<ul style="list-style-type: none"> • UVM
Delta Lloyd	Nationale-Nederlanden	Zorg en Zekerheid
<ul style="list-style-type: none"> • Delta Lloyd • OHRA • ABN Amro Verzekeringen 	<ul style="list-style-type: none"> • Nationale-Nederlanden • Movir • RVZ • AZL 	<ul style="list-style-type: none"> • Zorg en Zekerheid
DSW	Onderlinge 's-Gravenhage	Zwitserleven
<ul style="list-style-type: none"> • DSW Zorgverzekeraar 	<ul style="list-style-type: none"> • Onderlinge 's-Gravenhage • Neerlandia van 1880 	<ul style="list-style-type: none"> • Zwitserleven
	ONVZ	
	<ul style="list-style-type: none"> • ONVZ 	

3.3 Research period

The VBDO Benchmark Responsible Investment by Insurance Companies 2011 covers the period January to December 2010. In some cases, information was used related to the first half of 2011.

3.4 Research process

The research process differed from previous years. While in previous years a questionnaire was sent to the contacts of the insurance companies, this year the profile of last year's benchmark was sent to the insurance companies. This was mainly because different sources within the sector indicated that there was a certain element of 'questionnaire fatigue' within sector. Therefore the profile of last year was sent with the question to update it with more recent data. After receiving input from the insurers and publicly available information (which consisted of annual reports, websites and other website), the VBDO composed a profile for each of the insurance companies in which all assessment criteria are covered. These profiles were returned to the insurers for verification and, where necessary, for corrective purposes. On the basis of these profiles, the VBDO assigned scores for all assessment issues and criteria.

3.5 Division of tasks and responsibilities

The VBDO cooperated with different organizations in compiling this research. This section describes the division of tasks and responsibilities. In contrast to earlier benchmark studies, Profundo was not involved in gathering information from the insurance companies, nor in the composing or scoring of the profiles. Profundo provided the VBDO with an independent review of the scores of a sample of insurance companies, to enhance the integrity of the results. Profundo also was responsible for writing the background chapter 2.

Besides Profundo, the VBDO made use of the input of Sustainalytics, which wrote the final chapter. This chapter is independent from the rest of the research and provides insight in the instrument ESG-integration. This chapter had no influence on the VBDO research or the scoring methodology.

3.6 Assessment methodology

To compare the policy and the implementation practices of the insurance companies, a number of assessment issues were defined based on literature, the former benchmark studies on responsible investments by Dutch pension funds and insurers and on conversations with institutional investors. The scores of the assessment issues were added up using weighting percentages, to reach an overall score for all insurance companies included in this research. Not all assessment issues have been weighted equally, but the individual weighting percentages of all assessment issues add up to a total of 100%. The overall score of each insurance companies lies between 0 and 5 points.

The assessment issues have been divided into three categories:

- **Policy**
- **Implementation**
- **Accountability**

Two important elements form the basis of the categories Implementation and Accountability: asset classes and responsible investment strategies. Before turning over to a description of the assessment issues and their weighting percentages, these elements will be explained briefly.

3.6.1 Asset classes

Although bonds are now the favoured asset class among SRI investors, representing 53% of total European SRI assets⁹⁶, there are many other possibilities for investment described by amongst others the Boston College Center for Corporate Citizenship.⁹⁷ This research takes into account the most common asset classes, for which responsible investment strategies and instruments are already well developed.

- **Publicly listed equity**

The public equities market consists of the publicly traded stocks of large corporations. The risks and opportunities connected to ESG issues are important for the analysis and adjustments of an equity portfolio. Both exclusion and selection of companies within the portfolio, as well as voting and engagement gives the investor many ways to integrate ESG issues into its investment decisions.

Emerging markets deserve special attention from investors, since these are increasingly reported as interesting opportunities because of their economic growth. Due to the growing demographic and resource challenges, and the potential dangers for the environment,

a more sustainable approach to economic development is crucially for emerging markets. In many sectors economic development show that these countries are already responding to the above mentioned challenges (think of, for example, the leading role in solar power of China). Nevertheless, extracting the relevant ESG data on emerging market companies can require a large amount of research.⁹⁸

It is also possible to take ESG criteria into account with passive investments, by following a sustainable index.

- **Corporate (including covered) bonds**

For corporate bonds responsible investment activities can be much the same as for equities, with the difference that corporate bonds do not have voting rights and bring a fixed return. This reduces the financial risk, but also offers fewer opportunities to take advantage of high returns and to influence the policies of a company.

Because bondholders lack the voting power shareholders have, most ESG integration activity has been in equities. But with growing client demand, bond managers are working to integrate ESG factors in fixed-income portfolios. Still, according to some pension funds “it will be months, even years, before responsible investment in bonds reaches the level it has in equities”, but it does not mean it is not possible at all. This also counts for engagement, which can be done at the time of issuance.⁹⁹

- **Government / sovereign bonds**

Like corporate bonds, government bonds (together often referred to as fixed-income) are generally regarded as one of the safer, more conservative investment opportunities. They are issued to fund public services, goods or infrastructure.

The first association about responsible investment and this asset class may often be exclusion of countries with dictatorial regimes, because of their human rights violations. This is a clear example of the results of an ESG risk analysis. ESG rating agencies increasingly offer products to screen bonds portfolios on corporate governance regulatory practices, environmental policies, respect for human rights and international accords and there are sustainable government bond funds. Investors can also seek those government bonds that support the creation of public goods, such as needed infrastructural improvements, support for schools, or the development of sustainable energy sources and purchase government debt targeted to a specific activity.

- **Real estate**

Real estate investments encompass a wide range of products, including home ownership for individuals, direct investments in rental properties and office and commercial space for institutional investors, publicly traded equities of real estate investment trusts, and fixed-income securities based on home-loans or other mortgages. This assessment is limited to direct investments in buildings and indirect investments via real estate funds.

Investors could screen their portfolio by developing ESG-criteria for the construction of new buildings, their locations and the maintenance of existing buildings, machines and other facilities within buildings, such as environmental efficiency, sustainable construction and materials and fair labour practices. For real estate (investment) that is managed externally, selection of fund managers based on experience with and implementation of ESG is an important tool.

The Dutch Green Building Council develops labels for an independent evaluation of new and existing buildings in the area of sustainability, which can be used as a condition for investment. Additionally, developers, architects, brokers, etc. will soon be offering sustainable real estate through a dedicated website, where an expert panel determines that the property offered meets the sustainability requirements. Finally, investors can track indices like the Global Environmental Real Estate Index.¹⁰⁰

- **Alternative investments**

Depending on the asset allocation and definitions of an investor, alternative investments can include many kinds of assets, while at the same time experiences with and strategies for responsible investments are in their infancy. Also because the investments are a small part of total investments, this research limits this asset class to private equity, hedge funds, commodities and infrastructure. Information provided on other asset classes will not be taken into account. The following opportunities were derived from literature:¹⁰¹

- With regard to private equity an institutional investor can stimulate innovative and sustainable companies because it can directly influence management, encourage entrepreneurs to focus on developing business with high-impact social and/or environmental missions, especially in regions and communities that are underserved, and promote creation of local business and jobs.
- Although hedge funds are often handled as a separate asset class, the underlying assets are generally publicly listed securities (stocks and bonds) and their derivative products. Thus, investors could consider an ESG analysis of underlying assets and theoretically use the same tool for ESG management as for public equity and fixed income.
- Regarding commodities investors could direct capital to commodities with better ESG profiles and consider the source (region) of the commodity. As there are few ways to foster positive ESG changes, investors may advocate change on a broader level within commodities exchanges.

3.6.2 Responsible investment strategies

Based on reviews of implementation practices by investors worldwide as described in the previous chapter and its own vision on responsible investment, the VBDO has identified a range of instruments or strategies, applicable to one or more asset classes:

- **Exclusion**

Some products and processes or behaviour of some companies are at such odds with international agreements and treaties that they should be excluded from the investment portfolio. Merely taking general and issues such as human rights violations and damage to the environment into consideration offers insufficient means of judgment for which companies should be excluded. It is important to specify these issues and use well defined Environment, Social and Governance (ESG) criteria.

While some investors do take more than one criterion into account, their list of excluded companies only shows (controversial) weapon producers and raises questions about the use of ESG-criteria. Thus, using more than one criterion for exclusion is rated positively, only if the investor can demonstrate how the ESG-criteria are applied and have resulted in the list of exclusions.

An exclusion policy can at least be applied to publicly listed equity, corporate bonds and government bonds.

- **ESG-integration**

Even when the excluded companies are left out, large differences in terms of corporate responsibility sometimes remain between companies in which pension funds or insurance companies (may) invest. Where one company may only abide by the current environmental and social laws of the country in which it operates, the other may pursue high social and environmental standards in every country in which it is active. Insurance companies should consider this in developing their investment policy and should give preference to companies that perform well in relation to corporate responsibility.

The VBDO defines ESG-integration as the process by which ESG-criteria are incorporated into the investment process. This involves more than screening the portfolios against exclusion criteria but does not necessarily mean that an investor selects the best-in-class companies. ESG-integration can go one step further by identifying and weighing ESG-criteria, which may have a significant impact on the risk-return profile of a portfolio. Therefore, the VBDO distinguishes between investors making ESG-information available to the portfolio manager on the one hand and investors systematically incorporating ESG-criteria into each investment decision on the other hand. The latter is rated higher because this truly meets the idea behind ESG-integration.

Integration of ESG-criteria in the investment selection can be applied to all the selected asset classes in this research. Regarding publicly listed equity and bonds, the assessment takes into account both the extent and the volume of ESG-integration.

- **Positive selection**

A number of investors also explain responsible investment as best-in-class or -sector selection, stock picking, or investments in SRI funds. In this case, ESG-criteria do not guide the investment decision process, like ESG-integration, but form the basis for selecting companies that perform above average on ESG issues. Positive selection can be a result of ESG-integration but can also be an instrument on its own. Therefore, VBDO identified this as a separate instrument within the range of responsible investment possibilities. Thus, VBDO defines positive selection as choosing the best performing organisation out of a group of corresponding organisations (sector, industry, class) with the use of ESG-criteria.

Positive selection is examined at the asset classes publicly listed equity, corporate and government bonds.

- **Voting**

Pension funds and insurance companies can actively exert influence on companies in which they invest by voting during shareholder meetings. Many insurance companies have taken to actively voting at shareholder meetings, but their voting policy is limited to subjects regarding corporate governance. This might push companies towards a better sustainability policy, but that is in itself not enough. A clearly defined voting policy is required, one that explicitly emphasizes social and environmental issues. By introducing or supporting resolutions about sustainable development and corporate social responsibility, companies can be pushed towards improvement and corrective action.

Obviously, voting is examined only at the asset class publicly listed equity.

- **Engagement**

Insurers can actively exert influence on companies in which investments are made by entering into dialogue with them. If a companies' policies and behaviour are at odds with responsible investment policy, they should to some extent use their influence to alter the conduct of companies in which investments are made, all depending on the size of investment. Institutional investors that have formulated an engagement policy and actively seek dialogue with companies outside shareholder meetings receive higher scores.

Engagement can be used to publicly listed equity as well as corporate bonds.

- **Impact investing**

Impact investing implies active investments that are made in companies or projects which are leaders in the field in terms of sustainability or clearly offer added value for sustainable development. Examples are investments in sustainable energy sources, innovative clean technology, cheap medicine against tropical diseases, microcredit and sustainable forestry. Although such initiatives can yield considerable profits, they are not considered for regular financing because investment return time horizon is considered by banks to be too long. Institutional investors, with their longer time horizons, are very well equipped to make such investments, enabling them at the same time to fulfil their social responsibility as well.

Impact investing may look like positive selection, because it may be using the same positive ESG-criteria and can be done by investing in specially constructed funds, but it is not a best in class approach. Rather, investors choose a specific theme or development and searches for companies or projects that contribute to this development and thus create added value for society in a way that can hardly be compared with mainstream industry or solutions.

A well-balanced investment mix should allow between 2 and 5% of their equity and/or alternative investments portfolio to be used for financing sustainable projects and companies. The instrument is applicable to publicly listed equity and private equity. The latter is assessed in this research' asset class category 'alternative investments'.

3.6.3 Category 1: Responsible investment policy

The implementation of a socially responsible investment policy requires in the first place that it is defined as clearly as possible in a publicly available document. In doing so, it is important to provide a clear description of the policy objectives and basic principles by referring to recognized legislation and international treaty standards, such as the UN Declaration on Human Rights and ILO conventions.

- **Responsible investment policy: content (50%)**

VBDO selected the widely accepted themes from the UN Global Compact (human rights, labour standards, the environment and anti-corruption, as a basis for assessing the content of the policies. This means that the policy should explain which themes are important to the investor and form the basis for its investment decision, but does not necessarily have to refer to the Global Compact itself.

- No policy (0/4)
- Policy is mentioned on website and/or annual report AND/OR covers at least two of the themes included in the UN Global Compact (1/4)
- Policy covers all four themes included in the UN Global Compact (2/4)
- Policy covers at least all four themes in the UN Global Compact and details how it deals with (some of the) ten principles in the investment practice (3/4)
- Policy covers at least all four themes/ten principles in the UN Global Compact and sets measurable targets for better adherence to the ten principles in the investment practice. (4/4)

- **Responsible investment policy: volume (50%)**

As insurers spread out their investment capital over various asset classes, a responsible investment policy should relate to all these asset classes, and specific criteria and instruments per category should be defined. Practical experience shows that insurance companies more often have a policy for equity investment than for other categories, and does not cover the whole investment portfolio. VBDO appreciates a policy that can and will be applied to the whole portfolio.

- No policy (0/4)
- Policy covers 0-25% of total investment portfolio (1/4)
- Policy covers 25-50% of total investment portfolio (2/4)
- Policy covers 50-75% of total investment portfolio (3/4)
- Policy covers 75-100% of total investment portfolio (4/4)

The final score of this category contributes for 25% to the overall score.

3.6.4 Category 2: Implementation

As described in the previous chapter, the past years have shown major developments in implementing a responsible investment policy. More different types of instruments have been developed and they have been applied to a broader range of asset classes, despite the limitations of some of these asset classes. Because the instruments are complementary to each and investors tend to find different solutions for each asset class, the implementation practices between asset classes may vary a lot. It is also difficult to single out one best solution.

Therefore, this methodology tries to take into account the possibilities and limitations of both the asset classes and the instruments and provides room for each investor to implement its responsible investment policy in the way it fits best to its organisation, investment mix and decision process. For each asset class a number of assessment issues, based on the instruments, is identified. The individual assessment issues within the asset classes may add up to a score of more than 100%, while the score is capped at 100%. If an investor does not invest in a particular asset class, it is not necessary to have detailed policies and implementation procedures, and as a result, these scores will not be taken into account in the final score.

The final score for the category implementation is determined by multiplying the score of each asset class by asset allocation, and contributes for 50% to the overall score.

Asset class: Publicly listed equities

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Exclusion policy (25%)**

Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of companies from the investment universe. Investors can demonstrate their use of exclusion by providing a list of excluded companies, preferably based on multiple criteria.

- No (0/2)
- Yes, companies are demonstrably excluded based on 1 criterion (1/2)
- Yes, companies are demonstrably excluded based on multiple criteria (2/2)

- **ESG-integration (25%)**

ESG-integration is the process by which ESG- criteria are incorporated into the investment process. In practice this ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision, which is rated highest in this methodology. As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account.

The following two scores for ESG-integration are multiplied and end up as one score:

- Extent
 - No (0/2)
 - ESG-information is used in evaluation of investments in equity (1/2)
 - ESG-criteria are systematically embedded in the equity investment selection process (2/2)
- Volume
 - No (0/4)
 - Yes, ESG-integration is implemented for 0-25% of the equity portfolio (1/4)
 - Yes, ESG-integration is implemented for 25-50% of the equity portfolio (2/4)
 - Yes, ESG-integration is implemented for 50-75% of the equity portfolio (3/4)
 - Yes, ESG-integration is implemented for 75-100% of the equity portfolio (4/4)

- **Positive selection (25%)**

Positive selection is choosing the best performing organisation out of a group of corresponding organisations (sector, industry, or class) with the use of ESG-criteria.

The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards.

- No (0/4)
- Yes, positive selection is implemented for 0-10% of the equity portfolio (1/4)
- Yes, positive selection is implemented for 10-25% of the equity portfolio (2/4)
- Yes, positive selection is implemented for 25-50% of the equity portfolio (3/4)
- Yes, positive selection is implemented for more than 50% of the equity portfolio (4/4)

- **Engagement (25%)**

Engagement is exerting influence on companies by entering into dialogue, preferably besides shareholder meetings. Reporting the results will stimulate companies to respond to this dialogue and the requested actions, which is therefore rated higher.

- No (0/3)
- Yes, engages or participates in engagement activities on ESG-criteria issues (1/3)
- Yes, demonstrably engages or participates in engagement activities on ESG-criteria and reports on activities (vague reporting, no names named) (2/3)
- Yes, demonstrably engages or participates in engagement activities on ESG-criteria and shows demonstrable results (evidence of progress towards resolution/company excluded) (3/3)

- **Voting (25%)**

Voting is exerting influence on companies by voting during shareholder meetings and by introducing or supporting resolutions about sustainability and corporate social responsibility (CSR). Both volume of the voting policy and inclusion of ESG issues are taken in to account. Highest points are accredited to investors that also publicly initiates and/or supports shareholder resolutions on CSR.

The two scores for voting are multiplied together and end up as one score:

- Volume
 - No (0/4)
 - Yes, voting policy is implemented for 0-25% of the equity portfolio (1/4)
 - Yes, voting policy is implemented for 25-50% of the equity portfolio (2/4)
 - Yes, voting policy is implemented for 50-75% of the equity portfolio (3/4)
 - Yes, voting policy is implemented for 75-100% of the equity portfolio (4/4)
- Issues
 - Yes, demonstrably votes on companies in portfolio (1/3)
 - Yes, demonstrably votes at companies in portfolio, paying explicit positive attention to ESG issues (2/3)
 - Yes, demonstrably votes at companies in portfolio, paying explicit attention to ESG issues and publicly initiates and/or supports shareholder resolutions promoting CSR (3/3)

- **Impact investing for equity (10%)**

Impact investing can be defined as active investments in companies or projects that contribute to innovative technological development and create added value for society that can hardly be compared with mainstream solutions. Within public equity the selection of publicly traded sustainable companies is assessed based on the volume of investments.

- No (0/3)
- Yes, investments are demonstrably made in publicly traded companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <1% of total equity portfolio (1/3)
- Yes, investments are demonstrably made in publicly traded companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <2% or in excess of €1 billion of total equity portfolio (2/3)
- Yes, investments are demonstrably made in publicly traded companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <5% or in excess of €2.5 billion of total equity portfolio (3/3)

Asset class: Corporate (including covered) bonds

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Exclusion (35%)**

Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of companies from the investment universe. Investors can demonstrate their use of exclusion by providing a list of excluded companies, preferably based on multiple criteria.

- No (0/2)
 - Yes, companies are demonstrably excluded based on 1 criterion (list of excluded companies is based on only 1 criterion) (1/2)
 - Yes, companies are demonstrably excluded based on multiple criteria (2/2)
- **ESG-integration (30%)**
ESG-integration is the process by which ESG- criteria are incorporated into the investment process. In practice this ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision, which is rated highest in this methodology.

The following two scores for ESG-integration are multiplied and end up as one score:

- Extent
 - No (0/2)
 - ESG-information is used in evaluation of investments in corporate bonds (1/2)
 - ESG-criteria are systematically embedded in the corporate bond investment selection process (2/2)
- Volume
 - No (0/4)
 - Yes, ESG-integration is implemented for 0-25% of the corporate bond portfolio (1/4)
 - Yes, ESG-integration is implemented for 25-50% of the corporate bond portfolio (2/4)
 - Yes, ESG-integration is implemented for 50-75% of the corporate bond portfolio (3/4)
 - Yes, ESG-integration is implemented for 75-100% of the corporate bond portfolio (4/4)

- **Positive selection (30%)**
Positive selection is choosing the best performing organisation out of a group of corresponding organisations (sector, industry, class) with the use of ESG-criteria.

The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards.

- No (0/4)
 - Yes, positive selection is implemented for 0-10% of the corporate bond portfolio (1/4)
 - Yes, positive selection is implemented for 10-25% of the corporate bond portfolio (2/4)
 - Yes, positive selection is implemented for 25-50% of the corporate bond portfolio (3/4)
 - Yes, positive selection is implemented for more than 50% of the corporate bond portfolio (4/4)
- **Engagement (35%)**
Engagement is exerting influence on companies by entering into dialogue. Reporting the activities and results will stimulate companies to respond to this dialogue and the requested actions, which is therefore rated higher.
 - No (0/3)
 - Yes, engages or participates in engagement activities on ESG-criteria issues (1/3)
 - Yes, demonstrably engages or participates in engagement activities on ESG-criteria and reports on activities (vague reporting, no names named, cannot determine ambition level) (2/3)
 - Yes, demonstrably engages or participates in engagement activities on ESG-criteria and shows demonstrable results (evidence of progress towards resolution/company excluded) (3/3)

Asset class: Government bonds / Sovereign bonds

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Exclusion policy (50%)**
Exclusion is identifying specific ESG-criteria for exclusion of countries from the investable universe. Investors can demonstrate their use of exclusion by providing a list of excluded countries.
 - No (0/2)
 - Yes, countries are demonstrably excluded, but it is unlikely that it is commonly traded
 - Yes, countries are demonstrably excluded, including readily available government bonds (2/2)
- **ESG-integration (50%)**
ESG-integration is the process by which ESG- criteria are incorporated into the investment process. In practice this ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision, which is rated highest in this methodology.

Two scores for ESG-integration are multiplied and end up as one score:

- **Extent**
 - No (0/2)
 - ESG-information is used in evaluation of investments in sovereign bonds (1/2)
 - ESG-criteria are systematically embedded in the sovereign bond investment selection process (2/2)
- **Volume**
 - No (0/4)
 - Yes, ESG-integration is implemented for 0-25% of the sovereign bond portfolio (1/4)
 - Yes, ESG-integration is implemented for 25-50% of the sovereign bond portfolio (2/4)
 - Yes, ESG-integration is implemented for 50-75% of the sovereign bond portfolio (3/4)
 - Yes, ESG-integration is implemented for 75-100% of the sovereign bond portfolio (4/4)
- **Positive selection (50%)**
Positive selection is choosing the best performing country out of a group of corresponding countries (class) with the use of ESG-criteria.

The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards.

- No (0/4)
- Yes, positive selection is implemented for 0-10% of the sovereign bond portfolio (1/4)
- Yes, positive selection is implemented for 10-25% of the sovereign bond portfolio (2/4)
- Yes, positive selection is implemented for 25-50% of the sovereign bond portfolio (3/4)
- Yes, positive selection is implemented for more than 50% of the sovereign bond portfolio (4/4)

Asset class: Real estate

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Direct real estate ES(G)-criteria for the selection of real estate objects (30%)**
The use of ESG-criteria ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision for the selection of real estate objects:
 - No (0/1)
 - Yes, investor demonstrably considers ES(G) issues in selection/development of new real estate objects (1/1)

- **Direct real estate ES(G)-criteria for the maintenance of real estate objects (30%)**
Additionally, ESG-criteria could be used for the maintenance of real estate objects:
 - No (0/1)
 - Yes, investor demonstrably considers ES(G) issues in maintenance of real estate objects and takes active steps to reduce CO2 emissions, energy usage and waste production (1/1)

- **Indirect real estate - Selection of managers (60%)**
For indirect investments an investor could consider ES(G) issues during its selection of fund managers and by entering into dialogue with real estate fund managers:
 - No (0/2)
 - Yes, the insurer demonstrably considers ES(G) issues in selection of real estate fund managers/publicly listed real estate companies (1/2)
 - Yes, the insurer demonstrably considers ES(G) issues in selection of real estate fund managers/publicly listed real estate companies and actively seeks the dialogue with real estate fund managers/publicly listed real estate companies on the topic of ES(G) (2/2)

Asset class: Alternative investments

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Use of ESG-criteria (60%)**
Both the extent to which ESG-criteria are incorporated into the investment process and the level of transparency are taken into account for the assessment of alternative investments:
 - No (0/2)
 - Yes, alternative investments are demonstrably selected based on ESG-criteria (1/2)
 - Yes, alternative investments are demonstrably selected based on ESG-criteria and the names of these investments are published (2/2)

- **Impact investing for non-public investments (60%)**
Impact investing can be defined as active investments in companies or projects that contribute to innovative technological or social development and create added value for society that can hardly be compared with mainstream solutions.

Investors can provide reports about the projects or funds they invest in and present the numbers of their investment. Insurers that invest on a structural base and with significant amounts of money in projects and companies are rated higher. If they leave the invested amount unspecified only one point will be accredited:

- No (0/3)
- Yes, investments are demonstrably made in companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <1% of total alternative portfolio (1/3)
- Yes, investments are demonstrably made in companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <2% of total alternative portfolio (2/3)
- Yes, investments are demonstrably made in companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <5% of total alternative portfolio (3/3)

The final score of the category implementation contributes for 50% to the overall score.

3.6.5 Category 3: Accountability

Consumers and citizens have a right to information on companies' and organizations' involvement in society so that it can be taken into account when making decisions. Institutional investors such as insurance companies must offer insight into the basis and criteria of their responsible investment policy as well as the applied instruments and results.

- **Publicly available information on responsible investment policy (25%)**
The responsible investment policy, or at least a summary of it, should be publicly available, for example on the website:
 - No (0/1)
 - Yes, website provides information on responsible investment policy (1/1)
- **Publicly available information on implementation (75%)**
All strategies should be explained in either the responsible investment policy or in a separate document and be available on the website. For some strategies a report of the results is required as well. There should be a publicly available overview of the investments made. The investor should publish information on the following six strategies:
 - **Exclusion (20%)**
Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of companies from the investment universe.
 - No information concerning exclusion policy (0/2)
 - Exclusion policy is explained (1/2)
 - Exclusion policy is explained and list with excluded countries and companies and reason for exclusion is available (2/2)
 - **ESG-integration (20%)**
ESG-integration is the process by which ESG- criteria are incorporated into the investment process.
 - Methodology for ESG-integration is not explained (0/1)
 - Methodology for ESG-integration is explained (1/1)
 - **Positive selection (20%)**
Positive selection is choosing the best performing company or country out of a group of corresponding companies or countries (sector, industry, class) with the use of ESG-criteria.
 - Methodology for positive selection is explained (0/1)
 - Methodology for positive selection is explained (1/1)

- Engagement (20%)
Engagement is exerting influence on companies by entering into dialogue, preferably besides shareholder meetings.
 - No engagement policy found (0/2)
 - Engagement strategy is explained (1/2)
 - Engagement policy is explained, results are also available (2/2)

- Voting (20%)
Voting is exerting influence on companies by voting during shareholder meetings and by introducing or supporting resolutions about sustainability and corporate social responsibility (CSR).
 - No policy can be found (0/2)
 - Voting activity overview report can be found (1/2)
 - Detailed voting activity report is available (2/2)

- Impact investing (20%)
Impact investing can be defined as active investments in companies or projects that contribute to innovative technological development and create added value for society that can hardly be compared with mainstream solutions.
 - Strategy for impact investing cannot be found (0/1)
 - Strategy for impact investing can be found (1/1)

The final score of the category accountability contributes for 25% to the overall score.

4 Results

4.1 Response rate

Of the 30 insurance companies approached to take part in this study, a total of 17 responded. This is 57% of the sample. These organisations are listed below:

- Achmea
- Aegon
- Allianz Nederland
- ASR Verzekeringen
- Cardif
- CZ
- De Goudse
- Delta Lloyd
- Generali Verzekeringsgroep
- Legal & General Nederland
- Loyalis (incl. Cordares)
- Menzis
- Nationale Nederlandsen
- ONVZ
- REAAL Verzekeringen
- UVIT
- Zwitserleven

When comparing these results to the previous two years, a slight improvement can be identified. Last year, 15 of 29 insurance companies responded. Although the response rate continues to improve, it is clear that a significant group of insurance companies are still unable or unwilling to respond to the request for information that the VBDO sends them every year. It is disappointing that three years after the inaugural survey of responsible investment among insurance companies, a large number of insurance companies seem to indicate that responsible investment is not a priority for them.

4.2 Overall results

The overall results of the 2011 benchmark are presented in Table 3.1 below. All the scores below are out of 5. The position in last year's edition of the benchmark is also provided.

Table 4.1 Overall results per insurance companies

	Insurance company	Policy	Implementation	Accountability	Overall score	Position in last year's benchmark
1	REAAL Verzekeringen	4,4	4,5	4,6	4,5	1
2	Zwitserleven	4,4	4,4	4,3	4,3	-
3	ASR Nederland	3,1	4,7	3,5	4,0	2
4	Loyalis Verzekeringen	3,8	2,3	5,0	3,3	3
5	Achmea	4,4	2,4	4,3	3,3	10
6	Menzis	4,4	2,5	3,1	3,1	4
7	Delta Lloyd	3,1	1,2	4,6	2,6	5
8	AEGON	4,4	1,3	3,1	2,5	7
9	ONVZ Zorgverzekeraar	3,8	1,9	2,0	2,4	13
10	CZ	3,8	1,5	2,0	2,2	9
11	Nationale Nederlanden	2,5	0,7	3,5	1,9	6
12	De Goudse	2,5	1,5	1,6	1,8	11
13	Allianz Nederland	3,1	1,9	0,0	1,7	13
14	Generali Verzekeringsgroep	2,5	0,7	2,0	1,5	8
15	UVM Verzekeringsmaatschappij	1,3	0,2	1,3	0,7	12
16	Univé-VGZ-IZA-Trias	1,9	0,1	0,0	0,5	13
17	ARAG Rechtsbijstand	0,0	0,0	0,0	0,0	13
18	Bovemij Verzekeringen	0,0	0,0	0,0	0,0	13
19	Cardif Verzekeringen	0,0	0,0	0,0	0,0	13
20	Chartis	0,0	0,0	0,0	0,0	13
21	DAS Rechtsbijstand	0,0	0,0	0,0	0,0	13
22	De Friesland Zorgverzekeraar	0,0	0,0	0,0	0,0	13
23	DSW Zorgverzekeraar	0,0	0,0	0,0	0,0	13
24	HDI-Gerling Verzekeringen	0,0	0,0	0,0	0,0	13
25	Klaverblad Verzekeringen	0,0	0,0	0,0	0,0	13
26	Legal & General Nederland	0,0	0,0	0,0	0,0	13
27	Onderlinge 's-Gravenhage	0,0	0,0	0,0	0,0	13
28	SwissRe NL	0,0	0,0	0,0	0,0	13
29	TVM Verzekeringen	0,0	0,0	0,0	0,0	13
30	Zorg en Zekerheid	0,0	0,0	0,0	0,0	13

There are a number of significant changes in comparison to last year's scores. As mentioned earlier in the report, Zwitserleven was counted as a separate insurance company for the first time this year. In previous years, it was included as part of REAAL's profile (subsidiary of the SNS REAAL group). Because the two companies, however, have begun to maintain different responsible investment policies, the decision was made to include them separately.

A number of insurance companies also took significant steps forward in 2011. This is especially true for Achmea Holding, that jumps from a tenth position in 2010 to the fifth position. Allianz Nederland, De Goudse, and ONVZ Zorgverzekeraar also improved their scores in a very significant way.

At the same time, 14 insurance companies have not taken any noticeable steps towards responsible investment in the past three years. Some of these insurance companies are part of international groups that do have responsible investment activities. These activities have not, however, been applied to the Dutch subsidiaries that the VBDO is able to identify. Other insurance companies simply do not provide information, in annual reports, on websites or completed questionnaires. These insurance companies are:

- ARAG Rechtsbijstand
- Bovemij Verzekeringen
- Cardif Verzekeringen
- Chartis
- DAS Rechtsbijstand
- De Friesland Zorgverzekeraar
- DSW Zorgverzekeraar
- HDI-Gerling Verzekeringen
- Klaverblad Verzekeringen
- Legal & General Nederland
- Onderlinge 's-Gravenhage
- SwissRe NL
- TVM Verzekeringen
- Zorg en Zekerheid

When comparing the scores to last year, as Table 4.2 does below, it is clear that all insurance companies that were active in responsible investment last year maintained or improved their scores, with some dramatically improving their responsible investment activities.

Table 4.2: Overall scores 2010 and 2011

Insurance company	Overall score 2010	Overall score 2011
REAAL Verzekeringen	4,2	4,5
Zwitserleven	-	4,3
ASR Nederland	3,4	4,0
Loyalis Verzekeringen	3,3	3,3
Achmea Holding	1,0	3,3
Menzis	2,6	3,1
Delta Lloyd	2,2	2,6
AEGON	1,7	2,5
ONVZ Zorgverzekeraar	0,0	2,4
CZ	1,1	2,2
Nationale-Nederlanden ¹⁰²	1,9	2,0
De Goudse	0,5	1,8
Allianz Nederland	0,0	1,7
Generali Verzekeringsgroep	1,4	1,5
UVM Verzekeringsmaatschappij	0,2	0,7
Univé-VGZ-IZA-Trias	0,0	0,5
ARAG Rechtsbijstand	0,0	0,0
Bovemij Verzekeringen	0,0	0,0
Cardif Verzekeringen	0,0	0,0
Chartis	0,0	0,0
DAS Rechtsbijstand	0,0	0,0
De Friesland Zorgverzekeraar	0,0	0,0
DSW Zorgverzekeraar	0,0	0,0
HDI-Gerling Verzekeringen	0,0	0,0
Klaverblad Verzekeringen	0,0	0,0
Legal & General Nederland	0,0	0,0
Onderlinge 's-Gravenhage	0,0	0,0
SwissRe NL	0,0	0,0
TVM Verzekeringen	0,0	0,0
Zorg en Zekerheid	0,0	0,0

An analysis of the scores can also be made according to the average scores per element. Similar to previous years, two average score calculations have been made. One score calculates the average of the 16 insurance companies that received points in this year's edition, while the other score calculates the average of all 30 insurance companies. Once again, the 2010 scores have also been added to show the development over time.

Table 4.3 Analysis of results

2011	Policy	Implementation	Accountability	Overall score
Overall average score (including zero scores)	1,8	1,1	1,5	1,4
Average score (excluding zero scores)	3,4	2,0	2,8	2,5

2010	Policy	Implementation	Accountability	Overall score
Overall average score (including zero scores)	1,2	0,6	0,9	0,8
Average score (excluding zero scores)	2,6	1,3	2,1	1,8

Size of insurance company (invested capital)				
Up to € 1 billion	0,4	0,2	0,3	0,3
€ 1 to10 billion	2,4	1,2	1,5	1,6
From € 10 billion	3,8	2,7	4,0	3,3

It is evident that a definite improvement can be seen between 2010 and 2011. This is, of course, only true for the 16 insurance companies that are active in responsible investment. The 14 other insurance companies did not improve their scores. When analysing the results of the survey according to size, Table 4.3 clearly shows that the size of the insurance company is directly related to the responsible investment activities. Larger insurance companies are much more active in responsible investment than the smaller ones.

Table 4.4 below shows the average scores among asset classes for 2010 and 2011.

Table 4.4 Average scores across asset classes

Asset class	Average score 2011	Average score 2010
Public equity	2,3	1,8
Corporate bonds	2,1	1,7
Government bonds	1,8	0,9
Real estate	1,7	1,2
Alternative investments	1,4	0,9

Responsible investment is most well-developed in the public equity asset class, followed by corporate bonds. The government bond, real estate and alternative investment asset classes all show improvement in their average scores, but have less developed responsible investment activities than in the public equity and corporate bond portfolios. At the same time, the biggest relative improvement can be seen in the government bond asset class, with the score increasing by 0,6 points.

In the following sections, the results of the 29 criteria across the three elements of responsible investment as defined by the VBDO are summarized.

4.3 Policy results

The policy section of the benchmark is composed of two criteria that evaluate both the qualitative as well as the quantitative aspects of the responsible investment policy.

Of the 30 insurance companies included in this year's benchmark, 16 have a responsible investment policy and 14 do not. The quality of the responsible investment policies varies widely. Two insurance companies have a responsible investment policy and some of the four themes of the UN Global Compact. This means that essential aspects of sustainability are not yet visibly incorporated into the responsible investment policy. The remaining 14 insurance companies have a responsible investment policy that covers all four themes of the UN Global Compact, with 7 of these policies providing information on how it implements some of the ten principles of the UN Global Compact. In comparison to last year, two more insurance companies have a demonstrable responsible investment policy.

In terms of the extent to which the policy covers the investments of the insurance company, 10 of the insurance companies have their policies cover at least 75% of their investments. Two insurance companies have it cover 50-75% of their investments, while four have it cover less than 50%. This is a positive development, indicating that the responsible investment policy in the majority of the cases covers most of the investment portfolio.

The VBDO encourages insurance companies to take the next step by setting measurable targets for better adherence to the UN Global Compact themes and principles.

4.4 Implementation results

The second element of the benchmark investigates the responsible investment activities of insurance in the different asset classes they are invested in. In section 4.2, the average scores for the various asset classes were shown, and it was clear that responsible investment was implemented to various extents in the different asset classes.

4.4.1 Public equity

Within the public equity portfolio, a wide variety of instruments can be used to implement the responsible investment policies. These instruments were explained in chapter 3. This section identifies the extent to which these instruments are actually used.

- Exclusions: Thirteen insurance companies (two more than last year) maintain an exclusion policy. Nine of these exclusion policies cover multiple criteria, while four policies maintain one criterion (controversial weapons). This is a positive development in comparison to last year.
- ESG-integration: Nine insurance companies were able to demonstrate that they integrate ESG factors into their investment practice in the public equity portfolio. This is a significant improvement in comparison to 2010, when only four insurance companies did this. One insurance company, ASR Verzekeringen, was able to indicate how this affected their asset allocation.
- Positive selection: Four insurance companies invest a portion of their public equity portfolios using positive selection. For three of these insurance companies, these fractions are less than 10% of the portfolio. One insurance company, Zwitserleven, was able to demonstrate that this occurred for more than 50% of the portfolio.
- Engagement: Eleven insurance companies (three more than last year), conduct engagement activities with companies in which they invest. Of these companies, five report to a certain extent on these activities, with four companies providing specific details. These companies are: Achmea, Loyalis, REAAL Verzekeringen, and Zwitserleven.
- Voting: Eleven insurance companies (three more than last year) vote on their public equity holdings. Five of these companies vote on more than 50% of their holdings. Eight of these companies pay explicit positive attention to ESG issues in their policies.

- Impact investing: Four insurance companies (one more than last year) were able to show that they engage in impact investing activities. These companies are: ASR Verzekeringen, Delta Lloyd, Loyalis and Menzis.

It is clear that the Dutch insurance companies active in the area of responsible investment are further developing the manner in which they implement their responsible investment policies.

4.4.2 Corporate bonds

As shown earlier in this chapter, the implementation of responsible investment in the corporate bond asset class lags slightly in comparison to public equity.

- Exclusions: Thirteen insurance companies (three more than last year) maintain an exclusion policy. Nine of these exclusion policies cover multiple criteria, while four policies maintain one criterion (controversial weapons). This essentially means that the exclusion policies for public equity are also in effect for corporate bonds.
- ESG-integration: Eight insurance companies (four more than last year) were able to show that they make use of ESG-integration for corporate bonds. One insurance company, ASR Verzekeringen, was also able to show that it directly impacts their asset allocation.
- Positive selection: One insurance company (none last year) was able to show that it made use of positive selection for a small portion of its corporate bond portfolio. This company is REAAL Verzekeringen.
- Engagement: Seven insurance companies (one more than last year) engage with companies in their corporate bond portfolio. These engagement activities quite often occur together with the public equity holdings, but are sometimes also done separately or even before acquiring the bond.

Although the gap seems to be closing, more effort needs to be made by insurance companies to implement responsible investment in this asset class, given the fact that insurance companies are historically more heavily invested in this asset class.

4.4.3 Government bonds

As shown earlier in this chapter, responsible investment in the government bond portfolio is less developed than for public equity and corporate bonds. On average, however, the biggest improvement in responsible investment was also seen in comparison to last year. This is a positive sign, and shows that insurance companies are realizing that responsible investment can also be applied in this asset class.

- Exclusions: Nine insurance companies (three last year) exclude investments in government bonds based on sustainability criteria. Five of these companies exclude countries that are readily available. This is a vast improvement with regards to last year.
- ESG-integration: Seven insurance companies (three last year) were able to demonstrate that they incorporate ESG criteria into their selection of investments. Three of these companies, Achmea, ASR Verzekeringen and ONVZ Zorgverzekeraars, were able to show that their asset allocation was influenced by ESG criteria.
- Positive selection: Two insurance companies (none last year) were able to show that they make use of positive selection methods in their government bond portfolios. These companies are: REAAL Verzekeringen and Zwitserleven.

4.4.4 Real estate

In terms of real estate, the benchmark distinguishes between direct and indirect real estate. For direct investment, the selection and maintenance of real estate objects are important in terms of sustainability. Indirect real estate focuses on the selection and dialogue with real estate managers of real estate funds. A significant number of insurance companies indicated that they did not invest in direct and/or indirect real estate so the numbers are lower.

- Direct real estate selection and maintenance: Three insurance companies (similar to last year) were able to show that they make use of sustainability criteria in the selection and maintenance of direct real estate objects. These are: Achmea, ASR Verzekeringen, and Delta Lloyd.
- Indirect real estate: Six insurance companies (three last year) were able to show that they include ESG-criteria in their selection of indirect real estate investments. Of these six, four insurance companies also actively engage with the fund managers on the topic of sustainability.

4.4.5 Alternative investments

The alternative investment asset class includes a very wide range of different investment opportunities, such as private equity, hedge funds, infrastructure, and commodity investments. Each of these investments require unique responsible investment instruments. Many insurance companies included in this year's edition of the benchmark indicated that they did not invest in alternative investments. Similar to real estate, the numbers are then also lower.

At the same time, there are also unique opportunities in terms of impact investments.

- ESG-criteria: Four insurance companies (three last year) have ESG-criteria for their alternative investments. A number of insurance companies also indicated that this would be happening in the course of this year as well. None, however, provide information on the managers they make use of.
- Impact investing: A total of eight insurance companies (five last year) make use of impact investing in the alternative investments asset class. The level of these investments varies considerably.

4.5 Accountability results

The third and final element of the benchmark is accountability. In addition to having a responsible investment policy and implementing it across various asset classes, insurance companies need to be transparent about it. This means providing publicly available information to relevant stakeholders.

- Responsible investment policy: Fourteen of the insurance companies provided publicly available information on their responsible investment policies. This means that two insurance companies have a responsible investment policy, but do not provide information on it.
- Exclusions: Twelve insurance companies provide publicly available information on the exclusions they maintain. Eight of these companies also provide the names of the companies and/or countries they exclude.
- ESG-integration: Seven insurance companies provide publicly available information on how they implement ESG issues into their investment process. The quality and depth of the information provided, however, varies considerably.
- Positive selection: One insurance company provides publicly available information on how they implement positive selection into their investment process.
- Engagement: Eight insurance companies are transparent about the fact that they engage with companies in their portfolio. Four of these companies are transparent about the results.
- Voting: Seven insurance companies exercise their voting rights during general meetings of publicly traded companies. The vast majority, six of these insurance companies, also provide a detailed voting report.
- Impact investing: Six insurance companies provide publicly available information on their impact investment strategies.

In comparison to last year, the insurance companies active in the area of responsible investment are much more transparent about their policies and activities. This is a positive development, and the VBDO encourages these companies to continue this trend.

4.6 Results advisory panel

Prior to the publication of the research period it is standard practice for the VBDO to organize an advisory panel meeting. In this panel, different representatives from the insurance company sector are given the possibility to provide input about the research process, the methodology and the preliminary results. By organizing an advisory panel, the VBDO works to ensure that the findings in the research correspond to the common beliefs in the sector and also identifies possible improvements in the research methodology. During the advisory panel meeting for this edition of the VBDO Benchmark Responsible Investment by Insurance Companies in the Netherlands, representatives of different insurance companies as well as umbrella organizations were present.

This section provides a summary of the main issues raised during the advisory panel meeting. Although the individual members did not necessarily agree on all topics with each other, the general conclusions are presented here.

Research process

- The members of the advisory panel all indicated that by sending last year's profile to the respondents it both saved time for the respondents and for the VBDO and therefore is useful. Furthermore, it also provided the opportunity to critically evaluate the previous year's answers.
- The planning of the research is good; the respondents have had enough time to react on the profiles. A suggestion was made to send the research methodology along with the questionnaire.
- A suggestion for next year's process is to give the respondents more space to explain how the policy has been implemented. Often the reality is more complex than the room afforded in the questionnaire.
- The umbrella organizations could play a role in reaching the non-respondent insurance companies.

Research methodology

- In selecting the organizations that are researched, there should be a clear line if the different labels or the concern is being examined. This year, Zwitserleven was treated as a separate label. The panel indicated that different insurers have different labels with different investment policies. There should be a clear methodology for which labels are researched.
- For reasons of comparability it is suggested that the research methodology should remain mostly unaltered next year.
- Concerning the exclusion of government bonds, the members of the advisory panel stated that it is difficult to assess whether the policy is purely symbolic or that it has impact for sustainability. It was suggested to not only look at the number of international treaties that are signed or not signed by a country, but also look at the behaviour of countries. In this way, a meaningful distinction between countries can be made.
- One suggestion is to let ESG-integration have a larger weighting than exclusion. Exclusion is considered to be a first step, but the next steps in responsible investment include ESG-integration. Furthermore, impact investing should not to have a large weight, because it brings higher risks with it that are not necessarily compatible with an insurance company's risk profile. This will be considered in next year's methodology.
- For suggestions concerning methodology, the VBDO should use the knowledge of the PRI-

workgroups. This suggestion will definitely be looked into.

- Some insurance companies have not published all information on the website, but it can be supplied when asked. This should also be rated by the VBDO in coming years.

Results

- The members took notice of the distinction between the group that is involved in responsible investment and the group that has a 0-score on the benchmark and indicated that it is a good sign that the first group is improving.
- Transparency will become more important in coming years.

The VBDO would like to thank all the participants of the advisory panel for their valuable input.

5 Recommendations

As presented in the previous section, there is a clear distinction between a first group that is embracing responsible investment and a second that has received a zero score in all three editions of the benchmark for insurance companies. The VBDO wishes to provide recommendations for both groups separately.

Within the first group of insurance companies active in responsible investment, there are a lot of individual differences, but the recommendations below will be applicable to most insurance companies in this group.

- Insurance companies have a responsible investment policy, but the quality of these documents varies widely. The VBDO advises the insurance companies to develop a policy which is based on international guidelines, such as the UN Global Compact, and should include specific measures to better adhere to the principles on UN Global Compact.
- Insurance companies should implement a responsible investment policy in the asset classes in which they are invested. The emphasis should be on the asset class in which it is the most heavily invested.
- In some asset classes, such as government bonds, responsible investment is less developed. The VBDO urges insurance companies to establish a dialogue between different insurance companies and their asset managers to further develop and implement different instruments.
- Concerning accountability, significant steps can be taken by the insurance sector. In general, a policy is in place, instruments have been implemented, but this is not always made clear to the general public. Transparency and accountability can accelerate responsible investment within the sector and is an integral part of sustainability.
- Insurance companies can use best practices within the sector and can also look at the responsible investment activities that are implemented by the pension fund sector in the Netherlands. This sector receives, on average, a higher rating in the VBDO benchmark research. Also other initiatives such as Eurosif, PRI, or the CDP can be used to improve the responsible investment policy.

For the second group of organizations that have received a zero score, the VBDO has the following recommendations:

- The organization should start by getting responsible investment on the agenda of the organization. A good starting point is developing a responsible investment policy where the values of the organization are put forward.
- The most common first instrument applied is excluding companies that are involved in the production of products that are considered to be unwanted by Dutch society (such as controversial weapons) or companies that in the process of producing their products behave in an irresponsible way (such as human rights violations or environmental damage).
- When the first steps are taken, the organization can gradually expand their policy and instruments, and can use their instruments in different asset classes.
- It is not necessary to reinvent the wheel by yourself. Many insurance companies, both in the Netherlands and abroad, are very knowledgeable on the topic of responsible investment.
- Choosing an asset manager that is advanced in responsible investment is also a good strategy for insurance companies looking to implement a responsible investment policy.

6 Room for responsible investment in the Dutch insurance industry

With its annual benchmark, the VBDO encourages responsible investment among Dutch insurance companies. Insurance companies face unique challenges when working to implement a responsible investment policy. In this contribution, Sustainalytics explores the insurance industry's responsible investment possibilities by finding answers to the following four questions:

1. Why should an insurance company care about responsible investment?
2. Which considerations determine an insurance company's responsible investment possibilities?
3. Which RI policy instruments can an insurance company use?
4. How can an insurance company engage its asset managers to advance with RI?

6.1 Why should an insurance company care about responsible investment?

The insurance industry offers sophisticated products and there are many different types of insurance. The most important distinction is between life insurance and non-life insurance. Common 'life' products are pensions, accidental death insurance, and universal and term life insurance. Common 'non-life' products are motor, transport, fire, travel, legal, and health insurance. Health insurance is almost a category on its own but it is generally classified as non-life insurance. The Dutch term for non-life insurance is *schadeverzekeringen*.

In the aftermath of the *Woekerpolisaffaire*¹, many Dutch clients feel that insurance companies have failed in their duty of care (*zorgplicht*) and insurance companies realise that they have overestimated the financial literacy of their clients. In order to retain their long-term societal license-to-operate, insurance companies are looking for ways of restoring trust.

Many Dutch insurance companies have successfully sought certification under the *Keurmerk Klantgericht Verzekeren*, a domestic industry initiative to increase customer focus. 'Responsible insurance' has been gaining attention, involving topics such as product transparency, financial education of customers, micro-insurance, and innovative insurance solutions addressing megatrends such as climate change and demographic change. At the same time, insurance companies do not only impact society by extending insurance policies but also by investing their often significant assets in the global financial markets. Accordingly, a credibly responsible insurance company is also a responsible investor.

The insurance industry's view on whether it should apply responsible investment (RI) policy instruments has been going through a change process. Generally, three consecutive phases can be identified:

Phase 1: "Why should we bother?" - We do not see how RI improves our bottom line of investment portfolio performance. We do see how RI will cost us money and limit our investment flexibility.

Phase 2: "Our boss demands it." - CSR is important for the company and, since we are a financial institution, RI is a key performance indicator. We are not necessarily convinced that it will improve return on investment or risk management but at least it helps to manage our reputation and sustain our long-run social license to operate. We understand that RI is actually interesting and relevant for our company.

Phase 3: "We see the value ourselves." - We believe that ESG factors can have a material impact on our investment performance. Furthermore, it offers marketing opportunities and we can educate our clients so that they do not buy products of which they do not sufficiently understand the risks.

¹ The *Woekerpolisaffaire* refers to the controversy around Dutch insurance companies selling individual universal life insurance policies with excessive cost charges. The companies have offered their clients compensation where charges have exceeded an agreed maximum.

“REAAL and specialist pension insurer Zwitserleven closely work with SNS Asset Management to invest assets responsibly. Although the current economic crisis presents the companies with unprecedented challenges, this is not viewed as a reason to abort responsible investment objectives. On the contrary, both REAAL and Zwitserleven regard responsible investment as an opportunity to better serve their clients’ wishes, and for differentiation in the market.”

Manuel Adamini, Head of ESG research at SNS Asset Management

6.2 Which considerations determine an insurance company’s responsible investment possibilities?

A. *Asset ownership: Investing at own risk vs. investing at the risk of clients*

Premium income from pension plans and supplemental life insurance policies are invested on behalf of clients (mostly employers and employees). Net premium income from non-life insurance policies (e.g., travel insurance, health insurance) and also some categories of life insurance (e.g., accidental death insurance) are invested on account and at own risk of the insurance company.

The ultimate asset owners decide how their money is invested. After all, and increasingly so, the ultimate owners bear the largest share of the investment risks. Insurance companies have a fiduciary duty to realise a healthy risk-adjusted return on client asset investments but they cannot dictate to their clients how to invest their money. Apart from certain regulatory restraints, however, insurance companies do have some discretion in investing their own money.

RI implications: Asset ownership is an important determinant of RI possibilities. Since RI offers significant reputational and performance improvement opportunities, there is little withholding insurance companies from applying RI policy measures to the investment of their own assets. For client assets it is often not desirable to impose such measures in the absence of clear client demand. However, insurance companies can promote RI among their clients. The argument can be made that such pro-active initiative forms part of the duty of care as well as the fiduciary duty towards ultimate beneficiaries.

“AEGON’s insurance assets are largely managed by AEGON Asset Management, which works with a range of RI instruments. Recently, AEGON adopted an RI policy that applies to all General Account (i.e., proprietary assets) investments worldwide. An RI committee further develops this policy and oversees its implementation. In the RI committee different stakeholders are represented from within the AEGON Group and external clients are regularly consulted. For the management of client assets, there is a trend towards more customized RI solutions.”

Roger Wildeboer Schut,
Manager Responsible Investment at AEGON Asset Management

B. Investment horizon: Short-term liquidity vs. long-term return on investment

The investment horizon consideration largely runs parallel with asset ownership. Most of the insurance companies' own assets have a short-term investment horizon. Much of what comes in as premium revenues goes out as claim pay-outs. Generally speaking, only the excess net premium income is available for investment with a longer time horizon. Client assets are usually invested for extended periods of time (typically multiple decades in the case of pensions). There is a need to invest the assets to realise a return that at least compensates for inflation. Furthermore, the long horizon offers additional opportunity to increase the risk-adjusted return by investing wisely.

RI implications: It will be important for insurance companies to manage society's expectations with respect to RI. A significant share of the industry's total asset base is not available for long-term investment. The authorities also enforce stringent liquidity requirements. For those assets that can be invested with a significantly longer term horizon, the insurance companies may benchmark their RI performance against that of pension funds. Dutch pension funds have experienced significant public and media pressure to implement responsible investment measures and insurance companies do not have to re-invent the wheel.

C. Investment mandate: Individually managed account mandate vs. collective fund mandate

With an individually managed account mandate, an asset manager can compose a portfolio specifically for an insurance company. This tends to be costlier than participating in readily available collective investment funds but the higher degree of flexibility can be a significant advantage. It enables an insurance company to outsource asset management while still applying its own investment criteria. With a collective fund mandate, an insurance company depends on the fund manager's criteria. There is, however, an increasing availability of passive RI products. Alternatively, there are also insurance companies that keep most asset management tasks in-house.

RI implications: There are many good examples of institutional investors applying RI criteria to individually managed account mandates with active strategies. However, mainly due to cost considerations, many institutional assets are invested with passive strategies (e.g., exchange-traded funds) and in collective fund mandates, complicating RI objectives. Indices and funds with RI overlays are fortunately increasingly available.

“Despite its limited resources, De Goudse has responsible investment ambitions. It applies an exclusionary policy to its own assets, which are largely invested in bonds. Furthermore, it invests clients' life insurance money in funds managed by ING Investment Management, which applies its own RI instruments. De Goudse does feel that it is not easy for a smaller insurance company to free up sufficient capacity for active engagement with investee companies and portfolio diversification towards environmental and social impact investing.”

Jan Beekman, Portfolio Manager Investments at De Goudse Verzekeringen

6.3 Which RI policy instruments can an insurance company use?

- **Exclusion** possibilities are mainly driven by local market preferences. Following the example of Dutch pension funds, many insurance companies have adopted an exclusion policy based on sustainability criteria. In the Netherlands, it has become common practice to refrain from investing client assets in companies (or regimes) that seriously harm the environment or infringe on basic human rights. Financing producers of cluster munition and anti-personnel mines is already largely avoided and even likely to become forbidden by Dutch law. Many Dutch insurance companies also avoid companies that are associated with very serious forms of human rights violations, labour rights violations, environmental damage, and corruption. However, such exclusions are often not included in group-wide policies of internationally operating insurance companies. Especially in the US and UK markets, this type of ‘voluntary’ investment restraints is unlikely to be widely accepted. Furthermore, once an equity investor divests from a company, he can no longer use his shareholder rights for influencing management decision-making.
- **Engagement** can be a good alternative to outright exclusion. If we are concerned about a particular investee company’s ESG performance, we can actually better use our right to information and voting rights as a shareholder than divest without giving the company the opportunity to improve its performance. With the support of our asset manager(s) we can engage directly with companies, we can use collaborative platforms such as the PRI Clearinghouse, and we can commission external engagement specialist. Engagement can be a powerful RI instrument and, in principle, it can be undertaken irrespective of the nature of the chosen investment strategy and applicable asset class. It is nevertheless relatively resource-intensive and many smaller insurance companies seem hesitant to free up already scarce resources.
- **Positive ESG impact investing** brings new competitive opportunities. Besides financial returns, SRI funds and targeted impact investments offer environmental and/or social benefits. This responds to ethical concerns of individuals and reputational concerns of corporate and institutional investors. Despite these promising benefits, examples of significant impact investing are largely absent in the Dutch insurance industry.
- **ESG integration** is challenging but we need to do it in order to live up to our fiduciary duty. Increasingly, insurance companies agree that managing ESG risks is part of their fiduciary duty towards clients. ESG integration is becoming mainstream practice since it does not limit investment flexibility but rather enhances risk management and sometimes even helps to identify opportunities. For example, it can make good business sense address selected social and environmental issues that play a role in future insurance pay-outs (e.g., ageing population, general safety, urbanisation challenges, global warming).

“By its nature, Nationale-Nederlanden’s (NN) investment approach is defensive and long-term driven. ING Investment Management, NN’s asset manager, is continuously challenging itself to meet clients’ needs and aspirations, including SRI funds and mandates invested responsibly. At the same time, we are mainstreaming ESG in our core investing process stemming from our belief that better long-term investment returns come from companies that are well governed and with responsible management practices.”

Babs Dijkshoorn, Manager Sustainability at ING Insurance/Investment Management

6.4 How can an insurance company engage its asset managers to advance RI?

Insurance companies use specialised institutional asset managers for the investment of the assets derived from insurance premium income. Most large Dutch insurance companies make use of an internal asset management division. Some large and many smaller insurance companies make use of one or more external asset management firms.

As the insurance company is the asset owner or acts as the owner on behalf of its clients, it has a certain purchasing power in enforcing asset managers to invest the assets in a responsible manner, meeting certain policy criteria. Most insurance companies have been slow with making use of this purchasing power. Nevertheless, many insurance companies have been benefiting from the proactiveness of their asset managers with regard to RI. Various institutional asset management firms have applied RI instruments – such as exclusion policy, active ownership, and ESG integration – to the management of assets of Dutch insurance companies, without explicit RI requirements in the mandates.

Fortunately, the market conditions are changing. Many insurance companies have progressed by including RI questions in their requests for proposals from asset managers. Examples of RI questions frequently found in requests for proposals for asset management services are shown in the table below.

Topic	Questions
Policy and management approach	<ul style="list-style-type: none"> • Are you a UNPRI signatory? • Do you have a publicly available RI policy? • What are your principal RI policy instruments? • With respect to your RI capability, where do you aim to be in three years from now?
Resources and capacity development	<ul style="list-style-type: none"> • Who is responsible for implementing RI policy in your organization? • What is done to train investment teams on RI policy requirements? • Which external service providers do you use and what do you buy from them?
Client communication	<ul style="list-style-type: none"> • What do you report to institutional clients about your progress with respect to RI? • Do you promote RI actively among your institutional clients?
Exclusions	<ul style="list-style-type: none"> • Do you apply any specific ethical investment restrictions? • How often do you check compliance with your exclusionary policy?
Active ownership	<ul style="list-style-type: none"> • Do you participate in proxy voting? • Do you engage with investee companies on specific ESG issues? • Do you set engagement objectives and evaluate impact?
Impact investing	<ul style="list-style-type: none"> • Do you offer any investment solutions with special environmental and/or social benefits?
ESG integration	<ul style="list-style-type: none"> • Do you consider specific ESG criteria in your investment process? • Is an ESG specialist involved in the day-to-day investment analysis and decision-making?

Asset managers would, of course, benefit from more standardisation of RI requirements in requests for proposals. As their mandatory annual progress reporting to the UNPRI becomes more mature and publicly available, it will be easier to benchmark asset managers' RI performance. For insurance companies with substantial assets in need of responsible management, it will be increasingly important to work with asset managers that have strong ESG integration and active ownership practices, as well as sufficient capacity to adapt to client-specific positive and negative investment criteria. Even for collective fund mandates, managers increasingly offer solutions with RI criteria matching the industry's best practices and institutional clients' preferences.

“As a health insurance company, CZ invests on its own account and risk. Since we care about responsible investment, we engage with our external asset managers so that they advance with their commitment to the UN Principles for Responsible Investment.”

Mascha Verhoeven, Asset Manager at CZ

“ASR is ambitious with respect to responsible investment despite often limited explicit demand. Institutional clients have been more proactive with the topic than retail clients. On the supply side, ASR implements its responsible investment policy to all internally managed investments and requires external managers of mutual funds and mandates - at the least - to commit to the UN Principles for Responsible Investment and the UN Global Compact Principles.”

Raquel Criado Larrea, Senior Portfolio Manager at ASR Nederland

About the author

Sustainalytics is a global leader in sustainability research and analysis, serving investors and financial institutions around the world. Our international perspective is strengthened by nearly 20 years of local experience and expertise in the mainstream Responsible Investment (RI) and the more values-oriented Socially Responsible Investment (SRI) markets. Sustainalytics strives to provide consistently high quality solutions and to remain responsive to the current and future needs of our clients.

The firm is headquartered in Amsterdam, and has offices in Frankfurt, Madrid, Timisoara, Boston, and Toronto and representations in Copenhagen and Paris.

In the Netherlands specifically, Sustainalytics assists numerous asset owners and managers with the development and execution of (S)RI strategies, such as ESG integration, best-in-class, minimum criteria, engagement, and thematic impact investing.

More information, publications and contact details can be found on the website:
<http://www.sustainalytics.com>.



Appendix



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The VBDO (Dutch Association of Investors for Sustainable Development) aims at generating a sustainable capital market, a market that brings together supply and demand, not just based on financial criteria, but also on social and environmental aspects. VBDO focuses its activities on actors in the Netherlands, with the international context.