Benchmark **Responsible Investment by Insurance Companies** in the Netherlands 2014

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Foreword

For the fifth year in a row the VBDO presents its extensive benchmark study 'Sustainable Investing by Insurance Companies in the Netherlands'. The objective of this benchmark is to give insurance companies and their stakeholders' insight into the level of responsible investment by examining their governance, policies, implementation and transparency.

The overall results show a continuous improvement in the scores of the participating insurance companies. This demonstrates their commitment to investing responsibly and sustainably. We compliment the insurance companies with these results and thank them for their participation.

At the same time, improvements can still be made in setting long term objectives, in the leadership of the board, in engaging with companies on social and environmental issues and in including positive impact investments in the portfolio.

In November VBDO organized a round table on sustainability with eight insurance companies. Prior to the round table, eleven insurance companies had shared their insights on the main issues they encounter when embedding sustainability in their organization. We are faced with an interesting paradox here. All of the present insurance companies are trying their best to integrate sustainability in the organization and none is against it.

Still, they face many challenges in doing so. We hope these challenges will be overcome in due time and as VBDO we intend to assist the sector in this process in any way we can.

Without the support of Oxfam Novib this report would not have been possible. I thank them for their dedication to this project, and wish all readers wisdom when assessing the consequences of this report for their organisations.

Giuseppe van der Helm
Executive Director VBDO

Executive Summary

Background and objective

This is the fifth annual edition of the VBDO Benchmark Responsible Investment by Insurance Funds in the Netherlands. The report is published by the Dutch Association of Investors for Sustainable Development (VBDO). The benchmark study presents developments on the way the Dutch insurance companies formulate, implement and report on their responsible investment policy.

The objective of this report is to provide insurance companies and their policyholders insight into the current status of responsible investment among Dutch insurance companies. This comparative study offers insurance companies an impartial instrument to assess the extent to which their responsible investment policy adequately reflects their social responsibilities and how their policies compare to those of their peers.

An investigation into the responsible investment policies of insurance companies remains of great importance with a view to the large sums invested. The present study gives all stakeholders insight into the Dutch insurance companies as to whether and how the money is invested in a sustainable way.

Methodology

This benchmark focuses on 29 insurance companies in the Netherlands. With a response rate of 66% the research covers a substantial part of the industry and provides both a general and a detailed overview of the current status and trends in Dutch insurance companies regarding responsible investment.

In this fifth benchmark a question on 'green bonds' was added to the questionnaire as an extra category, together with new questions relating to strategic asset allocation. No fundamental changes were made to the methodology compared to last year, thereby allowing for comparison.

Overall conclusions

This year's top 10 Insurance Companies

RANKING 2014		2013	NAME OF INSURANCE COMPANY	OVERALL SCORE
1	=	1	Zwitserleven	4,4
2	=	2	REAAL	4,2
3	=	3	ASR Nederland N.V.	3,8
4	=	4	Achmea	3,6
5	▲	8	Menzis Zorgverzekeraar	3,4
6	▼	5	Aegon (Nederland)	3,3
7	▼	6	Nationale-Nederlanden	3,3
8	▲	11	Delta Lloyd	3,1
9	▼	7	Loyalis	2,8
10	✳	20	Zorgverzekeraar Zorg en Zekerheid	2,3

- **Progress made at the top**
  The top insurance companies have made significant progress and are catching up with the top pension funds regarding responsible investing. The top four of the ranking remains unchanged in 2014.
- **Little changes among low-scoring insurance companies**
  Unfortunately, at the low end of the benchmark spectrum we do not see any progress over the last year. Most low- scoring insurance companies have hardly shown any progress, with 55% of the funds scoring fewer than 2 points (2013: 66%)
- **Response rate of 66%**
  This year's benchmark has a response rate of 66%. This response rate is in line with the response rate of 69% last year. Some of the insurance companies we have taken into account are branches of foreign organizations and follow the responsible investment policies of the parent companies.

Overall, there is reason to believe that insurance companies can raise their ambitions when it comes to responsible investment. The following section summarizes the four responsible investment themes that were investigated:

Governance

- **Getting started with diversity**
  As for the diversity of insurance companies, only gender was investigated. 82% of the board members of insurance companies are male. This percentage has not shown any improvement over the last years. The low level of diversity within the boards raises the question if sufficient attention is being paid to stimulating diversity in background, expertise and opinions in board discussions.

- **Embedding what customers want**
  Only 21% of the insurance companies directly consult their policyholders and other stakeholders on the responsible investment policy. The volume, the depth and the quality of these consultations can still be improved.

Policy

- **Quality of responsible investment policies varies widely**
  Complying with international guidelines is becoming an industry standard. Almost all insurance companies' policies cover themes included in the UN Global Compact. Still steps can be made by connecting the policy to the mission and strategy of an insurance company. A health insurance company can, for example, give special attention to exclusions or impact investing related to health-related matters.

- **Monitoring policy performance**
  45% of the insurance companies have included some sort of targets in their responsible investment policy by which this policy can be continuously improved and monitored. At present, the performance indicators are for the most part still directed only at measuring output (e.g. number of engagements). We see few insurance companies also trying to measure their actual impact on society.

  We expect that, in the future, more insurance companies will define their responsible policies and determine their successfulness in terms of the social and environmental impact they have.

Implementation

- **Responsible investment is not part of business as usual yet**
  This year's benchmark revealed a slight increase in the implementation scores. In general we can say that some risk awareness of societal issues is emerging in the financial markets. Responsible investment strategies such as exclusion and ESG-integration for equities are being used on an increasing level. Investment strategies like positive selection and impact investing, however, are lagging behind.

  There is room for improvement when it comes to ESG-integration for sovereign bonds. 62% of the insurance companies do not incorporate ESG-information at all, or simply require their asset managers to be PRI signatories. Yet some insurance companies, such as Delta Lloyd and ASR, are setting good examples for putting ESG-integration successfully into practice for sovereign bonds. This is of special importance as insurance companies mostly invest in sovereign bonds.

Voting

57% of the insurance companies are currently exerting influence by voting at annual shareholder meetings. We must note here, however, that most of these votes are related to governance issues, while issues related to environment and society are less often addressed in the voting.

Green and Social Bonds

New responsible investment strategies, such as green and social bonds, are entering the market. Some 31% of the insurance companies are already investing in green and social bonds. However, these investments still form a relatively small part of the total investment portfolio, in most cases less than 1% of the total corporate bond portfolio. We expect that the use of this financial instrument will increase, as it is a good example of responsible investment that offers an attractive return.

- **Sustainability and strategic asset allocation**
  ESG information can be taken into account at the level of individual shares or corporate bonds. It can, however, also be taken into account in strategic sector allocation. For example, information and trends on food security or related to renewable or fossil fuels (as in the discussion on the "Carbon Bubble", for instance) can be integrated in the investment process. In this way risks and opportunities can be better assessed and ultimately lead to a larger or smaller exposure to the food or fossil fuel sector as a whole.

  Out of all the funds surveyed in the present study, 17% are investigating how they can take this new step in responsible investment. None of the funds has begun with integrating sustainability in its strategic investment decisions yet.

Accountability

- **Transparency of policy is anchored**
  The financial crisis has led to an unprecedented rise in transparency. Most insurance companies now report on their responsible investment policies. Both the quality and quantity of the reporting vary, however. Sometimes the reporting is limited to a few lines, or the information regarding responsible investment policies is sometimes difficult to find for customers and other stakeholders. On the positive side, this year we saw more insurance companies (52%) providing lists of investments than last year (35%).

- **Implementation of responsible investment strategies**
  As regards the different responsible investment strategies, the methodology for exclusion, ESG-integration and engagement are most often explained. For these strategies, policies as well as further details are often available. A total of 41% of the insurance companies explain their engagement activities and 62% explain their exclusion policies.

- **Verification is lagging behind**
  There is little verification of the responsible investments reports or responsible investment chapters in annual reports. Only 28% of the insurance companies have their reports on responsible investment, whether it is part of the annual report or as a separate report, audited externally.

Recommendations

Assume responsibility

Regarding governance we see two groups of insurance companies:

- We recommend the insurance companies who are lagging behind to give responsible investment a stronger position in their governance, by putting it on the agenda of the board, and by developing and evaluating a responsible investment policy.
- The higher-scoring insurance companies can still improve. Consulting their stakeholders such as policyholders and NGOs and setting clear targets for their asset managers (external or in-house) can help to enhance their performance.

Align the responsible investment policy with the mission and strategy

An effective responsible investment policy is in line with what the insurance company stands for. Various stakeholders will recognize and identify with the (investment and other business) decisions the insurance company makes. It may well become a source of competitive advantage for the insurance company. A health insurance company can, for example, give special attention to exclusions or impact investing related to health-related matters. A second recommendation is to periodically evaluate the responsible investment policy on the basis of indicators that are set beforehand and chosen carefully.

Responsible investment and insurance companies with a small investment portfolio

Several smaller insurance companies have small investment portfolios. For these companies it is difficult to have sufficient in-house knowledge on responsible investment. For these companies we recommend to select or monitor their investment managers on their performance regarding responsible investment. Another option is to select investment funds that have sustainability criteria integrated in their investment management. Another example is impact investing. Currently the main focus is on the prevention of negative impacts of investments. Responsible investment is, however, also about strategies that focus on achieving social and environmental improvements, such as impact investments. Impact investing is directed at achieving such improvements and could become a larger part of the investment portfolio.

Get started with impact investing

Impact investing is an upcoming investment strategy within responsible investing. Especially green bonds are well suited for incorporation in the average investment portfolio of insurance companies due to their high credit worthiness. Therefore it is recommended for insurance companies to integrate green bonds and other forms of impact investment in their portfolios.

Investigate how sustainability can play a role in strategic asset allocation

Another new development is taking ESG integration into account in strategic sector allocation. For example, trends and risks on food security or related to renewable or fossil fuels can be integrated in the investment process. Several insurance companies are investigating how they can take this new step in responsible investment that helps to assess risks and chances on a strategic level such as climate change or the carbon bubble.

Increase the transparency towards the policyholders

Although an increasing number of insurance companies are reporting on their responsible investment policies and implementation, this information is still hard to find for customers. Therefore it is recommended that information will be made available for customers and other stakeholders in an easy to find and easy-to-grasp way.

Samenvatting

Achtergrond en doel

Dit is de vijfde jaarlijkse editie van de VBDO Benchmark Duurzaam Beleggen voor Verzekeringsmaatschappijen in Nederland. Dit rapport is een uitgave van de Verenging van Beleggers voor Duurzame Ontwikkeling (VBDO). De benchmark laat de ontwikkelingen omtrent het duurzaam beleggingsbeleid van Nederlandse verzekeringsmaatschappijen zien.

Het doel van dit rapport is om verzekeringsmaatschappijen en hun klanten inzicht te geven in the huidige staat van duurzaam beleggen onder de Nederlandse verzekeringsmaatschappijen. Deze vergelijkende studie biedt verzekeringsmaatschappijen een onafhankelijk beeld in hoeverre hun duurzaam beleggingsbeleid overeenkomt met hun maatschappelijke verantwoordelijkheden. Daarnaast kan deze studie worden gebruikt om hun beleid te vergelijken met die van andere verzekeringsmaatschappijen.

Een onderzoek naar het duurzaam beleggingsbeleid van verzekeringsmaatschappijen is van groot belang vanwege de grote bedragen die worden geïnvesteerd. Dit onderzoek geeft alle belanghebbenden inzicht in of en hoe het geld wordt geïnvesteerd op een duurzame manier.

Methodologie

Dit onderzoek richt zich op 29 verzekeringsmaatschappijen in Nederland. Met een respons van 66% dekt dit onderzoek een substantieel onderdeel van de sector en biedt het zowel een algemeen als een gedetailleerd overzicht van de huidige status en trends binnen het duurzaam beleggingsbeleid van Nederlandse verzekeringsmaatschappijen.

Belangrijke conclusies

DE TOP 10 VERZEKERINGSMAATSCHAPPIJEN

RANKING 2014		2013	NAME OF INSURANCE COMPANY	OVERALL SCORE
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- **Vooruitgang bij de best scorende verzekeringsmaatschappijen**
  De best scorende verzekeringsmaatschappijen hebben significant vooruitgang geboekt en haken aan bij de best scorende pensioenfondsen met betrekking tot duurzaam beleggen. De top 4 is ongewijzigd in 2014.
- **Kleine veranderingen onder laag scorende verzekeringsmaatschappijen**
  In de staart van de ranglijst zien we helaas weinig vooruitgang in het laatste jaar. 55% van de verzekeringsmaatschappijen scoort minder dan 2 punten (2013: 66%)
- **Respons van 66%**
  Dit jaar kreeg de benchmark een respons van 66%. Deze respons is in lijn met de respons van vorig jaar (69%). Sommige verzekeringsmaatschappijen die deel uitmaken van de benchmark, zijn filialen van buitenlandse moederorganisaties. Zij hebben geen eigen beleid, maar volgen dat van de moedermaatschappij.

Over het algemeen is er reden om te geloven dat verzekeringsmaatschappijen hun ambities kunnen aanscherpen als het gaat om duurzaam beleggen. Hierna worden de resultaten van de vier onderzochte thema's samengevat:

Bestuur

- **Aan de slag met diversiteit**

  Wat betreft diversiteit binnen verzekeringsmaatschappijen, is alleen geslacht onderzocht. 82% van de bestuurders van verzekeringsmaatschappijen is man. Dit percentage laat geen verbetering zien ten opzichte van de vorige jaren. Het lage niveau van diversiteit binnen de besturen roept de vraag op of er genoeg aandacht wordt besteed aan het stimuleren van diversiteit op gebied van achtergrond, expertise en meningen in bestuursvergaderingen

- **Raadpleeg je klanten**

  Slechts 21% van de verzekeringsmaatschappijen consulteert haar klanten en andere belanghebbenden over duurzaam beleggen. De frequentie, de diepgang en de kwaliteit van deze consultatie kan nog steeds worden verbeterd.

Beleid

- **Kwaliteit van duurzame beleggingen varieert**

  Het voldoen aan internationale richtlijnen begint de standaard te worden binnen de sector. Het beleid van vrijwel alle verzekeringsmaatschappijen dekt de thema's die worden genoemd in de UN Global Compact. Er kunnen echter nog steeds stappen worden gezet in het verbinden van het beleid door de missie en strategie van een verzekeringsmaatschappij. Zo kan een zorgverzekeraar zich bijvoorbeeld richten op zorggerealteerde uitsluiting of impact investeringen.

- **Monitoring van de beleidsprestaties**

  45% van de verzekeringsmaatschappijen heeft zekere doelstellingen in het duurzaam beleggingsbeleid opgenomen, waarmee dit beleid continu kan worden verbeterd en gemonitord. Vooralsnog zijn de prestatie-indicatoren grotendeels nog steeds gericht op het meten van de output (bv. Het aantal engagement gesprekken). We zien dat een paar verzekeringsmaatschappijen ook hun daadwerkelijke maatschappelijke impact probeert te meten.

Implementatie

- **Duurzaam beleggen is nog geen "business as usual"**

  De benchmark van dit jaar laat een lichte groei zien in implementatie scores. Over algemeen kunnen we zeggen dat de financiële markt meer besef heeft van de risico's die maatschappelijke vraagstukken met zich meebrengen. Strategieën binnen duurzaam beleggen, zoals uitsluiting en ESG-integratie voor aandelen worden steeds meer gebruikt. Strategieën als positieve selectie en impact investeren lopen echter nog achter.

  Er is ruimte voor verbetering als het gaat om ESG-integratie voor staatobligaties. 62% van de verzekeringsmaatschappijen maakt geen gebruik van ESG-informatie, of vraagt van haar vermogensbeheerder enkel om de PRI te ondertekenen. Sommige verzekeringsmaatschappijen, zoals Delta Lloyd en ASR, geven het goede voorbeeld door ESG-integratie succesvol in te zetten voor staatsobligaties. Dit is met name van belang, omdat verzekeringsmaatschappijen veelal het meest investeren in staatsobligaties.

Stemmen

- **57% van de verzekeringsmaatschappijen oefent invloed uit door te stemmen op jaarlijkse aandeelhoudersvergaderingen**

  Hierbij moet echter opgemerkt worden, dat de meeste stemmen gerelateerd zijn aan governance-vraagstukken, terwijl vraagstukken met betrekking op milieu en maatschappij minder vaak worden geadresseerd tijdens deze stemmingen.

Green bonds en Social bonds

- **Nieuwe duurzame beleggingsstrategieën, zoals Green en Social impact bonds, betreden de markt**

  Zo'n 31% van de verzekeringsmaatschappijen investeert al in green en social impact bonds. Echter, deze investeringen zijn nog maar een klein deel van de totale investeringen. In de meeste gevallen is het minder dan 1% van de totale investeringen in bedrijfsobligaties. We verwachten dat het gebruik van dit financiële instrument zal toenemen, aangezien het een goed voorbeeld is van duurzaam beleggen dat een aantrekkelijk rendement biedt.

Duurzaamheid en strategische asset allocatie

- **ESG-informatie kan worden meegenomen op niveau van individuele aandelen en bedrijfsobligaties**

  Het kan echter ook worden meegenomen in strategische asset allocatie. Bijvoorbeeld, informatie en trends met betrekking tot voedselzekerheid of duurzame en fossiele energie (bv. de discussie rond de 'Carbon bubble') kunnen worden geïntegreerd in het beleggingsproces. Op deze manier kunnen risico's en mogelijkheden beter worden beoordeeld en uiteindelijk leiden tot een meer of minder aandacht voor de voedsel of fossiele brandstof sector als geheel.

  Van alle onderzochte verzekeringsmaatschappijen in de benchmark, is 17% aan het onderzoeken hoe ze deze nieuwe stap in duurzaam beleggen kunnen nemen. Geen van de fondsen is begonnen met het integreren van duurzaamheid in haar strategische beleggingsbeslissingen.

Verantwoording

- **Transparantie van beleid zit verankerd**

  De financiële crisis heeft geleid tot een ongekende groei van transparantie. De meeste verzekerings-maatschappijen rapporteren nu over hun duurzaam beleggingsbeleid. Echter, zowel de kwaliteit als kwantiteit van de rapportage varieert. Soms is de rapportage beperkt tot een paar regels of de informatie betreffende duurzaam beleggen is soms moeilijk te vinden voor klanten en andere stakeholders. Positief is dat dit jaar (52%) meer verzekerings-maatschappijen een lijst van investeringen verstrekken dan vorig jaar (35%).

- **Implementatie van duurzame beleggingsstrategieën**

  Als het gaat om de verschillende duurzame beleggings-strategieën, wordt de methodologie voor uitsluiting, ESG-integratie en engagement het meest toegelicht. In totaal 41% van de verzekeringsmaatschappijen leggen hun engagement activiteiten en 62% leggen hun uitsluitingsbeleid uit.

- **Verificatie loopt achter**

  Er is weinig externe verificatie van de rapporten over duurzaam beleggen of de hoofdstukken over duurzaam beleggen in jaarverslagen. Slechts 28% van de verzekeraars laat haar verslaglegging over duurzaam beleggen extern verifiëren.

Aanbevelingen

Verantwoordelijkheid nemen

Met betrekking tot governance zien we twee groepen verzekeringsmaatschappijen:

- We raden de verzekeringsmaatschappijen die achter lopen aan om duurzaam beleggen meer aandacht te geven binnen hun bestuur. Dit kan door het op de agenda van het bestuur te zetten en door het ontwikkelen en evalueren van een duurzaam beleggingsbeleid.
- De hoog scorende verzekeringsmaatschappijen kunnen nog steeds verbeteren. Het raadplegen van stakeholders, zoals klanten en NGO's en het stellen van heldere doelen voor de vermogensbeheerders (extern of intern) kan ertoe bijdragen de prestaties te verbeteren.

Verbind het duurzaam beleggingsbeleid met missie en strategie

Een effectief duurzaam beleggingsbeleid is een beleid dat in lijn is met waar de verzekeringsmaatschappij voor staat. Verschillende stakeholders zullen zich dan identificeren met de beslissingen die de verzekeringsmaatschappij neemt. Het kan daarmee een competitief voordeel worden voor een verzekeringsmaatschappij. Een zorgverzekering kan bijvoorbeeld extra aandacht geven aan uitsluitingen of impact investeringen gerelateerd aan gezondheid.

Een tweede aanbeveling is om het duurzaam beleggingsbeleid periodiek te evalueren op basis van indicatoren die van tevoren met zorg zijn gekozen.

Duurzaam beleggen en verzekeringsmaatschappijen met een kleine investeringsportefeuille

Verschillende kleinere verzekeringsmaatschappijen hebben een kleine investeringsportefeuille. Voor deze maatschappijen is het moeilijk om voldoende kennis op gebied van duurzaam beleggen te hebben. Voor deze maatschappijen raden wij aan om hun investeringsmanagers te selecteren of te monitoren op basis van hun prestaties ten aanzien van duurzaam beleggen. Een andere optie is om een investeringsfonds te selecteren dat duurzaamheidscriteria heeft geïntegreerd in haar beleggingsmanagement.

Aan de slag met impact investeren

Impact investeren is een opkomend investeringsstrategie binnen duurzaam beleggen. Met name green bonds zijn zeer geschikt voor gebruik in de gemiddelde beleggingsportefeuille, vanwege hun hoge kredietwaardigheid. Daarom raden wij verzekeringsmaatschappijen aan om green bonds en andere vormen van impact investeren te integreren in hun portefeuilles.

Onderzoek hoe duurzaamheid een rol kan spelen in strategische asset allocatie

Een andere nieuwe ontwikkeling houdt rekening met ESG-integratie in strategische asset allocatie. Bijvoorbeeld trends en risico's op gebied van voedselzekerheid of gerelateerd aan duurzame of fossiele energie kunnen worden geïntegreerd in het investeringsproces. Verschillende verzekeringsmaatschappijen onderzoeken hoe ze deze nieuwe stap kunnen nemen in duurzaam beleggen, die helpt om de risico's en mogelijkheden te beoordelen op een strategisch niveau, zoals klimaatverandering of de "carbon bubble".

Toename in transparantie naar de klanten

Ondanks het toenemende aantal verzekeringsmaatschappijen dat rapporteert over hun duurzaam beleggingsbeleid en de implementatie, is deze informatie vaak lastig te vinden voor klanten. Daarom adviseren wij om de informatie beschikbaar te maken op een plek die makkelijk gevonden kan worden door klanten en andere stakeholders.

Table of content

Chapter 1
Introduction

Background

This is the fifth annual edition of the VBDO Benchmark Responsible Investment by Insurance Funds in the Netherlands. The report is published by the Dutch Association of Investors for Sustainable Development (VBDO). Profundo, a research consultancy, provided the topical issues presented in chapter two of the report and performed an external consistency check on the results. The benchmark study presents developments on the way the Dutch insurance companies formulate, implement and report on their responsible investment policy.

Objectives

The objective of this report is to provide insurance companies and their policy holders insight into the current status of responsible investment among the 29 Dutch insurance companies. This comparative study offers insurance companies an impartial instrument to assess the extent to which their responsible investment policy adequately reflects their social responsibilities and how their policies compare to those of their peers.

An investigation into the responsible investment policies of insurance companies remains of great importance with a view to the large sums invested. The present study gives all stakeholders insight into the Dutch insurance companies as to whether and how the money is invested in a sustainable way.

Approach

With a response rate of 66%, we are proud to offer this assessment and to provide both a general and a detailed overview of the current status and trends in Dutch insurance companies regarding responsible investment.

In this fifth benchmark a question on ‘green bonds’ was added to the questionnaire as an extra category, together with new questions relating to strategic asset allocation. No fundamental changes were made to the methodology compared to last year, thereby allowing for comparison. The methodology applied in this study has been described in appendix 1.

Content

Chapter 2 describes the relevance of responsible investment for insurance companies, as well as the possible challenges it may involve for them. A number of cases illustrate some of the dilemmas institutional investors face. Chapter 3 highlights the overall results of the benchmark. It also provides an overall analysis of the average scores. The final chapter presents concluding remarks and recommendations based on this year’s findings.

A breakdown of the individual scores for the insurance companies, detailed results for the four policy categories, background information on the different asset classes and methods used in responsible investment can be found in appendix 2.

Chapter 2
Insurance companies and responsible investment

2.1 Motivations for responsible investments

In order to cover future obligations, insurance companies invest the premiums of their clients. Financial market forces have for long been the main drivers behind the investment decisions. Although these remain important drivers, we now see a gradual but fundamental shift in this approach.

Several developments are pushing institutional investors to take into account also moral judgement and societal impact, and so to make more responsible investment decisions.

Some of these developments are:

Public accountability

Institutional investors are increasingly being held accountable for the societal impact of their investments. For example, stakeholders and civil society organisations use the media to identify investments of a controversial nature.

Social media allow the public to quickly form and spread their opinion on a large scale. Institutional investors now have to be ready to explain the rationale for their investment choices at any given time. Paragraph 2.2 highlights some issues that have recently been the subject of controversy.

Responsible investment and risk-adjusted returns

There is a growing recognition in the financial community that integration of Environmental, Social and Governance (ESG) issues is a fundamental part of assessing the value and performance of an investment. ESG issues potentially have a material impact on the valuation of investments over the longer term.

Moreover, we find 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. Material ESG issues are becoming more apparent, and yet their impact seems to vary from sector to sector.[1]

There have been many studies, which explored the relationship between sustainability and its potential impact on financial returns. Recently one such study conducted at the Duisenberg School of Finance in 2014 investigated the relationship between a change in the Responsible Investment score of funds in the VBDO Pension Funds Benchmark (2013) and the financial returns of those funds.

A change in score from one year to the next (usually an increase) might be perceived as improvement of the SRI policy of a pension fund and might therefore also be presumed to have some impact on the financial returns of that fund as a result. However, the Duisenberg study found that a higher score and rank for responsible investment policies, especially in regard to the implementation of negative screening, is of no significance for the returns of Dutch pension fund portfolios.

Additionally, as previous studies have also indicated, institutional investors that use various responsible investment strategies simultaneously such as engagement and positive screening, in conjunction with negative screening appear to gain slightly higher financial returns.

2.2 Regulations and agreements

Insurers that administer group pension schemes have to comply with various statutory requirements, just as pension funds have to in administering pension schemes. The specific statutory requirements governing the administration of group pension schemes are laid down in the Pension Act (Pensioenwet / Pw). Insurers are subject to prudential supervision pursuant to the Financial Supervision Act (Wet op het financieel toezicht / Wft).

In general it can be said that only the material and conduct of business requirements in the Pw apply to insurers as well. Furthermore, the prudential requirements for insurers are set out in the Wft.

Solvency II and responsible investment

Insurers are required to hold a minimum solvency margin as a cover for potential losses. This solvency margin has to be in the form of ‘recognized own funds’. To be counted towards the available solvency margin, capital must meet certain quality standards. These aspects include the possibility to absorb losses, either as a going concern or in a bankruptcy situation, and the permanent availability of the assets involved. With some regularity, new innovative capital instruments are being developed in the financial markets to finance the required solvency margin at minimum cost.

On 13 November 2013 the European Parliament, the European Council and the European Commission reached a political agreement on the Omnibus II Directive. This Directive stipulates that the Solvency II framework will enter into force on 1 January 2016. The Dutch Ministry of Finance requires insurers to submit preparatory Solvency II reports in 2015.

Solvency II is based on three interconnected pillars:

Pillar 1: Concerns quantifiable risks and related provisions and capital requirements.

Pillar 2: Focuses on insurers' risk management and operational management.

Pillar 3: Concerns the requirements applying to public disclosures of information and supervisory reporting.

Small insurers, i.e. those with gross premium income below € 5 million or technical provisions under € 25 million, do not come within the scope of the Solvency II Directive. For this group, a modified regime known as Solvency II Basic is being developed in the Netherlands. This is comparable to but less onerous than Solvency II.[2]

Implication

Insurance companies that seek to make responsible investments that besides financial return also generate positive societal value, find themselves struggling with the limiting impact of the Solvency II regulation. For example, impact or private equity investments aimed to make improvements in health care or energy use are earmarked as risky and thus require additional capital. The case can be made that some of these investments in fact have a risk-mitigating effect on the portfolio.

Mixed signals?

On the other hand, asset managers have their own professional duty of care to proactively raise ESG considerations with their clients. Failure to do so may have serious consequences, given the risk that they may be sued for negligence.[3] As the UNEPFI puts it: "…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."[4]

International agreements

International soft law agreements play an important role for institutional investors. Asset managers are increasingly expected to comply with such agreements. Furthermore, they must be able to demonstrate how they apply the implications of such agreements in their daily investment decisions. Important soft law agreements are:

UNPRI

Launched in 2006 by the UN Global Compact and UNEP Finance initiative, the Principles for Responsible Investment (PRI) Initiative is a partnership between the United Nations and global investors. It is built as an international network of investors working together to increase the level of responsible investment. By implementing the six responsible investment principles, signatories intend to contribute to the development of a more sustainable global financial system.[5]

The 6 principles of the PRI are:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.[6]

A total of 1,287 asset owners and asset managers worldwide have signed onto the PRI, and of this total there are 84 (including insurers, pensions funds and their fiduciary managers) in the Netherlands.

The principles are voluntary and aspirational but the goal of the PRI is to increase the interest of institutional investors in environmental, social and corporate governance (ESG) issues.[7]

UN Global Compact

Launched in 2004, the UN Global Compact is a United Nations initiative for businesses to encourage them to adopt sustainable and socially responsible policies laid down in te principles on human rights, labour, the environment and anti-corruption. To date, over 10,000 companies and organisations from more than 130 countries have subscribed to the Global Compact.[8]

The ten principles of the Global Compact are:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: The elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: Undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.[9]

UN Sustainable Development Goals

On a global scale, long-term investments are required to meet the United Nations (UN) Sustainable Development Goals (SDG). The UN Member States have committed to promoting the (not yet defined) goals that address the world's most important development issues, including but not limited to: poverty, hunger, education, health, climate change, economic growth and energy supply.

Institutional investors can contribute to the SDGs. Although the SDGs are of particular interest for developing countries, they are also of importance for investments in developed countries. Some goals call for action in global commodity chains controlled by multinational companies: forestry, agriculture and fisheries.

OECD guidelines

The G20/OECD *High-Level Principles of Long-Term Investment by Institutional Investors*, published in September 2013, contains eight principles to which governments and institutional investors are to adhere.

The G20 and OECD call for governments to design a policy and regulatory framework "which encourages institutional investors to act in line with their investment horizon and risk-return objectives, enhancing their capacity to provide a stable source of capital for the economy and facilitating the flow of capital into long-term investments".[10] OECD principles state that governments should remove impediments for institutional investors to invest in long-term assets.

Principles for Sustainable Insurance

The insurance industry and the UN (UNEP Finance Initiative) have made worldwide agreements on sustainable insurance. These agreements are put down in the Principles for Sustainable Insurance. It was launched at the Rio+20 UN conference on sustainable development.

Five Dutch insurance companies are signatory to these principles: Achmea, Aegon, ING, Delta Lloyd and Zwitserleven. As a signatory they promise to incorporate environmental, social and governance issues in both their processes and products. These principles are voluntary and aspirational.

The four Principles for Sustainable Insurance contained in the agreement are:

The 4 Principles for Sustainable Insurance contained in the agreement are:

Principle 1: We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.

Principle 2: We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

Principle 3: We will work together with governments, regulators and other key stakeholders to promote wide-spread action across society on environmental, social and governance issues.

Principle 4: The elimination of all forms of forced and compulsory labour;

National developments

In 2012 the Verbond van Verzekeraars adopted the Code Duurzaam beleggen. The code follows the principles of UN PRI and UN Global Compact. The implementation of the code is according to the "comply or explain" principle.

2.3 Responsible investment and topical issues

Dutch insurance companies take various social issues into account in their investment policies. This is often directed at minimizing harm, using strategies such as exclusion and ESG integration. This year the following themes were part of the investment exclusion policies.

Table: 2.1: Themes excluded in investment policies

Amount of companies excluding theme in the formal investment policy	
Controversial weapons	14
Human rights	11
Corruption	10
Labour rights (ILO conventions)	10
Environment	9
Nuclear power	6
Tobacco	6
Equal opportunities	6
Gambling	3
Intensive farming	3
Pornography	2
Animal testing	2
Climate change	2
Fur	2
Genetic engineering	2
Alcohol	0

Institutional investors also engage more actively in societal issues by entering partnerships and through direct investments. Two recent examples are:

Nederlandse Investeringsinstelling

About 15 institutional investors, including Dutch insurance companies, have the intention to found a Dutch Investment Institution (*Nederlandse Investeringsinstelling or NII*) for SME companies that have little access to funding. NII looks to foster economic activity at this level of entrepreneurship, while realizing sufficient returns.

Energy agreement for Sustainable Growth

A broad coalition, including the government, financial institutions, NGOs, employers' organizations and labour unions, committed to the 2013 *Energy Agreement for Sustainable Growth* (*Energieakkoord voor Duurzame Groei*). The agreement is meant to provide a solution to the uncertain and incoherent public policy on sustainable energy and aims to achieve a wholly sustainable energy supply system by 2050.

Financial institutions support the agreement. The Dutch Banking Association, the Dutch Association of Insurers, the Federation of the Dutch Pension Funds and central government have agreed to seek possibilities for transforming bank financing of large-scale projects into capital-market financing by Dutch and foreign institutional investors.[11] The 2014 first annual progress report of the *Energy Agreement for Sustainable Growth* presents the first steps to the approach to finance off-shore wind energy projects requiring approximately €11 billion in investments.

Responsible investment by institutional investors can easily be perceived as abstract and not directly relevant to society. However, in the last two years there have been numerous incidents that illustrate this relevance of responsible investment to society and, subsequently, to the clients on whose behalf the money is invested.

The following sections highlight some of these issues. The issues exemplify the impact institutional investments can have on societal issues and the resulting public opinion. We expect that in the future it will become even more important to take into account this opinion.

Investments in controversial activities

Nuclear weapons producers (January 2014)

In January 2014, Eén Vandaag, a prime-time opinion programme on Dutch national television, highlighted the investments of pension funds ABP and PFZW and insurance groups Aegon and ING in nuclear weapons companies. In 2013, the pension fund ABP had investments of almost € 1 billion in companies involved in the production, development or maintenance of nuclear weapons. PFZW similarly had € 31 million in such investment, ING € 880 million and Aegon € 742 million.[12] An opinion survey by *Eén Vandaag* revealed that 64% of the ABP beneficiaries disapproved of the investments made by ABP in nuclear weapons companies. Almost four out of five (78%) of the beneficiaries were unaware of these investments by ABP.

PAX campaigners as well as parliamentarian Joël Voordewind argue that pension funds have a special responsibility to invest responsibly, as employees do not have a free choice in the selection of a pension fund.[13] In its response, ABP stated that it does apply a responsible investment policy to its investments. Wherever it encounters moral dilemmas in investing, its decisions rely on Dutch law and on international treaties that the Dutch government has signed. The Dutch government has signed the Treaty on the Non-Proliferation of Nuclear Weapons, allowing five states to possess nuclear weapons. ABP therefore does not exclude investing in companies that produce nuclear weapons for these five states.[14]

The United Nations Treaty on the Non-Proliferation of Nuclear Weapons selected five nuclear states that can still produce nuclear weapons, but urges them to gradually decrease their nuclear arsenal. The Treaty aims at “achieving nuclear disarmament and general and complete disarmament”.[15] Nonetheless, companies from both internationally accepted and non-accepted nuclear states keep producing and developing new nuclear weapons and launching systems specifically designed for nuclear weapons.[16]

Un-sustainability and financial risks

Carbon bubble investments (February 2014)

The carbon assets of four Dutch pension funds were assessed in the study "the Price of Doing Too Little Too Late: The impact of the carbon bubble on the EU financial system". ABP, PFZW, bpfBOUW and Shell Pension Fund have a 5-8% share of high-carbon assets in their total assets.[17] These pension funds risk losing around 3% of their total assets, decreasing their buffer, if the carbon bubble bursts.[18]

At the same time the public calls for clean and renewable energy. This also provides investment opportunities, as APG proved when it decided to invest € 500 million in hydropower.[i] APG expects a return on investment of 6-15%.[19]

The carbon bubble is a risk to the long-term value of investments. In a 2014 report, two Members of the European parliament addressed the issue: [20] "Public and private financial institutions continue to pour millions into fossil fuel companies, inflating their share prices, as if their fossil reserves will always sell on the market. This is a wrong assumption. Instead, if we are serious about limiting global warming to 2 degrees Celsius, these reserves must be kept firmly in the ground, which would turn them into stranded financial assets. McKinsey and the Carbon Trust have calculated that this could endanger more than 30-40% of company value. Popping this bubble could therefore create a carbon shock with severe consequences for our financial system."

Corporate social responsibility by public companies

Land grabbing (throughout 2013-2014)

Campaigning organisations like Milieudefensie [21] (Friends of the Earth Netherlands) and Oxfam Novib [22] gained national media coverage for this issue by identifying the financiers of companies involved in land grabbing. In June 2013 investments of PFZW and ABP in palm oil company Sime Darby were highlighted by national newspapers Trouw and de Volkskrant. The newspapers mentioned the risk of deforestation, degrading biodiversity and food insecurity.[25]

Likewise, in October 2013 *Nieuwsuur* broadcast a land grabbing news report on national television. It reported that insurers ING and Aegon and pension funds PFZW and ABP were investing in food producer Bunge. Bunge supplies food and beverage companies like Coca-Cola and Pepsi with sugar. In Brazil, Bunge is involved in a violent land rights issue, as indigenous people are forcibly evicted from their native lands.[24]

PFZW has reacted on this case by stating that they are practicing engagement with Bunge with the goal to stop the land grabbing activities.[25]

Land acquisition by palm oil, sugar and soy companies is a continuing source of controversy given the high risk of 'land grabbing' involved. Land grabbing occurs when foreign companies, countries or investors buy or rent land for large-scale industrial and/or commercial agriculture production oriented to the export market infringing the land rights of the local communities concerned. The lack of consultation and transparency for the allocation of land is a problem mainly in developing countries.[26]

[i] For other case studies on institutional investors and green infrastructure investments, see: Kaminker, C. et al. (2013), "Institutional Investors and Green Infrastructure Investments: Selected Case Studies", OECD WORKING PAPERS ON FINANCE, INSURANCE AND PRIVATE PENSIONS, NO. 35, OECD Publishing.

The role of insurance companies as shareholders

Investments related to settlement in occupied Palestine (January 2014)

Israeli banks finance the construction of illegal settlements in occupied Palestine. In January 2014 pension manager PGGM announced its decision to exclude five Israeli banks from investment. Following years of unsuccessful engagement, PGGM decided to disinvest from the banks.[27]

Even though PGGM's disinvestment is guided by international law [28], its decision to exclude the Israeli banks has led to international controversy. The Israeli Ministry of Foreign Affairs expressed its disappointment over the PGGM disinvestment [29] and the Israeli ambassador to the Netherlands called for interference in the PGGM policy by the Dutch government.[30] The Dutch government refused and argued that PGGM made a private decision.[31] Protestors also rallied at the PGGM head office.[32]

At the same time, PGGM is engaging other investee companies active in the occupied Palestinian territories. The ongoing dialogue with these companies may prove fruitful, so PGGM claims. For that reason it at the moment is not considering exclusion of these companies.[33]

In August 2013 the United Nations Human Rights Council summed up the United Nations resolutions and International Court of Justice advisory opinion (2004) declaring the illegality of the Israeli occupation. The United Nations Human Rights Council affirmed, among others, "that the Israeli settlement activities in the Occupied Palestinian Territory, including in East Jerusalem, are illegal under international law and constitute very serious violations of international humanitarian law and of the human rights of the Palestinian people therein." [34]

Corporate social responsibility by public companies

Labour conditions in Qatar (June 2014)

In June 2014, Dutch labour union federation FNV published a report revealing the involvement of Dutch investors in companies operating in Qatar.[35] Dutch pension funds and insurers were linked to construction companies building infrastructure in Qatar, where labour regulations do not meet international standards. *De Telegraaf* published a news report on the issue [36] and other national media took over its coverage.[37] In the wake of this investigation, pension funds PFZW, PMT and Metalektro stated that they will investigate the possible human rights violations of their investees.[38]

Mega sporting events like the football World Cup and the Olympic Games gain massive media attention. Any controversy relating to the organisation of these events is likely to harm the reputation of the companies (directly or indirectly) associated with it. Because mega sporting events are increasingly being staged in emerging market countries (football World Cup: 2010 South Africa, 2014 Brazil, 2018 Russia, 2022 Qatar - Olympic Games: 2008 China, 2014 Russia, 2016 Brazil) where human rights are not always being respected, investing companies are more likely to become involved in labour rights violations. Investors should be aware of this reputation risk and integrate principles regarding emerging markets labour standards into their investment practice. [39]

The selection of Qatar to host the 2022 FIFA World Cup functioned as a starting signal for the Gulf-state to start planning the construction of multiple football stadiums and related infrastructure. However, the labour regulations in the Gulf-state do not meet international standards according to the United Nations Special Rapporteur on the rights of migrant workers. [40] Labour rights violations were addressed in 2013 by the International Trade Union Confederation (ITUC)[41] and NGOs like Amnesty International [41] and Human Rights Watch. [43]

The role of insurance companies as shareholders

Human rights and extractive companies

(December 2013)

Multinational extractive companies are often involved in controversies regarding human rights violations in resource dependent countries.[44] In challenging circumstances, extractive companies have to deal successfully with the rights of the local population. Issues that often cause controversy include security issues, cooperation with repressive regimes and the pollution of natural resources.[45]

Financial institutions, such as pension funds, have a business relationship with their investees. This relationship is echoed in media publications. The media does not hesitate to relate financial institutions to the human rights violations of their investees. Following the Fair Insurance Guide *Case Study Human Rights and Extractives*, published in December 2013, national media copied the ANP press release, heading "Human rights the stepchild of financial world" (Mensenrechten stiefkind financiële wereld)[46] and arguing that "large banks and insurers invest too easily in extractive companies that violate human rights." [47] Even though some insurance groups assessed in the case study were given high scores (for insurance investments they on average scored 5.7 points out of 10), media coverage was mainly aimed at the low scoring financial institutions.

2.4 Market developments

Insurance companies are currently facing many challenges: A general lack of trust in the financial sector; tighter regulation from national and international agencies; more demanding standards on how and where they invest the premium income and a declining market (especially in the life insurance market).

Taking all these developments into account, sustainability may easily be regarded as a luxury and not as a priority, especially when cost savings are required for many companies. However, how important cost savings may be, they do not determine the future 'license to operate' of the company. Insurance companies also have to reconsider their business models to generate future earnings. We believe that sustainability can and will increasingly be an important driver for profitability for insurance companies.

Looking at the core of the insurance business, it is fundamentally about ensuring the future of the current and the next generation. From this perspective, sustainability is (or should be) the core of insurance companies. Not only by complying with rules and regulations as described in the previous paragraphs, but also by embedding it throughout their business. We see a number of insurance companies heading in this direction and taking interesting steps forwards. The next chapter will outline a few examples and best practices.

Chapter 3
Results

3.1 Overall scores

This chapter presents the overall results of the study, together with the ranking and scores of all the insurance companies examined. For the insurance company benchmark 2014 we analysed the results on the themes governance, policy, implementation and accountability over 2013 and over the course of a longer period of time, and we identified a number of trends. We also looked in greater detail at the results for the implementation of the various responsible investment strategies. A further breakdown of the results per insurance company is available from the VBDO upon request. Appendix 1 describes the methodology of the research.

Table 3.1: Presents the overall results of the insurance company benchmark 2014

RANKING 2014		2013	NAME OF INSURANCE COMPANY	OVERALL SCORE	GOVERNANCE	POLICY	IMPLEMENTATION	ACCOUNTABILITY
					SCORES PER CATEGORY			
1	=	1	Zwitserleven	4,4	4,7	5,0	4,1	4,6
2	=	2	REAAL	4,2	4,0	5,0	4,1	3,8
3	=	3	ASR Nederland N.V.	3,8	4,7	4,4	3,4	3,5
4	=	4	Achmea	3,6	4,7	4,4	2,8	4,4
5	▲	8	Menzis Zorgverzekeraar	3,4	4,0	4,4	2,6	4,4
6	▼	5	Aegon (Nederland)	3,3	4,3	3,9	2,6	3,8
7	▼	6	Nationale-Nederlanden	3,3	4,3	3,9	2,6	3,5
8	▲	11	Delta Lloyd	3,1	4,7	4,4	1,9	4,0
9	▼	7	Loyalis	2,8	2,5	3,3	2,4	4,0
10	✷	20	Zorgverzekeraar Zorg en Zekerheid	2,3	3,7	3,3	2,1	0,5
11	▲	12	Legal & General Nederland	2,3	2,2	3,9	1,7	2,8
12	▼	9	OWM CZ Groep	2,2	1,8	3,9	1,6	2,6
13	▼	10	BNP Paribas Cardif	2,1	2,3	3,3	1,6	2,1
14	▲	15	De Goudse Verzekeringen	1,6	2,3	2,8	1,1	1,2
15	▲	22	UVM Verzekeringsmaatschappij nv	1,6	1,8	2,2	1,3	1,4
16	▼	13	ONVZ Ziektekostenverzekeraar	1,5	1,5	2,8	0,7	2,6
17	▼	16	Generali verzekeringsgroep nv	1,4	2,7	1,9	0,5	2,5
18	▲	19	Coöperatie VGZ U.A.	1,4	3,7	2,1	0,1	2,5
19	▼	14	Allianz Nederland Group	1,2	2,5	1,4	1,2	0,0
20	▲	21	TVM Verzekeringen	1,2	1,8	2,8	0,3	2,0
21	▲	23	Swiss RE	1,2	1,7	2,8	0,9	0,0
22	▼	17	Klaverblad Verzekeringen	0,7	0,8	2,1	0,1	1,2
23	▼	18	Onderlinge Gravenhage	0,4	0,0	0,6	0,1	1,3
24	▼	23	DAS	0,3	0,5	0,6	0,0	1,0
25	▼	23	AIG	0,3	0,0	0,0	0,2	1,0
26	▼	23	Arag Rechtsbijstand	0,2	0,0	1,4	0,0	0,0
27	▼	23	Bovemij	0,0	0,0	0,0	0,0	0,0
27	▼	23	DSW	0,0	0,0	0,0	0,0	0,0
27	▼	23	HDI Gerling	0,0	0,0	0,0	0,0	0,0

Scores and ranking per insurance company

As last year, Zwitserleven again emerged at the top of the benchmark. This year with a respectable overall score of 4.4 out of 5 points (2013: 4.1). This leading insurance company is not the only company whose results show improvement. We are glad to see an overall increase in total scores over the last year (1.9 this year compared to 1.5 last year). Many insurance companies have taken substantial steps forward compared to 2013 and achieved better results. Zorgverzekeraar Zorg en Zekerheid, Delta Lloyd and Swiss RE showed the greatest improvements, with an increase of more than 1 point in their overall scores.

It is remarkable to see that the top 4 of the benchmark remained unchanged. The individual companies have all improved their results, but the ranking of this years' top 4 was not affected.

A clear trend is that more insurance companies are achieving a higher overall score, and that less insurance companies are lagging behind. There are now 13 insurance companies with an overall score of more than 2 points (compared to 9 in 2013). But still 16 insurance companies scored less than 2 points (compared to 20 in 2013). To obtain better insight into the underlying factors that determine the overall result, we will further break down the results in the following paragraphs.

3.2 Results per responsible investment theme

3.2.1 Governance

Governance refers to the role and responsibility of the board and senior management with regard to the responsible investment policy. It was added as a responsible investment theme to the benchmark last year. Important indicators for good governance of a responsible investment policy are the frequency of discussions at board level, setting sustainability targets, clear guidance of the asset manager and insight into the preferences of policyholders and other stakeholders.

The overall score of 1.7 from 2013 increased substantially to 2.3 in 2014. Some individual insurance companies improved greatly: Delta Lloyd was up from 2.2 (2013) to 4.7 (2014), Aegon climbed from 3.0 (2013) to 4.3 (2014), Menzis scored 4.0 (2014) compared to 2.7 (2013) last year and Zorgverzekering Zorg en Zekerheid improved with 1.5 from 2.2 (2013) to 3.7 (2014). These insurance companies made improvements on all of the governance indicators. When we break down the average score of 2.3, we see a clear gap between the leading insurance companies and the lagging insurance companies. The following sections will highlight several striking developments.

Assuming principal responsibility

The benchmark results indicate that many more insurance companies (45% in total) now set quantitative sustainability targets for their asset managers. However, no insurance company set targets related to the actual societal impact of its investments yet.

Preferences of policyholders

This year 21% (2013: 22%) of the insurance companies consulted and surveyed their policyholders and other stakeholders, such as NGOs, regarding responsible investment. On this topic improvements can still be made by the insurance sector. Especially in comparison with the pension fund sector, where 18% of the pension funds surveyed their participants.

Diversity

The insurance companies have 17% female board members (2013: 17%). This percentage is slightly higher than the national average of 9% female board members in 2013, and the 11% female members in supervisory boards (from the 2014 study carried out by the commission Monitoring Talent to the Top). The results for diversity were not taken into account for the scoring of the benchmark. However, the VBDO is considering including diversity in the scoring for the 2015 benchmark.

3.2.2 Policy

The effectiveness of a responsible investment policy requires first and foremost that an insurance company has defined a clear policy. This policy should be available for the policyholders, state the policy objectives, and refer to the basic principles of the insurance company together with the international treaty standards the insurance company complies with.

The overall average score for policy in 2014 was 2.6 out of 5. The score increased with 0.5 from 2.1 the year before. Again, policy is the best scoring theme. If we look back in time, we see that the scoring on policy has gradually improved over the years.

Table 3.2: The overall average score for policy

YEAR	OVERALL AVERAGE SCORE
2011	**1.4**
2012	**1.7**
2013	**2.1**
2014	**2.6**

Zwitserleven and REAAL both obtained the maximum score of 5 points. A total of 3 insurance companies were the runners-up, all scoring 4.4 points.

The extent of policy

More than half of the insurance companies (62%) have policies that apply to at least 75% of the total investment portfolio. Also more than half of the insurance companies' policies (69%) cover all four themes in the UN Global Compact and 41% of the funds also explain how they deal with the ten principles in the investment practice.

Evaluating policy performance

The board and senior management of an insurance company are responsible for formulating a sound responsible investment policy. Such a policy should contain goals and performance indicators in order to evaluate the execution of the policy, often done by third-party asset managers. 6 of the insurance companies use quantitative performance indicators. Currently only 2 insurance companies also measure the actual impact of their policy.

In the view of the VBDO, insurance companies should align their sustainable investment policy to the beliefs and mission of their organization. This internal alignment will also enhance external alignment with their stakeholders and will ultimately be a source of competitive advantage for insurance companies. A health insurance company can, for example, give special attention to exclusions or impact investing in the health sector. This approach also applies to product differentiation and market development.

Best Practice **Zwitserleven**

Zwitserleven's mission is to give the Netherlands the 'Zwitserleven Feeling': to give everybody the chance to shape his or her own financial future, both now and later. In a simple and accessible way, Zwitserleven is thereby focused on maximizing people's ability to live independently and to take care of themselves as long as possible, and to grow old in a happy and healthy way in a beautiful world. This is underlined by the following four themes Zwitserleven wants to contribute to:

- **Sufficient income**
- **Good health**
- **Pleasant living circumstances**
- **Liveable world**

Zwitserleven makes its investment decisions based on their contribution to the aforementioned themes. Besides that Zwitserleven contributes to these themes in other ways; for example by the targeted development of products and services, by adhering to them in their own business practices, and by contributing to the public debate.

Best Practice **Product Innovation MAPFRE**

Insurers are also contributing to sustainability through product innovations. A good example of this is an approach that is used in Spain, where forest fires and lack of funding often result in bare land susceptible to erosion and degradation of the land. The Spanish insurer MAPFRE introduced an insurance to cover the expenses of reforestation that thus prevents this erosion and even desertification.

http://www.mapfregrupo.com/responsabilidad-social/en//general/mapfre-social-responsibility.shtml

3.2.3 Implementation

The implementation score demonstrates how well the responsible investment strategy has actually been implemented. Implementation of the responsible investment strategy makes up 50% of the total score in the benchmark.[i] Implementation can be analysed by looking at asset classes and by looking at responsible investment strategies. This year's report focuses on responsible investment strategies.

Appendix 2 describes how the VBDO defines asset classes and responsible investment strategies for the benchmark. This section of the benchmark will first analyse the overall implementation results and then zoom in on a breakdown of these results per responsible investment strategy. Finally, it will provide an overall breakdown of the results per asset class.

Overall implementation results

The overall implementation score went up to 1.3 from 1.1 in 2013. Although some improvement has been made, the 1.3 score indicates that of the four themes, there is most room for improvement on implementation. With 3.4 points ASR takes the second place in implementation. The first place is shared by Zwitserleven and REAAL, both with a 3.9 score. Of the individual insurance companies, Zorgverzekering Zorg en Zekerheid went up from 0 (2013) to 2.1 (2014), and Menzis also showed a substantial increase in score from 1.6 (2013) to 2.6 (2014).

Results for the responsible investment strategies

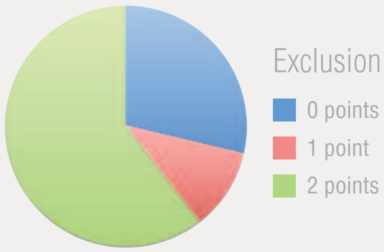
At this point we zoom in on a breakdown of the implementation results per responsible investment strategy. The VBDO distinguishes 6 different responsible investment strategies.

The benchmark analyses the scoring results of the responsible investment strategies over the last 2 years. It focuses mainly on how these strategies are applied for equity.

Exclusion

Since the legal ban on investments in cluster munitions came into force in 2013, all insurance companies have been obliged to exclude investments involving such munitions. This year 17 insurance companies (59%) excluded companies based on multiple criteria aside from cluster munitions. This score is quite an increase compared to last year (2013: 38%).

Exclusion is a relatively basic responsible investment strategy. It makes clear what kind of investments the insurance company chooses not to make. However, it does not tell anything about the actual investment choices the insurance company does make. Although exclusion is a relatively basic strategy, it does require a vision on some controversial issues in our society. Ideally this vision reflects the opinions of policyholders and other stakeholders.



ESG integration

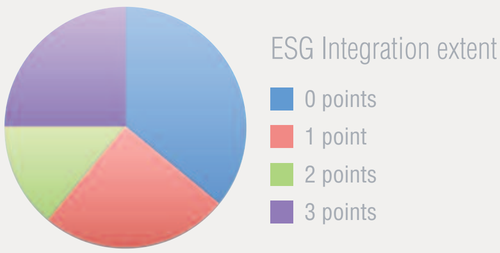
ESG integration refers to the process by which ESG criteria are incorporated in the investment decisions. Research for European investment strategies shows that in 6 years' time the amount of assets under management for which ESG integration was used increased five-fold to € 5.2 trillion in 2013 (Eurosif, 2014).

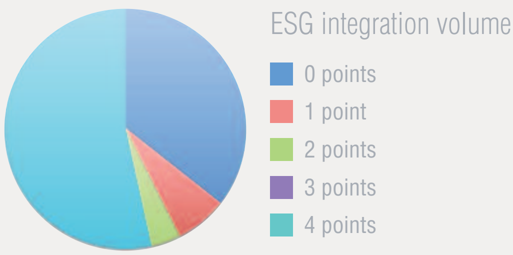
Asset managers use ESG integration because it improves their investment decisions and because clients ask for it. Some asset managers state that ESG integration alone is insufficient to realise enough social return.

[i] Appendix 2 further explains the methodology used.

More than half of the insurance companies (62%) use ESG integration in some form in the evaluation of equity investment decisions. Sometimes, however, the implementation is still at a basic level, such as when a fund manager is a signatory of the PRI. Of all the insurance companies that use ESG integration, 11 funds (38%) have done so in a systematic manner, for example by systematically using ESG information in the investment process.

A total of 7 insurance companies (24%) have implemented a systematic ESG integration, which accounts for a demonstrable and verifiable impact on individual holdings. Half of the insurance companies (52%) implement their ESG integration strategy for at least 75% of the equity portfolio. Compared to last year, these figures show a slight increase.





Best Practice **ESG integration**

Delta Lloyd

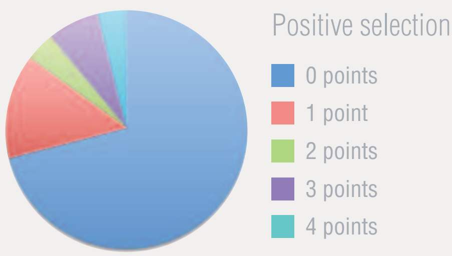
Delta Lloyd has developed a country policy to systematically screen the societal issues of about 170 countries in which Delta Lloyd currently invests, or in which Delta Lloyd might invest in the future. These economic, social and governance issues vary from agricultural developments to human rights, corruption and situations of instable governments.

Delta Lloyd uses a variety of proven benchmarks to assess the countries on these themes. The assessment provides country-specific and region-specific information that is essential for the investment analysis of sovereign bonds. Delta Lloyd also connects this information with the ESG integration process for public equity.

http://www.deltalloydassetmanagement.nl/nl-nl/over-ons/mvo/landenbeleid/

Positive Selection

Positive selection is about choosing the best performing organisation out of a group of corresponding organisations, based on ESG criteria. Of the insurance companies examined, 20 (69%) do not make use of positive selection. Another 4 insurance companies use positive selection for less than 10% of their total public equity portfolio. There was 1 insurance company that reported investing between 10% and 25% of its public equity portfolio using positive selection, 2 between 25%-50%, and 1 over 50%.



Best Practice **Impact Investing** and **Positive Selection**

Menzis

Maintaining availability of affordable and high quality health care is a societal problem that is highly relevant for a health insurer as Menzis. Menzis is actively looking for solutions for this problem. Menzis does not limit itself to excluding unhealthy products such as tobacco from their investment portfolio. Menzis also actively engages in health fund investments that invest in start-ups developing new concepts and innovations, which contribute to a future of affordable and high quality health care for its clients.

Also, the equity portfolio Developed Markets of Menzis is a passive portfolio based upon the Dow Jones Sustainable Index, which contains the 20% best-in-class companies in each sector.

http://www.menzis.nl/web/file?uuid=9174fd57-4601-4565-bc61-a285c3856657&owner=081ed507-7cd6-4d52-8af2-e648fc89a017

Engagement

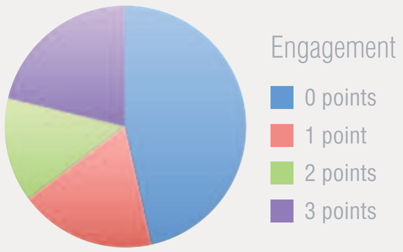
As owners of the companies they invest in, insurance companies can actively influence the policies of these companies. A total of 15 insurance companies (52%) are actively engaging with companies on the basis of ESG criteria, and 6 of them show demonstrable results and provide specific details.

This is about the same as last year. The VBDO sees opportunities for the insurance sector to improve on engagement. Looking at institutional investors as pension funds, 82% of the pension funds that VBDO researched this year are active in engagement. It should be possible for the insurance sector to make improvements here.

2

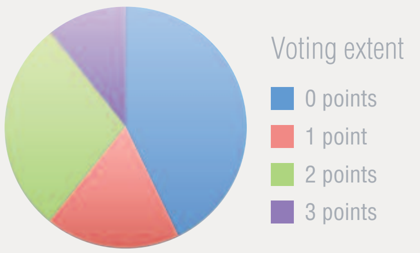
Effective engagement requires thorough preparation. Engagement is often outsourced to specialised parties. It is important to monitor and increase the effectiveness of engagement and to prevent it from becoming a box-ticking exercise. Therefore the VBDO has released the report “Good Engagement”.

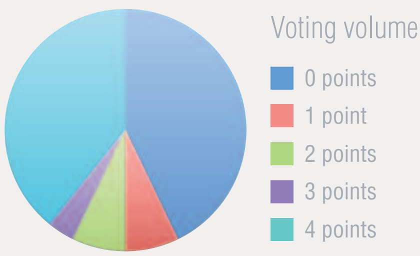
http://www.vbdo.nl/nl/research/duurzaam-beleggen/1432/ rapport-over-engagement%3Aondernemingen-vinden-duurzaamheid-steeds-relevanter



Voting

Voting is another strategy for exerting influence on the companies insurance companies invest in. To be effective a clearly defined voting policy is required, explicitly emphasising social and environmental issues. There are 16 insurance companies (57%) that demonstrably vote on (a part of) their public equity holdings. Out of this total, 11 do so while paying explicit attention to ESG issues, improvement compared to last year. 11 of the researched insurance companies (38%) voted on 75%-100% of their equity portfolio. This is significantly more than last year (21%).



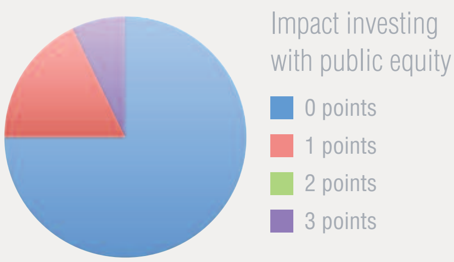


Impact investing

Impact investors choose a specific societal issue and search for investments in companies or projects that contribute to improvements to this issue and thus create value for society. A well balanced investment mix should allow between 2% and 5% of its investments portfolio for impact investing. Only 7 insurance companies are engaged in impact investing within public equity; 2 of them allocated more than 2% of their equity investments to impact investing.

Green and social bonds are bonds that finance activities that aim to achieve positive societal results. They are a fairly new type of impact investments. This year the VBDO included investments in green and social bonds in the questionnaire for the first time. We find that 9 (31%) insurance companies are investing in green and social bonds. However, for most of them (6) this covers less than 1% of the portfolio. Still, green bonds are already significantly used and are suiting the risk-return investment method for insurance companies in their corporate or even sovereign bond portfolio.

The VBDO, however, also sees large differences between the levels of sustainability of green bonds and is planning to develop recommendations on how to select green bonds from a sustainability perspective.



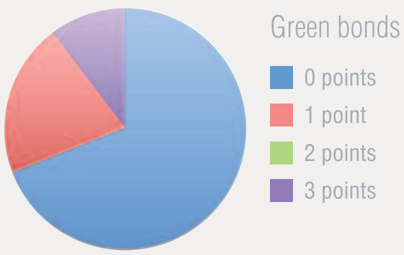
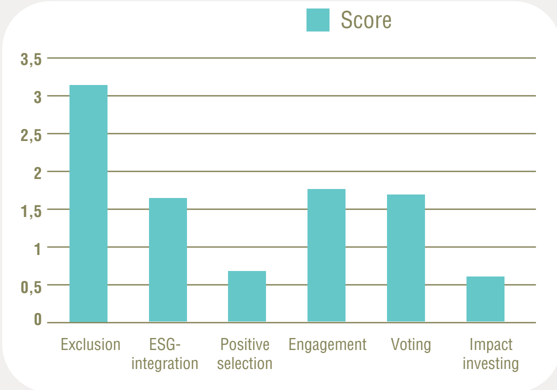


Table 3.4: Overall use of responsible investment strategies for equities



Results per asset class

This section gives a general breakdown of the implementation results for the various asset classes. For public equity, all of the aforementioned responsible investment strategies have been comprised in the score. For bonds, voting is not applicable, just as engagement is not for sovereign bonds. For real estate, we considered ESG integration and engagement. For alternative investments, ESG integration and impact investing were taken into account.

Table 3.5: Score per asset class 2014

PUBLIC EQUITY	1,6
CORPORATE BONDS	1,6
GOVERNMENT BONDS	1,3
REAL ESTATE	1,1
ALTERNATIVE INVESTMENTS	1,0

Real estate

This year 8 insurance companies considered ESG issues in the selection/development of new real estate objects (the same amount as in 2013). Moreover, 9 insurance companies incorporated ESG criteria into the selection of real estate managers or publicly listed real estate companies. Of these 9 insurance companies, 2 insurance companies selected the most sustainable ones. This is the same amount as last year.

Alternative investments

Alternative investments comprise different types of investing strategies including private equity, hedge funds and commodities.

- PRIVATE EQUITY:
  7 of the insurance companies have some form of responsible investment policy in place regarding private equity (7 in 2013).
- HEDGE FUNDS:
  4 insurance companies have some form of responsible investment policy and implementation regarding their investments in hedge funds (4 in 2013).
- COMMODITIES:
  3 insurance companies have some form of responsible investment policy and implementation regarding their investments in commodities (1 in 2013).

The results for alternative investments are about the same as they were in 2013.

Liquid Assets

Non-life insurance companies are required to hold a substantial part of their assets as liquid assets. The financial markets offer increasing possibilities to responsibly invest these liquid assets, whereby the bank that holds the liquid assets applies responsible investment strategies regarding the investments it does with the liquid assets. This possibility can, amongst others, be seen in the Dutch retail sector for savings. Growth of sustainable savings amongst Dutch individuals increased by more than 10% to a total of 15,4 billion euro in 2013, according to the VBDO research on sustainable savings and investments. Insurers could use the same principles to further their responsible investment strategy.

Strategic asset allocation

ESG information can be taken into account at the level of individual shares or corporate bonds. However, it can also be taken into account in strategic sector allocation. For example, information and trends on food security or related to renewable or fossil fuels (as in the discussion on the "Carbon Bubble", for instance) can be integrated into the investment process and lead to a larger or smaller exposure to the food or fossil fuel sector as a whole.

The present benchmark study revealed that 5 insurance companies (17%) are investigating how to take ESG information into account on a more strategic level. There are, however, no funds that are already taking ESG information into account for decisions related to sector allocation. We expect that market developments and further professionalization of investors will lead to increased use of ESG information on a more strategic level in the coming years.

Best Practice **Strategic asset allocation**

Although the use of ESG information on a more strategic level is still in its infancy, several pioneers that are emerging internationally are developing and integrating this information in investment decision related to sector allocation.

One interesting example is the report "Climate Change Scenarios - implications for strategic asset allocation" by Mercer. The report states that risks such as climate change are not taken into account in the traditional portfolio management process, although climate policy can contribute 10% to overall portfolio risk. The report also provides several recommendations on how the risk can be reduced, for example by diversification, better research and hedging.

A best practice from the pension fund sector that is also valuable for insurance companies: ABP has started a research project to gain insight into the effect of climate change on its portfolio. This represents an important step for taking sustainability into account in strategic and long-term investment decisions.

Reference:
http://www.ifc.org/wps/wcm/connect/6b85a6804885569fba64fa6a515bb18/ClimateChangeSurvey_Report.pdf?MOD=AJPERES

3.2.4 Accountability

Accountable insurance companies are transparent about their responsible investment policies and about the investments they make for their policyholders and other stakeholders. They also report on the various responsible strategies and on the respective results. Usually insurance companies produce responsible investment reports or a separate chapter in the general annual reports on an annual basis. Ideally, an external auditor verifies the report.

The overall score on accountability increased from 1.7 in 2013 to 2.1 in 2014. Remarkable improvements were made by Menzis, increasing from 2.8 (2013) to 4.4 (2014), and by TVM, increasing from 0 (2013) to 2.0 (2014). Zwitserleven leads on accountability with a score of 4.6. Menzis and Achmea came in second with a score of 4.4 out of 5 points. Over the last 10 years there has been a great increase in the reporting on responsible investment.

This year 14 insurance companies published such a dedicated report or a substantial chapter in their annual reports. This may in part be attributed to the financial crisis, which has led to calls for greater transparency in general. Furthermore, such accountability for responsible investments seems to be an irreversible trend.

In this year's benchmark most points were scored on reporting ESG integration: 15 insurance companies reported on their ESG integration methodologies, activities and results. There were 8 insurance companies that published a list of investments covering at least 75% of the investment.

This is the same as last year. We noticed a small increase in reporting lists of investments that cover up to 25% of the investment portfolio. More than a third of the insurance companies let their responsible investment reports be verified by an auditor (11 insurance companies), but only 8 of them let their responsible investment reports be verified by an external auditor.

The topical issues mentioned in chapter 2 illustrate some of these responsible investment issues that insurance companies need to address explicitly nowadays. We expect that in the future insurance companies will need to find ways to embed the points of view of their policyholders in their responsible investment choices. Policyholders already have a lot more insight into the responsible investment policies and results than they did 10 years ago.

3.3 Differences between insurance companies and pension funds

Comparing the results of the pension funds and the insurance companies, it can be stated that pension funds obtain higher scores on all the categories. Every score is at least 0.5 higher than the scores of the insurance companies. This results in an overall difference of 0.7 at the overall average (table 3.6), however biggest progress has been made by insurance companies. Except for governance and implementation the growth at insurance companies is bigger (table 3.7). Insurance companies are especially lagging behind on implementation and accountability. The difference with pension funds is at both categories 0.8. As we can see, the top of the insurance companies and the top of the pension funds are keeping up quite well, although the pension funds score better at the top of the table. The big differences can be found in the lower segments of the ranking. Where 30% of the pension funds obtained scores below a total score of 2, while 55% of the insurance companies score below a total score of 2.

Table 3.6: Comparing the results of the pension funds and the insurance companies?

	PENSION FUNDS	INSURANCE COMPANIES	DIFFERENCE
Governance average	2,8	2,3	0,5
Policy Average	3,3	2,6	0,7
Implementation average	2,1	1,3	0,8
Accountability average	2,9	2,1	0,8
Overall average	2,6	1,9	0,7

Chapter 4
Conclusions and recommendations

4.1 Overall conclusions

- PROGRESS MADE AT THE TOP
  The top insurance companies have made significant progress and are catching up with the top pension funds regarding responsible investing. The top four of the ranking remained unchanged in 2014.
- LITTLE CHANGES AMONG LOW-SCORING INSURANCE COMPANIES
  Unfortunately, at the low end of the benchmark spectrum we do not see any progress over the last year. Most low-scoring insurance companies have hardly shown any progress, with 55% of the funds scoring fewer than 2 points (2013: 66%)
- RESPONSE RATE OF 66%
  This year's benchmark has a response rate of 66%. This response rate is in line with the response rate of 69% last year. Some of the insurance companies we have taken into account are branches of foreign organizations and follow the responsible investment policies of the parent companies.

Overall, there is reason to believe that insurance companies can raise their ambitions when it comes to responsible investment. In the following section we will elaborate on this in relation to the four themes that were investigated in the report.

4.2 Governance

- GETTING STARTED WITH DIVERSITY
  As for the diversity of insurance companies, only gender was investigated. 82% of the board members of insurance companies are male. This percentage has not shown any improvement over the last years. The low level of diversity within the boards raises the question if sufficient attention is being paid to stimulating diversity in background, expertise and opinions in board discussions.
- EMBEDDING WHAT CUSTOMERS WANT
  Only 21% of the insurance companies directly consult their policyholders and other stakeholders on the responsible investment policy. The volume, the depth and the quality of these consultations can still be improved.

4.3 Policy

- QUALITY OF RESPONSIBLE INVESTMENT POLICIES VARIES WIDELY
  Complying with international guidelines is becoming an industry standard. Almost all insurance companies' policies cover themes included in the UN Global Compact.

  In most cases (for 62% of the insurance companies), the policies apply to more than 75% of the total investment portfolios. As a next step, insurance companies are advised to make their responsible investment policies in line with their activities, strategies and convictions. A health insurance company can, for example, give special attention to exclusions of or impact investing in health-related matters.
- MONITORING POLICY PERFORMANCE
  45% of the insurance companies have included some sort of targets in their responsible investment policy by which this policy can be continuously improved and monitored. At present, the performance indicators are for the most part still directed only at measuring output (e.g. number of engagements). We see few (2) insurance companies also trying to measure their actual impact on society. Although this is quite a new and elaborate process, we expect that in the future more insurance companies will define their responsible policies and determine their successfulness in terms of the social and environmental impact they have.

4.4 Implementation

- RESPONSIBLE INVESTMENT IS NOT PART OF BUSINESS AS USUAL YET

  This year's benchmark revealed a slight increase in the implementation scores. In general we can say that some risk awareness of societal issues is emerging in the financial markets. Responsible investment strategies such as exclusion and ESGintegration for equities are being used on an increasing level. Investment strategies like positive selection and impact investing, however, are lagging behind.

  There is room for improvement when it comes to ESG integration for sovereign bonds. 62% of the insurance companies do not incorporate ESG information at all, or simply require their asset managers to be PRI signatories. Yet some insurance companies, such as Delta Lloyd and ASR, are setting good examples for putting ESG-integration successfully into practice for sovereign bonds. This is of special importance as insurance companies mostly invest in sovereign bonds.

- VOTING

  57% of the insurance companies are currently exerting influence by voting at annual shareholder meetings. We must note here, however, that most of these votes are related to governance issues, while issues related to environment and society are less often addressed in the voting.

- GREEN AND SOCIAL BONDS

  New responsible investment strategies, such as green and social bonds, are entering the market. Some 31% of the insurance companies are already investing in green and social bonds. However, these investments still form a relatively small part of the total investment portfolio, in most cases less than 1% of the total corporate bond portfolio. We expect that the use of this financial instrument will increase, as it is a good example of responsible investment that offers an attractive return.

- SUSTAINABILITY AND STRATEGIC ASSET ALLOCATION

  ESG information can be taken into account at the level of individual shares or corporate bonds. It can, however, also be taken into account in strategic sector allocation. For example, information and trends on food security or related to renewable or fossil fuels (as in the discussion on the "Carbon Bubble", for instance) can be integrated in the investment process. In this way risks and opportunities can be better assessed and ultimately lead to a larger or smaller exposure to the food or fossil fuel sector as a whole.

  Out of all the funds surveyed in the present study, 17% are investigating how they can take this new step in responsible investment. None of the funds has begun with integrating sustainability in its strategic investment decisions yet.

4.5 Accountability

- TRANSPARENCY OF POLICY IS ANCHORED

  The financial crisis has led to an unprecedented rise in transparency. Most insurance companies now report on their responsible investment policies. Both the quality and quantity of the reporting vary, however. Sometimes the reporting is limited to a few lines, or the information regarding responsible investment policies is sometimes difficult to find for customers and other stakeholders. On the positive side, this year we saw more insurance companies (52%) providing lists of investments than last year (35%).

- IMPLEMENTATION OF RESPONSIBLE INVESTMENT STRATEGIES

  As regards the different responsible investment strategies, the methodology for exclusion, ESG integration and engagement are most often explained. For these strategies, policies as well as further details are often available. A total of 41% of the insurance companies explain their engagement activities and 62% explain their exclusion policies.

- VERIFICATION IS LAGGING BEHIND
  There is little verification of the responsible investments reports or responsible investment chapters in annual reports. Only 28% of the insurance companies have their reports on responsible investment, whether it is part of the annual report or as a separate report, audited externally.

4.6 Recommendations

Assume responsibility

Regarding governance we see two groups of insurance companies:

- We recommend the insurance companies who are lagging behind to give responsible investment a stronger position in their governance, by putting it on the agenda of the board, and by developing and evaluating a responsible investment policy.
- The higher-scoring insurance companies can still improve. Consulting their stakeholders such as policyholders and NGOs and setting clear targets for their asset managers (external or in-house) can help to enhance their performance.

Align the responsible investment policy with the mission and strategy

An effective responsible investment policy is in line with what the insurance company stands for. Various stakeholders will recognize and identify with the (investment and other business) decisions the insurance company makes. It may well become a source of competitive advantage for the insurance company. A health insurance company can, for example, give special attention to exclusions or impact investing in health-related matters.

A second recommendation is to periodically evaluate the responsible investment policy on the basis of indicators that are set beforehand and chosen carefully.

Responsible investment and insurance companies with a small investment portfolio

Several smaller insurance companies have small investment portfolios. For these companies it is difficult to have sufficient in-house knowledge on responsible investment.

For these companies we recommend to select or monitor their investment managers on their performance regarding responsible investment. Another option is to select investment funds that have sustainability criteria integrated in their investment management.

Get started with impact investing

Impact investing is an upcoming investment strategy within responsible investing. Especially green bonds are well suited for incorporation in the average investment portfolio of insurance companies due to their high creditworthiness. Therefore it is recommended for insurance companies to integrate green bonds and other forms of impact investment in their portfolios.

Investigate how sustainability can play a role in strategic asset allocation

Another new development is taking ESG integration into account in strategic sector allocation. For example, trends and risks on food security or related to renewable or fossil fuels can be integrated in the investment process. Several insurance companies are investigating how they can take this new step in responsible investment that helps to assess risks and chances on a strategic level such as climate change or the carbon bubble.

Increase the transparency towards the policyholders

Although an increasing number of insurance companies are reporting on their responsible investment policies and implementation, this information is still hard to find for customers. Therefore it is recommended that information will be made available for customers and other stakeholders in an easy to find and easy-to-grasp way.

Appendix 1
Methodology

This appendix elaborates on the used methodology. In the first part of the appendix the research objectives, the research process and some adaptions to last year's questionnaire are described. The second part of the appendix gives a clarification of the scoring model.

1.1 Research

Research objectives

The objective of this benchmark study is to provide insurance companies and their policyholders an insight into the current status of responsible investment among the largest Dutch insurance companies.

Research period

The period to which this research applies is 2013. The different general figures of the insurance companies, such as the asset allocation, cover the period up to the end of 2013. The information about the implementation of responsible investment instruments was related to the first half of 2014, the latest. For this edition of the benchmark, the 29 largest insurance companies in assets were surveyed.

Research process

The research process has only undergone minor changes in comparison with previous years. A questionnaire was integrated in excel and sent to the insurance companies. After completion, the excel automatically provides a profile and score. Like in 2012 and 2013 the profile of last year's benchmark was sent to selected insurance companies to facilitate filling in the questionnaire.

After receiving the completed questionnaires of the insurance companies and matching publicly available information (which consists of annual reports and websites), the VBDO reviewed the profile and sent the reviewed profile back with potential additional questions. On the basis of the reply the VBDO assigned the final scores to the insurance companies for all assessment issues and criteria.

Finally, research consultancy Profundo provided the VBDO with an independent review of the scores of a sample of insurance companies, to enhance the integrity of the results.

Research sources

- Questionnaire (send out in June 2014)
- Annual report 2013
- Company websites
- Newspapers and other media

Advisory panel

Every year we discuss the process and the methodology used with a group of pension funds, asset-managers and experts. We also did so this year and several points were raised on how to make improvements. Although the individual members did not agree on all topics, the main issues and opinions are described here:

- More focus on targets for responsible investment rather than on bonuses. The VBDO has adapted the question accordingly
- For some questions materiality should be taken into account to a larger extent
- Adding green bonds as a separate category is good idea . The VBDO has added this question in this edition.
- Strategic asset allocation is interesting to add to the questionnaire. It will be more relevant in the future and the scores should not be part of the scoring this year. The VBDO has added a question on strategic asset allocation.
- Some suggestions for improving the readability of the template. The VBDO has made some changes, such as changing the colour scheme.
- The deadline for the questionnaire should take the summer holidays into account. The planning is changed accordingly.

The VBDO would like to thank the participants for their efforts to improve the benchmark.

Adaptations to the methodology

In this eight edition of the benchmark the methodology is the same as last year. The VBDO plans to maintain this methodology for the coming year in order to be able to compare the results over a period of several years.

We did add two questions:

- Are green- and social bonds part of the total corporate bond portfolio?

- Is ESG-information taken into account related to strategic sector allocation?
  The anwser tot hhis question provides an idea of the use of ESG-information on a more strategic level. The results of this question are not taking into account in the score.

And one question was altered:

- Question 1.3 on sustainability targets for asset managers was altered so that also insurance companies and asset managers that did not use variable remuneration could score point.

1.2 General scoring model

To compare the policy and the implementation practices of institutional investors, a number of assessment issues were defined based on literature, former benchmark studies on responsible investments by Dutch pension funds and insurers and on conversations with institutional investors.

The assessment issues have been divided into 4 categories:

Governance
This category focuses on the governance of the insurance companies and the role the board and policyholders pro-actively play in shaping and monitoring the responsible investment policy.

Policy
Policy focuses on the responsible investment policy in place. Its reach, depth and quality are surveyed. Does the policy, for example, cover all the asset classes and are indicators mentioned on which the policy can be evaluated?

Implementation
Implementation considers the actual implementation of the responsible investment policy. What are the methods used and are they effective and thoroughly implemented throughout all asset-classes? The included asset classes are: public listed equity; corporate bonds; government bonds; real estate and alternative investments.

Accountability
This category investigates how communication on responsible investment takes place. Do insurance companies describe their investment policy and do they report the results on all asset classes? Do all stakeholder have access to this information?

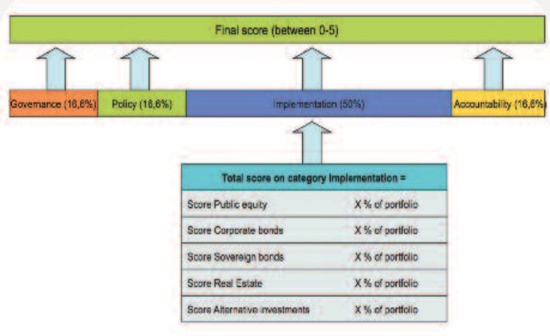
For an overview of all the questions asked and possible answers per category, we refer to appendix 3

The overall score is calculated on the basis of the score in each category and their weighing factors. The overall score of each insurance company lies between 0 and 5 points. To reach an overall score for all insurance companies, the scores of all categories are added up using weighting percentages.

The individual weighting percentages of categories add up to a total of 100%. The weighing percentage for implementation is 50% because especially this category defines the final output and quality of the responsible investment practices of a insurance company. The other 50% was equally divided over governance, policy and accountability.

For Implementation (and for one question in the category Policy) the calculation of the score depends on the asset allocation of the specific insurance company. In short this means that the score of a insurance company that has a large share of public equity in its portfolio, weighs more heavy on its score on public equity. The following figure gives a general overview of the scoring model.

Figure 1: General overview of the scoring model



Appendix 2
Responsible investment strategies & asset classes

Responsible investment strategies

Based on reviews of implementation practices by investors worldwide 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 issues such as human rights violations into consideration offers insufficient means of judgment for the exclusion of specific companies. It is important to specify these issues and use well defined Environment, Social and Governance (ESG) criteria or international guidelines.

While some investors do take more than one criterion into account for the exclusion of companies from their investment portfolio, their list of excluded companies only shows (controversial) weapon producers which raises questions about the use of ESG-criteria. Especially because of January 2013 the legal ban of investments in cluster munitions came into force in the Netherlands. In the opinion of the VBDO responsible investments should be a practice which goes beyond only following legal obligation. Therefore the standards on exclusion are raised accordingly in this 2014 benchmark. From this year on, only using more than two criteria for exclusion will lead to a score on the related questions.

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 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 in this benchmark 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, 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. Positive selection is defined 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 been 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 pro-actively introducing or supporting resolutions about sustainable development and corporate social responsibility, companies can be pu shed towards improvement and corrective action.

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

• Engagement

Insurance companies can actively exert influence on companies in which investments are made by entering into dialogue with them. If the policy and behaviour of a company 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. Institutional investors that have formulated an engagement policy, actively seek dialogue with companies outside shareholder meeting, monitor and report positive changes in corporate social and environmental management 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.

Impact investing might 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'.

Asset Classes

• 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.[1]

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

• Corporate (including covered) bonds

For corporate bonds responsible investment activities can be much the same as for equities, with the difference those 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 insurance companies “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. [2]

• 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. ESG-analysis for sovereign bonds, let alone positive selection, is not practiced often. This also means that by using ESG-analysis investors can use information which is not yet totally integrated in the market prices.

• 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. Additionally the managers of real estate funds can be engaged to improve their social and environmental performance.

• 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 re-

[1] Ness, A., “ESG progress in emerging markets”, Investments & Pensions Europe, February 2010.
[2] Carter, D., ”ESG factors make inroads in fixed-income portfolios. As bond assets grow so does the demand for ESG-related product”, Responsible Investor, 10 September 2010.

search limits this asset class to private equity, hedge funds, commodities and the category “other alternative investments”. Information provided on other asset classes will not be taken into account. The following opportunities were derived from literature: [3]

- 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. Also integrating the responsible investment policies in the selection process can be an important tool for institutional investors.
- 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. Also integrating the responsible investment policies in the selection process can be an important tool.
- 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. Also integrating the responsible investment policies in the selection process of commodity investments or asset managers can be an important tool for this category.

[3] Wood, D., “Handbook on Responsible Investment across Asset Classes”, *Boston College Center for Corporate Citizenship*, November 2007.

Appendix 3: Questionnaire

Category 1: **Governance (16,6%)**

The governance of the responsible investment policy within the insurance company is an important factor in its success. On what level are the key decisions on responsible investment for example made? Does the management evaluate responsible investment performance, discuss responsible investment issues and evaluate the mandate the (inhouse or external) asset manager has on this issue?

Ownership develop and approve responsible investment policy

Has the responsible investment policy been discussed and approved by the senior management (executive) board?

- Responsible investment has not been discussed in the senior management (executive) board. (0/2)
- The responsible investment policy has been discussed once at a senior management (executive) board meeting in 2012. (1/2)
- The responsible investment policy has been discussed more than once a year at a senior management (executive) board meeting in 2012. (2/2)

Ownership implementation responsible investment policy

Who is the most senior employee dedicated to the responsible investment policy?

- Nobody is formally responsible. (0/3)
- A person who reports to a lower management. (1/3)
- A person who directly reports to the senior management (executive) board meeting. (2/3)
- The senior management (executive) board. (3/3)

Sustainable remuneration of executive board members

To actively steer and evaluate the responsible investment policy and implementation it is important that this topic and therefore sustainability targets have a proper place in the remuneration. Is the (variable) remuneration of the senior management (executive) board dependent on sustainabilty targets?

- No. (0/1)
- Yes, the (variable) remuneration is at least for 60% based on long term goals. (1/3)
- Yes, from the (variable) remuneration is at least 33% based on sustainability (or ESG)-targets. (2/3)
- Yes, the (variable) remuneration is at least for 60% based on long term goals and for 33% based on sustainability targets. (3/3)

Sustainable remuneration of asset managers

To actively steer and evaluate the responsible investment policy and implementation it is important that this topic and therefore sustainability targets have a proper place in the remuneration. Is the (variable) remuneration of the asset manager dependent on sustainability targets?

- No. (0/1)
- Yes, the (variable) remuneration is also dependent on targets on responsible investment and sustainability. (1/1)

Note: *When the insurance company did not have a remuneration policy and could therefore also not have a sustainable remuneration policy, points could still be awarded when the board had clear control over the efforts of the fiduciary/asset manager regarding responsible investment.*

Communication with stakeholders

Responsible investment is based on acknowledging the responsibility an institutional investor has to decrease negative, and improve positive effects on society. Therefore an institutional investor not only has to be aware of economic developments, but also has to be aware of the preferences of their stakeholders, such as policyholders and developments regarding sustainability in general. Seeking constructive dialogue with for example policyholders or NGOs on how the insurance company can assume its responsibilities is therefore viewed positively. How does the insurance company communicate with their policyholders and society in general?

- No communication. (0/4)
- The insurance company informs (potential) policyholders about the responsible investment policy using the website, newsletters and/or information packages. (1/3)
- The insurance company consults (potential) policyholders on a regular basis (such as in a customer council) in the formulation and adaptation of the responsible investment policy. (2/3)
- Besides with policyholders, the insurance company also consults with society in general (such as NGO's) about the formulation and/or adaption of the responsible investment policy. (3/3)

Best Practices Governance

Are there any best-practices regarding the governance of RI in your fund you would like to mention (no points, but processed in report)?

Category 2:
Responsible investment policy (16,6%)

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.

Policy content

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 decisions, but does not necessarily have to refer to the Global Compact itself.

- No policy. (0/3)
- The responsible investment policy is mentioned on website and/or annual report AND/OR covers at least two of the themes included in the UN Global Compact. (1/3)
- The responsible investment policy covers all four themes included in the UN Global Compact. (2/3)
- The responsible investment 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. (3/3)

Policy: volume

As insurance companies 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)

Policy performance indicators

The responsible investment policy should not be a static policy document and therefore indicators should be included which enable the evaluation and improvement of the responsible investment policy. Clear key performance indicators should be part of the responsible investment policy.

- No goals mentioned. (0/3)
- Yes, qualitative key performance indicators have been mentioned concerning the output of the responsible investment policy. (1/3)
- Yes, quantitative key performance indicators have been mentioned concerning the output of the responsible investment policy. (2/3)
- Yes, these key performance indicators are quantitative and also measure actual impact corporate social and environmental policies. (3/3)

Themes that have been included in the responsible investment policy

Indicate which themes have been included in the responsible investment policy. If yes, please mention if this theme is excluded from investments. No points can be received for this question, but aggregated results will be used in the research report.

	Is the theme included in the responsible investment policy?	Is this theme excluded from investments?
Alcohol	Yes / No	Yes / No
Animal testing	Yes / No	Yes / No
Climate change	Yes / No	Yes / No
Controversial weapons	Yes / No	Yes / No
Corruption	Yes / No	Yes / No
Environment	Yes / No	Yes / No
Equal opportunities	Yes / No	Yes / No
Fur	Yes / No	Yes / No
Gambling	Yes / No	Yes / No
Genetic engineering	Yes / No	Yes / No
Human rights	Yes / No	Yes / No
Intensive farming	Yes / No	Yes / No
Labour rights		
(ILO conventions)	Yes / No	Yes / No
Nuclear power	Yes / No	Yes / No
Pornography	Yes / No	Yes / No
Tobacco	Yes / No	Yes / No
Other, please specify	Yes / No	Yes / No

Best practices 'Responsible Investment Policy'

Are there any best-practices regarding the responsible investment policy in your fund you would like to mention (no points, but processed in report)

Category 3:
Implementation (50%)

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.

For each asset class a number of assessment issues, based on the instruments, is identified. 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

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. How is exclusion practiced in your fund? It is important to note that exclusions due to legal obligations (such as cluster munition) are not taken into account and do not results in points awarded. Choose the most appropriate option:

- 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)

Note: *a criterion is defined by the VBDO as a specific theme such as controversial weapons, human rights or exclusion due to failed engagement.*

ESG integration

ESG integration (extent)

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 (being passive or active), which is rated highest in this methodology.

- No. (0/3)
- ESG-information is used in evaluation of investments in equity (eg. asset managers required to be PRI signatory). (1/3)
- ESG-information is systematically and demonstrably part of the equity selection process (eg. by using onepagers) (or in the composition of the ESG-index). (2/3)
- ESG-information is systematically and demonstrably part of the equity investment selection process and has a systematic, ongoing and verifiable impact on individual holdings. (3/3)

ESG integration (volume)

As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account. Please take your active as well as your passive investments into account when choosing your answer. The two scores for ESG-integration are multiplied and end up as one score.

- 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

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. Please consider your passive as well as your active investments in public equities in calculating your percentage.

- 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 port folio. (4/4)

Engagement

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, demonstrably votes at annual shareholder meetings of companies in portfolio. (1/3)
- Yes, demonstrably votes at annual shareholder meetings of companies in portfolio, paying explicit positive attention to ESG issues. (2/3)
- Yes, demonstrably votes at annual shareholder meetings of companies in portfolio, paying explicit attention to ESG issues and publicly initiates and/or supports shareholder resolutions promoting CSR. (3/3)

Voting

Voting (extent)

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 the extent and volume of the voting policy are taken in to account. Highest points are accredited to investors that also publicly initiate and/ or support shareholder resolutions on CSR.

- No. (0/3)
- Yes, demonstrably votes at annual shareholder meetings of companies in portfolio. (1/3)
- Yes, demonstrably votes at annual shareholder meetings of companies in portfolio, paying explicit positive attention to ESG issues. (2/3)
- Yes, demonstrably votes at annual shareholder meetings of companies in portfolio, paying explicit attention to ESG issues and publicly initiates and/or supports shareholder resolutions promoting CSR. (3/3)

Voting (volume)

As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account. The two scores for volume and extend are multiplied and end up as one score. Please consider your active as well as your passive public equity portfolio in calculating the percentage.

- No. (0/4)
- Yes, voting is implemented for 0-25% of the equity portfolio. (1/4)
- Yes, voting is implemented for 25-50% of the equity portfolio. (2/4)
- Yes, voting is implemented for 50-75% of the equity portfolio. (3/4)
- Yes, voting is implemented for 75-100% of the equity portfolio. (4/4)

Impact investing

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 the 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% of the total equity portfolio. (2/3)
- Yes, investments are demonstrably made in publicly traded companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), >2% of the total equity portfolio. (3/3)

Asset class: **Corporate (including covered) bonds**

Exclusion

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. How is exclusion practiced in your fund? It is important to note that exclusions due to legal obligations (such as cluster munition) are not taken into account and do not results in points awarded. Choose the most appropriate option:

- 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

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

ESG integration (extent)

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 (being passive or active), which is rated highest in this methodology.

- No. (0/3)
- ESG-information is used in evaluation of investments in corporate bonds (eg. asset managers required to be PRI signatory). (1/3)
- ESG-information is systematically and demonstrably part of the corporate bond selection process (eg. by using onepagers) (or in the composition of the ESG-index). (2/3)
- ESG-information is systematically and demonstrably part of the corporate bond investment selection process and has a systematic, ongoing and verifiable impact on individual holdings. (3/3)

ESG integration (volume)

As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account. The two scores for ESG-integration are multiplied and end up as one score. Please consider your passive as well as your active investments in calculating your percentage.

- 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

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. Please consider your passive as well as your active investments in corporate bonds in calculating your percentage.

- 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

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 over 2012 (evidence of positive changes in corporate policies regarding ESG-topics/company excluded). (3/3)

Green- and Social Bonds

Green and social bonds are bonds of which the proceeds are specifically used to achieve positive societal results. For example in reducing greenhouse gas emissions or raising employment opportunities in developing countries. Another important feature of these investments is that also screening and monitoring of their societal impact takes place. These bonds can be issued by companies, as well as organisations such as the World Bank, Unilever, EIB or FMO. Choose the most appropriate option:

- No. (0/3)
- Yes, investments in green or social bonds are demonstrably made, <1% of the total corporate bond portfolio. (1/3)
- Yes, investments in green or social bonds are demonstrably made, <2% of the total corporate bond portfolio. (2/3)
- Yes, investments in green or social bonds are demonstrably made, >2% of the total corporate bond portfolio. (3/3)

Asset class: **Government bonds / Sovereign bonds**

Exclusion policy

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. (1/2)
- Yes, countries are demonstrably excluded, including readily available government bonds. (2/2)

ESG-integration

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

ESG-integration (extent)

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 (being passive or active), which is rated highest in this methodology.

- No. (0/3)
- ESG-information is used in evaluation of investments in government bonds (eg. asset managers required to be PRI signatory). (1/3)
- ESG-information is systematically and demonstrably part of the government bond selection process (eg. by using onepagers) (or in the composition of the ESG-index). (2/3)
- ESG-information is systematically and demonstrably part of the government bond investment selection process and has a systematic, ongoing and verifiable impact on individual holdings. (3/3)

ESG-integration (volume)

As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account. The two scores for ESG-integration are multiplied and end up as one score. Please consider your passive as well as your active investments in calculating your percentage.

- No (0/4)
- Yes, ESG-integration is implemented for 0-25% of the government bond portfolio. (1/4)
- Yes, ESG-integration is implemented for 25-50% of the government bond portfolio. (2/4)
- Yes, ESG-integration is implemented for 50-75% of the government bond portfolio. (3/4)
- Yes, ESG-integration is implemented for 75-100% of the government bond portfolio. (4/4)

Positive selection

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. Please consider your passive as well as your active investments in government bonds in calculating your percentage.

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

Asset class: **Real estate**

Direct real estate ES(G)-criteria

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. Additionally, ESG-criteria could be used for the maintenance of real estate objects by taking active steps to reduce CO_2 emissions, energy usage and waste production.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/development of new real estate objects or in the maintenance of real estate objects. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/development of new real estate objects and in the maintenance of real estate objects. (2/2)

Indirect real estate - selection & evaluation

For indirect real estate investments an investor could consider ES(G) issues during its selection and evaluation of fund managers.

- Not applicable. (N/A)
- No. (0/2)
- Yes, the insurance company demonstrably considers ES(G) issues in selection and evaluation of real estate fund managers/publicly listed real estate companies. (1/2)
- Yes, the insurance company demonstrably considers ES(G) issues in selection and evaluation of real estate fund managers/publicly listed real estate companies and selects only most sustainable real estate funds/publicly listed real estate companies. (2/2)

Indirect real estate - engagement

The investor enters into dialogue with the real estate fund manager to improve its ESG-performance.

- No. (0/2)
- Yes, the insurance company demonstrably engages with real estate fund managers on ESG-criteria. (1/2)
- Yes, the insurance company demonstrablyengages with real estate fund managers on ESG-criteria and shows demonstrable results over 2012. (2/2)

Asset class: **Alternative investments**

Private equity

Despite private equity's controversial reputation, the VBDO believes that the private equity business model is perfectly suited to act as an enabler in the transition towards a more sustainable society. Does the insurance company use ESG-criteria and/or international standards in this field in the selection and evaluation of the private equity house? Impact investments are not included in this question.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of some of the private equity investments. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of all of the private equity investments. (2/2)

Hedge funds

Does the insurance company use ESG-criteria and/or international standards in this field in the selection and evaluation of the hedge funds? Impact investments are not included in this question.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of some of the investments in hedge funds. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of all of the investments in hedge funds. (2/2)

Commodities

Does the insurance company use ESG-criteria and/or international standards in the selection and evaluation of their commodities investments? Impact investments are not included in this question.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of some of the investments in commodities. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of all of the investments in commodities. (2/2)

Other alternative investments

Does the insurance company use ESG-criteria and/or international standards in this field in the selection and evaluation of other alternative investments? Impact investments are not included in this question.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of some of the investments in other alternative investments. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of all of the investments in other alternative investments. (2/2)

Sustainability and strategic sector allocation (not taking into account in the score)

ESG-information can be taken into account at individual shares or corporate bond level. It can, however, also be taken into account in strategic sector allocation. For example, information and trends on food security or related to renewable or fossil fuels (for example related to the discussion on the "Carbon Bubble") can be integrated in the investment process and lead to a larger or smaller exposure to the food or fossil fuel sector as a whole. Although the use of ESG-information on a more strategic level is still in its infancy, several pioneers are emerging internationally who are developing and integrating this information in investment decision related to sector allocation. Could you indicate if the use of ESG-information and ESG-trends are taking into account in investment decision related to sector allo- cation? And can you explain why this is, or isn't the case. Your answer is not taken into account in the score, in the benchmark report a general overview of the results and present practices will be given. Choose the most appropriate option:

- No. This is not taking into account at the moment
- No, but we are investigating to do so in the future
- Yes, we are already taking this information into account into decisions related to our sector allocation.

Category 4: **Accountability (16,6%)**

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. Policyholders 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.

Responsible investment policy

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)

List of investments

There should be a publicly available overview of the investments made.

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

Implementation

Exclusion

How does the insurance company report on exclusion policy and excluded companies and/or countries?

- 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

How does the insurance company report on ESG-integration?

- Methodology for ESG-integration is not explained. (0/1)
- Methodology for ESG-integration is explained. (1/1)

Positive selection

How does the insurance company report on positive selection.

- Methodology for positive selection is not explained. (0/1)
- Methodology for positive selection is explained. (1/1)

Engagement

How does the insurance company report on engagement?

- No reporting on engagement. (0/3)
- Engagement policy has been published. (1/3)
- Engagement policy is explained, general overview of activities is available. (2/3)
- The engagement policy, the undertaken engagement activities and concrete results are reported. (3/3)

Voting

How does the insurance company report on the voting policy and implementation?

- 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

How does the insurance company report on impact investing?

- No reporting on impact investing. (0/2)
- Impact investment strategy is explained. (1/2)
- Impact investment strategy is explained, an overview of impact investments is given. (2/2)

Responsible investment report

Publication

Stakeholders need to be kept informed on the progress of the insurance company on the development of their responsible investment policy and of the implementation of this policy. Therefore insurance companies should yearly publish a report to inform policy-holders and other stakeholders. Does the insurance company publish a yearly responsible investment report?

- No. (0/1)
- Yes, in 2012 a report has been published. (1/1)

Note: *the VBDO has also awarded points on this question when the general annual report clearly and extensively explained the responsible investment policy and the progress made regarding implementation.*

(External) verification

When a responsible investment report has been verified by a, preferably independent, auditor, the information within the responsible investment report becomes more reliable for the different stakeholders. Has the responsible investment report been verified by an (independent and external) auditor?

- No. (0/0)
- Yes, the report has been audited, by an internal auditor. (1/3)
- Yes, parts of the responsible investment report have been audited by an external auditor. (2/3)
- Yes, the entire responsible investment report has been audited by an external auditor. (3/3)

Best practices 'Accountability Responsible Investment'

Are there any best-practices regarding the accountability of the responsible investment policy in your fund you would like to mention (no points, but processed in report)

Appendix 4
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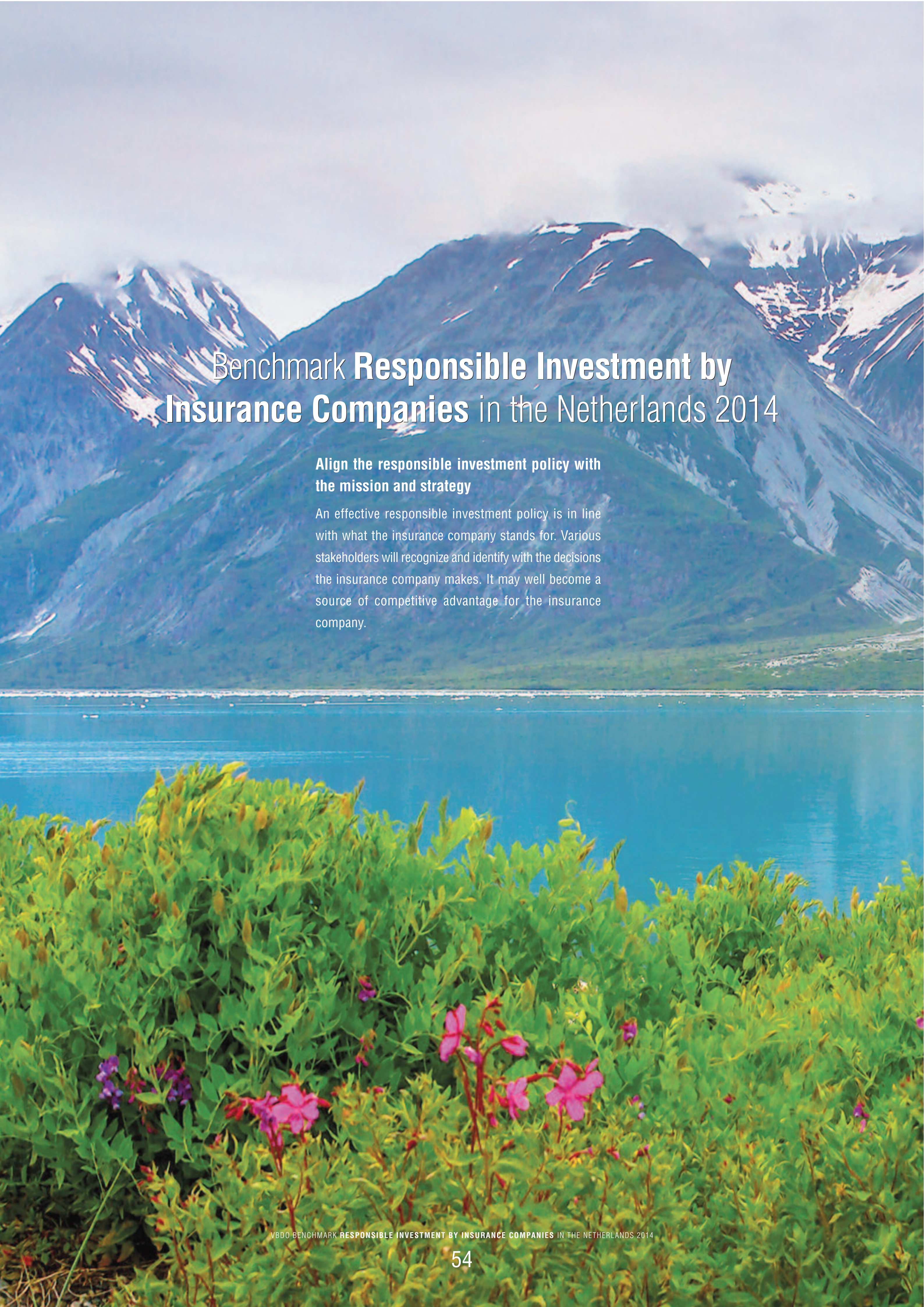

Benchmark **Responsible Investment by Insurance Companies** in the Netherlands 2014

Align the responsible investment policy with the mission and strategy

An effective responsible investment policy is in line with what the insurance company stands for. Various stakeholders will recognize and identify with the decisions the insurance company makes. It may well become a source of competitive advantage for the insurance company.

VBDO

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