Benchmark Responsible Investment by Insurance Companies in the Netherlands 2019

Taking Responsible Investment to the Next Level

Colofon

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About VBDO

The Dutch Association of Investors for Sustainable Development (VBDO) is a not for profit multi-stakeholder organisation. Our mission is to make capital markets more sustainable. Members include insurance companies, banks, pension funds, asset managers, NGOs, consultancies, trade unions, and individual investors. VBDO is the Dutch member of the international network of sustainable investment fora. VBDO's activities target both the financial sector (investors) and the real economy (investees) and can be summarised as follows:

Engagement

Since more than 20 years ago, the core activity of VBDO has been engagement with 40+ Dutch companies listed on the stock market. VBDO visits the annual shareholders' meetings of these companies, asking specific questions and voting on environmental, social and governance (ESG) themes. The aim of this engagement is to promote sustainable practices and to track progress towards the companies becoming fully sustainable, thereby providing more opportunities for sustainable investments.

Thought leadership

VBDO initiates knowledge building and sharing of ESG-related issues in a pre-competitive market phase. Recent examples of this include: three seminars on climate change related risks for investors; the development of guidelines on taking Natural Capital into account when choosing investments and organizing round tables about implementing human rights in business and investor practices. Also, we regularly give trainings on responsible investment both to investors as well as NGOs.

Benchmarks

Benchmarks are an effective instrument to drive sustainability improvements by harnessing the competitive forces of the market. They create a race to the top by providing comparative insight and identifying frontrunners, thus stimulating sector wide learning and sharing of good practices. VBDO has extensive experience in developing and conducting benchmarking studies. VBDO has conducted annual benchmarking exercises, for example, since 2007 about responsible investment by Dutch pensions funds, and since 2012 responsible investment by Dutch insurance companies.

This has proven to be an effective tool in raising awareness about responsible investment and stimulating the sustainability performance of pension funds and insurance companies. VBDO is one of the founding partners of the Corporate Human Rights Benchmark, which ranks the 500 largest companies worldwide on their human rights performance, and makes the information publicly available, in order to drive improvements. VBDO's Tax Transparency Benchmark ranks 64 listed multinationals on the transparency of their responsible tax policy and its implementation.

For more information about VBDO, please visit our website: http://www.vbdo.nl/en/

Table of contents

Ranking

Raking 2019	Name of insurance company	Overall score 2019	Gover-nance	Policy	Imple-mentation	Accoun-tability
1	a.s.r.	4,5	5,0	5,0	4,0	5,0
2	VIVAT	4,1	5,0	4,0	3,6	5,0
3	NN	3,5	4,0	3,0	3,3	4,3
3	Achmea	3,5	4,4	3,0	3,4	3,2
5	Menzis	2,8	2,7	2,7	2,9	2,7
6	Dela	2,3	1,5	2,0	2,9	1,8
7	CZ Groep	2,2	2,3	1,8	2,5	1,7
7	Aegon	2,2	1,3	2,3	2,5	2,1
9	Scildon	2,1	1,7	2,5	2,2	1,8
10	ONVZ	2,0	2,5	1,5	2,2	1,3
10	Allianz	2,0	1,5	3,0	1,8	2,1
12	VGZ	1,8	2,1	1,3	2,0	1,6
13	ZLM	1,7	2,5	2,3	1,5	1,0
13	BNP Paribas Cardif	1,7	2,5	2,2	1,6	0,9
15	Klaverblad	1,3	2,1	1,3	1,5	0,2
16	Monuta	1,1	1,3	1,5	1,3	0,0
16	Onderlinge 's-Gravenhage	1,1	1,3	1,0	1,2	0,5
16	De Goudse	1,1	0,6	2,7	0,9	0,4
19	DSW*	0,9	0,0	1,5	1,1	0,7
20	NV Schade*	0,7	0,0	0,5	1,1	0,2
21	TVM*	0,6	0,6	0,0	0,7	0,5
22	Iptiq*	0,5	0,0	0,0	1,0	0,0
23	NH van 1816*	0,4	0,0	0,0	0,8	0,0
23	ARAG*	0,4	0,0	0,0	0,7	0,0
25	Eno Zorgverzekeraar*	0,3	0,0	0,0	0,5	0,2
26	DAS*	0,2	0,0	0,0	0,4	0,0
26	Yarden*	0,2	0,0	0,0	0,4	0,0
28	Unigarant*	0,1	0,0	0,0	0,1	0,0
29	Leidsche Verzekering Maatschappij*	0,0	0,0	0,0	0,0	0,0

* Non-respondent

** The number of points for the overall score and consecutive categories can range from 0-5 with 5 points being the highest.

Preface A. Laskewitz

This study contains detailed information about the current status in responsible investment within the Dutch insurance sector, and offers recommendations for the coming years. We hope this will provide a valuable resource for insurance companies, and that the benchmark helps to initiate dialogue between them and other stakeholders in order to support each other with developments to improve their responsible investment policy.

The importance of sustainability and sustainable investing is greater than ever. More and more external developments, such as increasing laws and regulation, ensure that all insurers take sustainability into account. That's why drafting a covenant by the sector could be considered a welcome and logical next step.

Various initiatives are already being developed, not only from the sector itself, but also from the EU. For example, this year, the EU High Level Expert Group released a taxonomy on sustainable finance. These reports lay an important foundation for a common approach to what is and is not sustainable.

Fortunately, the consequences of climate change require more and more attention in the core activities of insurers, and in particular, non-life insurers. What is striking is that insurers continue to put focus on transition risks and the physical consequences of climate change. However, as an independent organisation, we also think they could and should play a major role in contributing to the solution. In this, we would like to offer our helping hand.

Coen de Ruiter, CEO of Independer, notes an increasing understanding among policyholders that their premiums are being actively invested, amid interest and concern that it's happening in a sustainable way. I am, therefore, proud to announce that the results of this benchmark are now displayed on the Independer website.

With our two organisations joining forces, we can raise awareness about the responsible investment performance of insurance companies, and give policyholders the opportunity to consider sustainability when choosing an insurance provider. Many thanks to Mr. De Ruiter for this successful collaboration.

Finally, I'd like to thank our sponsors and members for making this report possible. I'm also very grateful to the participating insurance companies and their asset managers for their invaluable contributions.

I hope you all read the benchmark with interest and draw appropriate conclusions concerning its results.

Angélique Laskewitz
Executive Director
VBDO

Utrecht, October 2019

Preface R. Weurding

"Making Up Your Own Mind"
A few years ago, sustainable and responsible investment was a hobby for some employees in the investment field, but nowadays this has changed. Responsible investment is mainstream and receives attention on all levels at every insurance company. This is partly as a result of external pressure by NGOs, benchmarks, and national and European watchdogs. However, it's mainly because many insurers feel a great responsibility to use the money they manage on behalf of their policyholders well.

Stimulating insurance companies to invest responsibly: the starting point was marked by us in 2012 with the Code for Responsible Investment. This code was updated in the summer of 2018, when the IMVO Covenant for Insurance Companies was signed by the Dutch Association of Insurers. The covenant specifies agreements regarding the investment policy of insurance companies. In this, we've chosen not to focus on one specific theme, but have set-up agreements covering the whole investment process, including a proper risk assessment (due diligence) followed by measures to implement change, and of course, transparency on any action taken.

The covenant provides ample space for the individual beliefs of the insurance companies. Doing 'right' is, after all, not a rigid concept, and provides room for different interpretations. For instance, this is reflected in discussions about investments in weapons - are all weapons bad? If not, does it matter who the weapons are supplied to? More and more insurance companies think about these types of questions and adjust their policies accordingly. Discussion also exists on the methodology. Where some insurance companies choose to exclude all investments in particular categories, others are convinced shared ownership exerts influence by initiating dialogue through engagement and strategic voting at shareholder meetings.

Within the Dutch Association of Insurers, and in the IMVO Covenant, this discussion is facilitated by providing feedback to one another on the implemented policies. Here, transparency is the key word. Some companies with well-thought-out and responsible investment policies do not report on their practices. This is a missed opportunity and insurers should show what they're doing. Not only for themselves, but also for NGOs, politics, and mostly, for policyholders and the society itself. Policyholders are also gaining interest in the use of their premium and want to feel good about the choices of their insurer. In the autumn of 2019, I expect the first results of the IMVO Covenant after its implementation one year ago and my expectations are high.

Another important development is the commitment of the financial sector to the national climate agreement. We signed this agreement together with the entire financial sector on the 10th July 2019. This marks an important step, as climate change has a substantial impact on the policies carried out by insurance companies through the increased frequency of extreme weather events, and the associated financial risks. Commitment to the climate agreement also signifies that financial resources will become available to spur the energy transition. In addition, we're developing improved measurement tools to calculate the carbon footprint of investment portfolios, and will help to set targets for decarbonisation. How financial institutions will implement these tools and targets is up to them. But there is room for various instruments, among them exclusion, engagement, and voting policies.

I think giving insurance companies enough space to develop their personal responsible investment policy is of great importance. This way, companies consider their choices and actions, and are more attentive to the results. This VBDO benchmark helps in this regard. I know for a fact that the insurance companies with a 0.0 score in the previous benchmark have woken up, and discussed the ESG policy on board level. My expectation is the 2019 benchmark will have the same effect.

Richard Weurding
CEO
Dutch Association of Insurers


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Introduction

This report, published by the Dutch Association of Investors for Sustainable Development (VBDO), provides a detailed overview of the current status quo and developing trends relating to responsible investment (RI) practices by the largest insurance companies in the Netherlands. Each are assessed on how they govern, formulate, implement, and report on their RI decision making processes. The results are based on data from 2018, and follow a 0-5 point rating in order of performance.

Key findings

Over the past two years, RI practices have been improved by few insurance companies. The overall scores indicate that the top performers largely remain the same, but the average score of 1.56 shows that significant improvements on responsible investments can be made by the insurance sector overall. Some of the smaller insurance companies have, however, improved their RI practices, and VBDO hopes this trend will continue in the following years.

As sustainability issues are becoming more mainstream in the investment process, a great deal of new information needs to be retrieved and processed. Collaborating with insurance companies and consulting with experts can make the process much easier. Formulating targets is something that's often absent, but it's important to set goals and monitor the progress of the RI policy. With regards to ESG integration, insurance companies could opt for more comprehensive and in-depth approaches. ESG integration furthermore ideally covers specific criteria and is tailored to specific asset classes. It will also become increasingly important to include ESG risks in asset liability modelling and strategic asset allocation.

Methodology

Since 2007, VBDO has conducted annual benchmarking studies on responsible investment by Dutch institutional investors. This has proven to be an effective tool in raising awareness about responsible investment and stimulating the sustainability performance of insurance companies and pension funds. The fundamentals of the scoring methodology have been developed thirteen years ago and the assessment criteria have continuously improved over the thirteen years that VBDO has been conducting the benchmark.

Every year the relevancy of the assessment criteria have been reviewed and possible adjustments are discussed in consultation with the participants of the benchmark. This year, the methodology has been revised to better reflect the developments in RI. A question on mortgage investments has been added as a result of the above-mentioned consultation with insurance companies. Because of a growing importance, this year questions have been added on how climate change is included in the policy of the insurance companies. Later this year, VBDO will publish a more detailed report on the results of the climate change questions. Due to the revision, scores of this year are not fully comparable to the previous benchmark.

Outline of the report

The report is structured as follows: chapter 1 highlights the overall results. Chapter 2 details how the insurance companies have scored on the four categories; chapter 3 states the most important conclusions of this research; and, finally, chapter 4 contains VBDO's recommendations. Some results of the added questions related to climate change can be found in the climate change section on page 14 . More detailed information about the methodology, categories and scores can be found in the appendices.

1. Overall performance

This chapter gives an overview of the overall results of the benchmark study. The benchmark results indicate that a large discrepancy exists between the top and bottom performers of the benchmark, with a maximum score of 4.5 and a minimum of 0.0, as can be seen on the ranking on page 5). With a total average score of 1.56 for all performers, the indications are that responsible investment (RI) needs to be significantly improved in the insurance sector. Some individual insurance companies have risen sharply in the ranking, putting more pressure on the ones remaining in the lower categories.

The largest Dutch insurance companies are assessed on four categories: governance, policy, implementation and accountability, and across various asset classes (figure 1).

The category implementation is most valued by the VBDO, as the implementation practices show the actual performance. The results of the different categories will be discussed in the following chapters.

Leaders

The top performers have largely maintained their position compared to the previous benchmark in 2017. They incorporate all five investment RI instruments in their policies, use ESG-integration in nearly all investment decisions, and take a leadership position in the sector.

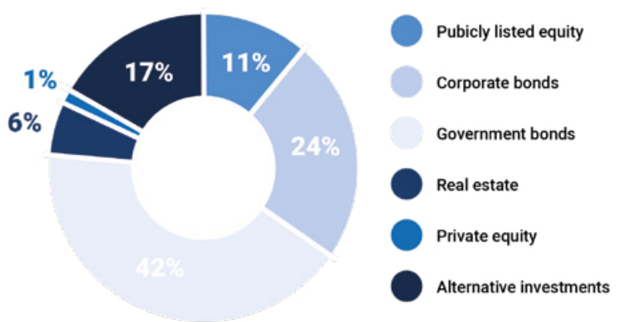
Middle group

Some notable improvements can been seen among the mid performers, especially several smaller insurance companies demonstrating that responsible investment is not a practice reserved solely for large insurers. Many mid performers do typically incorporate responsible investment across all asset classes on at least a basic level, but often still lack a long-term vision.

Low performers

Some of the low performers are still in the process of implementing responsible investment across all asset classes. However, several insurance companies have not provided any input for our assessment and do not make any public reference to responsible investment.

Figure 1 | Average asset allocation



2. Results per category

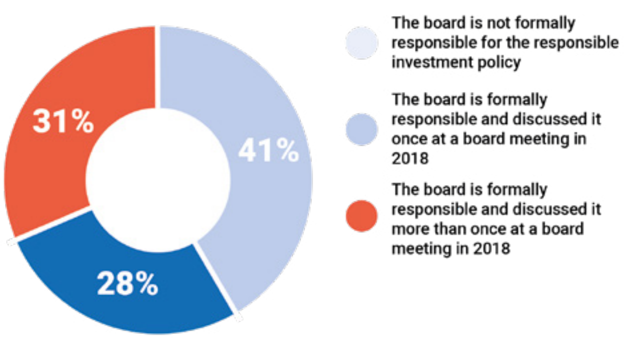
2.1 Governance

In this benchmark, governance refers to the role and responsibility of the board and senior management regarding each insurance companies' responsible investment (RI) policy. Good governance is crucial for a successfully implemented policy and relies on several factors, such as sufficient knowledge on RI at the board level and clear guidance from the board to the asset manager when it comes to targets and the measurement of results.

Board level involvement in responsible investment

It's crucial that the board has an interest and attaches value to the RI policy. The benchmark indicates that middle management can implement RI practices more effectively when this is initiated at board level. For 59% of the insurance companies, the board is formally accountable for the RI policy (Figure 2). At smaller insurance companies especially, this principle still has to be adopted.

Figure 2 | Board oversight on responsible investment



Sustainability goals for asset managers

Both internal and external asset managers have an important role to play in building a more sustainable future by channelling premiums from policyholders to companies, governments, and projects.
In this relationship with asset managers, setting goals is crucial for a proper investment policy. It enables them to align investment decisions, and helps the board, to successfully improve, evaluate, and shape the RI policy. VBDO's view is that the asset owner (the insurance company), rather than the asset manager, should set these goals. This enables insurance companies to align the goals set for asset managers with those set in the insurance companies' own RI policy, maintaining consistency between the two.

The (long-term) goal can be further strengthened by short-term, measurable targets in order to ensure the insurance company stays on track. Additionally, these goals can form part of the selection and monitoring process of external managers and be formalised in mandates.

The benchmark currently shows that **21% of the insurance companies set sustainability goals for their asset managers**.

Only 14% of the insurance companies evaluate and monitor the progress made in relation to the goals. Measuring and evaluating the performance of targets ensures that the asset manager is operating in line with the goals that are set by the asset owner. However, the results of this benchmark show that it remains challenging for funds to set clear and measurable targets for their asset managers.

Consultation with stakeholders

VBDO believes that consulting with stakeholders is key for insurance companies to become aware of the trends and preferences on RI. This can, in turn, help to improve the RI policy.

However, the benchmark indicates that policyholders are not regularly consulted on RI. In fact, **consultation of any kind was only practiced by 42% of the insurance companies**. The majority of insurance companies, therefore, still needs to take up consultation as a practice. In line with this, and especially as RI continues to evolve, it is not only important to gain insight in expectations from policyholders, but also to acquire specialised information from wider society, experts and peers.

Climate change related consultation should also be implemented in this regard. Non-governmental and (inter) national organisations can signal where climate risks might be located or arise in the investment portfolio of the insurance company. Therefore, consultation can lead to more informed investment decisions, help set targets towards ESG issues and climate change, and deliver information to be used in engagement activities.

2.2 Policy

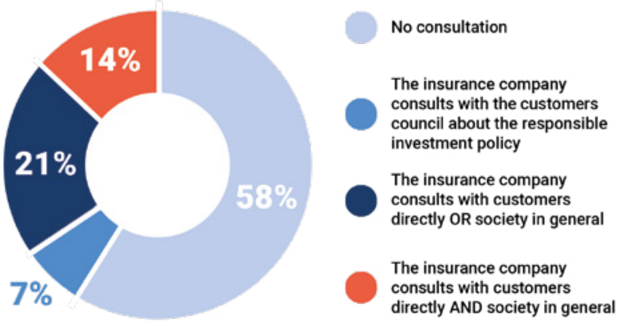
The following section covers the responsible investment (RI) policies of insurance companies. A comprehensive RI policy establishes a clear investment framework that reflects the values of the insurance company and its stakeholders by formalising the vision, key principles, and approach to RI. Formulating a long-term vision that includes RI strategies and specific sustainability goals, is crucial. Such goals can be translated into measurable targets to increase the insurance companies' RI ambitions on a yearly basis by keeping track of progress and evaluating the improvement of the insurance company in relation to the RI policy. Additionally, the policy should cover environmental (E), social (S), and governance (G) themes and these should be applied to all asset classes where the next step can be to integrate ESG information and climate change risks into strategic asset allocation (SAA) and asset liability modelling (ALM). Lastly, it is important to be transparent and make the RI policy publicly available.

Setting targets remains a challenge

In 2017, VBDO recommended that insurance companies set clear goals and targets in relation to the RI policy, as only 23% had formulated targets. This benchmark indicates, however, that setting targets is still a rare occurrence for insurance companies, as **only 21% mention targets in their RI policy**. Formulating goals and targets is important as it helps to take positive action, evaluate progress, and improve the performance of the RI policy. Ambitious goals and clear targets send a strong message to all stakeholders, and enable asset managers to align the investment portfolio with the insurance companies' goals.

When targets are set by the insurance companies, they seem to share a common goal: CO_2 reduction of the investment portfolio, with several including a timeframe between 2021 and 2050. This is not too surprising, as (inter)national rules and regulations have set the importance of reducing CO_2 emissions to maintain a habitable planet. Although the Paris Climate Agreement has been instrumental in this, few insurance companies align their goals with the Agreement. Doing so could provide guidance and help insurance companies to set measurable targets in line with the global goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels. This is especially important when investing in high impact, CO_2 intensive sectors such as fossil fuels, energy generation, primary industry, transport, and agriculture.

Figure 3 | Consultation



GOOD PRACTICE: CONSULTATION THROUGH THE IMVO COVENANT

The IMVO Covenant provides a platform for consultation through round-tables between NGOs and insurance companies. Several insurance companies have attended round-tables to gain information and understanding on ESG issues and climate change, and how to include this information in their RI policy. This platform is also a good way for smaller insurance companies to actively consult on its RI policy, and shows the positive influence the IMVO Covenant already has on responsible investing by insurance companies in the Netherlands.

It is however important that insurance companies look beyond the carbon footprint reduction of their portfolio, as this will not be sufficient to address the effects of climate change as a whole. Therefore, VBDO encourages insurance companies to also set targets in relation to climate mitigation and adaptation efforts along with targets that can be applied to the entirety of the investment portfolio.

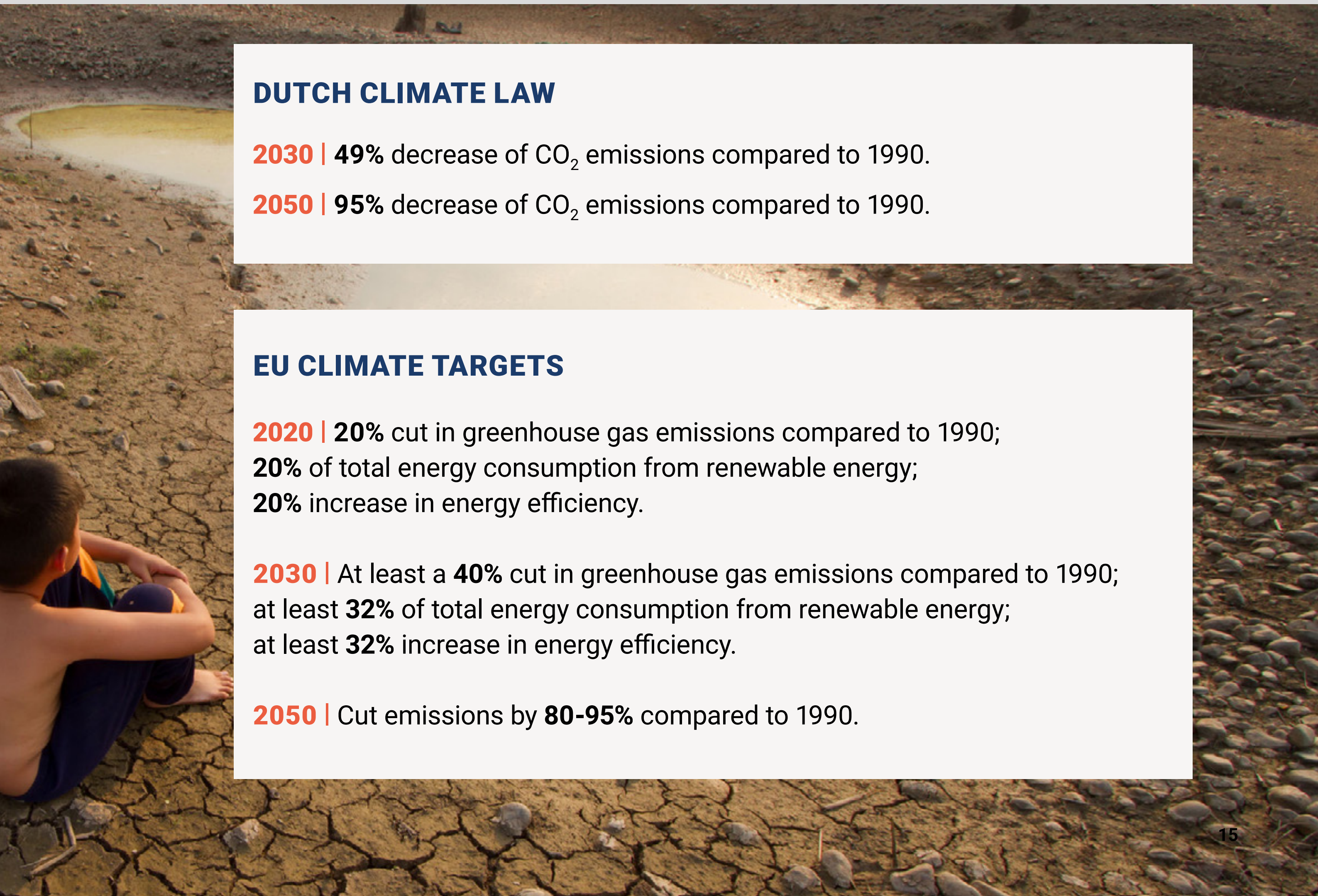
The Sustainable Development Goals (SDGs) can be used as a standard guideline as the framework spans issues related to climate change as well as critical social, governance, and other environmental concerns. It's encouraging to see that 13 insurance companies include climate change in their RI policy. In this regard, climate change is often included on a basic level, where the perspective should shift to see how insurance companies can contribute to solutions to achieve socio-ecological resilience against climate change along with concrete targets.[1]

Inclusion of environmental and social themes

This year, VBDO asked insurance companies to indicate if they include specific environmental and social focus themes in their RI policy. According to a recent report, published by the Dutch Central Bank (2019)[2], financial institutions – including insurance companies – face financial risks related to water stress, biodiversity loss, resource scarcity, and human rights violations. These issues constitute physical, transitional, and reputational risks that may impact their financial position. Therefore, it's important that the associated environmental and social issues are part of the investment decision making process. The benchmark, however, illustrates that most insurance companies do not uptake specific environmental and social issues in their investment decisions.

[1] Socio-ecological resilience: refers to the concept that "people, communities, economies, societies, cultures are embedded parts of the biosphere and shape it, from local to global scales. At the same time people, communities, economies, societies, cultures are shaped by, dependent on, and evolving with the biosphere." (Folke et al, 2016)

[2] De Nederlandsche Bank (2019), *Values at risk? Sustainability risks and goals in the Dutch financial sector.*



DUTCH CLIMATE LAW

2030 | **49%** decrease of CO_2 emissions compared to 1990.

2050 | **95%** decrease of CO_2 emissions compared to 1990.

EU CLIMATE TARGETS

2020 | **20%** cut in greenhouse gas emissions compared to 1990;
20% of total energy consumption from renewable energy;
20% increase in energy efficiency.

2030 | At least a **40%** cut in greenhouse gas emissions compared to 1990;
at least **32%** of total energy consumption from renewable energy;
at least **32%** increase in energy efficiency.

2050 | Cut emissions by **80-95%** compared to 1990.

Insurance companies and climate change

It is widely accepted that the effects of climate change have considerable impact on the financial sector. This varies from financial risks to opportunities for investing in solutions. In order to reach the goals set out by the Paris Climate Agreement, and to keep the increase in global average temperature to well below 2°C above pre-industrial levels, an energy transition to low-carbon and renewable energy sources is crucial.

The financial sector can play an active role in the worldwide transition to a carbon neutral economy. If we do not keep the rise to below 2°C, the effects could be catastrophic. For this reason, climate change is a key factor in determining the level of responsible investment (RI) of insurance companies in this year's report.

SOCIAL-ECOLOGICAL RESILIENCE DEFINED BY IPCC:
"The capacity of social, economic, and environmental systems to cope with a hazardous event or trend or disturbance, responding or reorganising in ways that maintain their essential function, identity, and structure, while also maintaining the capacity for adaptation, learning, and transformation." (IPCC, 2014)

Different types of climate risks

The Task Force on Climate-related Financial Disclosures (TCFD) is working on guidelines for climate-related financial disclosures for use by companies in providing information to investors and other stakeholders. The TCFD identifies transition risks and physical risks as the two main risks driving financial impacts on companies and investors.[3]

Transition risks

So far, most investors have placed the emphasis on transition risks and on portfolio decarbonisation. Transition risks are financial risks which could arise for insurance companies from the transition to a low-carbon economy. These transition risks includes the re-pricing of carbon-intensive financial assets, and the speed at which such re-pricing might occur. Transition risks are highly likely to have a substantial impact on financial stability, and also on the wider economy. For this reason, The Dutch Central Bank modelled a stress test of the potential impact of the energy transition and its related financial risks.[4] The conclusion was that insurance companies should anticipate a significant impact (mainly in their bonds portfolio), with a value loss between 2% and 11%.

Therefore, insurance companies need to incorporate the potential risk of a disruptive energy transition in their risk analysis and management in order to respond to the risks, and align their investments so that they contribute to the energy transition.

Physical risks

In the event that the Paris Agreement is not met and global warming is not kept well below 2°C, adaptation to the physical risks of climate change will become increasingly relevant. Physical climate risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption. Investors will need to understand how to adapt their investment portfolios to physical climate risks, financially as well as with regards to the protection of their real assets. Ultimately, financial or asset resilience can only exist in a resilient world, and it is also in the long-term interests of investors to aim for real world social-ecological resilience of our environment.

As well as assessing climate risks to their assets, investors should ideally also assess the impact of their assets on the social-ecological resilience of the region or location. Doing so enables investors to become part of the solution by adapting to the real world effects of climate change.

General findings

In this year's benchmark, the insurance companies were assessed on the following topics:

- Level of detail of the climate change policy
- Commitment to specific climate change related initiatives, such as measurement frameworks
- Consultation of experts on climate change
- Specific climate-related themes included in the policy, along with a specification of regions or sectors
- (Research on) the effect of climate risks and global warming scenarios on strategic investment decision making
- Active ownership on climate change
- Reporting on climate change

In November, a separate study will be published that analyses the climate specific results of both insurance companies and pension funds. The following pages highlight two of the topics listed above: how insurance companies include climate-related themes in their policy, and the effect of climate risks and global warming scenarios on strategic investment decision making. Overall, it can be concluded that the way the effects of climate change are integrated in policy-making varies greatly between insurance companies.

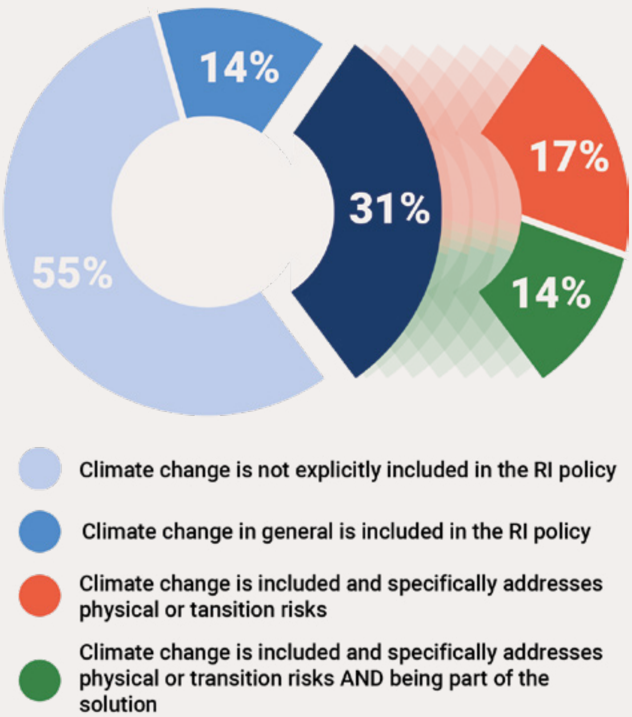
[3] DNB (2018), Overzicht financiële stabiliteit. https://www.dnb.nl/binaries/114869_OFS_Najaar_2018_WEB_tcm46-379387.PDF p. 43 - 46.

[4] TCFD (2017), Recommendations of the Task Force on Climate-related Financial Disclosures. https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

Level of detail of climate change policy

Half of the insurance companies (55%) do not have an explicit climate change policy. A few (14%) include climate change in general terms, e.g. related to carbon footprint measurements. These insurance companies have clearly acknowledged climate change as a topic in their responsible investment policy, but have not yet followed this up with specific action.

Figure 4 | Level of detail of climate change policy



Reducing climate change risks…

One third (31%) of the insurance companies have included climate change more specifically in their policy. The majority of the insurance companies that do this referred to reducing the carbon footprint of their investment portfolio. Some include how they are working to reduce transition risks, by aligning investments with the 2ºC climate goal. Only a few insurance companies include adaptation to physical risks as a specific part of their policy.

…and being part of the solution

14% of insurance companies actively include 'being part of the solution' in their policy. They do this by increasing investments in climate change mitigation, for instance by investing in renewable energy or green infrastructure projects and explaining how these investments contribute to climate change solutions. The next step is to include criteria relating to the real world adaptation to the physical risks of climate change, ultimately leading to social-ecological resilience. None of the insurance companies have mentioned this yet.

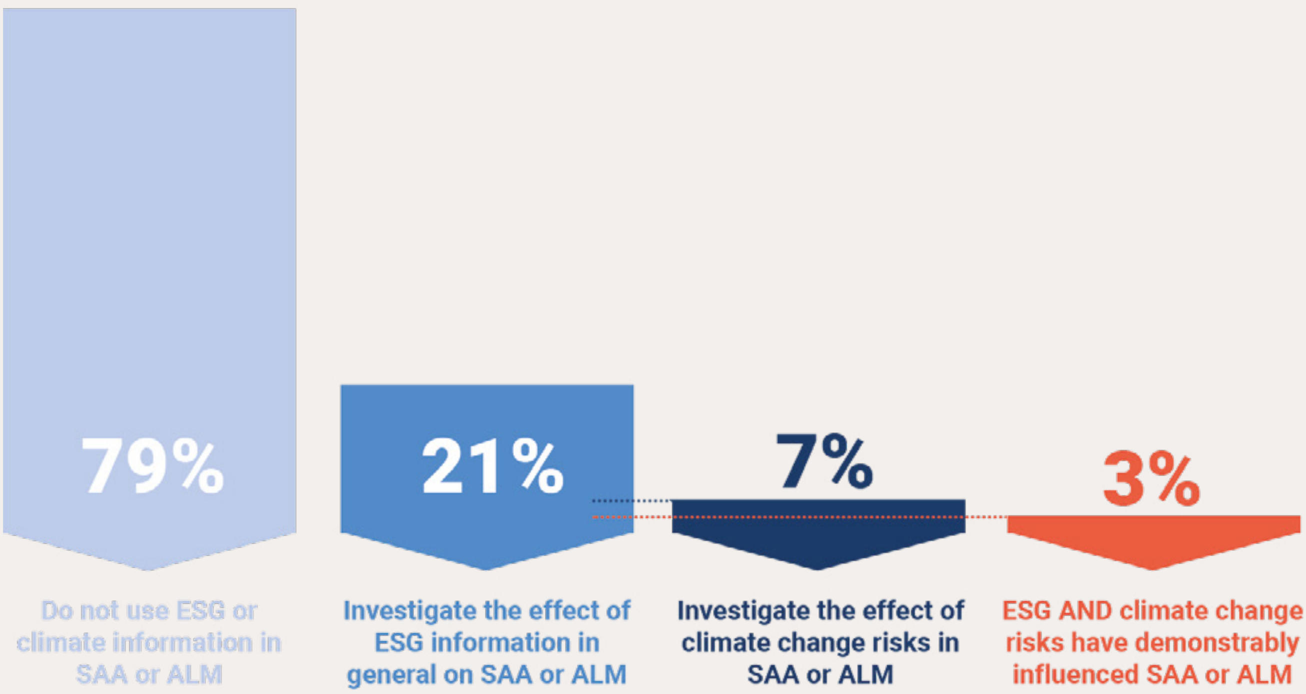
Climate scenarios

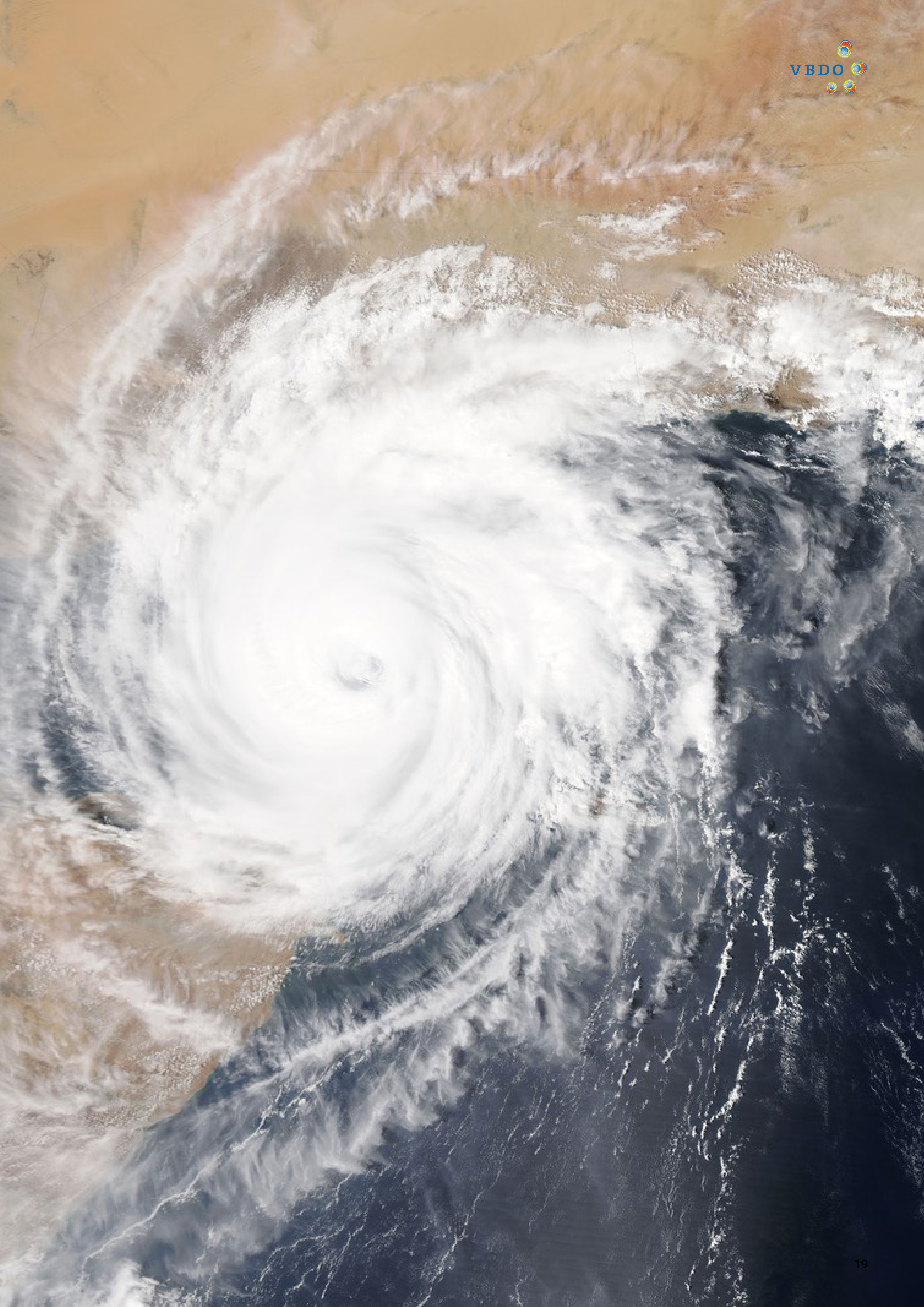
Managing climate-related financial risks is becoming increasingly important for investors, as they are recognised as being a systemic risk. New insights, metrics, and investment solutions are continuously being developed to make responsible investing more accessible across all asset classes. However, these approaches do not yet always consider top-down integration of ESG and climate-related risks into asset liability modelling (ALM) and strategic asset allocation (SAA).

According to the results of the survey, some insurance companies investigate the effects of ESG information on SAA or ALM; some also investigate the effects of (physical and transition) climate-related risks on their strategic investment decisions. Yet, it is still unusual for insurance companies to actively analyse how 1.5°C, 3°C and 4°C global warming scenarios will affect the risk/return of their investment portfolio.
These scenarios have a variety of climate change risks attached to them that can result in financial risks, and are therefore useful and important indicators for insurance companies.

Currently, 79% of the insurance companies do not use ESG or climate change information in SAA or ALM analysis. (figure 5).

Figure 5 | ESG in strategic asset allocation





Responsible investment instruments

The translation of ESG criteria into responsible investment instruments is vital in achieving the goals and targets defined in the RI policy. Table 1 (below) shows the percentage of insurance companies that apply each RI instrument. Even though RI instruments may be included in the RI policy, differences remain in the quality and depth to which these instruments are being implemented. Only effective implementation will result in sustainable investment decisions. This will be discussed in the next chapter: Implementation.

Table 1 | Responsible investment instruments

EXCLUSION	86%	An exclusion policy indicates what type of investment an insurance company chooses not to include in its investment universe. This can be done on legal grounds or from a reputational standpoint, ethical belief or sustainability perspective. It can exclude companies, sectors, and/or countries.
ESG INTEGRATION	72%	ESG integration refers to the process by which ESG factors are integrated into the investment decision making process complementary to financial data. This holistic approach ensures that ESG factors are identified and assessed to form an investment decision.
ENGAGEMENT	55%	Engagement is exerting influence on companies by entering into dialogue. By influencing companies that the fund invests in, engagement can help to optimise long-term value and manage reputational risk.
VOTING	55%	Insurance companies hold a position in the publicly listed companies they invest in. Through voting at shareholder meetings, they can influence and steer corporate policies. Shareholder resolutions can also be initiated or supported in this regard.
IMPACT INVESTING	41%	Impact investments are investments made with the intention of achieving a positive societal impact whilst generating a competitive financial return.

2.3 Implementation

Implementation demonstrates how well the responsible investment (RI) policy is being executed. VBDO analyses implementation for the various asset classes and the applicable responsible investment instruments (table 2). The results per asset class and instrument are detailed in the following pages. In this benchmark, the category of implementation accounts for 50% of the total score.

The allocation of assets determines the final score on implementation. Allocating more assets to an asset class that has a comprehensive RI policy will positively affect the total implementation score. In general, the scores on public equity and government bonds will strongly determine the final score on implementation. Similar to previous years, implementation has the lowest average score of all categories with 1.7, indicating that it remains challenging for insurance companies to implement their sustainability objectives.

Results per responsible investment instrument

2.3.1 Exclusion

An exclusion policy indicates what type of investments an insurance company chooses not to make. Exclusion can be done for various reasons – legal grounds, reputational risks, ethical beliefs, or sustainability considerations – and can be applied to companies, sectors, and also countries. Exclusion is a relatively basic step to take, but does require a vision on controversial issues. In this, the benchmark acknowledges exclusion criteria beyond legally binding requirements, such as the Dutch law inhibiting investments in cluster munitions.

Table 1 indicates that 86% of insurance companies have an exclusion policy in place. For companies, the most frequently given reasons for exclusion are controversial weapons (other than legally inhibited cluster munitions) and United Nations Global Compact violations. While human rights and tobacco are also frequently mentioned, environmental or climate-related issues are rarely included.

For the government bond portfolio, exclusion criteria are mostly based on official sanction lists (e.g. United Nations, European Union). Few insurance companies use additional sustainability-related country considerations to exclude countries from their investment portfolio.

In general, insurance companies hold different approaches to exclusion, depending on their beliefs and vision; while some might apply a zero-tolerance threshold for certain activities, others might consider engagement with exclusion a more effective means of influencing companies than pure exclusion.

Table 2 | Responsible investment instruments and their (possible) application to the asset classes included in the benchmark.

	Publicly Listed Equity	Corporate bonds	Government bonds	Real estate	Private equity	Alternatives
Exclusion						
ESG integration						
Engagement						
Voting						
Impact investing						

Table 3 | Approaches of ESG integration

Basic value alignment	ESG information is used in an elementary form, for example by requiring asset managers to be a signatory of responsible investment guidelines (UN Global Compact, UN Principles for Responsible Investment).
Nuanced & proactive approach	ESG information is used in a structured manner, for example through the use of the company's sustainability performance.
In-depth & comprehensive	ESG information has a systematic and ongoing effect on individual holdings, for example by an automatic under or overweighing in company stock based on ESG criteria. A best in class approach is the process where only the best performing holdings in a certain universe, asset class or category are selected.

2.3.2 ESG integration

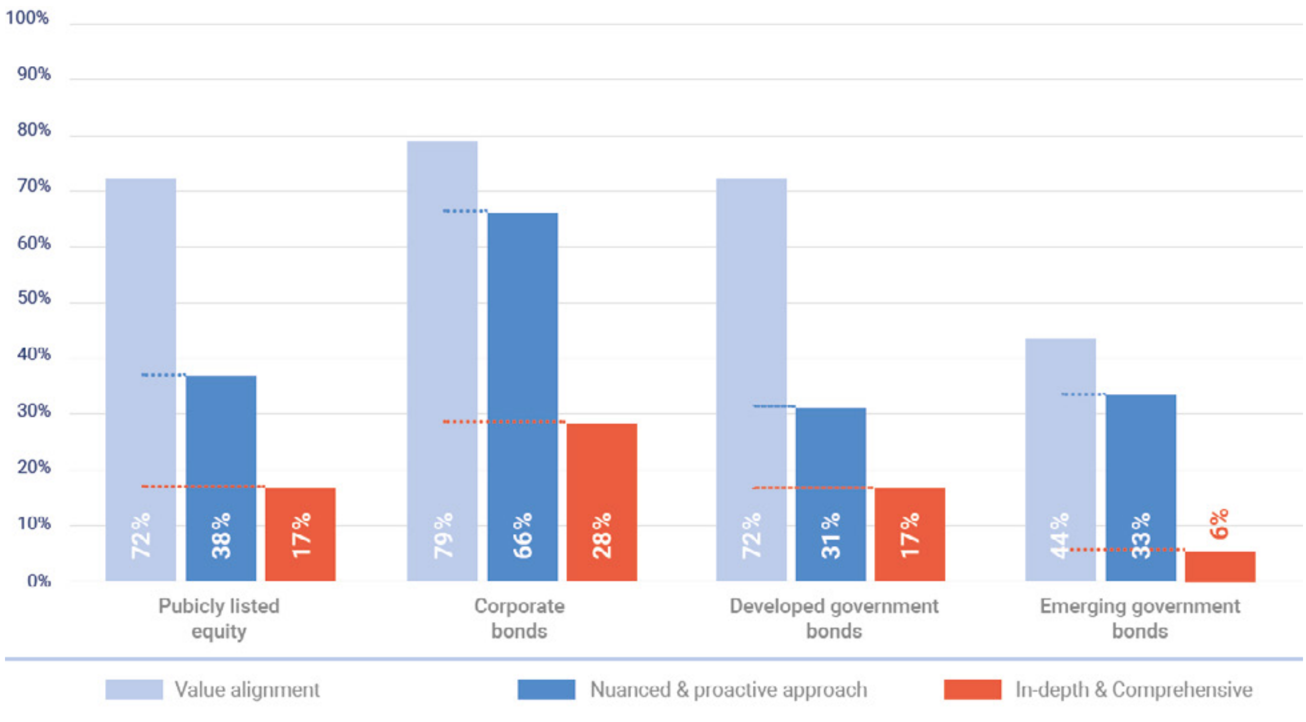
Meaningful ESG integration

ESG integration refers to the process by which Environmental, Social, and Governance (ESG) criteria are being integrated into the investment decision making process. This integrative approach ensures that ESG criteria are identified and assessed in order for the insurance company to make an investment decision. ESG criteria can expose risks that might otherwise remain undiscovered, and can identify investment opportunities. There are several approaches to ESG integration, with varying impacts on investment decisions and outcomes (see table 3).

VBDO analysed to what extent insurance companies integrate ESG criteria into their investment decisions. It can be concluded that a majority of the insurance companies use ESG information in their investment decisions in some (elementary) way (figure 6). They mostly do this by being (or requiring their asset managers to be) a UN PRI signatory.

Figure 6 also shows that 38% of insurance companies take a nuanced and proactive approach to integrate ESG in their publicly listed equity portfolio and 45% in

Figure 6 | ESG integration



their corporate bonds portfolio. This is, for instance, done by using the company's sustainability performance, and by analysing how ESG related risks potentially influence a company.

To fully integrate ESG in investment decisions, insurance companies (and their portfolio managers) should take a comprehensive approach and integrate ESG factors in the core of all their investment processes. What separates a comprehensive ESG approach from the above approaches is that ESG factors are fully incorporated and influence investment decisions. The results of our benchmark show that taking a comprehensive approach to ESG integration is a rare occurance.

ESG integration in government bonds

As can be seen in figure 6, ESG is taken into account in a nuanced and proactive approach by only 31% of the insurance companies for developed markets bonds and for 33% for emerging market bonds. The following characteristics are examples that can potentially influence the ESG performance of a country:

• Macro-economic developments such as unemployment rates;
• Elections or the changing influence of labour unions;
• Governance effectiveness factors;
• Vulnerability to natural disasters;
• Energy and food sovereignty.

Incorporating ESG factors into investment processes remains at an early stage in government bonds. This is especially the case for insurance companies that only invest in government debt in North-West Europe where the differences in ESG scores seem minor. However, it is certainly possible that country specific ESG factors will become more relevant in the near future.

ESG integration alternatives

Most insurance companies are using generic ESG screening approaches for various alternative asset classes. For alternative investments, it is recommended to use screenings that include criteria specific to the various asset classes. The benchmark analysed the following alternative investment classes: hedge funds, infrastructure, commodities, and mortgages. Most insurance companies withhold from investments in the alternative asset classes, with only a small percentage taking up hedge funds (14% insurance companies), commodities (10% insurance companies) and mortgages (34% Insurance companies).

Private equity is analysed as a separate asset class in the benchmark. This type of investment should consider ESG criteria when the insurance company decides on the proposed (co-)investment. In total, 17% of the insurance companies invests in indirect private equity. They all take ESG issues into consideration in their investments.

ESG integration in real estate

In a rapidly urbanizing world, real estate has great potential to accelerate sustainable development, considering its substantial use of materials and land, but also because the lives of people are centred around buildings.

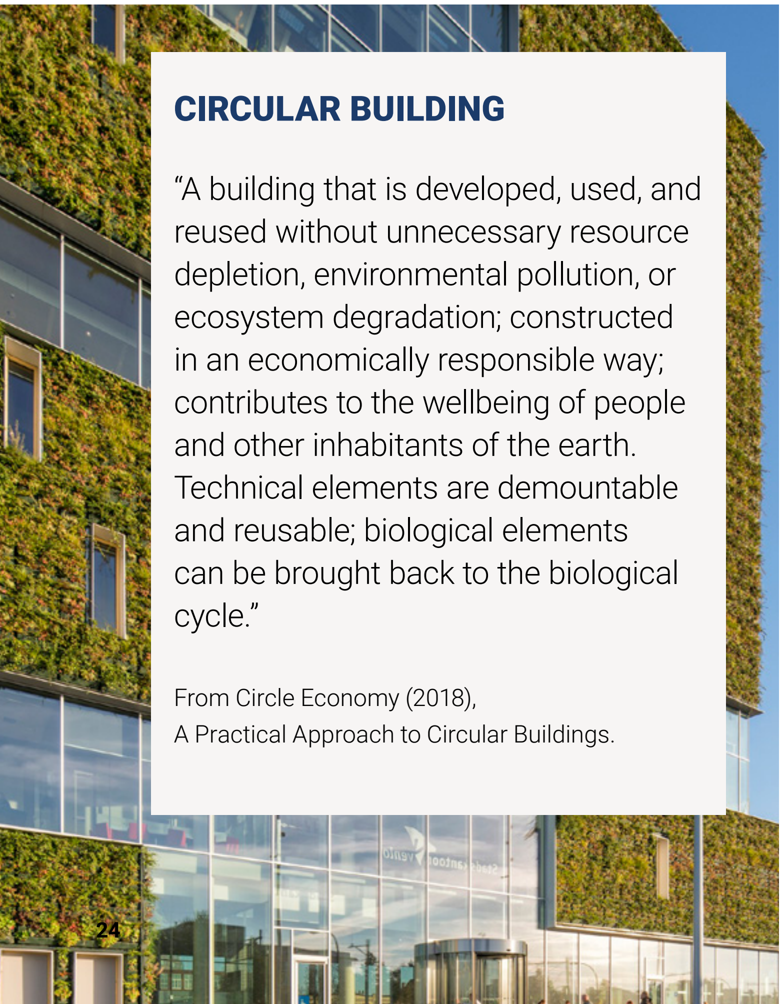
The benchmark shows that most insurance companies that invest in indirect real estate, consider mimimum standards for new real estate or in the reconstructions of existing real estate physical objects. Certification schemes are used to indicate the sustainability level of these objects, such as the assessment methods Buil-

ding Research Establishment Environmental Assessment Method (BREEAM), Leadership in Energy and Environmental Design (LEED), and low-carbon real estate objects.

38% of the insurance companies invest in indirect real estate. 18% of these indirect real estate investors only select managers and companies that receive a maximum rating by benchmarking agenciessuch as GRESB.

All sectors, including real estate, need to significantly change to accomplish CO2 neutrality and a climate resilient society by 2050. With the 'Klimaatwet' the Dutch government is stimulating the development of sustainable real estate, for example by implementing a minimum energy label C requirement for office buildings as of 2023.
Besides that, the 'Activiteitenbesluit Wet Milieubeheer' and the Energy Efficiency Directive (EED) impose measures to improve energy efficiency of real estate. The Bijna Energieneutrale Gebouwen (BENG) regulation specifies that from January 1, 2020, all new buildings in the Netherlands have to be near energy neutral. This means insurance companies will need to take new standards and regulations into account when making real estate investments, with a particular focus on the energy use, elimination of natural gas, and use of green energy.

Use of certification schemes that indicate the sustainability level of real estate objects can be a useful tool in this. Building Research Establishment Environmental Assessment Method (Breeam) and Leadership in Energy and Environmental Design (LEED) are two well-known assessment methods that can be used to this end. In addition, benchmarks such as the Global Real Estate Sustainability Benchmark (GRESB) can be employed to evaluate the sustainability performance of the real estate portfolio.



CIRCULAR BUILDING

"A building that is developed, used, and reused without unnecessary resource depletion, environmental pollution, or ecosystem degradation; constructed in an economically responsible way; contributes to the wellbeing of people and other inhabitants of the earth. Technical elements are demountable and reusable; biological elements can be brought back to the biological cycle."

From Circle Economy (2018),
A Practical Approach to Circular Buildings.

ESG integration in infrastructure

Infrastructure is a key driver of economic growth and development. Of the assessed insurance companies, only 21% invest in infrastructure. Half of these consider both E and S themes in infrastructure investments.

Investors can consider a broad range of material ES(G) issues that these investments might face over the assets' lifetime. Specific ESG factors can be included that are relevant for infrastructure investments, such as greenhouse gases, climate change adaptation, ecological enhancement, sustainable supply chain, and labour-, health and safety standards.[5]

Experts believe that climate change mitigation alone already needs an annual $6 trillion USD of investments. In comparison, around $3 trillion USD is currently spent on infrastructure annually. Green infrastructure investments can play a vital role in mitigating and adapting to climate change, as they are able to provide ecosystem services such as water purification and water flow, temperature regulation, biodiversity, and coastal and erosion protection, while also being able to play a fundamental role in societies by enhancing quality of life. Overall, climate-related effects are especially relevant for this asset class. It is not only important to account for the physical risks related to the asset, but also to support the crucial role infrastructure can play in mitigating and adapting to climate change effects, such as sea level rise, extreme weather events, and higher temperatures.[7]

[5] Climate 2020, UNA-UK, E.M. Hamin Infield.
[7] European Environment Agency. *Spatial analysis of green infrastructure in Europe.*

Investors should focus on making their infrastructure portfolio more sustainable and future-proof by investing in solutions with ecological and societal benefits, as well as going beyond the assessment of ESG risks.

2.3.3 Active ownership: engagement

As shareholders of the companies they invest in, insurance companies can actively influence the policies of those companies by entering into dialogue (also known as engagement). Engagement can help to optimise longterm value, manage reputational risk, and bring about positive social and environmental change. Monitoring and evaluating progress of the engagement activities is crucial in preventing it from becoming a box-ticking exercise. Insurance companies can practice engagement in various forms, such as case by case or collective engagement.

Not all engagement activities are evaluated, making it difficult to estimate its actual positive impact on companies' practices. Currently, half of the assessed insurance companies monitor and evaluate the publicly listed equity engagement process. 21% take further steps bas on the engagement results. on which further steps can be taken (figure 7).

ENGAGEMENT IN FIXED-INCOME

Some insurance companies combine equity and fixed income engagement practices. As lenders of capital, bondholders have unique opportunities to engage with companies. Insurance companies can consider engagement in specific situations such as during investor roadshows, at debt reissuance, and in collaboration with other bondholders. At the point of refinancing, bond holders could use their power to push companies to tackle climate change. On those occasions, insurance companies could demand transparency and encourage companies to disclose information on ESG risks based on broader market disclosure frameworks.

[7] European Environment Agency. *Spatial analysis of green infrastructure in Europe.*

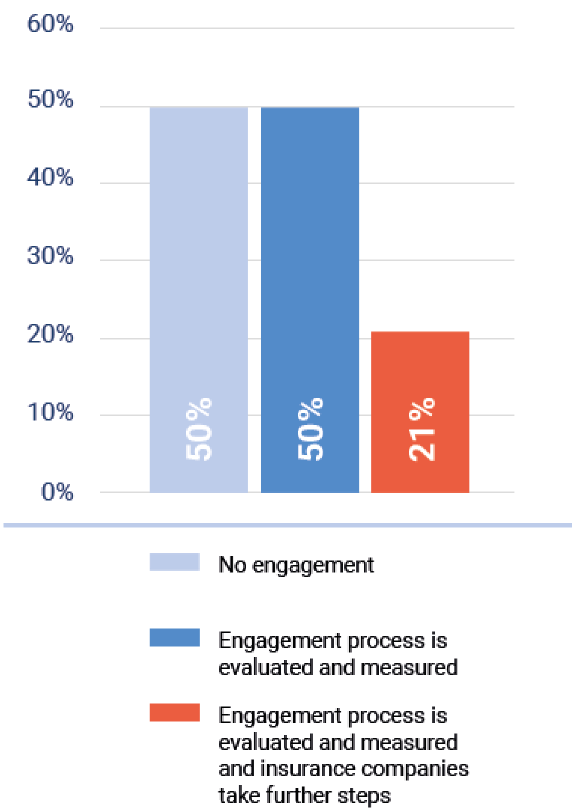
2.3.4 Active ownership: voting

Insurance companies can influence and steer corporate policies through their voting-rights as a shareholder. The results of our survey shows that just 52% of the insurane companies positively voted on ESG issues in 2018. They regularly focus their voting on governance-related topics while environmental and social themes are getting less prominent attention.
The majority of the insurance companies rely on the advice of proxy voting providers to support their investment decisions. From the results of our benchmark, it seems that very little has changed in these firms' policies, especially regarding issues such as climate change. The question is whether these firms are doing enough to develop their guidance on environmental and social issues.

The next step: initiating and publicly supporting shareholder resolutions

Even though shareholder meetings mostly focus on corporate governance, environmental and social issues do occasionally come up. Shareholder resolutions are

Figure 7 | Engagement



SHAREHOLDERS NEED TO MAKE SURE THAT VOTING TO SUPPORT POSITIVE ACTION TO BATTLE CLIMATE CHANGE BECOMES THE NORM.

an important part of influencing company behaviour on environmental and social issues. 24% of insurance companies have initiated or publicly supported shareholder resolutions on ES(G) issues in 2018. One example is the shareholder resolution by Follow This, where a group of shareholders advocated and aimed to push Shell to commit to specific targets regarding the Paris Climate Agreement. Several of the insurance companies indicated they supported this particular shareholder resolution. This initiative, and other collaborative engagement initiatives which lead climate-related shareholder resolutions, illustrates how combined efforts can help to create awareness and push for positive change. However, many insurance companies currently neglect this opportunity.

2.3.5 Impact Investing

Impact investments are investments done with the explicit intention of achieving a positive, measurable environmental and social impact whilst also generating a competitive financial return.

The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, microfinance, and affordable and accessible basic services including housing and healthcare. Its dual intention and the commitment to track and measure investments' non-financial impacts distinguish impact investing from other approaches such as ESG integration. A key point is that any positive environmental and social impacts are intended from the outset, and not side-effects. Currently, impact investment is the least employed RI instrument by insurance companies, used by 41%. VBDO encourages insurance companies to be more active in impact investing.

Green bonds

Green bonds are classified as impact investments in fixed income holdings. They are issued by companies and governmental institutions to finance specific projects that have a positive environmental or social impact (table 4). Green bonds are becoming increasingly popular with institutional investors. Their simplicity (they have the same recourse to the issuer as traditional debt), their long investments horizons, growing awareness of environmental factors in investment philosophies, and regulatory support, make green bonds attractive to institutional investors. Currently, 41% of the insurance companies invest in green bonds. An increasing number of investors have taken on stricter assessments to select and evaluate green bonds in comparison to previous years and are demanding greater transparency.

Table 4 | Examples of green bonds, ***Environmental Finance Spring 2019.***

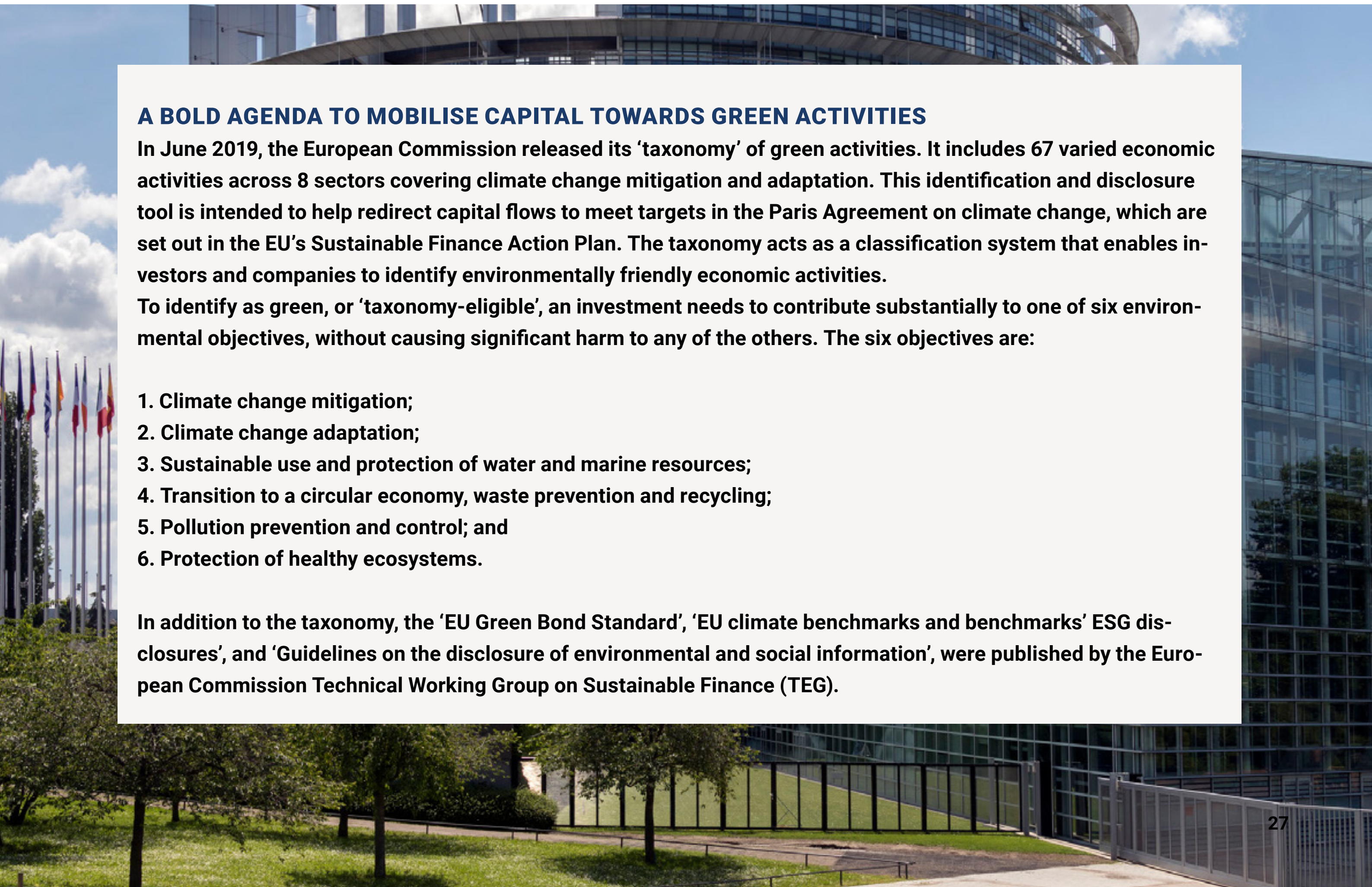
Issuers green bonds	Example	Positive social/environmental impact
Agency	Fannie Mae	Affordable, environmentally sustainable and resilient housing
Corporate	EDF	Renewable energy solar and wind projects
Municipal	New York Metropolitan Transportation authority	Development of New York's public transport system
Sovereign	Republic of Ireland	Renewable energy projects and electric vehicle charging infrastructure
Supranational	European Investment bank	Renewable energy and energy efficiency projects

SOVEREIGN GREEN BOND OF THE KINGDOM OF THE NETHERLANDS

In May 2019, the Dutch government issued its first green bonds that need to contribute to the climate goals on both national and international level. The proceeds of the investments will be used to finance a number of green projects such as sustainable housing and reinforcing the Afsluitdijk against sea level rise. This provides an opportunity for investors who aim to contribute to climate mitigation and adaptation in the Netherlands.

Green bond: intentionality and ratings

When investing in green bonds, investors need to be able to “separate the wheat from the chaff”. Insurance companies should take several criteria into account. Firstly, it’s important to assess the issuer of the green bond. In this analysis, insurance companies should be aware of the underlying criteria of ESG data and ratings they use from rating providers. Secondly, insurance companies should pay attention to the underlying projects and whether these are actually used for sustainable ends. If this is not the case, green bond investments might not have the positive social and/or environmental impact they are perceived to have. As the EU taxonomy will set a standard on what is green, there will be less cause to doubt the environmentally friendly characteristics of future green bond issuances.



A BOLD AGENDA TO MOBILISE CAPITAL TOWARDS GREEN ACTIVITIES

In June 2019, the European Commission released its ‘taxonomy’ of green activities. It includes 67 varied economic activities across 8 sectors covering climate change mitigation and adaptation. This identification and disclosure tool is intended to help redirect capital flows to meet targets in the Paris Agreement on climate change, which are set out in the EU’s Sustainable Finance Action Plan. The taxonomy acts as a classification system that enables investors and companies to identify environmentally friendly economic activities.
To identify as green, or ‘taxonomy-eligible’, an investment needs to contribute substantially to one of six environmental objectives, without causing significant harm to any of the others. The six objectives are:

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy, waste prevention and recycling;
5. Pollution prevention and control; and
6. Protection of healthy ecosystems.

In addition to the taxonomy, the ‘EU Green Bond Standard’, ‘EU climate benchmarks and benchmarks’ ESG disclosures’, and ‘Guidelines on the disclosure of environmental and social information’, were published by the European Commission Technical Working Group on Sustainable Finance (TEG).

2.4 Accountability

RI reporting stagnates on a basic level

Proper transparency includes frequent reporting on strategies, goals, results, and impacts of the responsible investment (RI) policy. This information could be used as the starting point for communication with insurance company's policyholders, while also being informative for other relevant stakeholders.

To a large extent, reporting on RI is encouraged by voluntary codes, guidelines and standards. However, mandatory legislation and current (inter)national developments indicate that disclosure standards are likely to become stricter and legally-binding. With the arrival of the IMVO Covenant for Insurance Companies, transparency will become increasingly important over the coming years. The IMVO Covenant specifies that frequent and consistent reporting should be part of a good RI policy and is therefore a key requirement. Other guidelines to report are for example; the EU Disclosure of Non-Financial Reporting Directive (NFRD), and the Task Force on Climate-related Financial Disclosures (TCFD).

With these developments in mind, insurance companies should ensure that they comply with relevant environmental regulatory standards and recommendations. Also, the RI policy and reporting on its implementation should be easily accessible through an RI report or substantial reporting in the insurance companies' annual report. Ideally, these reports should be verified by an external auditor.

The next step would be to not just report on the approach to responsible investing, but to also evaluate the RI performance by stating strategic objectives, performance against these objectives, and future ambitions. 14% of insurance companies incorporate such information in their annual (RI) report.

Informing policyholders on RI

Actively informing policyholders through the website and other communication channels provides active transparency on, and importance of, the RI policy. Magazines, social media, newsletters, and short videos are tools that can be employed to provide information on the RI policy. These are all areas where insurance companies have to considerably improve, and will be pushed to do so by regulatory frameworks such as the IMVO Covenant and the presumably upcoming EIOPA regulation from the European Union.

Figure 8 | RI reporting

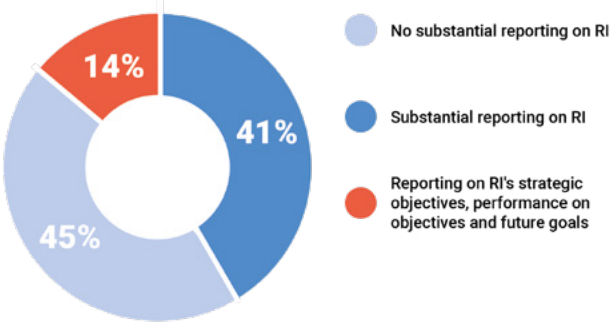
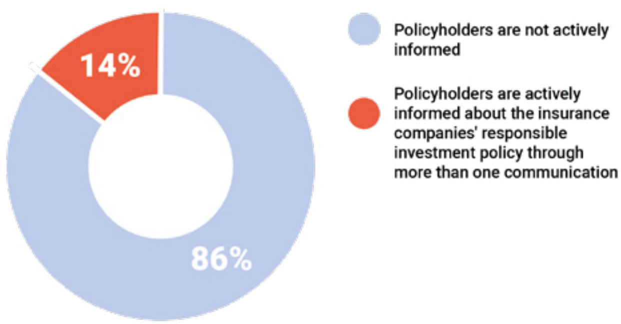


Figure 9 | Active Transparency



3. Conclusion

This chapter presents the final conclusions based on VBDO's analysis of the results presented earlier.

Insurance companies remain hesitant to reach out to their stakeholders

Sustainability issues are becoming more mainstream in the investment process and introduces a great deal of new and extensive information that needs to be retrieved, analysed and processed. This information puts high demands on all organisations involved.

For insurance companies to develop and define a clear vision on RI, it's essential that boards and portfolio managers actively inform themselves about societal developments and how their investments impact society. Only 14% of the insurance companies consult both policyholders and other stakeholders about responsible investment on a regular basis. And only 14% of insurance companies actively inform their policyholders about the content or results of the Responsible Investment policy through multiple communication channels.

Setting sustainability targets is not yet common practice

Insurance companies are hesitant to set targets that are ambitious, all-encompassing, and time bound. As such, 79% of the insurance companies do not formulate goals to bring responsible investment to the next level.

Formulating goals and targets helps insurance companies to act, evaluate progress, and continue to improve RI practices. Ambitious goals and clear targets send a strong message to all stakeholders, and direct asset managers to align the investment portfolio with the insurance companies' goals. Setting targets to measure actual impact is still exceptional. The insurance companies that do set targets mainly focus on climate mitigation targets (e.g. carbon reduction targets).

ESG-integration is widely adopted but remains on a basic level

All RI instruments (exclusion, ESG integration, engagement, voting, and impact investing) are applied in various degrees. Most insurance companies have integrated ESG information in their decision-making process on at least a basic level. ESG integration is, however, more effective when it's fully integrated into existing processes, rather than carried out in parallel. This requires in-depth ESG-integration that impacts all individual holdings and is asset-class specific.

Climate change: a modest start

It's widely accepted that climate change effects have a considerable impact on the financial sector and vice versa. In spite of the importance for insurance companies to include climate-related risks in their investment assessments, this benchmark shows only 7% of them have started investigating the financial risk of global warming scenarios on their investment portfolio.

Varying levels of detail in reporting

Transparency on RI is key in making clear to policyholders and other stakeholders the reasoning behind, and impact of the insurance companies' RI practices. Reporting on the RI results differs significantly between the insurance companies, especially in terms of the level of detail and the extent of reporting. Some insurance companies use a single paragraph to cover sustainability in their annual report, whereas others publish comprehensive RI reports.

4. Recommendations

This chapter sets out VBDO's main recommendations.

Reach out and join forces

For insurance companies to serve the interests of their clients and wider society, it's vital to develop a clear vision on how they impact and can best contribute to a sustainable society. The relevant information to establish this vision, and implement it into investment decision-making can be derived from academic work, societal interest groups, such as non-governmental organisations, employees, clients, and stakeholders in the investment value chain. Implementation of a wider society approach requires collaboration within the sector and with experts in the field of developing new approaches and standards.

Define clear goals and targets

Ambitious goals and targets in relation to the RI policy are needed to trickle down the sustainability agenda in all organisational decision-making levels. Long-term goals illustrate the guiding vision, whereas short-term goals and targets make it manageable.

As this is currently done only by a few insurance companies, VBDO urges other to follow suit and set goals and targets in the coming years. The Paris Climate Agreement and SDGs are international frameworks that can serve as a leading guide when establishing both long term goals and targets.

Aim for the right impact

There are many ways to substantiate RI and also a wide range of products, services, and investment solutions are available to choose from. These can vary greatly in 'shades of green'. Insurance companies should therefore be clear in what they look for, and savvy in what to opt for. For instance, with regards to green bonds, insurance companies could demand greater transparency on the use of proceeds and on the sustainability performance of the issuer.
With regards to ESG integration, an increasing number of insurance companies are using ESG indicators for their investment process to identify additional sources of risk and opportunity. Yet, ESG integration is often done on a very basic level. Insurance companies should take a more comprehensive and in-depth approach. Such an approach ensures that ESG factors are fully incorporated and individual holdings are influenced to make positive changes. ESG integration should furthermore address specific criteria and be adjusted to specific asset classes.

Incorporate climate change

The considerable impact of climate-related risks on the financial sector makes it critically important for insurance companies to explicitly include climate change in their RI policy and into their investment processes. Both transitional and physical climate risks need to be considered. While it is crucial to address climate-related risks, insurance companies should also seek to take advantage of the considerable investment opportunities open to them, such as renewable energy, new technologies and energy efficiency.

Offer clarity through clear reporting

Transparency gives policyholders and other stakeholders an understanding of which topics have been focused on, what steps have been taken, and what impact (environmental and societal) the investments have had. With the arrival of the IMVO Covenant, transparency will become inevitable to those insurance companies who signed. However, the entire sector need to start reporting clearly on its RI practices. As this report shows, addressing ESG criteria on a fundamental level and translating it to RI strategies requires insurance companies to constantly evolve. VBDO hopes to create a dialogue between insurance companies, experts, NGOs, and regulators to develop further understanding on broader long-term RI strategies and developments.

Appendix I. Methodology

Over the years, the benchmark has developed significantly and it has become a relevant tool to measure responsible investment by insurance companies in the Netherlands. The study is impartial and its most important aim is to, together with the Dutch insurance companies, enhance the sustainability performance of individual insurance companies, but also sector-wide.

Underlying presumptions

The most important underlying presumptions in this benchmark are:

I. The scope of the benchmark is determined by selecting the 29 largest Dutch insurance companies derived from the figures of the Dutch Central Bank.
II. The assets that are included in this benchmark are the assets of Dutch insurance companies, independent of where these are being managed.
III. The implementation of the responsible investment policy is considered to be the most important element, because here the actual impact is being made. Therefore, this receives 50% of the total score. Governance, Policy and Accountability account for the remaining 50%.
IV. The topic 'Governance' is to be considered from the viewpoint of the management of the insurance company, not from the asset manager's perspective.
V. The total score for 'Implementation' is dependent on the different scores of the asset classes (publicly listed equity; corporate bonds; government bonds; real estate; private equity and alternative investments). The weight of the asset classes in the determination of the implementation score is dependent on the asset allocation. Other assets, such as cash, interest swaps and currency overlays, are not included in this benchmark study.
VI. Within each asset class it is determined which ESG instruments are (reasonably) implementable. Each question receives an equal weighting.
VII. VBDO is indifferent if an investor takes an active or passive and direct or indirect investment approach and assesses what responsible investment strategies are being applied.

The abovementioned underlying presumptions are based on VBDO's consultation with the insurance companies participating in this study. This consultation is based upon an annual physical meeting with a selection of participating insurance companies. Key in this meeting are the quantified survey results.

The benchmark

The VBDO Benchmark 'Responsible Investment by Insurance Companies in the Netherlands 2019' compares the responsible investment performance of the 29 largest insurance companies in the Netherlands based on data of 2018. VBDO assesses responsible investment through detailed profiles of each insurance company. This year, the methodology has been revised to better reflect the developments in responsible investment. A question on mortgage investments has been added as a as a result of the above-mentioned consultation with insurance companies. Also several questions on climate change have been added. Due to the revision scores are not one on one comparable to the previous year.

Approach

The benchmark is set up to stimulate insurance companies to inform themselves about their current status of responsible investment. The research process consists of two phases:

I. VBDO executes a preliminary analysis, which is shared with the insurance company after completion.
II. In the second phase, the insurance company comments on the preliminary analysis and substantiates it with evidence which VBDO interprets, integrates, further elaborates upon and finalises.

Setup

The questionnaire is composed of four themes:

I. Governance
The first theme regards the governance of insurance companies on responsible investment, including the role of the board, the frequency of board meetings about responsible investment, targets set to asset managers and the consulting of policyholders.

II. Policy
This theme focuses on the responsible investment policy in place. Its applicability to the entire portfolio, its depth, and its quality are surveyed.

III. Implementation
The implementation of the responsible investment

policy applies to six different asset classes. Table 5 shows the asset classes with the corresponding responsible investment strategies that are covered in the study. VBDO believes that the asset owners should take responsibility for the investments made on their behalf. Therefore, all implementation questions include the whole investment chain from insurance company to asset managers or fund managers. They are directed towards the state of implemented strategies in 2018.

IV. Accountability
This section discusses transparency about responsible investment policies, strategies, results and reports.

Scoring model

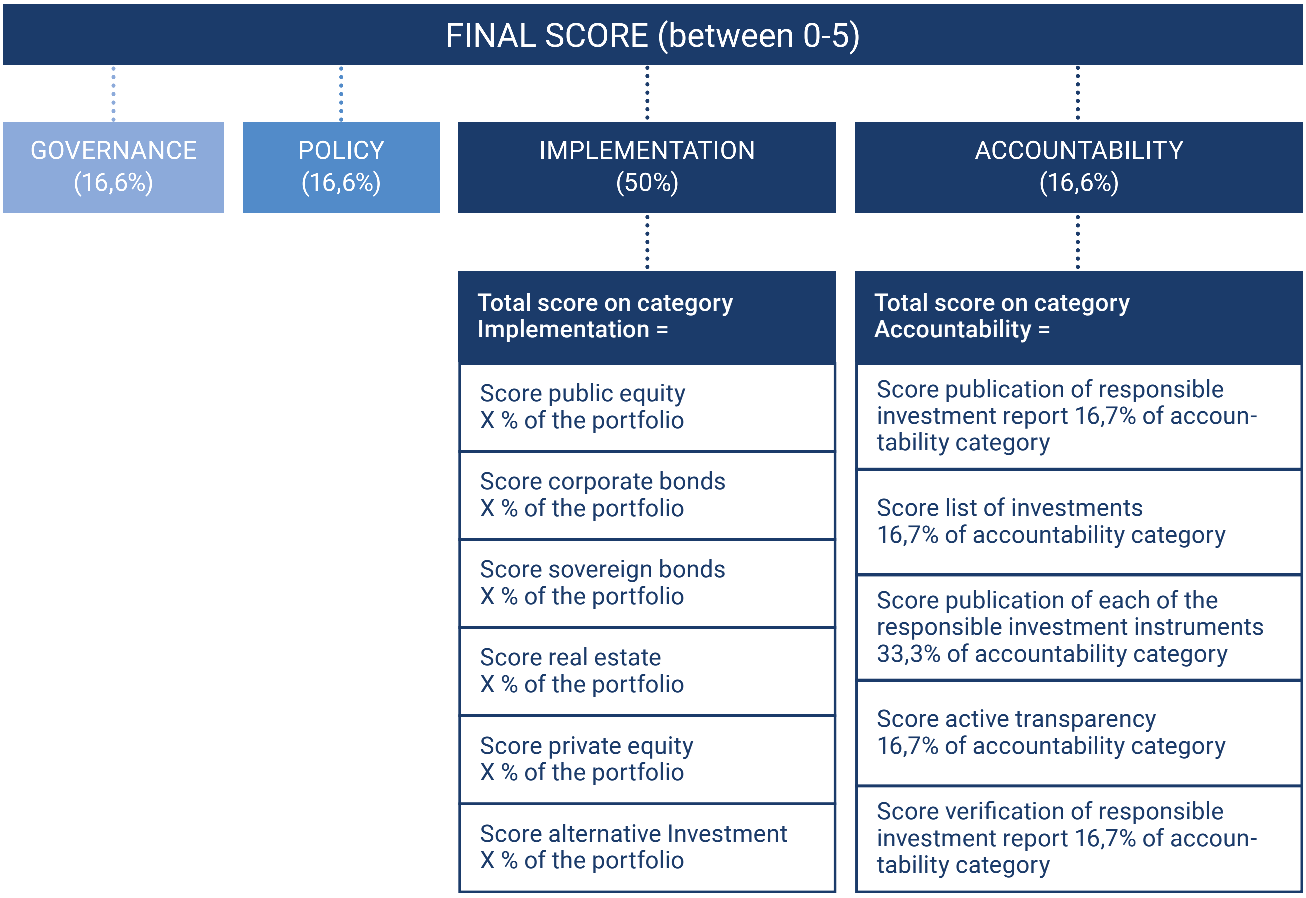
The categories are weighted differently. Governance, policy, and accountability each account for 16.7%, and implementation for 50% which makes a 100% in total. The weighted percentage for implementation is

Table 5 | Responsible investment instruments and their (possible) application to the asset classes included in the benchmark.

	Publicly Listed Equity	Corporate bonds	Government bonds	Real estate	Private equity	Alternatives
Exclusion	■	■	■			
ESG-integration	■	■	■	■	■	■
Engagement	■	■		■		
Voting	■					
Impact investing	■	■	■	■	■	■

50% because this theme determines the final output and quality of the responsible investment practices of an insurance company. In the governance and policy category, all questions are weighted equally. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class.
All questions are weighted equally within asset classes. In the accountability category, 5 sub categories are distinguished. Publication of the responsible investment policy, list of investments, active transparency and the responsible investment report each account for 16.7% of the accountability score. Transparency on implementation accounts for the other 33.3% and is assessed per responsible investment instrument. Figure 10 gives an overview of the scoring model.

Figure 10 | Overview of the scoring model.



Appendix II. Responsible investment strategies and asset classes

Responsible investment strategies

Based on reviews of implementation practices by investors worldwide and its own vision on responsible investment, VBDO has identified a range of responsible investment instruments that are applicable to one or more asset classes:

- **Exclusion**

Certain products, processes or behaviour of some companies and governments, 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, in order to exclude companies and governments.
Concerning the exclusion of government bonds, insurance companies can exclude countries based on official sanction lists of, for example, the EU and UN or based on other criteria. In January 2013 the legal ban of investments in cluster munitions came into force in the Netherlands. In the opinion of VBDO responsible investment should be a practice that goes beyond merely following legal obligation. Therefore, the insurance companies can only receive points for exclusion criteria that go further than merely excluding on the basis of cluster munition.

- **ESG integration**

Even when the excluded companies are left out, large differences in terms of corporate responsibility sometimes remain between companies in which institutional investors 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. Institutional investors should consider this in developing their investment policy and should give preference to companies that perform well in relation to corporate responsibility.
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 mean that an investor merely 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, 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. An example of ESG integration is positive selection, this is defined as choosing the best performing organisation out of a group of corresponding organisations (sector, industry, class) with the use of ESG criteria. 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. Integration of ESG criteria in the investment selection can be applied to all of 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.

- **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 the responsible investment policy, Insurance companies 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 the shareholder meeting. In order to obtain optimal engagement results, it is essential to evaluate and monitor the engagement activities and take further steps based on the outcome of the engagement activities. Engagement can be used to publicly listed equity as well as corporate bonds and real estate funds.

- **Voting**

Institutional investors can actively exert influence on companies in which they invest by voting during shareholder meetings. Many institutional investors vote 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 pushed towards improvement and corrective action. Voting is examined only at the asset class publicly listed equity.

- **Impact investing**

Impact investing implies active investments that are made in companies or projects, which lead in terms of sustainability or clearly offer added value for sustainable development. Examples are investments in sustainable energy sources, innovative clean technology, affordable medicine against tropical diseases, microcredit and sustainable forestry. 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 search 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. VBDO values the measurement and evaluation of the actual environmental and social impact of the investments. The instrument is applicable to all asset classes.

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 crucial for emerging markets. In many sectors economic development shows that these countries are already responding to the abovementioned 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. 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 similar as for equities, however 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.

- **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 agreements. Investors can also seek those government bonds that support the creation of public goods, such as needed infrastructural improvements, support for schools, or the development of sustainable energy sources and purchase government debt targeted to a specific activity.

- **Real estate**

Real estate investments encompass a wide range of products, including home ownership for individuals, direct investments in rental properties and office and commercial space for institutional investors, publicly traded equities of real estate investment trusts, and fixed-income securities based on home-loans or other mortgages. This assessment is limited to direct investments in buildings and indirect investments via real estate funds. Investors could screen their portfolio by developing ESG criteria for the construction of new buildings, their locations and the maintenance of existing buildings, machines and other facilities within buildings, such as environmental efficiency, sustainable construction and materials and fair labour practices. For real estate (investment) that is managed externally, the selection of fund managers based on experience with and the implementation of ESG is an important tool. Additionally, the managers of real estate funds can be engaged to improve their social and environmental performance.

- **Private equity**

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. This can be done especially in regions and communities that are underserved, and promote creation of local business and jobs. With this in mind, integrating the responsible investment policies in the selection process can be an important tool for institutional investors.

- **Alternative investments**

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

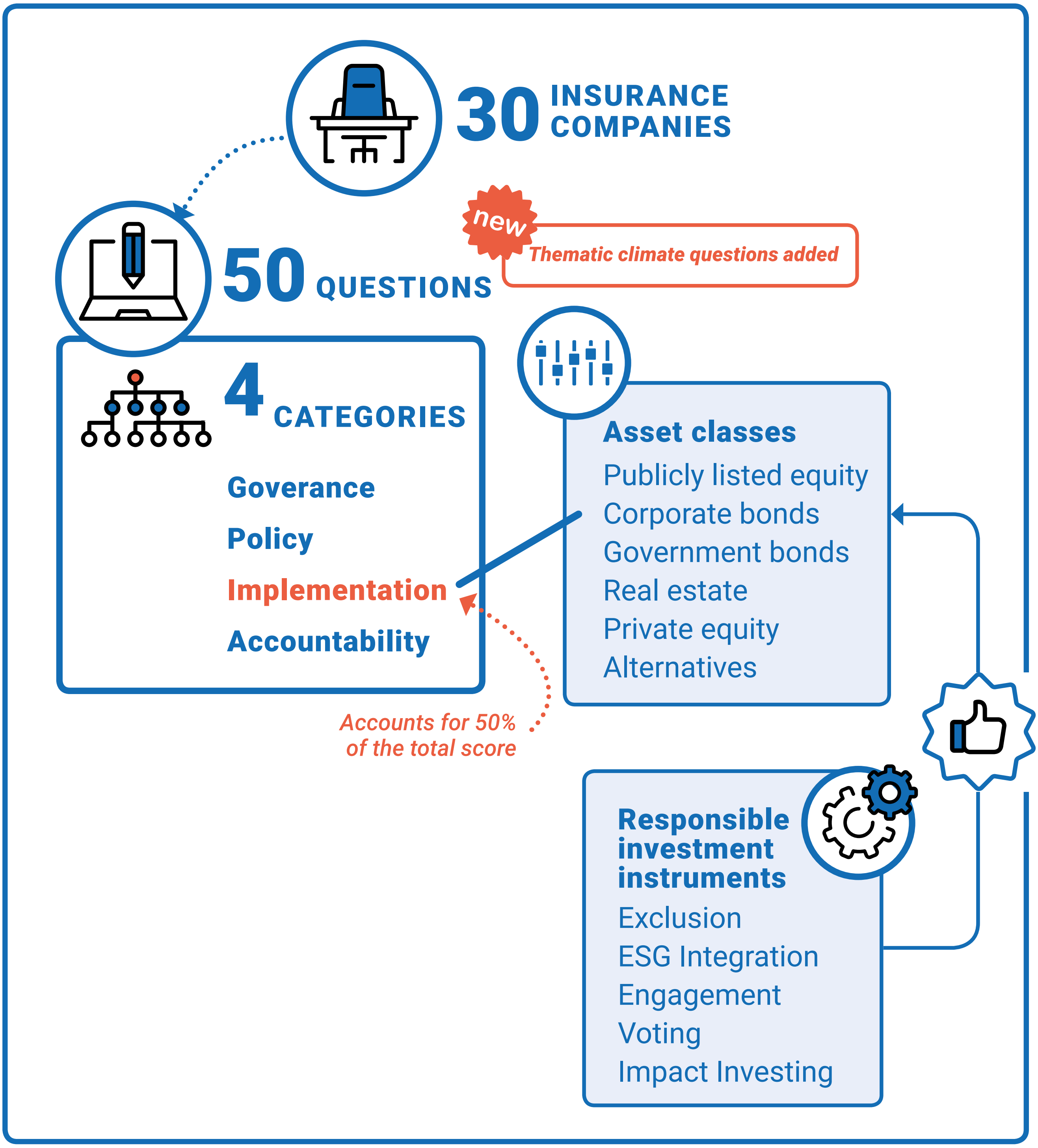
I. Although hedge funds are often handled as a separate asset class, the underlying assets are generally publicly listed securities (stocks and bonds) and their derivative products. Thus, investors could consider an ESG analysis of underlying assets and theoretically use the same tool for ESG management as for public equity and fixed income. Likewise, integrating the responsible investment policies in the selection process can be an important tool.

II. Infrastructure is widely considered to have a positive social impact. Infrastructure investors should take into account a broad range of material ESG issues that these investments might face over the assets' lifetime. Examples of ESG issues could involve; biodiversity impact, labour-, health and safety standards, resource scarcity and degradation, extreme weather events and supply chain sustainability. It is therefore relevant to monitor how ESG is integrated in infrastructure investments.

III. 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.

VBDO Benchmark Responsible Investment By Insurance Companies

Since 2007, VBDO has conducted annual benchmarking studies on responsible investment by Dutch institutional investors. This has proven to be an effective tool in raising awareness about responsible investment and stimulating the sustainability performance of insurance companies and pension funds. The fundamentals of the scoring methodology have been developed thirteen years ago and the assessment criteria have continuously improved over the thirteen years that VBDO has been conducting the benchmark.



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