Benchmark Responsible Investment by Insurance Companies in the Netherlands 2015

Insuring a sustainable world?

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Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO)

Authors: Rudy Verstappen and David de Kruif
Assisting authors: Puck van Ipenburg, Frank Wagemans, Hester Holtland, Imre Vellenga and Hanneke Kastelijns

In cooperation with **Profundo**:
Michel Riemersma

For information:
Please contact Sigi Simons, PR and Communications
sigi.simons@vbdo.nl, + 31 (0) 6 20 33 09 97

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Foreword

In this benchmark Responsible Investment by Insurance Companies we reviewed for the sixth time the state of the sector regarding sustainable investment. To what extent are social and environmental indicators taken into account? How much long-term oriented are they when investing their money? What is the diversity in instrument they use, and what asset classes are involved?

The response is not very promising. Progress seems to have come to a halt, with stable scores for most companies.

When comparing responsible investment in the insurance sector to the pension funds, the latter are clearly ahead, with the exception of the largest insurance companies, which are comparable with the leaders in the pension market. In general we see that the larger the (insurance) company, the better the rating.

In my last foreword as director of the VBDO I was hoping on a more positive outcome. The speed of change in the sector does not keep up with the rapid change in the need for clean energy, water, raw materials, food, good working conditions and living wages. Risks and returns will rapidly change accordingly, and investors need to adapt swiftly. The first legal investigations are being held to companies that did not react to eg climate change while knowing their impact on this topic.

The good news is that the lower the current results, the more potential for improvement. There are good opportunities for learning within the sector, notably from the largest companies. However, any change would require the relentless support of the top management. Success only comes when sustainability is in the core of corporate strategy.

This research would not have been possible without the support of Oxfam Novib, who we thank for their commitment and contribution. I also would like to thank the research team at the VBDO, that skilfully and thoughtfully worked hard to get this report in time to you.

Finally, I wish all readers, for the last time, much pleasure reading this report.

Giuseppe van der Helm
Executive Director VBDO

Executive Summary

This is the sixth annual edition of the VBDO Benchmark on Responsible Investment by Insurance Companies in the Netherlands, published by the Dutch Association of Investors for Sustainable Development (VBDO). It provides a detailed overview on the way the Dutch insurance companies govern, formulate, implement and report their responsible investment policies.

Research into the responsible investment policies and practices of insurance companies is of great importance for several reasons. First of all, the companies covered in this study manage assets valued over € 370 billion and therefore have a large impact on society. It also contributes to the license to operate for the companies, as responsible investment can reduce their reputational risk.

Furthermore, it enables better-informed investment decisions, since ESG information supplements traditional analysis. Finally, the responsible investor contributes to a more stable financial system and contributes to the challenges of the future of society. This study provides insurance companies and their stakeholders insight into whether and how Dutch insurers invest their capital in a sustainable way.

Responsible investment in Dutch insurance market stagnates

Overall, Dutch insurance companies show a stagnation in the level of responsible investment across all categories: governance, policy, implementation and accountability. This is in contrast to the progress in recent years.

Together, the larger insurance companies have a considerable market share. The study shows a strong positive relation between the level of responsible investment and the size of the assets under management by an insurer. In comparison to pension funds, the top insurance companies perform in line with the front-running pension funds, but across the industry insurers are lagging behind.

Recommendation

- Co-operation and sharing of best-practices is needed to move the practice of responsible investment by insurance companies forward. Responsible investment should be seen as non-competitive and knowledge should be shared. The front running insurance companies should make a larger effort to help those staying behind.

Responsible investment should be a part of larger strategy

A large number of companies in the Dutch insurance industry does not seem to regard responsible investment as a crucial element of their overarching strategy as shown by the following observations. In 2014, there were fewer meetings about the topic at the executive level. Responsibilities were delegated to a lower management level. Only a few insurers set sustainability targets for either their asset managers or their staff.

Recommendation

- To anchor responsible investment within the organization, it should be featured more prominently on the agenda of the executive board.

Development of policy frameworks needs attention

A clear and detailed policy document is essential for embedding responsible investment in the organization and to communicate the corporate identity to society. Several front-running insurers keep on adapting their policies both in extent, volume and time-horizon. However, overall policy performance decreased compared to 2013.

Several insurance companies have established performance indicators to evaluate and adapt their responsible investment practice. The time horizon of most performance indicators is also rather limited, making it difficult to foster a long-term perspective. This was also measured by the lack of incorporating sustainability trends, such as climate change, on a more strategic level. Several leading insurers cooperate with their asset managers to implement strategic asset allocation.

Recommendations

- Insurers should develop a long-term oriented policy framework capable of dealing with a changing world that applies to all asset classes in which they invest.
- Long-term objectives are vital to show board commitment and assure a smooth roll-out in the organisation.

Responsible investment instruments not used to their full extent

The most important element of responsible investment is implementation. Unfortunately, the insurance sector showed no improvement in 2014. Although many insurance companies use a range of responsible investment strategies, the depth of application can be improved. The majority of insurers implements a basic form of ESG-integration, but a systematic integration that affects individual holdings is not widespread.

There is room and reason for improvement, as further integration of non-financial data could reduce risk and identify opportunities in investment portfolios. Furthermore, potential positive impact is missed. Many insurers engage in active ownership but do not always measure the impact of these activities, nor do they automatically apply other instruments based on results of these activities. The same applies to impact investments, where impact measurement is scarce.

A positive note is that green bond investments increased substantially in 2014.

Recommendations

- Insurance companies should not only expand the number of responsible investment strategies, but also improve the depth of their instruments. For example by applying an escalation model with engagement, voting and exclusion.
- Impact investments should be monitored more closely to allow the insurers and other stakeholders to determine the generated social and environmental impact.

Not all insurers account for their activities

Insurance companies should be transparent about their responsible investment practices, so consumers can make better-informed decisions about the insurance companies they select. Other societal stakeholders can also use this information to properly assess insurers. The accountability regarding both responsible investment policy and instruments did not improve in 2014.

With 37% not responding to this study, a substantial part of the insurance sector shows a lack of transparency. Most of these insurers do not publish information about their responsible investment activities. Furthermore, actively informing clients is still at its infancy with four insurance companies doing this. One notable exception to the decrease in accountability is the increased transparency on impact investments across the sector.

Recommendation

- Not all customers regularly visit the website or look for the annual report, therefore insurers should actively reach out to their customers on the topic of responsible investment, for example by organizing meetings or sending newsletters.

Overall scores Top 10

This table presents the overall results of the insurance company benchmark 2015.

Ranking 2015	Change	Ranking 2014		Score	Governance	Policy	Implemention	Accountability
1	=	1	Zwitserleven	4,4	5,0	5,0	3,9	4,4
2	=	2	Reaal	4,2	4,3	5,0	4,2	3,6
3	=	3	ASR Nederland	3,9	5,0	4,0	3,4	4,2
4	=	4	Achmea	3,4	4,5	4,0	2,4	4,8
5	+	7	NN	3,1	4,2	3,0	2,9	2,8
5	+	6	Aegon	3,1	4,2	4,0	2,4	3,5
7	-	5	Menzis	3,0	3,3	3,0	2,7	3,8
8	+	9	Loyalis	2,8	3,2	2,0	2,7	3,3
9	-	8	Delta lloyd	2,7	4,5	3,0	1,6	3,6
10	=	10	Zorg en Zekerheid	2,5	2,7	2,7	2,7	1,7

Samenvatting

Voor u ligt de zesde jaarlijkse editie van de VBDO Benchmark Duurzaam Beleggen door Verzekeraars in Nederland. Dit rapport is een uitgave van de Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO) en geeft een gedetailleerd overzicht van de manier waarop de Nederlandse verzekeraars hun duurzaam beleggingsbeleid organiseren, formuleren, uitvoeren en er over rapporteren.

Onderzoek naar het duurzaam beleggingsbeleid en de praktijken van verzekeringsmaatschappijen is van groot belang om verschillende redenen. Allereerst beheren de bedrijven, die in deze studie zijn opgenomen, een vermogen van meer dan €370 miljard hebben en daarmee een grote impact op de maatschappi. Ook draagt duurzaam beleggen bij aan de 'license to operate' voor de verzekeraars, doordat zij hun reputatierisico kunnen verminderen. Bovendien geeft het de verzekeraars de mogelijkheid om beter geïnformeerde beleggingsbeslissingen te nemen, omdat de ESG-informatie de traditionele analyse aanvult.

Tot slot draagt de duurzame belegger bij aan stabieler financieel systeem. Deze studie geeft verzekeraars en hun stakeholders inzicht in de vraag of en hoe de Nederlandse verzekeraars het geld op een duurzame manier investeren.

Duurzaam beleggen in de Nederlandse verzekeringsmarkt stagneert

Gemiddeld genomen laten de Nederlandse verzekeringsmaatschappijen een stagnatie qua duurzaam beleggen zien in het afgelopen jaar. Dit is te zien in alle onderzochte categorieën: governance, beleid, uitvoering en verantwoording. Dit contrasteert met de vooruitgang die de laatste jaren gezien werd.

De grotere verzekeringsmaatschappijen hebben tezamen een aanzienlijk marktaandeel. De studie toont daarbovenop een sterk positief verband tussen de mate van duurzaam beleggen en de grootte van het beheerd vermogen van een verzekeraar. Vergeleken met pensioenfondsen presteert de top van de verzekeringsmaatschappijen in lijn met de koplopers bij de pensioen- fondsen, terwijl de sector gemiddeld gezien achterloopt op pensioenfondsen.

Aanbeveling

- Samenwerking en het delen van best-practices is nodig tussen de verzekeraars om qua duurzaam beleggen vooruitgang te boeken. Duurzaam beleggen zou moeten worden gezien als niet-competitief en kennis moet tussen de partijen worden gedeeld. De voorlopende verzekeraars zouden zich meer moeten inspannen om de achterblijvers te helpen.

Duurzaam beleggen moet onderdeel zijn van de overkoepelende strategie

Een groot aantal verzekeraars lijkt duurzaam beleggen niet te beschouwen als een cruciaal onderdeel van hun overkoepelende strategie. In 2014 waren er op het bestuursniveau minder vergaderingen over dit onderwerp. Verantwoordelijkheden lagen geregeld bij een lager managementniveau. Slechts een aantal verzekeraars stelde duurzaamheidsdoelen voor hun vermogensbeheerders of hun personeel om hen aan te sturen op dit gebied.

Aanbeveling

- Om duurzaam beleggen binnen de organisatie te verankeren, moet het prominenter op de bestuursagenda staan.

De ontwikkeling van het beleid behoeft aandacht

Een duidelijk en gedetailleerd beleid is van essentieel belang voor het incorporeren van duurzaam beleggen in de organisatie en hierover te communiceren naar de samenleving. Sommige voorlopende verzekeraars hebben hun beleid verbeterd in reikwijdte, volume en tijdshorizon. Echter, de algehele prestaties op beleidsterrein van de sector zijn gedaald ten opzichte van 2013.

Slechts een paar verzekeraars hebben prestatie-indicato-duurzame beleggingspraktijk te verbeteren. De tijdshorizon van de meeste prestatie-indicatoren is beperkt, waardoor het moeilijk is om een langetermijnsperspectief te creëren. Dit wordt ook aangetoond door het gebrek aan het meenemen van duurzaamheidstrends, zoals bijvoorbeeld klimaatverandering, op een meer strategisch niveau. Verschillende toonaangevende verzekeraars werken samen met hun vermogensbeheerder bij het uitvoeren van dit soort strategische asset allocatie.

Aanbevelingen

- Verzekeraars dienen een beleidsdocument te ontwikkelen dat gericht is op de lange-termijn, die van toepassing is op alle beleggingscategorieën waarin zij beleggen en waarin ze beschrijven hoe ze omgaan met een veranderende wereld.
- Lange-termijn beleidsraamwerken zouden opgesteld moeten worden aangezien deze essentieel zijn voor een verzekeraar om maatschappelijke betrokkenheid te tonen en te zorgen voor een vlotte en doortastende implementatie binnen de organisatie.

Instrumenten van duurzaam beleggen worden niet ten volle benut

Het belangrijkste element van duurzaam beleggen is de implementatie. In 2014 toont de verzekeringssector hier helaas geen verbetering in ten opzichte van het jaar ervoor. Hoewel veel verzekeringsmaatschappijen gebruik maken van een groot palet aan duurzame beleggingsinstrumenten, is het noodzakelijk dat de diepte van toepassing wordt verbeterd. Een meerderheid van de verzekeraars implementeert een basisvorm van ESG-integratie, maar een systematische integratie die impact heeft op individuele beleggingen in bedrijven ontbreekt vaak. Hier is ruimte en reden voor verbetering, mede omdat verdere integratie van niet-financiële gegevens risico's kan verminderen en kansen in beleggingsportefeuilles kan identificeren.

Daarnaast worden sommige potentieel positieve effecten niet gerealiseerd. Veel verzekeraars hebben namelijk engagement en voting geïmplementeerd, maar passen ze amper andere instrumenten toe op basis van de resultaten van deze activiteiten. Voor impact investeringen geldt ook dat impactmeting schaars is juist terwijl beleggingen in groene obligaties aanzienlijk zijn toegenomen in 2014.

Aanbevelingen

- Verzekeringsmaatschappijen zouden niet alleen het aantal duurzame beleggingsinstrumenten moeten uitbreiden, maar ook het verbeteren van de toepassing van deze instrumenten. Bijvoorbeeld door het aanbrengen van een escalatie model met daarin engagement, stemmen en uitsluiting.
- Impact investeringen dienen beter te worden gemonitord, zodat de verzekeraars en andere belanghebbenden beter kunnen bepalen wat de gegenereerde sociale en milieu-impact is.

Niet alle verzekeraars zijn transparant over hun activiteiten

Verzekeringsmaatschappijen dienen transparant te zijn over hun duurzame beleggingspraktijk, zodat consumenten betere beslissingen kunnen nemen over de verzekeraar die ze kiezen. Andere stakeholders kunnen deze informatie gebruiken om de verzekeraars goed te kunnen beoordelen. De verantwoording over zowel het duurzaam beleggingsbeleid als instrumenten heeft geen verbetering laten zien ten opzichte van 2013.

Met 37% van de respondenten dat niet reageert op dit onderzoek, toont een substantieel deel van de verzekeringssector ook een gebrek aan transparantie. De meeste van deze groep verzekeraars publiceert verder ook geen informatie over hun duurzaam beleggen activiteiten. Een opmerkelijke uitzondering ten opzichte van de dalende transparantie is de toegenomen rapportage over impact investeringen door de sector.

Aanbevelingen

- Verzekeraars zouden transparanter moeten zijn over hun duurzaam beleggingsbeleid en praktijk.
- Verzekeraars zouden pro-actief hun klanten moeten informeren (door nieuwsbrieven of bijeenkomsten) en niet aannemen dat klanten hun website en jaarverslagen napluizen voor de informatie.

Totaal score Top 10

Deze tabel toont de resultaten van de verzekeringsbenchmark 2015

Plaats 2015	Verschil	Plaats 2014		Totaal score	Governance	Beleid	Implementatie	Verantwoording
1	=	1	Zwitserleven	4,4	5,0	5,0	3,9	4,4
2	=	2	Reaal	4,2	4,3	5,0	4,2	3,6
3	=	3	ASR Nederland	3,9	5,0	4,0	3,4	4,2
4	=	4	Achmea	3,4	4,5	4,0	2,4	4,8
5	+	7	NN	3,1	4,2	3,0	2,9	2,8
5	+	6	Aegon	3,1	4,2	4,0	2,4	3,5
7	-	5	Menzis	3,0	3,3	3,0	2,7	3,8
8	+	9	Loyalis	2,8	3,2	2,0	2,7	3,3
9	-	8	Delta lloyd	2,7	4,5	3,0	1,6	3,6
10	=	10	Zorg en Zekerheid	2,5	2,7	2,7	2,7	1,7

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Chapter 1
Introduction

1.1 Background

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

1.2 Objective

The objective of this report is to provide insurance companies and their stakeholders with insights into the current status of responsible investment among the 30 largest Dutch insurance companies. This comparative study offers insurers an impartial instrument to assess how their policies and practices regarding responsible investment compare to those of their peers.

Research into the responsible investment policies and practices of insurance companies is of great importance for several reasons. First of all, the companies covered in this study manage assets valued over €370 billion. It also contributes to the license to operate for the companies, as responsible investment can reduce their reputational risk. Furthermore, it enables better-informed investment decisions, since ESG information supplements traditional analysis. Finally, the responsible investor contributes to a more stable financial system and contributes to the challenges of the future of society. This study provides insurance companies and their stakeholders insight into how Dutch insurers invest the money in a sustainable way.

1.3 Approach and methodology

This benchmark and the scoring are composed on the basis of an iterative process. The VBDO sent a questionnaire that is filled in by the participating insurance companies. VBDO assessed these results and checked it with the insurance companies. Profundo, a research consultancy, performed an external consistency check on the results. This year a response rate of 63% was achieved. Insurance companies that did not respond were scored on the basis of publicly available information.

The insurance companies are assessed and scored on the following themes:

Governance

This category focuses on the governance of responsible investment by the insurance companies and the role the management 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? In this sixth benchmark questions on 'strategic asset allocation' and the time horizon of policy goals have been added to this category.

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. In this edition a question on 'securities lending' has been added to this category.

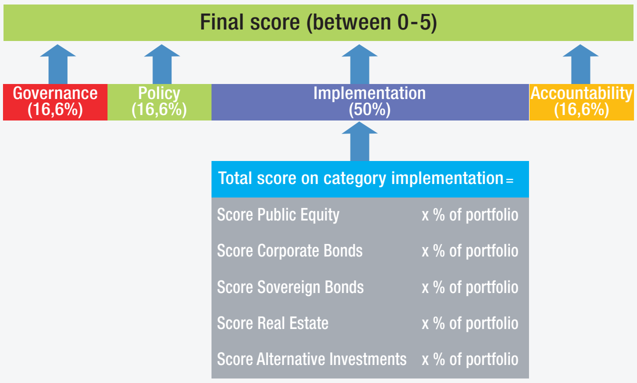
Accountability

This category investigates how the communication on responsible investment takes place. Do insurance companies describe their investment policy and do they report the results on all instruments and asset classes? Do all stakeholder have access to this information? This year's report highlights a special form of communication: active transparency on responsible investment, which investigates the use of the various (modern) communication tools to reach out to participants on the topic of responsible investment.

For detailed methodology, we refer to appendix 1 and 2. Upon request, a detailed overview of all the questions asked and possible answers can be supplied by the VBDO.

The overall score is calculated on the basis of the score in each category and their weighing factors. As shown in figure 1.

Figure 1: Final score (between 0-5)



1.4 Content

The report is built up as follows. Chapter 2 starts with editorials of leading thinkers and experts in the fields of sustainable finance and/or insurance companies. They share their perspectives on the role of insurance companies and the place that investments have in furthering sustainable development.

Chapter 3 highlights the overall results of the benchmark. It also provides a breakdown of the scores. The final chapter presents concluding remarks and recommendations based on this year's findings.

The period to which this research applies is 2014. The different general figures of the insurance companies, such as the asset allocation, cover the period up to the end of 2014. The information about the implementation of responsible investment instruments was related to the first half of 2015.

Chapter 2
Perspectives on responsible investment

Ignaz Anderson, Floris Lambrechtsen & Ruud Lubbers. Earth Charter

From the perspective of Earth Charter, we would like to give you our view on this important report. The Earth Charter emerged from a global dialogue with many actors in society. It includes fundamental values and principles needed to achieve a just, sustainable and peaceful world in the 21st century.

The Earth Charter principles paint 'sustainable development' in concepts such as preventing damage to the Earth, poverty reduction and women's rights. The Earth Charter is more relevant than ever. At a time when a major shift in our thinking and action is required, the fundamental shared values of the document are an important compass. The Earth Charter is also the foundation for the current UN Sustainable Development Goals. Mr Ban Ki-Moon invited Pope Francis to be the first speaker at the September United Nations General Assembly. Obviously because Laudato Si', his encyclical letter, refers publicly to the Earth Charter and encourages people to form a 'Common Home'.

These ecological and social values are also an important compass for insurers. Insurers receive premiums and pay claims in the future. Since they are exposed to future events, ecological and social developments are of increasing importance to them. For example, the report "Risky Business" of three American former finance ministers shows that the probability of extreme weather events has increased from 2.5% to 16%. Hurricane Andrew in 1992 cost insurers $ 17 billion. This was a wake-up call, because some insurers went bankrupt. The Stern Review report from 1996 states that damage because of climate change (for example, to buildings and infrastructure) may amount to 1% of GDP and 10% of global investment portfolios[1]. It pays now to invest in prevention and adaptation, which is economically and socially preferable to awaiting future events.

Insurers tackle climate change in particular, and sustainable development in general, insufficiently, except for some foreign and Dutch leading companies. Many insurers form the Netherlands work with general policies and sustainability is not sufficiently tangible in their insurance products and investment portfolios.[1] Here lies an opportunity to contribute in a positive way to the energy transition on climate change, affordability of health care and poverty reduction in developing countries.

Insurers temporary manage large premiums and invest them in financial instruments of companies and governments. They are among the largest investors in the world. Because of this they have influence; they can determine which companies receive capital and are enabled to grow. How do they deal with investments in coal mining, oil or tobacco? Or conversely with investments in energy efficiency, renewable energy and health care? Due to the scale of their investment portfolio they have influence as shareholders and can engage with companies on sustainability. The responsibility of insurers starts at the premium level and ends with the payment of legitimate claims. In the investment process and the development of insurance products they can pay attention to the risks and opportunities of sustainability.

We therefore applaud VBDO in conducting this annual survey. Sustainability is for many insurers still a controversial issue. The annual survey of the VBDO demonstrates that insurers can pick up sustainability in a positive way. The result will be a resilient and future-proof investment portfolio with solutions that support both mankind and the environment.

www.earthchartervrienden.org

[1] The cost of inaction, The Economist, 2015 (research report initiated by insurer Aviva)

Farah Karimi Oxfam Novib

Insurance companies can and should contribute to a socially just and sustainable world.

Finance is at the heart of all decisive processes in the world, be it inclusive economic development, basic social services including education and health, preservation of natural resources, humanitarian aid on the one hand, or armed conflict, pollution, land grabbing and growing inequality on the other hand. Insurance companies play their role on these issues.

Therefore, they have to be accountable for how they are operating, not only when it comes to their inclusiveness of their services and the (fair, honest and transparent) products they sell, but also regarding the nature of the enterprises they invest in. Benchmarks, from the VBDO, Fair Insurance Guide and others, could help insurance companies to become more accountable and sustainable. I invite insurance companies to actively make use of these tools.

Despite some good examples of growing commitment of a (limited) number of insurance companies to adopt more stringent policies regarding the social en environmental impact of their investment, most resources are invested without taking these impacts into consideration. No matter how big or small the insurance company, this is a responsibility they have to assume, which they cannot leave to the asset managers to organize.

Insurance companies should be held to account by their clients, civil society and government alike. They should be challenged when their actions or policies are aggravating problems and be recognized positively where they look for constructive solutions and play a front runner role in building an accountable, sustainable and inclusive financial sector, contributing to investments in viable pro poor services, products and markets, and creating opportunities for people living in poverty.

Insurance companies should promote sustainable investments that reduce the risks (in health, climate change, etc) their clients are insuring themselves for, and that leave a livable planet for future generations.

Insurance companies should expect companies to whom they provide capital, as well as their suppliers, to comply with widely supported international standards and initiatives. For instance, insurance companies can use their investments in food and beverage companies and commodities like palm oil, timber, to actively promote a world where everyone has enough to eat; as at present, nearly one in eight people on earth go to bed hungry. They can commit to 'zero tolerance on land grabs and deforestation' and enforce sustainable supply chains in, for example, the cocoa and coffee sectors, to effectively prevent child labour and discrimination, and to promote living income for farmers. They can support access to crucial medicines for poor people through their investments in the pharmaceutical sector.

Insurance companies should halt their investments in controversial arms production and companies selling arms to regimes which are responsible for human rights abuses. They should address climate change by shifting their investments from fossil fuels to sustainable energy, by promotion of climate adaptation and by supporting more energy-efficient housing and real estate.

Considering the CSR risks that the financial sector, including insurance companies, faces, the Dutch Government - supported by a majority of parliament, invited insurance companies repeatedly to develop (together with the government and civil society, through a multi-stakeholder dialogue) and sign a CSR Covenant in 2016. This could contribute to a more responsible and sustainable insurance sector. And government, insurance companies and civil society actors can work together in creating a common ground and a level playing field for a transparent, responsible insurance sector internationally.

Richard Weurding. Verbond van Verzekeraars (Dutch Insurers' Association)

What, in your opinion, is the role of insurers when it comes to sustainable development?
With total invested assets of some 500 billion euros, Dutch insurers are extremely large investors. They are thus in a position to contribute significantly to a more sustainable society.

Do you believe that insurers do enough right now in this respect?
In recent years, the insurance industry has taken considerable steps, but obviously it can do even more. The results of studies by independent parties, such as VBDO, show improvements every year.

What should policyholders tell their insurers regarding this subject? What do you believe to be the role of policy- holders?
I believe that policyholders have an important role. If they disagree with the investment policy of an insurer, they should make this known to the insurer. Insurers are quite willing to

enter into dialogue with customers and other stakeholders. They want to know what customers think. What constitutes a “good” or “bad” investment is not always clear-cut. Opinions differ on this, and standards are also subject to change. The signals that customers give are therefore important and that’s why insurers find it so important to have a good dialogue. Of course, the consumer can always change to another insurer whose investment policy agrees more with the principles of that customer. Consumers voting with their feet keeps insurers sharp.

So what should insurance companies invest in?

I would not go so far as to say what individual insurers should invest in. Companies have, within the boundaries of legislation and self-regulation, an own responsibility. That should not change because individual insurers can also distinguish themselves from other companies with their investment policy.

I find it primarily important that insurers do not make socially irresponsible investments. With that precondition in mind, everyone can make their own choice on what to invest in. If you ask me personally, I would regard investments in sustainable energy, the housing market, care institutions, schools and certain infrastructure projects as responsible social investments. This is presently being examined in cooperation with the Dutch government, through the Netherlands Investment Institution.

What should insurers not invest in?

All members belonging to the Dutch Association of Insurers must comply with the association’s self-regulation rules. That includes the Sustainable Investment Code. This code presents rules that insurers must adhere to, such as a ban on investments in controversial weapons. Insurers must determine themselves how they apply the code in concrete terms. In this respect, insurers compete with each other. Often there is more than one option. Insurer number 1 may decide to exclude a certain company, while insurer number 2 believes that it would be better as a shareholder to enter into a discussion with that same company. Insurers can contribute to a better world in both ways.

What would you recommend that insurers do when it comes to sustainable investment?

I see our Sustainable Investment Code as a minimum standard. Every insurer must at least adhere to the code. As an industry as a whole we want to take further steps and have made our intention clear that we have the intention to come to an International Corporate Social Responsibility (ISCR) covenant. For this we want to have a dialogue with NGO’s and other relevant stakeholders to explore the next steps we have to take. Insurers are obviously free to take further steps in this regard. Given the low interest environment insurers already have the need to look for other investments. My opinion is that considerations regarding profit and social responsibility have to play an important role in this search for yield. I would only encourage them to do so.

Where does the responsibility of the insurer with regard to sustainable development start, and where does it end?

Where the responsibility of the insurer ends is difficult to say. In some cases the insurance industry is put in an overly bad light. You can hardly blame Dutch insurers for unwanted situations that might occur several steps down the line. To put it in an overstated way: you cannot seriously claim that it is wrong to invest in Shell because the company produces kerosene that powers planes that can also drop bombs. In addition, the Dutch insurance industry sometimes seems to be held responsible for investments by major global insurance companies that are also active in the Netherlands but whose Dutch business unit constitutes even less than 1% of the total. It is definitely a good thing that stakeholders try to keep insurers sharp, but I do believe that they should paint a fair picture.

Chapter 3
RESULTS

This chapter presents the ranking and scores of the individual insurance companies. We have analyzed the results on the categories Governance, Policy, Implementation and Accountability. The results are complemented with best practices and practical examples that insurance companies can use to improve their responsible investment practices. More information on the methodology can be found in appendix 1.

Table 3.1: Overall results of the insurance company benchmark 2015

Ranking 2015	Change	Ranking 2014		Score	Governance	Policy	Implementation	Accountability
1	=	1	Zwitserleven	4,4	5,0	5,0	3,9	4,4
2	=	2	Reaal	4,2	4,3	5,0	4,2	3,6
3	=	3	ASR Nederland	3,9	5,0	4,0	3,4	4,2
4	=	4	Achmea	3,4	4,5	4,0	2,4	4,8
5	+	7	NN	3,1	4,2	3,0	2,9	2,8
5	+	6	Aegon	3,1	4,2	4,0	2,4	3,5
7	-	5	Menzis	3,0	3,3	3,0	2,7	3,8
8	+	9	Loyalis	2,8	3,2	2,0	2,7	3,3
9	-	8	Delta lloyd	2,7	4,5	3,0	1,6	3,6
10	=	10	Zorg en Zekerheid	2,5	2,7	2,7	2,7	1,7
11	=	11	Legal & General	1,9	2,8	2,5	1,5	1,6
12	=	12	CZ	1,9	1,8	2,0	1,8	1,9
13	=	13	BNP Paribas Cardif	1,9	2,8	2,2	1,4	1,9
14	+	18	VGZ	1,4	3,8	1,4	0,5	1,4
15	+	16	ONVZ	1,3	1,5	2,2	0,7	2,1
15	-	14	De Goudse	1,3	2,3	1,7	1,0	1,0
17	-	15	UVM	1,3	1,8	1,7	0,9	1,3
17	+	21	Swissre	1,3	2,0	2,7	1,0	0,0
18	-	17	Generali	1,1	2,8	1,2	0,3	2,0
19	+	20	TVM	0,8	1,8	1,7	0,1	0,8
20	-	19	Allianz	0,7	2,0	0,5	0,3	0,8
21	+	23	Onderlinge s-Gravenhage	0,4	1,2	0,3	0,1	1,0
22	=	22	Klaverblad	0,3	0,0	0,3	0,2	1,0
23	+	25	AIG	0,3	0,0	0,0	0,1	1,2
24	+	26	Arag	0,2	0,0	0,3	0,0	0,8
25	+	27	Bovemij	0,0	0,0	0,0	0,0	0,0
26	-	24	DAS	0,0	0,0	0,0	0,0	0,0
26	+	27	DSW	0,0	0,0	0,0	0,0	0,0
26		NEW	Elips Life	0,0	0,0	0,0	0,0	0,0
26	+	27	HDI Gerling	0,0	0,0	0,0	0,0	0,0

3.1 Overall scores

Zwitserleven has again reached the first place in the benchmark with a score of 4.4 out of 5, which is exactly the same score as last year. Reaal, the number two, also obtained the same position and score as last year. Actiam is managing the assets of both insurance companies. Number three is ASR Nederland with a score of 3.8. which is also the same position and score as last year. Also the number four is the same as last year, Achmea.

The first changes in the ranking can be seen with Aegon and NN. They made progress by taking over the fifth position from Menzis, which dropped to a number 7 position.

Just a few insurance companies made progress in score. One example is Zorg en Zekerheid showed an increase in score from 2.3 to 2.5, however this did not result in a change in position.

The scores of Allianz, Delta Lloyd and TVM dropped with 0.5 to 0.6 point.

Table 3.2: Average scores 2014 compared to 2013

	2014	2013
Overall	**1,6**	**1,9**
Governance	2,3	2,3
Policy	1,9	2,6
Implementation	1,3	1,3
Accountability	1,8	2,1

Compared to last year the overall score dropped from an average of 1.9 to 1.6. A part of the explanation is the change and addition of several questions, but in general it should be concluded that the sector stagnated last year. Changes in the different categories will be explained in the subsequent sections.

The size of an insurance company shows a strong relationship with the level of responsible investment in the Dutch insurance market. The larger insurers perform better than the medium-sized. And those funds on their turn outperform the smaller companies. A top three of large, medium and small insurance companies is presented in table 3.3.

Table 3.3: Top 3 of large, medium and small insurance companies

Large (> €10 billion AuM)			
1	**Zwitserleven**	**€ 18.795**	**4,4**
2	Reaal	€ 24.653	4,2
3	ASR Nederland	€ 34.800	3,9

Medium (1< AuM >€10 billion)			
1	**Menzis**	**€ 2.313**	**3,0**
2	Loyalis	€ 3.400	2,8
3	Legal & General	€ 1.439	1,9

Small (< €1 billion AuM)			
1	**Zorg en Zekerheid**	**€ 329**	**2,5**
2	BNP Paribas Cardif	€ 727	1,9
3	ONVZ	€ 610	1,3

3.2 Results per investment category

To provide better insight into the underlying factors that determine the overall results, each researched category is analysed separately in the following sections. It should be noted that a large portion of the insurance companies did not respond to the questionnaire nor published information on their website. This skewed the results negatively.

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 is an important factor in the successful implementation of the policy. 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 creating insight into the preferences of the policyholders and other stakeholders.

The average score for governance remained 2.3, the same as in 2014. The previous edition of this report showed a substantial increase from 1.7 to 2.3. A part of the explanation can be found in the change of several questions. These new questions concerned sustainable targets for asset managers and employees. Therefore a comparison between 2013 and 2014 is somewhat difficult.

Zwitserleven and ASR Nederland obtain the highest reachable score for Governance (5 out 5). With a score of 4.5 Delta Lloyd and Achmea score very high as well. The largest increase in score on Governance was shown by Onderlinge 's-Gravenhage. It increased from 0.0 to 1.2. Legal & General and Loyalis also increased substantially, with 0.7 point. On the other hand Zorg en Zekerheid showed the largest decrease with 1.0 point from 3.7 to 2.7. The score of Klaverblad and Menzis also dropped considerably with 0.8 and 0.7 point respectively.

Although a comparison with the pension fund benchmark is not easily made because the governance of a pension fund is different from an insurance company, it still can be stated that the insurance sector lags behind on to the pension fund sector. The pension funds on average received a score of 2.9. This means that the insurance sector, with a score of 2.3, has sufficient room for improvement.

Ownership of responsible investment

In 57% of the insurance companies the senior management is the most senior governing body dedicated to the responsible investment policy. This is a slight decrease compared to last year when this was 59%.

The number of times that the responsible investment policy has been discussed and approved by the executive board dropped as well. In 2013 at 45% of the insurance companies responsible investment was discussed more than one time and in 2014 this is 37%.

Sustainability targets

Setting targets on responsible investment enables the insurance company to successfully improve, evaluate and shape the responsible investment policy. Targets can be set for both the asset manager and individual employees or sub-departments of the insurance company.

The majority of the insurance companies do not set sustainability targets for either their asset managers or their staff. 13 insurance companies however have set targets for their asset managers, 3 of these set targets in such a way that they also measure the actual impact on companies and society. These are ASR Nederland, Reaal and Zwitserleven. With regards to the targets of staff members 12 of the 30 insurance companies have set sustainability targets that are translated to individual employees or sub-departments.

Diversity

The diversity of board members decreased in 2014. Last year 17% of the board members were female. This year it is 14%. The employees however were more equally divided, with 51% male and 49% female. The results for diversity were not taken into account for the scoring of the benchmark.

3.2.2 Policy

The implementation of a socially responsible investment policy requires in the first place that it be defined as clearly as possible in a, preferably 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 of Human Rights and ILO conventions. Furthermore, it should be applicable to all asset classes and contain performance indicators to evaluate and improve the policy document, ideally with a focus on the long term.

The average score for policy dropped considerably in 2014 compared to 2013. In 2013 the average score was 2.6, whilst in 2014 it was a mere 1.9. The period of 2011 to 2013 showed a gradual year-on-year increase of 0.3 to 0.5 point. 2014 can therefore be considered as a trend reversal. Just as with the score on Governance, a part of the explanation can be found in the alteration of some of the questions.

Last year's questions about the policy performance indicators were, in this edition, joined by two new questions. Firstly, a question was added that measured whether the key performance indicators, regarding responsible investment, have a long-term orientation. Secondly, a question has been added about sustainability and strategic asset allocation: the responsible investment policy should take into account themes that transcend the level of the individual investment, such as the carbon bubble or food security. This question was asked last year, but did not count in the scoring then. In light of the additional questions and the decreasing score, the most optimistic conclusion that can be drawn is that the insurance companies made no progress last year concerning their responsible investment policies.

A comparison with the pension fund benchmark can be made since the questions of the category Policy are the same in both benchmarks. The average score for Policy in the pension fund benchmark was 2.5. Therefore it can be stated that the insurance sector is lagging here as well.

Reaal and Zwitersleven received the highest attainable score for Policy, with 5.0 points. With a score of 4.0 Achmea and Aegon scored high as well. Aegon was with 0.2 the only insurance company that showed an increase in score on the category Policy. On the other hand, CZ and Klaverblad showed a large decrease. CZ dropped from 3.9 last year to 2.0 this year. Klaverblad dropped from 2.1 to 0.3.

Evaluating policy performance

The formulation of the responsible investment policy requires expertise and is often outsourced to third party asset managers and responsible investment advisory firms. Clear key performance indicators in policy documents (KPIs) can enable evaluation and improvement of the responsible investment policy. For this edition of the benchmark questions were asked about both the targets and the time horizon of the KPIs. Currently 10 insurance companies have developed KPI's to evaluate and adapt their responsible investment practice. 2 insurers developed KPIs that also measure actual impact of the investments on society or corporations. The time horizon of the KPI's was for the first investigated this year. The policy KPI's of 6 insurers had a time span of up to 5 years, while 2 insurers had formulated policy KPI's of longer than 5 years.

Strategic asset allocation

Often responsible investment is still limited to implementing a responsible investment instrument, such as exclusion or ESG integration, on company or project level. This makes it difficult to incorporate sustainability trends on a more strategic level. Examples of these trends are resource scarcity, the transition to renewable energy and climate change.

These trends will, however, have an impact on almost the entire investment portfolio of investors. A good example of a study in relation to climate change and its impact on investment strategy is the Mercer study "investing in a time of climate change".[2] Incorporating these trends in investment management in the more strategic investment choices, such as asset and sector allocation, is in its pioneering phase.

7 insurance companies are taking strategic considerations into account within their asset or sector allocation. Some examples are given below.

Actiam the asset manager of Reaal and Zwitserleven takes ESG considerations into account in the asset allocation. For example it chose not to invest in commodities trading because of ESG considerations. Other higher or lower exposures in sectors are a result of the responsible investment policy. For example, Actiam drafted a position paper about the energy transition, which focuses on the transition from fossil fuels to renewable energy. This was translated into investment decisions through different tools: exclusion, engagement, voting, and active investment in renewables.

Aegon Asset Management has established an impact investment working group in which climate change is one of the focus items in the sustainability strategy. Targeted investments in renewable energy and shifting investments towards a cleaner energy mix, are items that are discussed on a strategic level. This will influence the strategic asset allocation and affects the assets of insurance company Aegon and partly of Zorg en Zekerheid.

ASR Nederland: ESG information is taken into account on specific asset allocation decisions. It takes for example sectors into account in the SRI screening by assigning different sector weights to each ESG Sustainability Drivers. Furthermore, it was decided that investments in commodities (mostly soft commodities as food) had a speculative component pressuring the price of food, making it more expensive in developing countries which is against its social policy, and therefore it is not part of the strategic asset allocation.

[2] *Mercer*, 'Investing in a time of climate change'. June 2015 http://www.mercer.com/services/investments/investment-opportunities/responsible-investment/investing-in-a-time-of-climate-change-report-2015.html)

Policy themes

While the responsible policy of some of the insurance companies is formulated broadly, others have included specific themes in the responsible investment policy. The table below illustrates the inclusion of current sustainability issues and trends in responsible investment policies.

The table shows that preferred sustainability themes include two of the themes that are included in the UN Global Compact: human and labour rights. Climate change, remuneration, land grabbing and resource depletion are also fairly often mentioned. More specific themes such as food security and conflict minerals are less often referred to.

Table 3.3: Themes included in the responsible investment policy

Themes	Included in the responsible investment policy	
Human rights	17	57%
Labour rights (ILO conventions)	17	57%
Climate change	13	43%
Remuneration corporate sector	11	37%
Renewable energy	10	33%
Land grabbing	9	30%
Resource depletion	9	30%
Carbon bubble	8	27%
Natural capital	7	23%
Investing in the Dutch economy	4	13%
Responsible tax policy	4	13%
Conflict minerals	3	10%
Food security	1	3%

Insurance and climate change risk

Climate change is a topic that is increasingly high on the agenda of the societal debate. Also insurers are increasingly exposed to the risks of climate change through their insurance portfolio as well as through their investment portfolio. A report of the University of Cambridge gives a clear overview of the risks and exposure to these risks [3].

Several insurers and have therefore taken steps to translate the effects of climate change to the insurance sector and investors. Interesting international examples are:

- *Allianz Re's report Our World and Us provides an in-depth introduction to environmental trends and how this will impact society [4].*
- *The Mercer 2015 study on climate change. This study gives insight in the risk profiles of different regions and sector. It also uses scenario analysis to give guidance on how to cope with the uncertainty related to climate change and policy responses [5].*

3.2.3 Implementation

The implementation score demonstrates how well the responsible investment strategy is actually implemented and is therefore valued strongly in this study. Implementation is analysed by looking at asset classes and by looking at responsible investment strategies. For each asset class a number of specific instruments were identified.

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

This section of the benchmark first analyses the overall implementation results and then focuses on the responsible investment instruments for the three major asset classes: public

[3] http://www.cisl.cam.ac.uk/publications/publication-pdfs/unhedgeable-risk.pdf
[4] Claussen, E., Fornero, E., Goldin, I., James, K., Kavitha, N., Keith, D., et al. (n.d.). Our World and Us. *How our environment and our societies will change.* Retrieved 2015, from Allianz: https://www.allianz.com/v_1437463672000/en/about_us/open-knowledge/doc/150114_Our_world_and_us.pdf
[5] http://www.mercer.com/services/investments/investment-opportunities/responsible-investment/investing-in-a-time-of-climate-change-report-2015.html

equity, corporate and government bonds. Lastly responsible investments in real estate and alternative investments are covered.

Overall implementation results

The overall implementation score remains equal compared to last year with 1.3 points. Despite a change to the questions concerning engagement, where depth of the engagement process was investigated, there was little change to the questions. This means that the implementation scores are comparable to last year.

With 4.2 points Reaal reaches the first place, while Zwitserleven comes second with 3.9 points. This is mainly due to a different asset mix. The insurance company Zorg en Zekerheid demonstrates the largest improvement, rising from 2.1 to 2.7 points.

Results for the responsible investment strategies

The VBDO distinguishes six different responsible investment strategies. Performance on these strategies is measured seperately and the results are described in the following pages

- Exclusion
- ESG-integration
- Positive Selection
- Engagement
- Voting
- Impact Investing

Exclusion

Exclusion is a relatively basic responsible investment strategy. It shows what kind of investments the insurance company chooses not to make. This can either be done on legal grounds, from a reputational standpoint or from an ethical or sustainable perspective. Although exclusion is a relatively basic strategy, it does require a vision on controversial issues in our society. Ideally this is in line with the opinions of policyholders and the corporate responsibility of the insurance company.

Since the legal ban on investments in cluster munitions came into force in 2013, all institutional investors, such as insurance companies, exclude investments involving such munitions. However, minor exposures to cluster munitions remain through passive investment products or other indirect investments. These investments are allowed under the current legislation. This benchmark investigates exclusions beyond legal requirements.

When we look at public equity, 12% of insurance companies excludes based merely on 1 criterion. A total of 52% of insurance companies excludes based on multiple responsible criteria. This score shows a slight decrease compared to the previous year (2014: 61%). The asset class corporate bonds also shows a decrease. However the percentage of insurers that excludes based on one criterion rose from 10% to 17%, the number that excludes corporate bonds on multiple criteria decreased from 62% to 48%. These development could be interpreted that exclusion is less favoured by insurance companies and that exclusion is increasingly done in line with the minimum legal requirements.

The UN and EU sanction lists are a common ground for establishing the exclusion list. 17% of insurance companies go beyond these sanction lists regarding government bond exclusion.

ESG integration

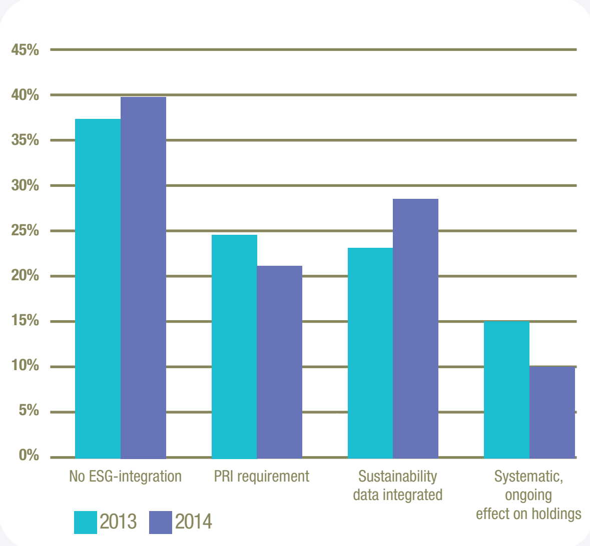
ESG integration refers to the process by which ESG criteria are incorporated in the investment decision. A research on European investment strategies shows that in 2 years' time the amount of assets under management for which ESG integration was used, increased by 65,4% to €5,2 trillion in 2013.[6]

Asset managers mainly use ESG integration because it improves their investment decision process, can have a material impact on investment returns and because clients ask for it. Some asset managers state that ESG integration alone is insufficient to realise enough social return.

The benchmark study distinguishes the various forms of ESG-integration along three lines:

1. **Insurance companies integrate ESG in some initial form.** For example they require their asset managers to be a signatory to the PRI.
2. **Insurance companies use ESG information in a structured manner.** For example by using ESG-information in the composition of an ESG-index or through the use of one-pagers regarding company sustainability performance.
3. **Insurance companies integrate ESG-criteria systematically with on-going effects on individual holdings.** For example an automatic under- or overweighting in company stock based on ESG-criteria.

As can be seen in graph 3.2, the level of ESG-integration remains relatively stable compared to last year. Slightly less insurance companies can show a systematic and ongoing effect of the non-financial criteria on their individual investment decisions. Graph 3.2 records changes in ESG-integration amongst insurance companies for public equity, corporate and government bonds together. A further breakdown of these results is available at the VBDO upon request.



Regarding the investments in government bonds there are two main subclasses: developed market and emerging market bonds. According to some insurance companies ESG-integration in emerging markets is more material than for developed market debt. The latter is considered more "ESG-proof". Even so, there are front-runners that do research and actually incorporate ESG-criteria in the selection of developed market bonds as well.

The average portfolio coverage of ESG-integration appears to have diminished from 50% to 45% for the combined equity, corporate and government bonds portfolios.

Positive Selection

Positive selection is about choosing the best performing organisation out of a group of corresponding organisations, based on ESG-criteria. A majority of examined insurance companies (69%) does not make use of positive selection. 3 insurance companies are recorded investing more than 25% of their public equity portfolios based on this responsible investment instrument, these are Menzis, Reaal and Zwitserleven. Compared to Dutch pension funds, where 90% does not make use of positive selection, insurance companies seem to value this instrument substantially more.

[6] Eurosif 2014,'*European SRI study*'. page 18

Active and passive investment strategies

Insurance companies reported to invest the vast majority of their assets in an active manner, with 92% of total assets being actively managed. This is a similar percentage as last year (91%). This is in stark contrast to Dutch pension funds which actually invested 41% of their assets in passive products.

Active investment strategies are by many considered more suitable to responsible investment practices as the distance to the invested company is smaller. This should allow insurance companies to further influence the companies they invest in for both return and corporate responsibility simultaneously.

Engagement

As shareowners 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. 10 of them engage substantially on all the sustainability themes: governance, social and environmental issues. Of those that engage, 6 insurance companies (40%) have some form of evaluation of the engagement process, but do not take further steps based on the results of the engagement. 7 insurance companies, around 47% of those that engage, do take further steps to follow up on the engagement. Insurance companies are also engaging companies on the basis of having invested in bonds of the company, although this practice is a bit less common.

Customer engagement

Besides engaging the companies in which they invest, insurance companies can also have an important role in engaging their clients. For example when insuring large projects that have a considerable potential environmental or social impact such as oil rigs.

In these cases it is important that the due diligence process also addresses ESG-topics and that this information is fed into the engagement process with potential clients. This can be during the discussions on the terms of the insurance, in the request for information (RFI) or request for proposal (RFP) phases. Besides large corporate clients, insurance companies can also advice small and midcap enterprises and individual clients on how they can improve in the field of sustainability.

For example, insurance companies providing insurance for crop damages can advice farmers on how to cope with climate changes and water scarcity

Voting

Institutional investors hold a strong position in the companies they invest in. By voting they can influence and steer corporate policies. Therefore, incorporating sustainability in their voting policies can foster sustainable business practices.

To be effective a clearly defined voting policy is required, explicitly emphasising social and environmental issues. There are 16 insurance companies (55%) that demonstrably vote on (a part of) their public equity holdings. Out of this total, 12 do so while paying explicit attention to ESG-issues, and a mere 4 publicly initiate and/or support shareholder resolutions promoting CSR. These figures are similar to last year. Of those that voted, the majority of insurance companies (65%) voted on 75%-100% of their equity portfolio.

Securities lending

Securities lending is the act of loaning a security to another investor or firm. In turn collateral is given such as other securities. It can generate additional return, especially around the AGM's. There are some risks associated with securities lending, both for the asset owner and for businesses and society.

The lender of the securities is unable to use the voting rights of the securities over the loan period thereby diminishing the possibility to practice active ownership or to sell the securities, e.g. in case of a controversy within the company. Having a clear recall policy, including ESG related provisions, can be used by insurers to improve their responsible lending practices.

Within the top 5 of insurance companies there are 4 that do not lend their securities at all. One insurance company, NN, has a clear securities lending policy in place that has provisions to recall in case of controversial AGM's and states that when holdings in a company are large the lending of securities is not preferred. 13 insurance companies do not lend their securities, which is substantially less used than by pension funds. This is mainly due to the more active investment portfolios and the different asset allocation. Insurers have more fixed income investments, which do not allow for securities lending.

Security lending policies

Examples of provisions in recall policies that institutional investors could use are:

- *Ensuring that received collateral does not conflict with the exclusion policy.*
- *Retaining a percentage of shares per company in order to cast your vote, although with diminished strength.*
- *Retaining all securities of a specific company or list of companies; a focus list.*
- *Recalling shares in the case of an annual shareholder meeting with a controversial or high profile agenda.*
- *Recalling shares when in engagement with the company.*
- *Recalling shares in the case of suspected misuse of lent securities.*
- *Retaining the right to recall under any circumstance.*
- *Not lending out securities at all, either based on risk or ethical considerations.*

Impact investment

Impact investing gained significant attention from policy makers and investors In recent years. In particular in the EU impact investing has grown rapidly.[7] Within the EU the Netherlands is one of the leading impact investment markets. The rise of impact investment has also created confusion about the definition and approaches to impact investing.

The VBDO views impact investments as investments in (social) enterprises or projects to tackle specific sustainability challenges and create added value for society.

Aegon defines impact investing as: "direct or indirect investments in businesses organization and projects, that meet our existing risk and return requirements and are also intended to create a measurable social and environmental impact" [8]. In 2012 Aegon reviewed the field of impact investing. In line with the conclusions of that review several steps have been taken and impact investing gained an increasingly important role in the Aegons' responsible investment practices.

Aegon has integrated impact investing throughout the organization. An example of a recent step is the introduction of an Impact Investing Working Group for Aegon Asset Management in the Netherlands. The working group includes the CIO and heads of different asset classes. As a result of efforts of the working group several impact investments in new areas were made such as green bonds and microfinance. Aegon has also started to measure the impact of a first selection of investments.

Next to an increasing internal focus on impact investing Aegon has also taken the initiative to launch a network group for investment specialists of insurance companies. The Insurers' Investors on Impact Investment (IIII) provides a platform to share insights and best practices for impact investing and to discuss opportunities for further cooperation. Participating insurance companies include, among others, Standard Life Investment, Axa Group and SwissRe.

In the beginning of 2016 the VBDO will present a report that gives insight in the impact investing market for Dutch institutional investors and will contribute to the mainstreaming of impact investment

7 http://www.eurosif.org/wp-content/uploads/2015/02/Impact-Investing-Extract.pdf

8 http://www.aegon.com/Documents/aegon-com/Sitewide/Reports-and-Other-Publications/RI-reports/Responsible-Investment-Report-2014-Aegon-Asset-Management.pdf

Impact investing

Impact investng, which directs invested capital towards business activity that also generates positive societal results, in public equity is not very common, 20% of insurance companies are recorded making these kinds of investments. Investments in green or social bonds are more common. 13 insurance companies invested in these bonds (45%). This is a sharp increase compared to last year, when 9 insurance companies (31%) were found to be investing in green or social bonds. This year 45% actually measured and evaluated the positive impact generated by these investments.

The number of impact investments done in the alternative investment asset class was comparable to last year. A total of 10 insurance companies recorded impact investments in alternatives; examples are investing in renewable energy infrastructure, microfinance vehicles or venture capital investments in innovative private equity. This improved, since last year this were only 8 insurance companies. Just 4 of these insurance companies investing for impact actually measured the generated impact.

Real estate

Responsible investing in real estate is done in multiple ways. Directly, by considering energy efficiency and requiring the use of sustainable building materials. Or indirectly, by investing in sustainable real estate funds. Real estate is not a common asset class for insurance companies as constitutes 4% of total asset mix, with 23 insurance companies having at least some direct or indirect real estate investments.

9 insurance companies of these (39%) integrate sustainability issues in the maintenance or purchase of *direct* real estate. Responsible investing in indirect real estate was measured by degree of integration of ESG-issues in the selection, evaluation and engagement of real estate managers by the investing pension funds. Regarding these indirect real estate investments, 10 companies (43%) incorporated ESG-criteria into the selection of real estate managers or publicly listed real estate companies. Of these 10 insurance companies 3 (13%) selected the most sustainable ones. Engaging the real estate managers or companies on the basis of ESG-criteria was done by 8 insurance companies (35%), of which 4 could show demonstrable results of the engagements.

Alternative investments

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

- **Private equity:** 8 insurance companies have some form of responsible investment policy in place regarding at least parts of their private equity investments (7 in 2014). 4 companies had such a policy that covered all their private equity investments.
- **Hedge Funds:** 4 insurance companies have some form of responsible investment policy and implementation regarding their investments in hedge funds (also 4 in 2014). 2 funds had a policy that covered all of their hedge fund investments.
- **Commodities:** 3 insurance companies have some form of responsible investment policy and implementation regarding all their investments in commodities (also 3 in 2014).

Asset class scores

Table 3.8 shows the scores per asset class and the weight that these asset classes have in the average allocation of the insurance companies. Insurance companies have considerable allocations to corporate and government bonds, and just minor allocations to real estate and alternatives. Responsible investment practices seem to have decreased for all asset classes except real estate.

ALLOCATIONS per asset class	Asset mix	SCORES 2014	2013
Public equity	10%	1,4	1,6
Coporate bonds	23%	1,4	1,6
Government bonds	56%	1,2	1,3
Real estate	4%	1,3	1,1
Alternative investments	7%	1,0	1,0

3.2.4 Accountability

Consumers have a right to be informed about the responsible investment practices of insurers so that they can take this into account in the selection of their insurers. 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. Insurance companies should produce responsible investment reports or a separate chapter in the annual reports on an annual basis. Ideally an external auditor verifies the report.

The average score for Accountability decreased this year from 2.1 to 1.8. One important reason is that a question that has been added about active transparency.

Although the overall score decreased, there have been considerable improvements on accountability by some of the insurers. Especially Zorg en Zekerheid increased substantially with 1.2 points. Allianz, Arag and ASR Nederland also improved (with 0.8 and 0.7 points). From all insurance companies, Achmea is most transparent about its responsible investment activities. It received the highest score for Accountability (4.8 out of 5). Zwitserleven and ASR Nederland are transparent as well with a score of 4.4 and 4.2. Unfortunately, the score of DAS, Legal and General, TVM and VGZ decreased with 1.0 to 1.2 points.

A comparison with the pension fund benchmark can be made since the questions of the category Accountability are the same in both benchmarks. The average score for Accountability in the pension fund benchmark was 2.7. With an average score of 1.8, it therefore can be stated that the insurance sector is lagging behind on communicating about their responsible investment practices.

When the different elements of Accountability are assessed, it should be noted that no significant changes are discovered regarding the publication of the responsible investment policy or the different instruments. The only exception is impact investing. The impact investment policy is published by 37% of the respondents (last year: 27%) and 17% of the insurance companies gave an overview of their impact investments (last year: 10%). This is appears to be related to the recorded increase of insurance companies that invested in green and social bonds.

The number of insurance companies that publishes their list of investments decreased. Last year 52% of the insurers published at least a part of their investments, this dropped to 37% this year. The percentage of insurers that publishes more than 50% of their investments decreased from 27% to 17%.

This year a new question about active transparency has been added. Active transparency concerns all the activities that reach out to customers instead of only reporting on a website which not all customers will read. The results show that not all insurance companies are actively reaching out to their customers regarding their responsible investment efforts, with 26 insurers scoring 0 points on this topic. Aegon uses one active communication tool and Achmea, ASR Nederland and Zwitserleven use two or more communication tools to be transparent in an active way

.

Distinctive through stakeholder dialogue and transparency

There are some institutional investors who see responsible investment only from a reputational risk management perspective. Responsible investment has to ensure that no negative attention is drawn from media and NGO's and the only reason for implementing it, is to keep the license to operate. Alternatively, the insurance company can perceive sustainability also as a business driver.

Here the insurer take an open stance and listens carefully to the different stakeholders. Regular stakeholder dialogues are organised, where different kinds of stakeholder groups are questioned about what the most material issues are. These stakeholder groups consist of customers, employees, suppliers, but also civil society. The insurance company uses this information to evaluate its responsible investment policy and adapt the policy where necessary. Seeking constructive dialogue with for example policyholders or NGOs on how the insurance company can assume its responsibilities, decreases negative and improves its positive effects on society. In this way the insurance company becomes aware of any discontent at his stakeholders in an early stage.

Not only in the evaluation and adaptation of the responsible investment policy, but also on the accountability, an insurance company can actively reach out to their customers and other stakeholders. Actively informing customers about the responsible investment policy and outcome is regarded as the next step for full accountability. This should exceed publishing the sustainability information and report on the website, but should include the disclosing of information about responsible investment at face-to-face meetings, newsletters or information packages.

In such a way the insurance company can become distinctive from its peers by becoming open and interconnected with clients and society.

Chapter 4
Conclusions and Recommendations

Overall conclusions

Responsible investment practice leveling off

The insurance companies show a stagnation in their responsible investment activities. The average overall score decreased, which can be attributed to the addition of several questions. The most likely scenario is that the responsible investment practices by Dutch insurance companies stabilized. This leveling off shows that responsible investment does not receive sufficient attention amongst the insurers. An example of this is the fact that executive boards took less ownership, compared to last year, regarding this topic by not discussing it as regularly at the board and strategic level. The positions of all insurers in the ranking are comparable to last year.

Table: Average scores 2014 compared with 2014

Out of 5 points	2014	2013
Overall	1,6	1,9
Governance	2,3	2,3
Policy	1,9	2,6
Implementation	1,3	1,3
Accountability	1,8	2,1

Strong relation with size

The results display a strong relation between the level of responsible investment and the total assets under management of an insurer. The largest insurance companies (more than €10 billion AuM) received an average score of 3.5; medium sized (between €1 and €10 billion AuM) scored 1.5; whilst the smallest (less than €1 billion AuM) received a score of 0.7.

Majority of assets managed by top-performers

There is a significant difference between the average score and the asset-weighted score. Together, the largest insurance companies have a market size of 91% of the population covered by this study. The larger companies outperform the smaller ones on responsible investment. The relative large number of smaller insurance companies are skewing the average scores negatively.

Top performers comparable to pension funds

The top three performing insurers, Zwitserleven, Reaal and ASR Nederland, obtain a score of between 3.9 and 4.4. This is comparable with the top performing pension funds where the top three receive a score between 4.1 and 4.4. These are also the insurers that score well on the new questions regarding strategic asset allocation, long-term policy frameworks and actively communicating about their responsible investment practices.

Insurance sector generally lagging behind pension fund sector

Although the top performers in both sectors are comparable, in general the pension funds outperform the insurance companies. The average score of a pension fund in the benchmark is 2.4, whilst the insurers scored an average of 1.6. A comparison between the asset allocation of insurance companies and pension funds shows that insurers are more fixed income oriented than pension funds. In fixed income classes, it is more difficult to implement responsible investment strategies, which could be an explanation for the difference in the score between the sectors.

Foreign and small Dutch insurance companies need to improve

Two types of insurance companies are missing the boat. The first are small-scale Dutch insurers, mostly active in the business-to-business market. The other type are Dutch sales offices of large foreign insurance companies. Neither type of organization shows a serious responsible investment practice.

Recommendations

- Co-operation and sharing of best-practices is needed. Responsible investment should be seen as non-competitive and knowledge should be shared. The larger and better performing insurance companies should make a larger effort to help those lagging behind.
- Foreign and small Dutch insurance companies should attempt to catch up with the rest of the sector.

Governance

Properly integrating responsible investment requires that it is discussed regularly at the executive level and that it is treated as part of the insurers' overarching strategy. Reliable information in this decision making process can be derived from academic work, NGO's and other stakeholders such as customers.

Score on governance unchanged

The average score on governance did not improve compared to 2013, again scoring 2.3 out of 5 points. A one-on-one comparison to 2013 is difficult as several questions were added or changed. However, comparison on the questions that remained the same shows that insurers did not improve on this topic.

Responsible investment is not always a strategic element

Of the four categories included in this study governance achieved the highest score. But still it is not even half of the maximum reachable score. This shows that responsible investment is not always considered a strategic, and thus board-level, topic. Compared to 2013, fewer insurance companies discussed responsible investment at the executive level more than once a year. Furthermore, in fewer insurance companies the executive board is the most senior governing body for responsible investment.

Sustainability targets not common practice

The majority of the insurance companies do not set sustainability targets for either their asset managers or their staff. However, 13, out of 30, insurance companies do set targets for their asset managers, and 12 for individual employees or sub-departments. Only three insurers set targets for their asset managers on the impact on corporations and society.

Decreased gender diversity on boards

Last year 17% of the executive board members of insurance companies were female, this year it is 14%. Gender diversity among employees is well balanced with a 49% women and 51% men.

Recommendations

- Insurance companies should give responsible investment practices higher priority and make it an integral element of their company strategy. It can help maintain their license to operate, deal with changing environment and improve returns. Executive boards can take more ownership on this topic, for example by discussing the topic more than once a year at board level.
- By including KPI's for both asset managers and individual employees, insurance companies can become more effective in steering and evaluating their responsible investment practices and to become a more sustainable insurance company. Companies should increase the use of this instrument and should include performance indicators on the effect on companies and society.
- The decreasing trend on female board members should be reversed. This should be done both from the perspective of the board being more effective and all-round and that it can serve to prepare the company against possible legislation. In recruitment and selection policies, as well as talent development programs more effort should be made to hire, retain and develop women to higher management positions.

Policy

Formulating a clear and detailed policy on responsible investment facilitates the implementation through the various parts of the organization and in guiding third party execution. Long-term oriented policy frameworks with clear targets can prepare the insurer for a changing investment and operating context. Lastly, it helps the insurer to communicate its corporate identity.

Lower scores on policy

The average score on policy decreased substantially compared to last year. This is the result of both new questions and limited policy developments by insurance companies. The extent of the responsible investment policy dropped somewhat, as well as the average volume to which the responsible investment policy applies.

Only limited evaluation of policy performance

One third of the insurance companies have developed KPI's to evaluate and adapt their responsible investment practice. The measurement of the impact on society or corporations is almost non-existent within these KPI's. Several insurers have KPI's with a time horizon of up to five years; only a select few extend their horizon beyond five years.

Sustainability scenarios hardly used in strategic asset allocation

Incorporating sustainability trends on a more strategic level through strategic asset allocation is at its infancy. However, several leading insurance companies are cooperating with their asset managers to implement this for their clients. Climate change is the most frequently mentioned theme in strategic asset allocation.

Social rights most common policy theme

Themes included in the UN Global Compact, such as human and labor rights, are most frequently mentioned by insurance companies in their responsible investment policies. These are followed by themes such as climate change, remuneration and renewable energy.

Recommendations

- To evaluate and adapt their responsible investment policy, more insurance companies should include performance indicators to measure their actual impact on society and corporations. Insurers should integrate these indicators in a long-term oriented policy framework capable of dealing with a changing world that applies to all asset classes in which they invest. Long-term objectives are vital to show board commitment and assure a smooth roll-out in the organization.
- In order to deal with sustainability risks and opportunities in a more structured manner, insurers should use a high level approach on topics such as food and water security and climate change. This approach should transcend the level of the individual holding or instrument.

Implementation

In the implementation of responsible investment instruments, strategic decisions and policy targets have their impact. Risks can be excluded from the portfolio, the insurer approaches companies to discuss business performance, ownership is effectuated through voting and specific directed investments are made that allow innovate sustainable business to emerge.

Overall implementation stagnated

The score for implementation did not show any progress compared to last year. The implementation was measured similarly to last year, except for more in-depth questioning on engagement and impact investment. Because the measurement was practically the same to last year, it can be concluded. therefore be concluded that actual investment practice did not improve in the insurance sector in the past year.

Systematic ESG integration not yet widespread

Integrating sustainability information into the traditional investment analyses is not yet widespread amongst insurance companies. Regarding ESG-integration for public equity, corporate and government bonds, about 55% of insurers apply at least a basic integration such as requiring their asset manager to be PRI signatory. About 25% goes a step further and integrates ESG information in a more structured manner. Systematic and thorough integration, with ongoing effects on individual holdings is practiced by just 10% of insurance companies. These figures show a small decrease compared to last year.

Insurance companies are active investors

Insurance companies invest 92% of their assets in an active manner, rather than investing in passive trackers or indices. This contrasts with pension funds which invest 41% of their assets passively. The act of loaning out securities is not common practice for many insurers. 43% of insurers does not lend out their securities at all.

More positive selection than pension funds

A notable result is that over one third of insurance companies are using positive selection as a responsible investment instrument. This is substantially higher than pension funds of which only 10% use the instrument.

Increased investment in green bonds, yet measurement of impact lagging

The impact investments of the insurance companies remained the same compared to last year for publicly listed equity and alternative investments. However, a sharp increase was found in the corporate bonds asset class with a rise of green bond investments. Almost half of the insurance companies invested in these bonds, compared to a third last year. The actual measurement of the generated impact is, however, lagging behind, with just below half of the impact investors actively measuring the effects.

Active ownership common but lacking depth

Half of the insurance companies engages on sustainability themes with the companies in which they invest. However, just half of these follow up on the results of the engagement process. A similar trend is seen regarding voting behavior. Half of the insurers votes on the shares held, but just a handful of insurers initiate or publicly support sustainability related shareholder proposals.

Recommendations

- The level of ESG-integration should be substantially improved, as it drivers both sustainability and financial return. More widespread and profound ESG-integration leads to better informed investment decisions and can contribute to sustainable business practices.
- The increase in impact investments should be monitored more closely to allow the insurers as well as other stakeholders to assess the generated social and environmental impact.
- It is recommended to enlarge the investments in green bonds even more as they fit the asset allocation of insurance companies because of theirstrong focus on bonds.
- As they invest the majority of their assets in an active manner, insurers should make use of this close proximity to companies to foster more future-proof and sustainable business practices. An important next step is to strengthen their active ownership activities such as voting and engagement by following up on them. For example when a company is unresponsive for years to an engagement process an insurer could decide to exclude this company.

Accountability

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

Level of accountability slightly decreased

The average score on accountability decreased somewhat compared to last year. This is the result of both the adoption of a new question and a stagnating practice on transparency. Compared to the pension fund sector the insurance companies are lagging behind.

Insurance companies more transparent on impact investments

Overall, insurance companies did not show much progress on transparency of their policies or instruments. One notable exception is the improved transparency regarding impact investments. An increased number of insurance companies publish their impact investment policy and gave an overview of their impact investments. This is an indicator that insurers are seeing value in communicating their positive contributions to sustainability challenges.

Active transparency in its infancy

Only four insurers actively reach out to their customers on their responsible investment practices. Since not all customers regularly visit the website or look for the annual report, it is important to actively reach out to the customers to inform them about these topics.

Response rate slightly decreased

With a response rate of 63% to this survey, a substantial part of the insurance sector displays a lack of transparency regarding their responsible investment practices. Many of these insurers publish no or little information about their responsible investment activities on their website or in the annual reports.

Recommendations

- Customers should easily be able to see how their insurance companies are implementing responsible investment. Regarding this type of accountability, there is room for improvement. Insurance companies should become more transparent on their responsible investment policies and their instruments.
  They should also be more transparent about their specific investments. In this way, customers can make a better-informed decision.
- Insurers should also increase their active transparency. They should pro-actively reach out to their customers on responsible investment topics and not assume that their customers will search their website for this information themselves.
- Insurers should develop, implement and communicate their responsible investment practices for both financial and non-financial reasons. Insurance companies that choose not to practice responsible investment should also be clear on this and disclose it through their public communications channels.

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 customers 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 2014. The different general figures of the insurance companies, such as the asset allocation, cover the period up to the end of 2014. The information about the implementation of responsible investment instruments was related to the first half of 2015, the latest.

Research group

For this edition of the benchmark, the 30 largest insurance companies in assets were surveyed. This is one more than in 2014. Elips Life was added to the list. The remaining list of researched insurance companies is the same as in the 2014 study.

Research process

The research process has undergone minor changes in comparison with previous years. A questionnaire was integrated in excel and sent to the insurance companies. After completion, the spreadsheet automatically provides a profile and score. After receiving the filled-in questionnaire together with the necessary evidence to support the claims, it was matched with the supplied evidence and publicly available information (that consists of annual reports and websites). The VBDO reviewed the profile and sent the reviewed profile back with potential additional questions and requests for evidence. 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.

Advisory panel

Every year we discuss the process and the methodology used with a group of pension funds, insurance companies, 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:

- Use of third party execution, e.g. investment decisions or SRI overlays, should not be valued less than internal management as long as the outsourcing is done properly.
- Active investments are by some seen as more sustainable than passive investments.
- Quantity of engagement conversations does not illustrate the depth. Questions should be formulated in a manner that distinguishes this.
- ESG-integration and positive selection are seen as overlapping questions. Current questionnaire prohibits, according to some, achieving maximum points. VBDO has decided, for comparison sake, that the two instruments are assessed similarly as before for this years' benchmark.
- The ranking list doesn't account for the size of the insurance company. The VBDO has split some of the results along the lines of size of the insurer assets.

The VBDO takes suggestions into account and would like to thank the participants for their efforts to improve the benchmark.

Adaptations to the methodology

In this sixth edition of the benchmark the methodology is mostly the same as last year. The VBDO has maintained this methodology for three years to be able to compare the results over a fixed period. Before the start of the next edition a large methodological review is planned. however, some new developments have been taken into account. There are five questions added and one alteration has been made to an existing question. The new questions are:

- Questions on key performance indicators have been included in the benchmark before. This year an additional question was added that takes into account performance indicators that have a longer time horizon, so that these can be an integral part of a long-term strategy or vision on sustainability issues.
- Securities lending is the act of loaning a security to an investor or firm. The lender is unable to use the voting rights of the securities over the loan period. Securities lending is considered to diminish the possibility to practice active ownership. a question has been added on how the assurance company is incorporating sustainability issues in securities lending. No points can be received for this question, but aggregated results will be used in the research report.
- Actively informing customers and other stakeholders on the responsible investment policy and outcome is regarded as the next step for full accountability. a question has been added to determine on how customers are actively informed about the responsible investment policy and outcome through one or more than one communication tool.
- A question regarding the engagement process has been added. This question refers to the evaluation of the engagement process and the measurement of progress. It also investigates whether further steps are taken based on results of the initial engagement process.
- Also for impact investing a question has been added. If the insurance company engages in impact investing, what is the process for these investments? Investments ought to be demonstrably made in enterprises or projects with the explicit intention to tackle specific sustainability issues and the social and environmental impact of these investments should be measured and monitored.

The alteration to the existing question is:

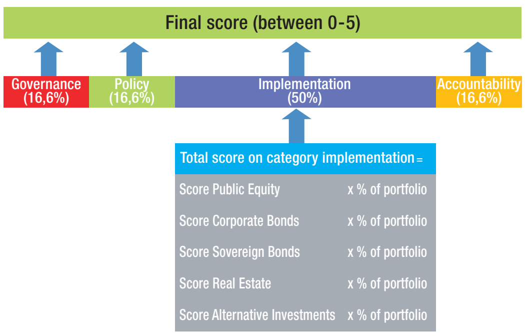
- The application of sustainability and strategic sector allocation. This gives an idea of the use of ESG-information on a more strategic level. Last year the results of this question were not rated, this year this question has been included in the scoring model.

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, the former VBDO benchmark studies and on conversations with institutional investors. The scores of the assessment issues were added up using weighted percentages, to reach an overall score for all insurance companies included in this research. Not all assessment issues have been weighted equally, but the individual weighting percentages of all assessment issues add up to a total of 100%. The weighting percentage for implementation is 50% because especially this category determines the final output and quality of the responsible investment practices of an insurance company. 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.

- **Governance** (16.6%)
- **Policy** (16.6%)
- **Implementation** (50.0%)
- **Accountability** (16.6%)

The following figure gives a 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 is raised accordingly in the 2014 benchmark of. 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. Institutional investors 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 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.

• 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.

• Voting

Pension funds and insurance companies can actively exert influence on companies in which they invest by voting during shareholder meetings. Many institutional investors 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 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 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.

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.

The instrument is applicable to publicly listed equity, corporate bonds 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 [9].

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

[9] Ness, A., "ESG progress in emerging markets", Investments & Pensions Europe, February 2010.5

• 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 institutional investors "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. [10]

• 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 research 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: [11]

- 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

[10] 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.
[11] Wood, D., "Handbook on Responsible Investment across Asset Classes", *Boston College Center for Corporate Citizenship*, November 2007.

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.

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