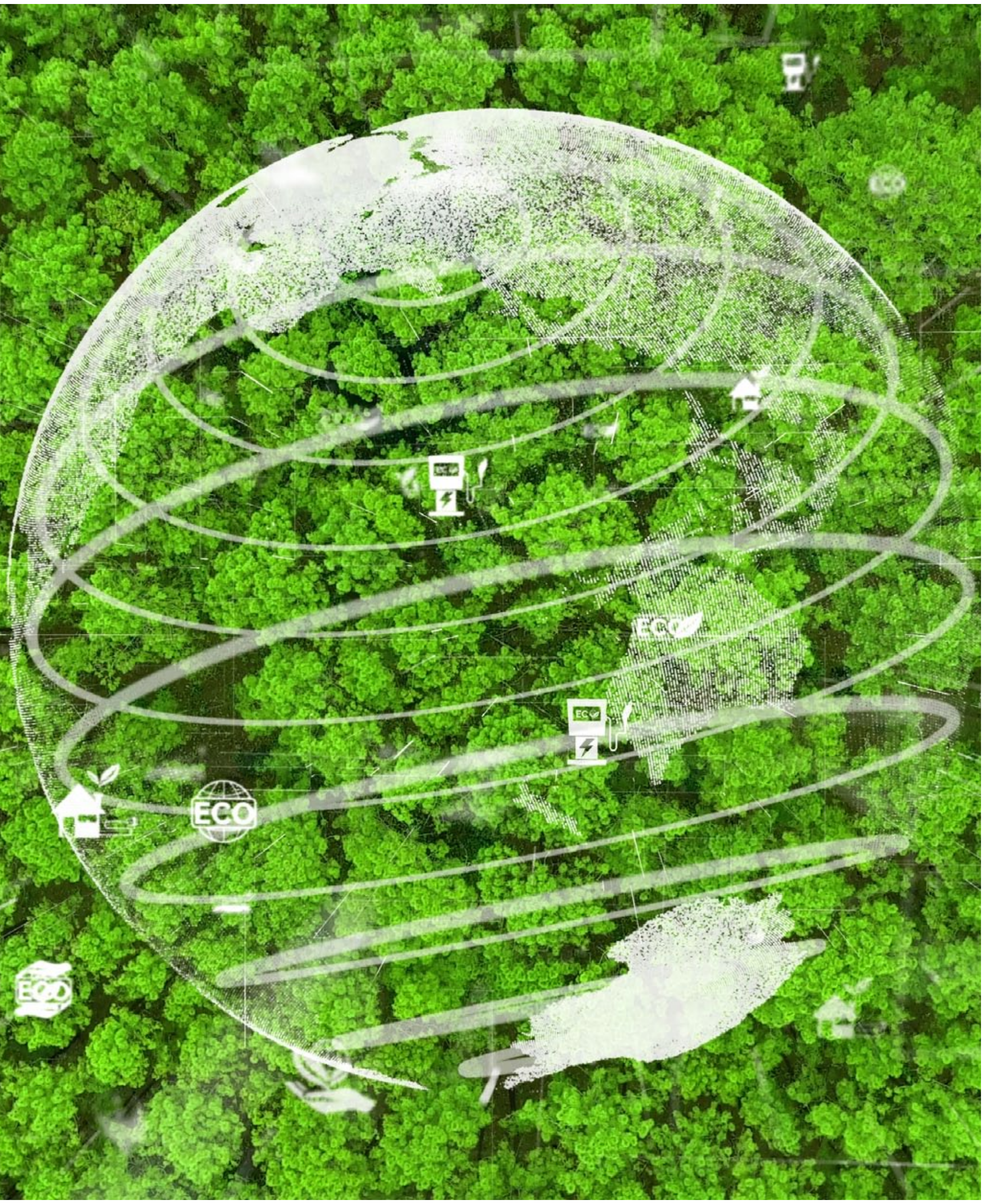
BEST'S REVIEW®

ISSUES & ANSWERS:

THE GROWING IMPORTANCE OF ESG

Industry experts discuss the business opportunities and challenges associated wtih the ESG movement.



Interviewed Inside:

Robb Barnum
New England Asset Management Inc.

Kerri Hamm
Munich Re US

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Growth Through Green

Robb Barnum, ESG Risk Manager for New England Asset Management Inc., said as insurers look to pursue new business, they don't want to appear as though they're lagging behind or others are getting too far ahead. "What's more, if an insurance company isn't showing they're up to speed on ESG-related issues and themes like social justice and DEI, then they'll fail to attract an important segment of the talent pool," he said. Following are excerpts from an interview.

New England Asset Management®

Robb Barnum
ESG Risk Manager
New England Asset Management Inc.

"Insurers need to demonstrate that they're a good place to work to the younger generation that's very interested in the subject of ESG."

Go to the Issues & Answers section at *www.bestreview.com* to watch an interview with Robb Barnum.

Why should insurance companies think about or even care about ESG?
It's not going away, and it even could increase in focus, especially in the area of regulation. Our European accounts are certainly facing this—stateside, not as much. The California DOI and the New York DFS have started moving forward in this area, though they have yet to establish prescriptive mandates. But there's good reason to believe that at some point more stringent particulars will come. Recently, the big news out was the SEC's climate disclosure proposal. Assuming it can withstand the inevitable court battle regarding its legitimacy, it would affect public insurers to some degree. Additionally, there are the rating agencies, though they're not regulators. But they do have influence over the insurance industry. Then there's the whole keeping up with the Joneses. There's this pressure to show that they're doing something in ESG both to customers and employees.

What's a common question that you're asked by clients regarding ESG?
One of the more popular questions is, "What will it cost me to green my portfolio?" This question could be answered in so many different ways. One, there's the metric that you're focused on. Is this yield? Is this OAS? Total return or excess return? Then there's the time period. Is this historical? Are we talking about current, or is this some projection that one would like to make? Then there's the criteria of what is green. Is that just exclusions? Is it improving the portfolio's ESG rating, or is it a pay up for green bonds? Once all those details have been nailed down, you can begin to tackle the question. For our clients, they tend to mean two things: It's either what is the current yield or spread give up by improving the portfolio's ESG rating profile? The other is, what is the current pay up for green bonds over non-green bonds, what's commonly referred to as the "greenium"?

How are you using ESG ratings at NEAM?
At NEAM, we say that they're just a piece of the puzzle. We believe ESG is an extension of the regular credit evaluation process. To orient our investment team with ESG and to develop that integration skill, we've had each of our credit analysts as well as the sector heads in municipals and in structured products complete a course offered by the PRI in responsible investing. This individual work course takes 10 to 15 hours to complete including a final exam requirement as well. Our analysts form their own opinions on how ESG factors will affect their credits and sectors, and use ESG ratings as a quantitative overlay for those opinions. One of the things that we have found ESG ratings can be very helpful is analyzing a large group of assets very quickly and uniformly. Also the commentary that comes from the ESG rating providers on individual credits can be useful as well. We think that there's some value in ESG ratings, but they're not the final answer.

Green Means Go

Kerri Hamm, the Head of Business Development, Munich Re US, said businesses can get a competitive advantage in employee retention and in innovation by promoting a diverse workforce. "In addition they can gain a reputational advantage over competitors with an attractive sustainability message," she said. Following are excerpts from an interview.

Kerri Hamm
Head of Business Development
Munich Re US

"At Munich Re, we're taking a leadership role regarding climate change by making voluntary commitments that go way beyond what's required by the Paris climate agreement, the UN Global Compact, and others."

Go to the Issues & Answers section at *www.bestreview.com* to watch an interview with Kerri Hamm.

Why have we seen such an increase in the emphasis of ESG in the past five years?

There have been some societal and generational shifts that are resulting in a public who is just simply more aware of and engaged in the environmental and social impacts of the business and how that relates to the communities around them. Governance topics are at the top of mind because of some harmful impacts that improper oversight has had on communities and investors. In a nutshell, there's just more awareness that businesses are an integral part of our communities, and with good management and governance practices, they can promote a healthier environment and more economic opportunities for everybody. There's also clear evidence that companies with favorable ESG practices outperform their less sustainable and less diverse peers.

What ESG topics do you see as having the greatest impact for the industry?

The insurance industry being highly regulated has been on the forefront of governance topics. In general, enterprise risk management is strong. The social aspect of ESG definitely will have the largest impact on the insurance industry. The insurance industry can have the biggest impact on the environmental aspect of ESG. Thinking about the social for a moment, clearly, the insurance industry is lacking in diversity, especially at senior management and board levels. In discussions with industry executives, this is an area of focus. The No. 1 reason is the insurance labor force is extremely tight right now. It makes sense for us to cast a wider employment net.

What are some core business opportunities related to ESG?

We're working on developing some public-private partnerships at the community level. It's really at the local government and community level where many of these resiliency projects are housed. We're trying to partner together with these local governments to drive resilience and sustainability initiatives where those initiatives are needed most. They're closest to the people who are impacted by natural disasters, rising sea levels and other impacts of climate change.

In what ways has Munich Re expanded on its ESG commitment?

As part of our business, Munich Re has been studying the intersection of changing climate and natural disasters since the early '70s. We definitely see that a warming climate increases the risk for severe hurricanes, wildfires, flooding, and likely, it also increases the frequency of severe convective and winter storms. Climate change is definitely having an impact on our industry. We in the insurance industry have a great opportunity to influence positive change. We also share our know-how. We share our data on our Risk Intelligence Platform. We've shared with our clients the steps that we've taken in our own buildings. We have added solar panels, and we've transformed our buildings into LEED-certified buildings.