
Sustainability positioning

German insurers' contribution to climate protection

Introduction

0. At the beginning of 2021, insurance companies in Germany published a paper on their sustainability positioning detailing what they intend to do to help slow down global warming and actively contribute to sustainable development. The 2022 sustainability report showed that the industry is making progress but still has a long way to go before it reaches its targets. That is why insurers review and adjust their positioning on a regular basis.
1. Insurers **commit to both the UN Sustainable Development Goals (SDGs) and the goals set out in the Paris Agreement** making society and business more resilient in the process, for example against the causes and consequences of pandemics and an unreliable energy supply. Insurance companies support Europe's goal to become climate-neutral by 2050, the Green Deal and Germany's climate protection plans. The industry's fundamental principle of risk pooling requires a very long-term, multi-generational approach. Insurers offer security, protection against risks and the possibility to make provisions in all areas of life. Their central role is to make risks calculable and bearable for the individual through long-term risk transfer. Using their expertise in claims management, insurers develop preventive measures so that (for example climate-related) losses might not occur in the first place. Occupational and private retirement provision are important elements of old-age security and foster intergenerational equity. Insurance is one of the bedrocks of business activity and growth, because in their capacities as risk carriers and investors, insurers make a key contribution to innovation and economic growth.
2. The economic and social transition towards a sustainable future is a key challenge and an obligation to both current and future generations. **Climate protection requires swift and efficient action** to rein in global warming. At the same time, society and business need to be enabled to weather the consequences of climate change that cannot be averted any more. This is a task where politics, business and civil society must pull together.

Insurers offer products, advice and loss prevention expertise that can help deal with those unavoidable consequences. Customers benefit from insurers' experience in risk management and assessing natural hazards. Carriers help commercial clients assess business risks that can arise from climate change and political measures designed to make business and society sustainable and climate-neutral.

3. This positioning focuses on the contributions made by the German insurance industry to three objectives: (1) the UN SDGs designed to manage and contain climate change, (2) fostering sustainable manufacturing and consumption, and (3) fostering gender equality in business and social life. Insurers commit to intensifying their efforts to make sustainability an integral part of their direct business processes, investments, risk underwriting and product design.
4. Sustainable transformation is a community effort requiring a reliable political framework that rigorously supports ambitious sustainability objectives in a timely manner and covers all economic sectors. Carbon pricing designed to reduce climate-damaging emissions, incentives for innovative technologies and initiatives for a more climate-resilient infrastructure are necessary guardrails supporting market innovations for more sustainability in business and investments. Politicians, businesspeople and consumers need comprehensive, reliable and easy-to-use sustainability information to act in a sustainable and climate-neutral way.

Sustainable, climate-friendly business processes

5. In Germany, there are 519 insurance companies that have underwritten a total of 465 million insurance policies for their clients. They commit to responsible, resource-friendly business processes, e.g. in their office buildings and operating infrastructure. At least in Germany, insurers want to achieve climate-neutral business processes (scope 1 and 2) by 2025. By 2030, they intend to reach major reduction targets on indirect emissions caused by their own operating business processes (i.e. relevant scope 3 categories), too.

Insurers also help their distribution partners reach sustainability targets.

6. Insurers commit to diversity and equal opportunities. They double down on their efforts to have their **management bodies mirror the diversity of the workforce and customer base and they are committed to raising the share of women in leadership roles and bodies beyond legal requirements.** For more than 200,000 people in Germany, insurers are dependable and attractive employers with high social standards. They offer a wide variety of jobs and specialisations and set high standards in staff development through targeted education and training.

7. Insurers have embedded sustainability in their **governance structures** and they continue to optimise risk management leveraging available sustainability data. They continually develop and improve company-specific sustainability strategies and encourage their employees to act sustainably.

Sustainable and climate-friendly investment

8. **Insurers commit to sustainable investment and actively embrace their vital role in transforming the economy.** They are one of the largest cohorts of institutional investors with a portfolio of EUR 1.8 trillion. As long-term investors with an average maturity of well over 10 years on their investments, they have a huge potential to drive the sustainable transformation of business and society. It is in their best interest to seize the opportunities presented by the transition towards a sustainable, carbon-light economy and to manage the associated risks as early as possible, striving to take into account the influence their investments have on safeguarding the environmental foundations of human life and our economy, especially regarding areas worth protecting and business activities that put a significant strain on natural resources.
9. **Insurers want to make their investments greenhouse-gas neutral by 2050.** They commit to the Paris Agreement goal to limit global warming to well below 2 degrees Celsius – ideally 1.5 degrees – compared to pre-industrial levels and to gradually align capital flows with climate goals. Based on scientific insights (particularly by the Intergovernmental Panel on Climate Change, the IPCC) and the availability of measuring methods, they have defined quantifiable targets to help them **implement carbon reductions in their portfolios by 2025 already. On top of that, they plan to define specific interim targets** based on the Net Zero Asset Owner Alliance's (NZAOA) ambitious Target Setting Protocol that is being updated on a regular basis.¹ NZAOA members accounting for more than 55 percent of the industry's investments have already committed to this protocol.
10. **Insurers strive to increase their sustainability focus in their investments even further in order to live up to their responsibility as large, long-term investors.** Sustainability concepts, such as exclusion lists, standards-based screenings, engagement or ESG integration, already play a vital role in the investment process of insurers who are continually refining those concepts moving from general exclusions to integrated ESG approaches based on engagement. This way, insurers are also supporting the necessary business transformation.

¹ According to the current version of the Target Setting Protocol the carbon footprint of stocks and listed corporate bonds is to be reduced by 49 to 65 percent by 2030. The Protocol is being updated based on new scientific insights on a regular basis.

11. More and more insurers get involved in voluntary initiatives, such as the “Principles for Responsible Investment” (PRI). Numerous insurers are members of the NZAOA, an organisation that has committed to making their investment portfolios climate-neutral by 2050. **The sector recognises the importance of voluntary sustainable finance initiatives and is actively supporting their growth.** The GDV has been a Supporting Partner of PRI and NZAOA since 2021.
12. Investing responsibly is in the companies’ best interest, because applying sustainability criteria **doesn't only uncover risks earlier, it can also improve the risk-return profile through an adjusted portfolio allocation.** Insurers are seizing new investment opportunities in connection with the ongoing business transformation.

Sustainable and climate-friendly underwriting

13. **Insurers commit to a responsible approach to sustainability risks and a sustainable risk transfer.** Insurance products comprise risk analysis, risk transfer as well as risk and loss prevention. Over the medium to long term, climate change will alter both the risks and the parameters used to analyse them. It may even have an impact on risk transfer itself: today, insurance companies can offer comprehensive cover against natural disasters, but if global warming is to continue unchecked, the related risks will become less and less insurable which could lead to macroeconomic losses and social challenges. If we want insurers to be in a position to offer affordable natural disaster cover over the long-term, the goals set out in the Paris Agreement must be reached.
14. Even today, contributing to sustainable development and providing **solutions to challenges presented by climate change** are core competencies of the insurance industry:
 - The energy transition and the transformation of the economy wouldn't be possible without insurance for renewable energy plants and sustainable technologies. Innovative technologies such as producing, transporting and using green hydrogen are covered by insurance solutions.
 - Natural disaster cover and climate risk insurance offer extensive risk transfer for the financial consequences of extreme weather events, which will be one of the direct consequences of a rise in average temperatures in Europe. In 2021, Germany's insurers have demonstrated what they can do after the country's worst natural disaster, i.e. the flooding in the Ahr valley and other places.
 - Insurers recognise and analyse signals of change in their data sets early on. They contribute their knowledge to the socio-political debate and promote risk awareness by advising customers, doing public relations work and providing data.
 - In addition, insurers are continually adjusting their own processes so that they can offer financial protection to business and society even in an environment altered by climate-change.

15. **Insurers consider sustainability aspects in company-specific processes. They intend to integrate ESG criteria in underwriting guidelines more widely by 2025.** When underwriting risks, insurers follow the principle of **risk-appropriate premiums** without which they wouldn't be able to honour their commitments to policy holders.

16. Insurers contribute their expertise and specific solutions to the transformation of the economy, even for difficult risks. Since the industry wants to help its clients reach their sustainability objectives, **insurers commit to the long-term goal of no longer adding commercial or industrial risks to their portfolios that negate the transition towards a sustainable, climate-neutral economy.** What this means, in particular, is the necessity to support businesses on their path towards climate neutrality based on scientific insights, in order to limit global warming to well below 2 degrees Celsius – ideally to 1.5 degrees. To that end insurers are actively supporting the development of methods and metrics to measure the insured greenhouse gas emissions.

The insurance sector thus stands by the German federal government's plan to phase out coal-fired power. Based on their own portfolios, insurers will decide whether and when to implement specific goals ahead of schedule. When underwriting risks, they intend to make sure that the environmental foundations of human life and our economy are protected, particularly in areas worthy of protection and business activities that put a significant strain on natural resources.

17. **Insurers intensify their active dialogue with business partners to raise awareness of the consequences of climate change and the loss of the environmental foundations of human life, to address sustainability issues, to manage risks and to implement solutions,** strengthening sustainable business models in the process. Doing this, insurers support every economic sector – including companies standing at the very beginning of their sustainability journey. After all, reliable risk transfer forms the basis for the transformation of all economic activities. This creates added value to society and protects people, companies and nations against risks.

18. **The sector recognises the importance of voluntary initiatives for sustainable risk transfer and is actively supporting their growth.** More and more companies are involved in voluntary initiatives such as the “Principles for Sustainable Insurance” (PSI). Some insurers are members of the “Net Zero Insurance Alliance” (NZIA) that is committed to making their (re)insurance portfolios climate-neutral by 2050. The GDV has been a Supporting Institution of the PSI since 2021. The initiatives offer ways of identifying, assessing, steering and monitoring risks and opportunities connected to sustainability aspects.

Sustainable and climate-friendly products and claims management

19. Identifying and managing risks is one of the insurance industry's core competencies. **Insurers invest in numerous preventive measures.**
20. Insurers support business and society in containing climate change and managing its inevitable consequences. They provide insurance cover against the financial consequences of climate change that has already happened, for example by insuring private, commercial and industrial property against the growing number of extreme weather events.
21. **Insurers aim to grow the supply of sustainable insurance products.** That includes innovative insurance conditions and business concepts (such as “use instead of own”, “repair instead of replace” or “shared mobility instead of individually-owned vehicles”). They champion targeted and effective climate change adaptation through the repair and reconstruction of destroyed tangible assets, following more and more the “building back better” approach. **By 2025, insurers will increasingly integrate sustainability criteria into claims management practices, making a significant contribution to climate change adaptation.**
22. In their capacity as providers of funded retirement provision, insurers make a valuable contribution to intergenerational equity. **While stepping up their sustainable and climate-friendly investments, insurers also aim to offer more sustainable retirement products.**

Transparency, research and knowledge transfer

23. Politicians, businesspeople and consumers need comprehensive, reliable and easy-to-use sustainability information to act in a sustainable and climate-neutral way. New European requirements for more transparency when it comes to sustainability (e.g. taxonomy, Transparency Regulation, rules on sustainability reports) are already being developed or implemented. **Insurers can relate to these requirements and are working to become even more transparent themselves. They need sustainability data from the real economy as well as measuring methods and models, e.g. regarding climate stress tests, to adjust their investments, risk management and insurance cover. The necessary sustainability data need to be provided in a standardised format (ready to use) and free of charge. Insurers are continually developing the necessary measurement techniques and models which requires an intensive exchange with the scientific community and regulatory bodies.**

24. **Insurers will continue to spearhead the research into the causes and consequences of climate change.** They provide information about the dangers of extreme weather events and natural disasters creating risk awareness in the process. Leveraging their long-standing expertise in disaster research as well as targeted cooperation, insurers support further research to contain climate risks. Education and prevention are indispensable to containing future losses and insuring natural hazards both now and in the future.
25. **Insurers reinforce their commitment to supporting the necessary processes for climate change adaptation by continuing their many studies and support measures:**
- In 2021, insurers studied the **impact of sustainability concepts on investment return** based on a comprehensive assessment of scientific studies and expert interviews. The research showed that sustainability concepts have a positive impact on the risk-return profile of an insurer's investments. This research is being updated regularly. In 2022, insurers conducted a survey of academic studies to ascertain if there is in fact a systematic yield difference between green bonds and conventional bonds (greenium). They were able to show that yields to green bonds are not systematically lower than yields to conventional bonds.
 - The insurance industry is sponsoring an “Assistant Professorship Sustainable Finance” **at the Centre for Financial Research (CFR) in Cologne.**
 - In their **annual natural hazard report**, insurers document and assess the development of natural disasters. This work is based on a cooperation with leading climatologists focusing on the **effects of climate change on insurance claims.**
 - Insurers are calling for a **nationwide natural hazard portal and a corresponding natural hazard certificate.** In a digitalised society, localised information about the threat of flooding, heavy rain, lightning and overvoltage as well as storm and hail should be available as a matter of course. Otherwise, prevention efforts in the context of climate change adaptation driven by society will never have the desired effect. The natural hazard certificate summarises the insights about every location and every individual building, much like an energy performance certificate.
 - The **cooperation with Germany's National Meteorological Service, the Deutscher Wetterdienst (DWD)**, is being continued to perform systematic analyses of heavy rain and claims data. This cooperation can be credited with, among others, heavy rain risk being included in the so-called “Hochwasser-Check”, a simple online tool people can use to check their localised risk of flooding.
 - Providing an overview of the state of development and risk potential of **renewable energies** from an engineering insurance perspective, insurers are helping both the energy plant operators and themselves with risk analysis.
 - In the “**Stand.Land.unter**” initiative, insurers highlight the growing danger posed by heavy rainfall and show how to protect buildings.
 - Insurers are stepping up their dialogue with all relevant stakeholders, e.g. government, business, academia and civil society, on biodiversity and ecosystem services, fostering knowledge transfer in the process.