Benchmark on Responsible Investment by Insurance Companies in the Netherlands 2021

Welcome to the Real world

Benchmark on Responsible Investment by Insurance Companies in the Netherlands 2021

Welcome to the Real world

Project lead and author
Hester Holtland

Co-author
Sara Heinsbroek

Contributions from
Lucienne de Bakker | Sietse Boersma
Jasper Wijnands | Mart van Kuijk | Xander Urbach

More information
Hester Holtland
Senior Project Manager
hester.holtland@vbdo.nl
+31 (0) 30 234 00 31

Utrecht, The Netherlands, September 2021

VBDO

Table of contents

About VBDO

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

ENGAGEMENT

For more than 25 years, the core activity of VBDO has been engagement with 40+ Dutch companies listed on the stock market. VBDO visits the annual shareholders' meetings of these companies, asking specific questions and voting on environmental, social and governance (ESG) themes. The aim of this engagement is to promote sustainable practices and to track progress towards the companies becoming fully sustainable, thereby providing more opportunities for sustainable investments.

THOUGHT LEADERSHIP

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

BENCHMARKS

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

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

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

Ranking

Ranking 2021	Change	Ranking 2019	Name of insurance company	Overall score 2020	Gover-nance	Policy	Imple-mentation	Accoun-tability	Stars
1	▲ 1	2	Athora	4,5	4,6	4,5	4,3	5	★★★★
2	▲ 1	3	NN Group	4,0	4,6	3,6	3,7	4,8	★★★
3	▼ 2	1	a.s.r.	3,9	4	3,3	4	4,4	★★★
4	▼ 1	3	Achmea	3,5	2,7	2,7	3,7	4,7	★★★
5	▲ 2	7	CZ Groep	2,6	2,3	2,7	2,6	2,6	★★
6	▲ 1	7	AEGON	2,2	3,5	2,7	1,8	1,5	★
7	▼ 1	6	Dela	2,2	1,9	3,3	2,1	1,6	★
8	▲ 4	12	VGZ	2,1	2,2	1,7	2,0	2,7	★
9	▲ 7	16	De Goudse Verzekeringen	2,0	1,9	1,7	2,4	1,3	★
10	▼ 5	5	Menzis	2,0	1,8	1,7	2,2	1,9	★
10	– 0	10	Allianz	2,0	2,4	2,3	1,7	2,1	★
12	▲ 1	13	ZLM	1,9	0,8	2,3	2,0	2,4	★
13	NEW	-	Univé Groep	1,9	1,7	2,0	1,9	1,9	★
14	NEW	-	Zorg en Zekerheid	1,7	1,6	2,0	1,7	1,4	★
15	▼ 6	9	Scildon	1,6	1,8	1,7	1,9	0,8	★
16	▼ 1	15	Klaverblad	1,6	1,5	1,4	1,5	2,1	★
17	▼ 7	10	ONVZ	1,5	1,3	0,5	2,0	1,3	★
18	▼ 5	13	BNP Paribas Cardif	1,5	2,3	1,4	1,6	0,5	☆
18	▲ 1	19	DSW	1,5	1,9	0,8	1,7	1,2	☆
20	▼ 4	16	Monuta	1,2	1,5	1,1	1,4	0,3	☆
21	▲ 5	26	DAS	1,1	1,3	0,8	1,4	0,7	☆
22	▼ 6	16	Onderlinge 's-Gravenhage	0,7	0,7	0,0	1,0	0,4	☆
23	▲ 2	25	Eno Zorgverzekeraar	0,6	0,8	0,8	0,6	0,3	☆
24	▲ 4	28	Unigarant	0,4	1,3	0,8	0,0	0,2	☆

Non-respondents	Name of insurance company	Overall score 2020	Gover-nance	Policy	Imple-mentation	Accoun-tability	Stars
	ARAG	0,0	0,0	0,0	0,0	0,0	☆
	iptiQ	1,5	3,1	2,3	0,3	2,3	☆
	Nh1816 Verzekeringen	0,0	0,0	0,0	0,0	0,0	☆
	NV Schade	0,1	0,0	0,0	0,2	0,3	☆
	TVM	0,1	0,0	0,0	0,2	0,3	☆
	Yarden	0,0	0,0	0,0	0,0	0,0	☆

* The scores are rounded to one decimal place. However, insurance companies are only given a shared place in the ranking if they have the same score to two decimal places.

Preface VBDO

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

The importance of sustainability and sustainable investing is greater than ever, as again demonstrated by the new IPCC report. More and more external developments such as increase in laws and regulation ensure that all insurers take sustainability into account.

As we have raised the bar considerably in this benchmark, a direct parallel with previous years is hard to draw. However, we have seen strong improvements overall especially in the middle group and the lower performers.

In the modified questionnaire, we have paid specific attention to the topic of real-world impact this year. Measuring real-world impact is a complex matter, but it is essential to start mapping and assessing the impact of investments on the world. What would be needed in order to achieve real world impact is setting science-based targets linked to impact indicators.

The consequences of climate change are such that they require more and more attention in the core activities of insurance companies. However, 43% of the insurers investigated have still not explicitly included climate change in their responsible investment policy. We would like to urge insurance companies to explicitly include climate change in the investment policy and to focus not only on the transitional and physical risks but also to become part of the solution. We would like to offer a helping hand with this.

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

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

Angélique Laskewitz
Executive Director, VBDO

Utrecht, september 2021

Preface Richard Weurding

RISICOBEWUSTZIJN
In de benchmark 2017 gaven wij aan dat "duurzaamheid volgens verzekeraars veel meer is dan alleen een overtuiging. Het gaat vooral om risicobeheersing en financieel-economisch beleid en niet alleen om groen worden vanwege de reputatie." Het risicobewustzijn werd gekoppeld aan een veranderd klimaat, wat in 2016 merkbaar was door één forse hagelbui wat heeft geleid tot honderden miljoenen euro's aan verzekerde schade onder andere voor tuinders.
We zijn nog geen vier jaar verder en we voelen, zien en merken allemaal de gevolgen van klimaatverandering in de vorm van extreem weer. Ook in Nederland waar extreme regenval heeft geleid tot overstromingen in Limburg. Verzekeraars staan daar de getroffen consumenten en bedrijven bij in het dekken van de verzekerde schade.

De verzekeringssector, met een belegd vermogen van ruim €450 miljard, trekt gezamenlijk op om het verantwoorde beleggingsbeleid continu te verbeteren: via het IMVO-convenant voor de gehele verzekeringssector en het commitment aan het Klimaatakkoord van de Nederlandse financiële sector. Naast het beleggingsbeleid, zijn individuele verzekeraars zeer actief in de adaptatie van klimaatverandering. Ik noem een aantal voorbeelden waarmee consumenten worden bijgestaan: het waarschuwen voor naderend extreem weer, het stimuleren groene daken, promoten om de tuinen te onttegelen, schade duurzaam te herstellen, het vervangen van asbestdaken door zonnepanelen en het bieden van hypotheken voor duurzame verbouwingen. Ook werkt het Verbond van Verzekeraars vanaf dit jaar in een partnerschap samen met het KNMI. Dan doen wij door de data van het KNMI te combineren met de landelijke risico- en schadecijfers van het Verbond. Zo kunnen we ons niet alleen beter voorbereiden op veranderende weersextremen, maar ook inzicht krijgen in en werken aan oplossingen om schade door extreem weer zoveel mogelijk te voorkomen. Een andere manier dan beleggingen om, zoals de titel van dit rapport, impact te maken in de echte wereld.

De opgave om de CO_2-uitstoot terug te dringen conform het Parijsakkoord is enorm. De Nederlandse verzekeringssector is gecommitteerd om hier aan bij te dragen. Dat biedt uitdagingen, zoals het stimuleren van bedrijven om CO_2 verminderen, het verkrijgen van data over de CO_2-uitstoot, actieve aandeelhouderschap en uitsluitingsbeleid en het zetten van eigen reductiedoelstellingen. Daarbij probeert elke verzekeraar zijn steentje bij te dragen, waarbij van grote beleggers uiteraard meer wordt verwacht.
De VBDO-benchmark helpt verzekeraars om een beeld te geven hoe zij er voor staan. Ik ben dan ook blij om te lezen dat de middengroep duidelijke verbetering laat zien ten opzichte van de vorige benchmark. Tegelijkertijd zien we dat bovenaan de lijst de verzekeraars hoog blijven scoren, ook wanneer de lat door de VBDO deze keer weer hoger is gelegd. Het Verbond zal deze 'race to the top' blijven stimuleren. We zijn er uiteraard nog lang niet, maar in de verzekeringssector is duidelijk een brede ontwikkeling te zien waar hardwerkende mensen bezig zijn om het beleggingsbeleid te verduurzamen en zo een impact te creëren.

Richard Weurding
Director General,
Dutch Association of Insurers

Introduction

This report provides a detailed overview of the current status and developments relating to the responsible investment practices of 30 Dutch insurance companies with a combined sum of over 450 billion euro's in assets under management (AuM). The insurance companies are assessed based on how they formulate, govern, implement and report on their responsible investment policy. The report covers a one-year period, the calendar year 2020. VBDO's assessment ranks the results in order of performance.

VBDO'S PURPOSE AND ACTIVITIES

VBDO believes a more sustainable and responsible capital market leads to a healthier and more just world. As an independent association, we are a passionate driver, motivator and knowledge leader for responsible investment and have been helping to anchor sustainability in companies since 1995. VBDO helps organisations to make choices that look beyond financial gain alone and consider environmental, social and governance (ESG) factors. We work towards our mission by publishing benchmarks and theme studies, organising round tables and seminars, and asking the right, critical questions at shareholders' meetings. In our benchmarking activities, we assess to what extent Dutch institutional investors take sustainability into account in their role as a responsible investor. These types of investors have a considerable shareholding in the companies in which they invest, so they have both rights and responsibilities. By means of this benchmark, VBDO aims to motivate insurance companies to take sustainability into account in their investment decisions. We send a thorough and detailed questionnaire to challenge insurance companies on all aspects of the responsible investment process. Answering the questionnaire requires a considerable amount of time and effort and raises awareness within the insurance sector of the need to keep improving performance.

WHAT IS RESPONSIBLE INVESTMENT?

Responsible investment (RI) can be described as embedding societal issues in investment decision-making. These issues are typically divided into environmental, social and governance (ESG) topics such as climate change, biodiversity, human rights, health, diversity and anti-corruption. RI can be done in different ways, including avoiding certain issues and prioritising other issues. In their investment beliefs and policy documents, each insurance company sets out its vision on responsible investment. Ethical, financial (risk/return) and societal impact criteria all play a role here. This vision is then put into practice through a range of responsible investment instruments.

POSSIBLE INSTRUMENTS FOR RESPONSIBLE INVESTMENT

Exclusion

Investors exclude companies and countries from their investment universe for various reasons. There are legal reasons for not investing in certain sectors or countries and there can also be ethical reasons to exclude an entire sector (e.g. tobacco or weapons). Companies can be excluded if their behaviour on ESG topics is not compatible with the investor's RI policy.

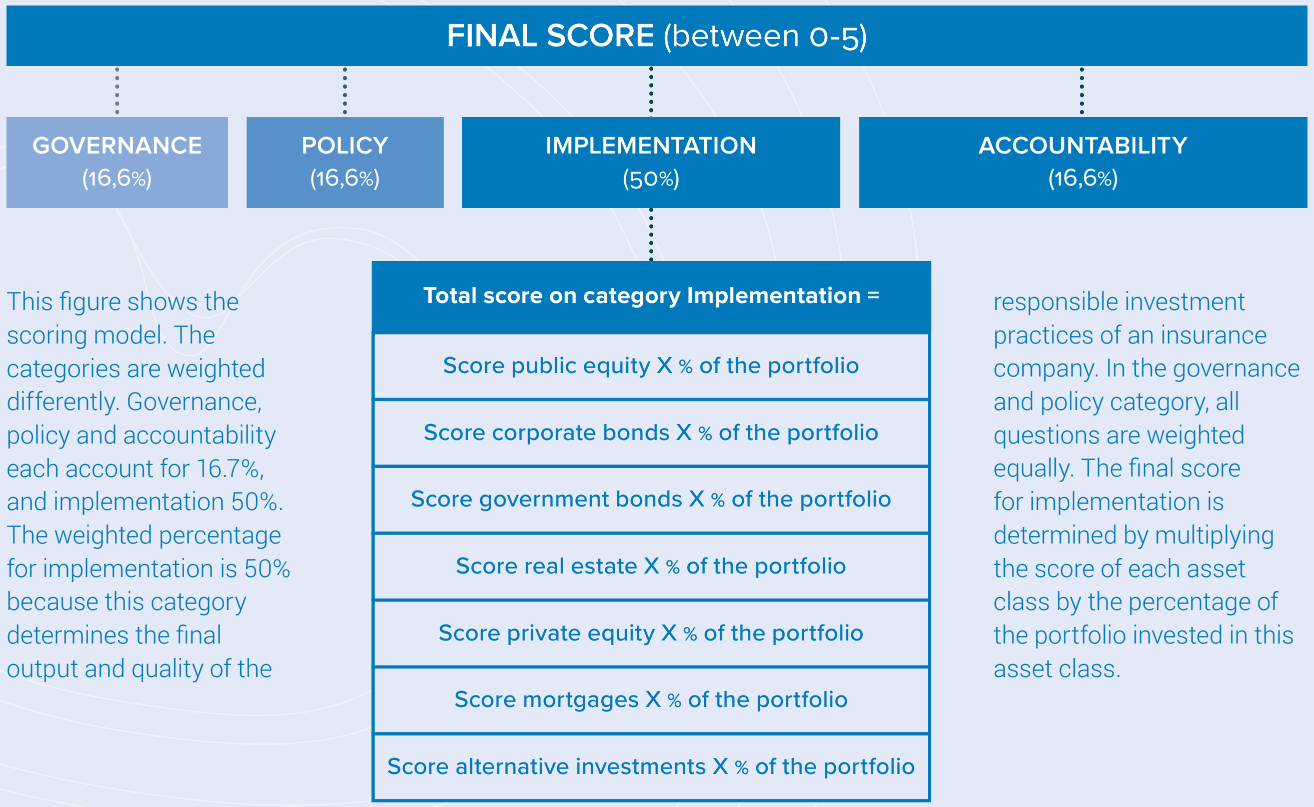
Engagement

Investors can start a dialogue with their investees and (as shareholders) require them to perform better on certain ESG topics. This may include asking them to reduce CO_2 emissions or uphold labour rights both within the company and within the supply chain. An engagement process can take several years, after which time the company has hopefully improved its performance or the investor can decide to sell its shares. For more information on RI instruments and asset classes, please see the appendix.

BENCHMARK DEVELOPMENTS

Every other year, the assessment criteria are reviewed to ensure relevancy, and possible adjustments are discussed with the benchmark participants. In addition, this year the questionnaire was modified to better reflect the latest developments in responsible investment. In practice, this means that standards have been set higher. Therefore, insurance companies that are performing the same as two years ago will receive a lower score than previously. Due to the revision, this year's scores are not fully comparable with those of two years ago. Additionally, star rankings from 0 to 5 have been added.

Figure 1 I **Overview scoring model**



This figure shows the scoring model. The categories are weighted differently. Governance, policy and accountability each account for 16.7%, and implementation 50%. The weighted percentage for implementation is 50% because this category determines the final output and quality of the responsible investment practices of an insurance company. In the governance and policy category, all questions are weighted equally. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class.

This year, the 'Mortgages' asset class has been added to the Implementation category as a separate asset class instead of being part of 'Alternative investments' to better reflect the investment practices of insurance companies.

HOW TO INTERPRET THE SCORES

Insurance companies are given a score between 0 and 5 in this benchmark, with 5 being the highest achievable score. It should be noted that a score of 5 does not equal being 'most sustainable' or that no further improvements can be made. Rather, it gives an indication of how well an insurance company performs on criteria that have been set in the current questionnaire. As previously described, the questionnaire is reassessed and revised periodically to reflect developments in RI. The overall score reflects how each insurance company has scored in the four categories (figure 1).

The four categories are:
- Governance
- Policy
- Implementation
- Accountability

This year, six insurers did not participate actively in our benchmark. This means that these insurance companies did not fill out the questionnaire or provide us with additional documentation, and that our assessment and subsequent scores are based on publicly-available documents. As such, the scores for these parties do not accurately reflect their practices and activities regarding RI, but rather show what is shared publicly regarding this subject. These insurance companies have been marked with an asterisk in the ranking list.

Key findings

This year the bar has been raised after a revision of the survey. Although an increase can be noted in responsible investment performance, no direct comparison can be made with the results of 2019. This year's benchmark shows insurance companies are faced with the huge task of accelerating performance to enable them to address the many challenges the world is facing. One of the key challenges for the sector is measuring real-world impact, focussing on social-ecological resilience and target-setting on climate change.

Increase in responsible investment performance
A direct parallel between this benchmark and the benchmark of 2019 cannot be drawn due to adjustments in the survey. However, an increase in responsible investment performance is clearly demonstrated even though the bar has been raised substantially. When looking at the middle group and the low performers of two years ago in particular, a general increase in performance can be observed.

Slow improvements on climate change
Steps have been taken on climate change over the last two years, especially with regard to policy. However, implementation is lagging behind. When looking at policy level, 43% of the insurers have still not formulated an explicit policy on climate change. Additionally, the use and depth of active ownership on climate change can be improved as only 52% of insurance companies practice active ownership on related topics.

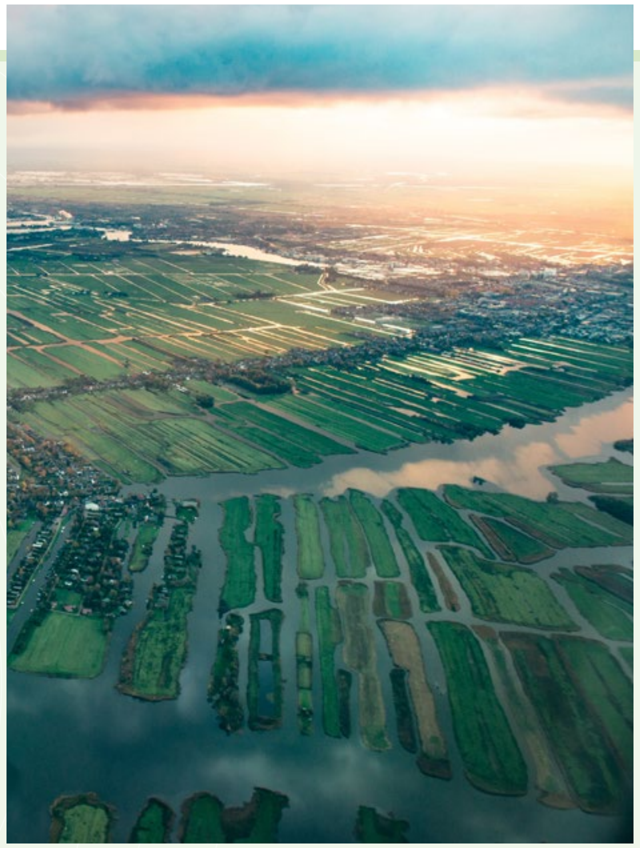
Real-world impact is lagging behind
Measuring real-world impact is a complex matter; however, but to be able to contribute to the solutions to challenges such as climate change, biodiversity loss, and human rights violations, it is essential to start measuring the actual impact of investments on the world. Yet almost no insurance companies are so far measuring the actual impact of their policies in this way. What would be needed in order to achieve real world impact is setting science-based targets linked to impact indicators.

Inconsistent use of RI instruments
Although a large variety of RI instruments is being used, these instruments are not consistently applied to different asset classes. There are, for example, large differences in engagement on publicly-listed equity (58%) compared to engagement with fund managers for mortgage investments (37,5%).

Recommendations

Consult with policyholders and society in general on the RI policy to identify blind spots and topics of interest
The benchmark results showed 40% of the insurance companies consulted stakeholders on the RI policy. This is a small decrease compared to 2019. Consulting policyholders, non-governmental and (inter)national organisations can lead to a better understanding of not only preferences regarding RI but also expectations and new insights. Knowledge gained through consultation can additionally be used in RI instruments such as engagement.

Develop a focused, aligned and ambitious RI policy
A comprehensive RI policy is the foundation for insurance companies' responsible investment practices and provides a clear investment framework which reflects the values of the insurance company and its stakeholders. VBDO recommends implementing an RI policy which includes specific ESG topics such as climate change and linking these topics to a roadmap with clear, measurable goals and targets.



Develop and implement an engagement policy for the entire portfolio including fixed income
The benchmark demonstrates that half of the insurance companies do not engage or have completely outsourced the engagement policy and process for the publicly-listed equity and fixed-income categories assessed in this benchmark. VBDO believes it is crucial for insurance companies to pre-define the engagement themes, norms and scope on which service providers should exert their influence. This study shows low levels of engagement for government bonds. Engagement with governments can be a very powerful tool for collaboration on global challenges such as reducing carbon emissions, the energy transition, or the roadmap to adhere to the Paris Agreement. Although engagement with governments is often complex, especially collective engagements can be a powerful driver for change.

Perform active ownership on climate change
Changing a company's climate policy and practice through active dialogue and voting is essential to reaching the goals set by the Paris Climate Agreement. Almost half (48%) of insurance companies do not practice active ownership with a focus on climate change.
VBDO believes it is important that insurers not only engage on mitigating the causes of climate change but also practice active ownership on adapting to the consequences. Active ownership should further be used to ensure companies focus on achieving social-ecological resilience to climate change.

Move from risk management to real-world impact
To measure real-world impact, it is essential to set science-based targets and create impact indicators. Insurance companies can for example use indicators from the Sustainable Development Goals such as climate action and zero hunger with scientifically validated impact strategies. The most concrete example would be to align the portfolio to the Paris Climate Agreement. In the RI policy the focus often lies on portfolio exposure. However, focusing on reducing the carbon footprint in the portfolio does not necessarily have an impact on the real world. The risks for the portfolio should not be the focus, but rather the impact of the portfolio on the actual reduction of carbon emissions. To be able to align the portfolio with Paris, science-based target setting measured by impact indicators is needed. The EU has developed a Paris Aligned Benchmark based on absolute measures to achieve alignment with 1.5 °C instead of focusing on a relative reduction (textbox 2 on page 23). We are looking forward to developments in areas such as biodiversity and human rights.

1. Overall performance

This chapter gives an overview of the overall results of the benchmark study. The large discrepancy between the top and bottom performers persists, with a maximum overall score of 4.5 and a minimum overall score of 0.4. The total average score of 1.7 for all insurance companies indicates the insurance sector still has a long way to go. However, it should be mentioned that the new questionnaire has seriously raised the bar, partially explaining the low individual and average scores this year. Nevertheless, insurance companies would benefit from significantly improving and expanding their RI practices and activities.

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

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

LEADERS

While some shifts took place, the top performers' scores are quite similar and they have largely maintained their leading position compared to the previous benchmark in 2019. They incorporate all five investment RI instruments in their policies, use ESG-integration in nearly all investment decisions, and take a leadership position in the sector.

MIDDLE GROUP

Overall, mid-performers consider sustainability in their policies and investment decisions and employ several RI instruments at least at a basic level. Considering the bar has been raised substantially, an increase in responsible investment performance is clearly demonstrated compared to the 2019 benchmark.

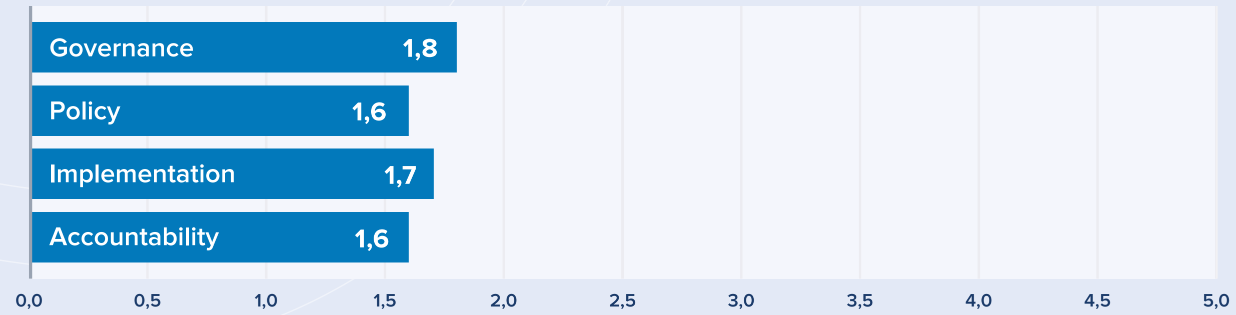
LAGGARDS

Insurance companies in this category are taking steps towards implementing responsible investment through policy and RI instruments at a basic level. VBDO expects that insurance companies in this group will continue developing their RI-related policies and their implementation in the coming years.

NON-RESPONDENTS

Six insurance companies have not provided input for our assessment. As such, their scores are low and do not necessarily reflect their RI practices accurately.

Figure 2 | **Total average score of insurance companies per category**



2. Results per category

2.1 Governance | Good governance is crucial for a successfully implemented policy and relies on several factors such as sufficient knowledge on responsible investment at board level, insight into the preferences of policyholders, and clear guidance from the board to asset managers when it comes to setting targets and measuring results.

The 2021 assessment specifically focused on:
- Accountability & leadership of the board
- The knowledge level of the board on topics relating to RI
- Board oversight: the extent to which execution is in line with the RI policy
- Consultation with participants and stakeholders

The average score for governance is 1.8, with a range of 0.7 to 4.6.

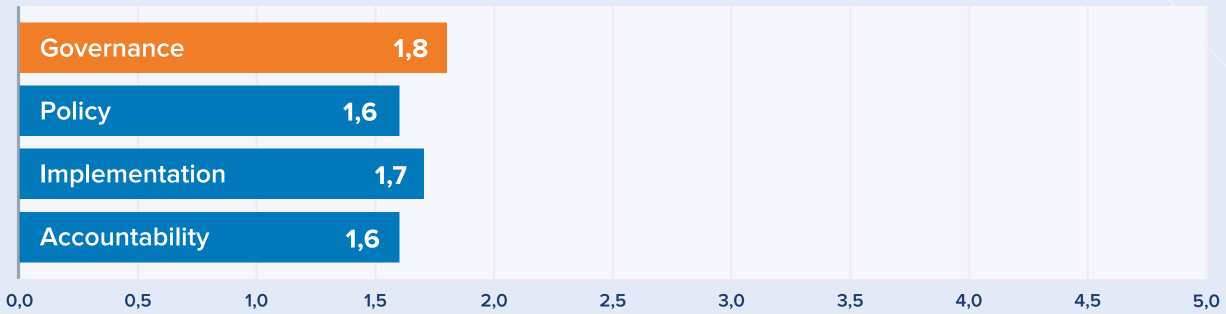
NEW THIS YEAR

This year, more stringent criteria have been added regarding board accountability and leadership on the RI policy, including knowledge of management on ESG and responsible investment. Additional criteria on the selection and monitoring of asset managers have also been added. Increasingly, institutional investors are expected to take a stand on how to deal with complex societal developments (such as COVID-19, the climate crisis, natural resource depletion, human rights and geopolitical events) through their investment strategies. This requires a thorough understanding of the complexity, relevance and impact of these developments and their related risks. This is particularly challenging given that non-financial data (or rather, pre- or extra-financial data) is inherently different from the financial indicators that the financial sector is used to relying on. It is our understanding that, when the insurance companies' boards and their advisors fully comprehend the concepts and methodologies of, for example, carbon accounting, global warming scenarios, science-based targets, and physical climate risk analysis, the financial and non-financial data can be used for better decision-making. In their engagement with asset managers, the insurance companies need to ensure that practitioners fully understand the complex technical aspects of relevant tools, e.g. carbon accounting for investments. Asset managers also need a good understanding of a range of complex ESG topics such as biodiversity, pollution and ecosystems. These are specialised areas and, therefore, numerous experts may need to be brought in to support the asset manager. With so many other responsibilities, how does the board stay in control of its RI policy? External experts and fiduciary managers are often consulted for substantive information and policy support. However, if a board member lacks suitable RI knowledge, experience or training, it is extremely difficult for them to challenge the advice they receive from outside experts, fiduciary managers, asset managers, service providers and other external parties.

GAINING RI KNOWLEDGE

The extent to which the RI policy is successfully implemented partly depends on the level of knowledge of the board, the investment committee and the external parties they work with. Expertise in RI helps to give direction in formulating, achieving and measuring goals.

Figure 3 | **Average results per category**



Good governance requires that decision-makers and relevant stakeholders have equal access to RI information. For this to happen, there needs to be sufficient involvement and input from individual members of the governing body, the supervisory body, the accountability body and the executive office.

Insurance companies need competent staff to incorporate ESG in a meaningful way. Therefore, the first commitment a board should make is to undertake training in order to gain a greater understanding of various ESG disciplines. The market offers a multitude of short sustainable investment courses, seminars, and sustainability-related lead-

Figure 4 | **Boardroom accountability and leadership on responsible investment**

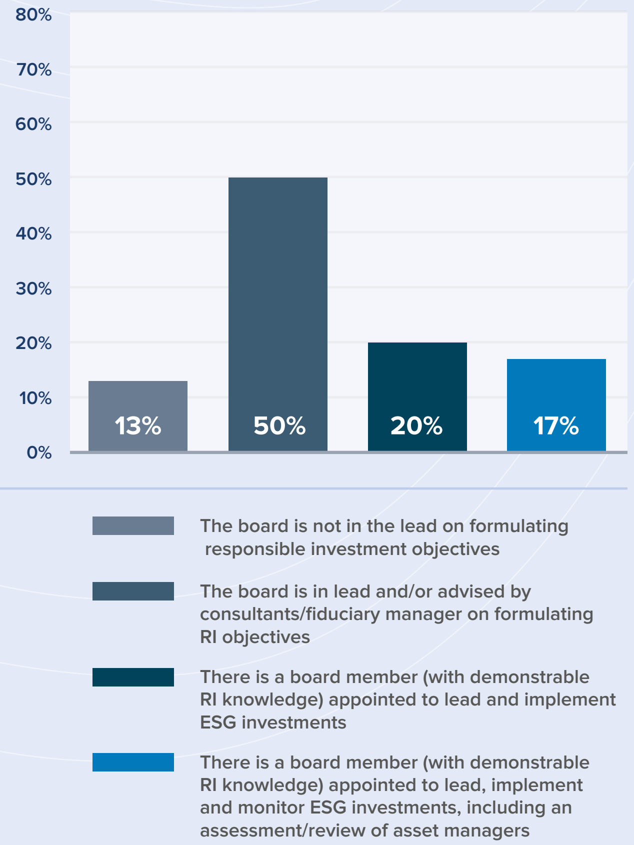
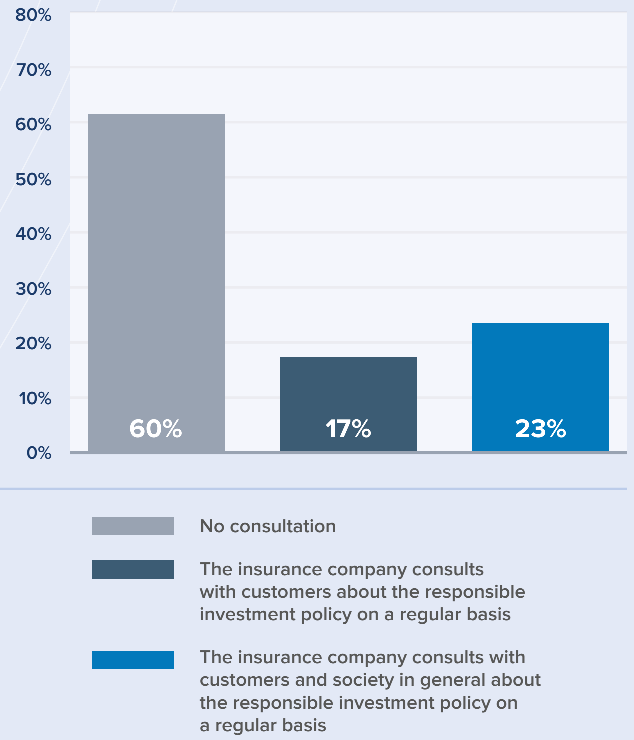


Figure 5 | **Consultation on the responsible investment policy**



ership programmes developed for – and often by – financial practitioners. These courses can be very helpful for acquiring ESG knowledge if a careful consideration is given to the intended learning goals.
Our findings show 87% of insurance companies are involved in developing RI objectives and that 37% can demonstrate the ESG and/or RI knowledge of the board member overseeing this topic.

STAKEHOLDER CONSULTATION

This year, a marginal decrease in stakeholder consultation was reported. In 2020, 40% of insurance companies consulted stakeholders on the RI policy compared with 42% in 2018. Slightly less than half of insurers (47%) consult policyholders and/or society in general on climate change-related issues. Consulting with policyholders, non-governmental and (inter)national organisations can lead to a better understanding of not only preferences regarding RI but also expectations and new insights. This will lead to more informed investment decisions. Additionally, knowledge gained through consultation can be used in RI instruments such as engagement.

RECOMMENDATIONS ON GOVERNANCE

- **Ensure sufficient countervailing power at board level by increasing its knowledge of RI and the diversity of the board and investment committee.**
- **Provide regular training sessions by independent parties on RI and developments regarding ESG and sustainability in the financial sector for the board, management, and relevant employees.**
- **Consult with policyholders and society in general (for example, relevant NGOs) on the RI policy to identify blind spots and topics of interest.**

2.2 Policy | A comprehensive RI policy is the foundation for insurance companies' responsible investment practices and provides a clear investment framework which reflects the values of the insurance company and its stakeholders by formalising its vision, investment principles and approach to RI. To this end, articulating a long-term vision, including specific and measurable goals and a clear roadmap, is vital for the success of the RI policy. The RI policy should include environmental, social, and governance (ESG) themes and ideally the overlap between related topics, which should then be applied to all asset classes.

The 2021 assessment specifically focused on:

- Inclusion of a clear roadmap that includes short, medium and long-term targets
- Inclusion of real-world impact indicators
- The extent to which the Sustainable Development Goals (SDGs) and climate change are included in the RI policy
- ESG and climate risk information being included in SAA and/or ALM

The average score for policy is 1.6, with a range of 0.0 to 4.5.

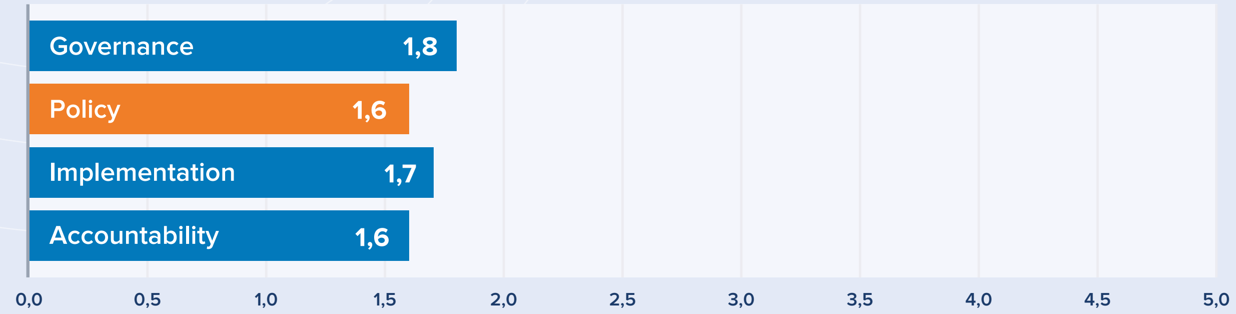
NEW THIS YEAR

Questions on the adoption of the UN Sustainable Development Goals and the alignment of the responsible investment policy and portfolio have been added. Criteria for long-term goals have been strengthened. Given the variation of goals and ambition among insurance companies, we have adjusted our assessment and allocated points to targets that do one or more of the following: increase the ambition of RI strategies; formulate a clear roadmap which includes short, medium, and long-term goals; and are measurable by real-world impact indicators.

SETTING AMBITIOUS GOALS

Over half (57%) of insurance companies have not included specific goals and targets that will increase the ambition of the RI policy over time. A similar number of insurance companies includes goals and targets which increase the ambition of the RI policy or scalable goals and targets, including a roadmap (both 20%). Just 3% include real-world impact indicators with demonstrable real-world impact in the RI policy.
It should be pointed out that 2020 has been a transition year for many insurance companies during which updates and changes to increase the RI policy's ambition have been researched and tested. Some of these changes had been implemented in 2020, but most updated policies are effective from January 2021. Others are currently in the middle of updating and enhancing their policy. As the scope of this benchmark is 2020, updates taking effect after year end 2020 have not been taken into account

Figure 5 | **Average results per category**



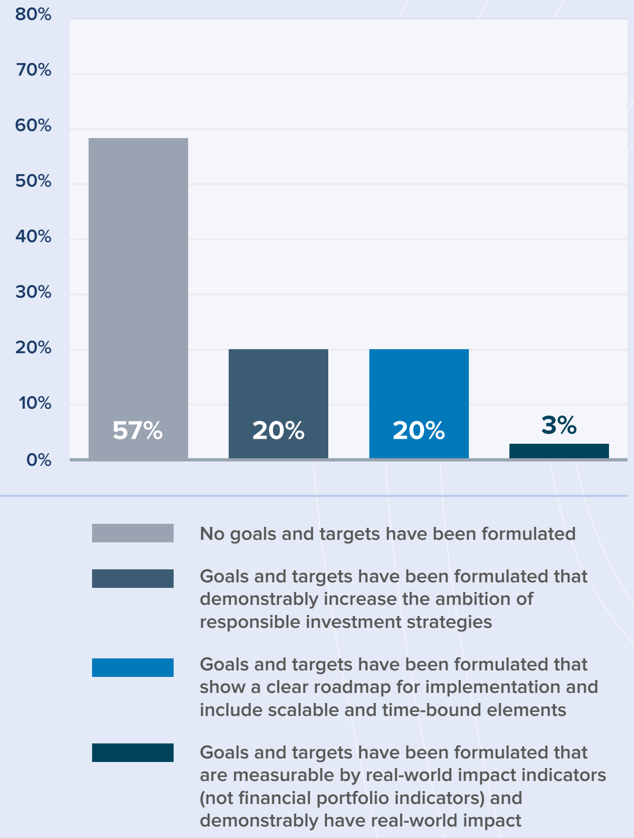
for this year's assessment. VBDO therefore expects more comprehensive and ambitious policies to be in place during the next benchmarking exercise.

INCREASING POLICY AMBITION

While the majority of insurers have implemented the UN Sustainable Development Goals ('SDGs') into their RI policy (13%) or into a specific investment fund or product (43%), a surprising 33% has not meaningfully adopted the SDGs. The SDGs are arguably the most well-known sustainability-related goals and provide a solid guideline in the development of a policy framework. We therefore suggest using the SDGs as a starting point for parties which are still in the process of developing an RI policy, including goals and targets.

As 43% of surveyed insurance companies do not explicitly include climate change in their RI policy as a topic, an area in which improvements can be made is the inclusion of climate change into the RI policy. ALM and SAA studies can provide valuable insight into how to use information on climate change in the portfolio. A small majority of insurance companies investigate the effect of ESG information on ALM and/or SAA modelling (43%). A minority of insurers take further steps and can prove ESG and climate-related risk information has demonstrably influenced SAA decisions (7%), that such information has been quantitatively integrated into ALM modeling (3%), or that the effect of physical and transition-related risk under different climate change scenarios has been considered in these studies (10%). The 2019 insurers' benchmark concluded that 79% of insurance companies did not use ESG or climate change information in 2018. This number has dropped significantly from 37% of insurance companies in 2020.

Figure 6 | Setting long-term goals



RECOMMENDATIONS FOR POLICY

- Implement an RI policy which includes specific ESG topics such as climate change, and link these to a roadmap with clear, measurable goals and targets.
- Include social topics when identifying relevant ESG topics for the insurance company.
- Investigate how to include physical risks of climate change, social-ecological resilience and real-world impact into the RI policy.

TEXTBOX 1 Aligning the RI policy with science-based targets:

The EU CTB and EU PAB benchmarks were created to support the 1.5°C scenario described in the Paris Agreement. To keep global warming to 1.5°C or less, the global economy needs to decrease its emissions by 7% per year for 30 years. These are absolute targets – not relative – in order to change the trend on world emissions and achieve real-world CO_2 reduction. For example, if an investor has an index portfolio and claims to represent a portion of the economy in line with the Paris Agreement, it needs to follow this decarbonisation rate. The absolute targets are a must, since the impact of a pension fund's portfolio CO_2 reduction on the real world could be misleading. One example is. "We will reduce the CO_2 footprint of our listed equity portfolio by 40% by 2027 relative to 2017." CO_2 emissions in the real economy might grow between 2017 and 2027, while the pension fund only measures at the portfolio level. As these are relative numbers, its real impact remains unknown. The research team of 2° Investing Initiative Association found that for 99% of funds, the CO_2 reduction claims are misaligned with scientific Paris-aligned frameworks.

For more information visit: https://2degrees-investing.org/wp-content/uploads/2020/02/2DII-Targets-Impact.pdf

TEXTBOX 2 How does the EU PAB benchmark work?

There are generally two mechanisms with which investors can achieve the 7% or more average per annum reduction in GHG intensity. Firstly, the fund can focus on its benchmark portfolio's constituent weights. Constituent weights describe the degree to which each individual company contributes to the computation of the overall benchmark. Benchmark operators can assign higher weights to lower GHG intensity sectors, while at the same time assigning lower weights to the sectors that contribute to climate change the most. Secondly, investors can aim to identify companies that have strategies to reduce their GHG intensity by at least 7% in the upcoming year.

For more information visit: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/192020-sustainable-finance-teg-benchmarks-handbook_en_0.pdf

2.3 Implementation | The scores in this category reflect how well the RI policy is being executed. VBDO analyses implementation for the various asset classes and the applicable RI instruments. The allocation of assets is the basis for determining the final score on implementation. The average score of 2.0 out of 5.0 illustrates the challenge of actually integrating ESG issues and RI goals into investment decisions.

The 2021 assessment specifically focused on:
- The asset manager selection and monitoring process
- Exclusion
- ESG integration
- Active ownership: engagement and voting
- Impact investing

The average score for implementation is 1.7, with a range of 0.0 to 4.3.

NEW THIS YEAR
This year, we aimed to reflect more accurately the investment process of insurance companies. By adding so-called preliminary questions for the three major asset classes (publicly-listed equity, corporate bonds, and government bonds) we were able to gain an overview for each asset class before diving into examining various RI instruments. The information provided gave us insight into the distribution of asset managers per asset class and what ESG considerations insurance companies take into account when selecting, monitoring and evaluating asset managers or index funds.

Changes have been made to questions regarding exclusion, ESG integration and engagement; these are explained further in their respective sections.

ALIGNMENT OF THE RI POLICY AND INVESTMENT PORTFOLIO
VBDO is of the opinion that the asset owner (in this case the insurance company) rather than the asset manager should take the lead when formulating, monitoring, and evaluating performance on RI objectives and goals. To guarantee that the RI policy and investment portfolio are in alignment, insurance companies should ensure that their asset managers operate in line with the insurance company's targets. In our assessment, we made a distinction between several ESG requirements demanded of asset managers. These requirements should be part of the index fund selection process and should be included in investment management agreements (IMAs) with (external) asset managers. Our results show that most insurance companies have at least basic requirements in place and often include requirements regarding the investment process.

Our results show that most insurance companies have at least basic requirements in place.

Figure 7 | **Average results per category**

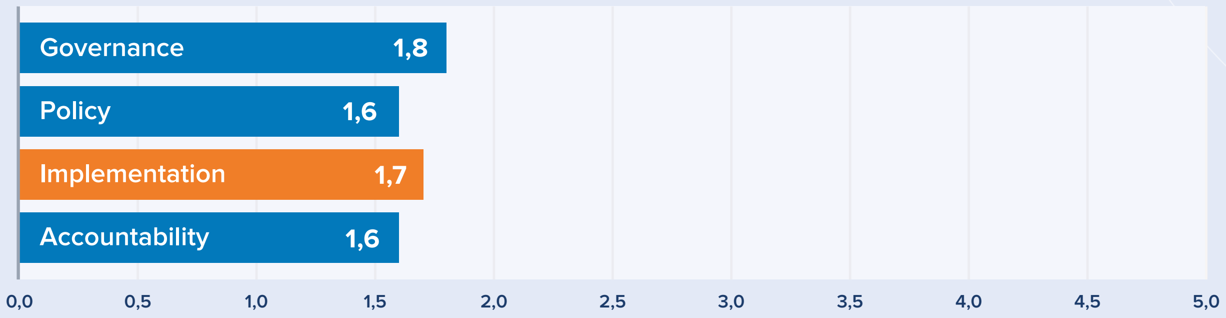


Table 1 | **Responsible investment instruments and the different asset classes included in the benchmark**

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

2.3.1 Exclusion

An exclusion policy indicates what type of investments an insurance company will not consider. Exclusion can be done for various reasons, including legal grounds, reputational risks, ethical beliefs, and sustainability considerations. It can be applied to companies, sectors and countries. Exclusion is a relatively basic step to take, but it does require a vision on controversial issues. VBDO's benchmark only recognises exclusion criteria beyond legally binding regulations. For example, all Dutch institutional investors are legally prohibited from investing in cluster munitions, meaning that this will not be considered an exclusion policy.

NEW THIS YEAR
While all insurance companies have defined their exclusion policy beyond legal prohibitions, not every individual asset manager is necessarily required to follow that policy. To understand the extent to which exclusion policies are applied to the insurance company's portfolios we now require insurers to provide evidence that the exclusion policy is being rigorously applied.

RESULTS ON EXCLUSION
Some insurance companies include certain criteria in their exclusion policy, such as tobacco, which only applies to a small proportion of the portfolio. We expect insurance companies to be transparent with stakeholders about how the exclusion policy is applied and whether asset managers are compliant. This is especially important given that exclusion is the preferred RI instrument used by insurers. The reasons most frequently given for excluding companies are controversial weapons (other than legally inhibited cluster munitions) and United Nations Global Compact violations. While human rights and tobacco are also frequently mentioned, environmental or climate-related issues are rarely included.
For the government bond portfolios, exclusion criteria mostly use official sanction lists (e.g. those from the United Nations and European Union) as a basis. However, many insurance companies use additional sustainability-related considerations in order to exclude countries from their investment portfolio.
Insurance companies hold different approaches to exclusion, depending on their beliefs and vision. For example, while some insurers might have a zero-tolerance threshold for certain activities, others might use exclusion as an escalation option for engagement with companies operating in those same activities. Both methods of exclusion can be used to influence company behaviour in line with the RI policy.

2.3.2. ESG integration

ESG integration refers to the process by which environmental, social, and governance (ESG) factors are integrated into the investment decision-making process. This integrative approach ensures that ESG criteria are identified and assessed in order for the insurer to make an investment decision. ESG criteria can expose risks that might otherwise remain undiscovered and can also identify investment opportunities.

NEW THIS YEAR

Firstly, whereas in previous years it was sufficient for an insurer to require the asset manager to sign up to the UN-PRI, the bottom-line this year requires insurance companies to show that they systematically and demonstrably integrate ESG criteria in either the equity, corporate bond or government bond investment process on a yearly basis. For active strategies, the insurance company can demonstrate that ESG criteria are integrated in the investment analysis. For passive strategies, the insurer can show that the criteria are integrated in the index product.

Secondly, VBDO believes the involvement of ESG criteria in investment decision-making should not be limited solely to enhanced risk analysis. Ideally, an investment portfolio should make a positive real-world impact. Therefore, we have assessed insurers on whether and how they integrate year-on-year absolute ESG criteria targets into the active or passive managed portfolio.
Lastly, ESG integration questions assess both extent and volume of this instrument.

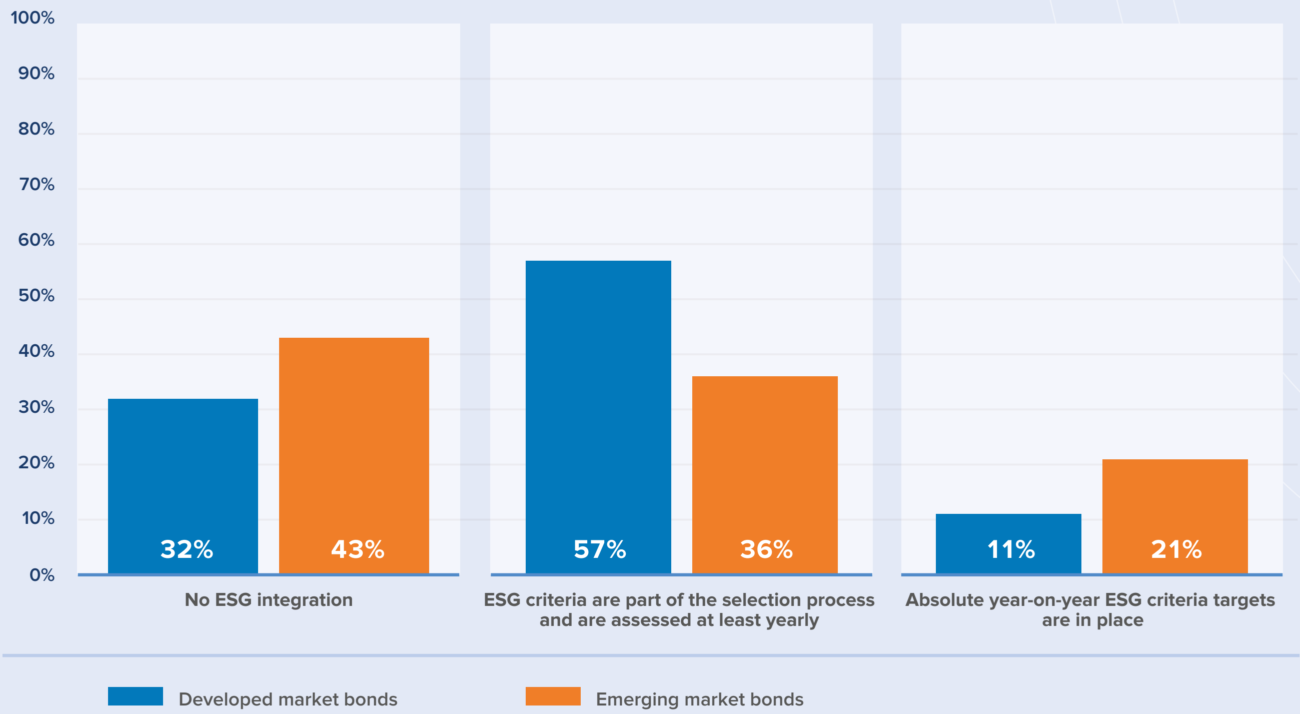
RESULTS ON ESG INTEGRATION

Below, results have been included for the most relevant asset classes, determined by average asset allocation.

GOVERNMENT BONDS

Government bonds are the largest asset class in which insurance companies invest, with an average asset allocation of 33%. Data gathered from this study shows that ESG criteria for developed market bonds are systematically considered in the investment decision-making process by 68% of insurance companies. Absolute year-on-year ESG criteria targets have been demonstrated by 11% of insurance companies invested in developed market bonds. A third (32%) of insurers have not integrated ESG considerations for developed market bonds.
Most insurance companies invest in government debt in European countries, where in their view 'ESG risks are less likely to occur'. VBDO is of the opinion that ESG factors also need to be considered for government debt in the developed market. In addition, according to a paper by European Insurance and Occupational Pensions Authority (EIOPA), there is limited knowledge regarding climate risk, and sovereign bonds are the least covered area in this instance . Given the importance of sovereign bonds to insurers' investment portfolios – comprising almost a third of their holdings – insurance companies should assess if developed countries pursue policies in line with scientific climate scenarios. This means insurers should also take fossil fuel exposure into account and determine whether their investments are enabling a just transition to a carbon-neutral landscape and aiding climate adaptation.

Figure 8 | **Difference between ESG integration for developed market bonds and emerging market bonds**



> *While insurance companies are aware of ESG risks when investing in emerging market bonds, many 'integrate' this by excluding said bonds from their portfolio.*

Less than half of insurance companies include emerging market bonds in their portfolio. Emerging market bonds show lower levels of ESG integration compared to developed market bonds, while 57% of insurance companies consider ESG criteria on at least a basic level for this portfolio. More stringent criteria are applied by 21% of insurers that invest in emerging market bonds. ESG-criteria do not play a role in the bond selection process for 43% of insurers.
While insurance companies are aware of ESG risks when investing in emerging market bonds, many 'integrate' this by excluding said bonds from their portfolio. Most insurers who do invest in emerging markets through government debt either do not consider ESG issues in the selection process, or do so on a basic level, for example by integrating ESG into the investment analysis (36%). As outlined in the paragraph above, comprehensive integration of ESG issues into the sovereign debt investment process is crucial because of their prominence in many insurance companies' investment universes.

CORPORATE BONDS

On average, corporate debt comprises 23% of insurance companies' assets. The majority of insurers systematically incorporate ESG criteria in the selection and assessment of corporate bonds (67%) or set year-on-year targets on ESG criteria (7%).
Results of our study show that most insurers invest in corporate bonds through active strategies or through a combination of both active and passive strategies.

PUBLICLY-LISTED EQUITY

Publicly-listed equity amounts to 17% of insurance companies' average asset allocation. ESG integration is highest for PLE with 63% of insurers including ESG criteria in the equity selection process, and 11% applying year-on-year criteria.

MORTGAGES

This year, mortgages were included as a separate asset class, representing 15% of average asset allocation. Of the insurance companies invested in mortgages, 42% do not consider relevant ES(G) criteria in the investment process. Both environmental and social issues are considered in the investment process by 42% of insurance companies, while the remaining 16% consider them for either environmental or social topics. This is the lowest level of ESG integration out of the major asset classes.

Overall, no matter the level of ESG integration, this instrument is applied to the entire applicable portfolio by the vast majority of insurance companies, excluding a few exceptions with lower implementation levels. However, ambition of ESG integration could be increased in all asset classes, as most insurers apply a basic level of ESG integration for both active and passive strategies. For example, year-on-year and absolute targets on ESG criteria could be developed for fixed-income strategies, as they make up the majority of insurers' portfolio's. For other asset classes, criteria on relevant ESG topics should be incorporated in the overall investment process first.

2.3.3. Engagement

Dialogue with corporate issuers of stock and credit, governments, and fund managers is a valuable tool to help optimise long-term value, manage reputational risk, and bring about positive social and environmental change. Monitoring and evaluating progress of the engagement activities is crucial in preventing it from becoming a box-ticking exercise. Engagement can be practiced in various forms such as case by case or collective engagement.

NEW THIS YEAR

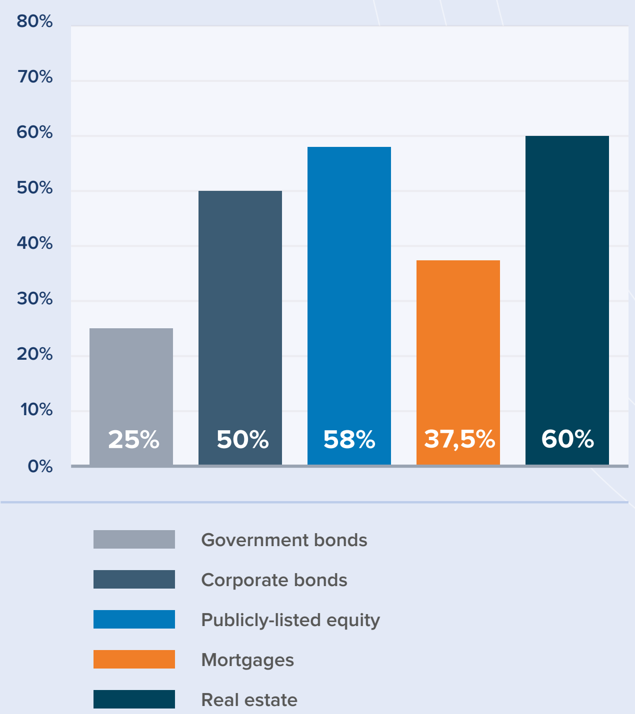
Questions on engagement with governments have been added as this is an under-utilised instrument with a great deal of potential, especially considering recent (inter)national developments on sustainability-related regulations and the encroaching Paris Climate Agreement deadline. The process of engagement is usually carried out by asset managers and specialised engagement service providers. VBDO believes that it is crucial for insurance companies to pre-define the engagement themes, norms and scope on which service providers should exert their influence. In addition to engagement practices, engagement policies should contain escalation strategies that go beyond exclusion. For example, voting against management could be utilised more when engaging with companies. Specific requirements on the above were added to this year's benchmark methodology.

RESULTS ON ENGAGEMENT

Our study shows lowest levels of engagement for government bonds, with just 25% of insurance companies entering into dialogue with governments. This is followed by engagement with fund managers for mortgage investments at 37.5%. Low levels are indicated for engagement on corporate bonds, as only 50% of assessed insurance companies report engagement activities for this portfolio. Real estate shows the highest level of engagement at 60%, followed closely behind by publicly-listed equity at 58%. However, the majority of insurers that engage do so on the full spectrum of ESG components.

These results are especially noteworthy as bonds represent the major part of many insurers' asset allocation. Asset owners can leverage their position as bond holders. As the data on corporate and government bonds shows, there is room for increasing engagement on fixed-income. Insurance companies can consider engagement in specific situations such as during investor roadshows, at debt reissuance, and in collaboration with other bondholders. At the point of refinancing, bondholders could use their power to push companies to tackle climate change. In those situations, insurance companies could demand transparency and encourage companies to disclose information on ESG risks based on broader market disclosure frameworks. Some participants stated that since the majority of their investments in this category are in developed markets, and specifically European and/or EU countries, engagement is not necessary because countries selected for the portfolio had been without significant sustainability-related controversies worthy of mention. In VBDO's view, this ignores valuable avenues for engagement, for example on carbon emissions, the energy transition, or the roadmap to adhere to the Paris Agreement.

Figure 9 | **Difference in use of engagement between different asset classes**



Some participants stated that since the majority of their investments in this category are in developed markets, and specifically European and/or EU countries, engagement is not necessary because countries selected for the portfolio had been without significant sustainability-related controversies worthy of mention. In VBDO's view, this ignores valuable avenues for engagement, for example on carbon emissions, the energy transition, or the roadmap to adhere to the Paris Agreement.

For the PLE and fixed-income categories assessed in this benchmark, half of the insurance companies do not engage or have completely outsourced the engagement policy and/or implementation processes. This is especially true of smaller insurance companies, which often put a lot of weight on the implementation of RI instruments and overall sustainability strategy of candidates during the asset manager selection process. As our benchmark allocates points based on predefined engagement topics, this has negatively affected scores on engagement. VBDO emphasises predefined themes as this demonstrates a far-reaching vision regarding responsible investment. We therefore encourage all insurance companies to develop specific engagement topics for their fiduciary managers to use when entering an engagement dialogue.

2.3.4. Voting

Voting offers the option for shareholders to show management whether they agree with the current direction of the company. Voting is often limited to the available (special) shareholder resolutions at the Annual General Meetings (AGM). Additionally, voting is restricted to the small number of resolutions (and likewise the small number of AGMs and items to be voted on) and their geographical -Anglo-Saxon- focus.

RESULTS ON VOTING

Half of insurance companies (52%) do not pay explicit positive attention to ES(G) issues in their voting policy and/or practices, making voting a heavily under-used RI instrument. A quarter (26%) demonstrably vote at annual shareholder meetings and explicitly include ES(G) issues in their own voting policy or in the asset manager's proxy voting mandate. The remaining group (22%) also does this and in 2020 publicly initiated and/or supported sustainability-related shareholder resolutions.

As mentioned above in the Engagement section, voting against management can be used as an escalation strategy for unsatisfactory engagement. Additionally, initiating or supporting shareholder resolutions gives a clear sign to management of the direction the shareholders would like the company to take. A prominent example of such a shareholder resolution is Follow This. Each year, support for resolutions on 'going green' filed by the organisation gain more support from institutional investors, including insurance companies.

2.3.5. Impact Investing

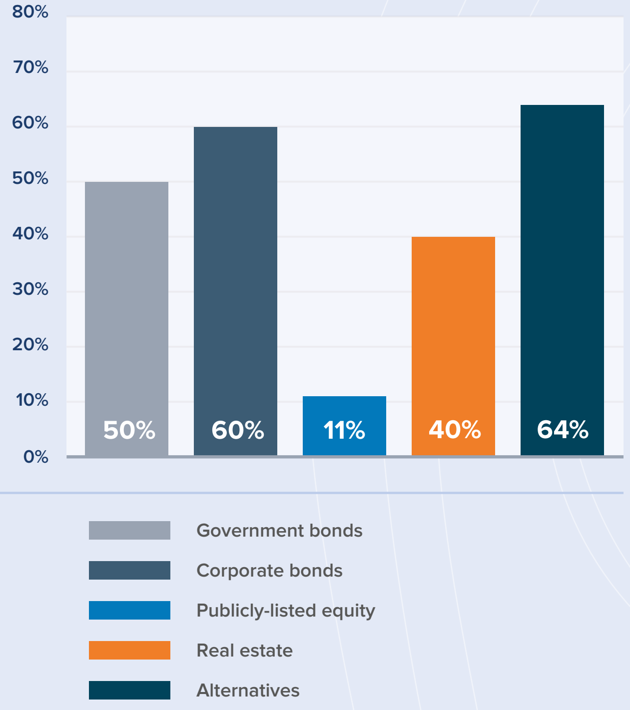
Impact investments are investments made with the explicit intention of achieving a positive, measurable environmental and social impact whilst also generating a competitive financial return. The growing impact-investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, microfinance, and affordable and accessible basic services such as housing and healthcare. Its dual intention and commitment to track and measure investments' non-financial impacts distinguish impact investing from other approaches such as ESG integration. A key point is that any positive environmental and social impacts are intended from the outset; they're not just side-effects. Green bonds are classified as impact investments in fixed-income holdings. They are issued by companies and governmental institutions to finance specific projects that have a positive environmental or social impact. Green bonds play an increasingly important role in financing assets needed for the low-carbon transition. They are also increasingly popular with institutional investors. Their simplicity (they have the same recourse to the issuer as traditional debt) and long-term investment horizons, along with the growing awareness of environmental factors in investment philosophies, and regulatory support, make listed green bonds attractive to institutional investors.

RESULTS ON IMPACT INVESTING

Although the issuance of green, social and sustainability bonds has continued to grow, this instrument is used sparsely by insurance companies. Our study shows that impact investing is most often used for alternatives; 64% of insurance companies have included this type of investment in their investment universe. The other asset classes follow closely behind, namely corporate bonds (60%), government bonds (50%), and real estate (40%). Numbers for PLE are significantly lower at 11%.

Some insurers purposely forego impact investments as an RI instrument as the risk of greenwashing is deemed too high. This is a valid concern as investors need to be able to spot 'green fakes'. Insurance companies should consider several criteria:

Figure 10 I **Difference in use of impact investing between different asset classes**



Firstly, it's important to assess the issuer of the green bond and its intention, strategy and performance in relation to sustainability. When analysing this, insurance companies (and their advisors) should be aware of the underlying criteria of ESG data and ESG ratings they might use. Secondly, insurers should pay attention to the greenness of the use of proceeds. In other words, the insurance company needs to examine the underlying projects and judge how sustainable these really are and what the actual impact of the bond is likely to be. Usually, this information can be found in the issuer's Green Bond Framework. If this information is not provided or does not seem satisfactorily robust, then the investment might not make the positive social and/or environmental impact that the insurance company has been led to believe. The EU Green Bond Standard is a welcome and much-needed development. It will set a standard on what is green, so there will be less cause to doubt the environmentally-friendly characteristics of future green bond issuances.

When impact investments have been included in the investment portfolio, it is important to keep track of the actual impact that is made. Connecting achieved impact (measured with an impact assessment) to expected impact (measured with an impact evaluation) is necessary in order to move from investments intended to make an impact towards those investments that actually achieve an impact. Therefore, it is necessary not only to measure the output of impact investments but also to formulate impact investment expectations and to re-evaluate investments.

Measuring real-world impact is a complex matter, but it is essential to start measuring the actual impact of investments on the world so as to be able to contribute to solutions for challenges such as climate change, biodiversity loss and human rights violations.

The Global Impact Investing Network (GIIN) states: "Impact measurement & management is more than counting metrics. It means considering information about risks, returns, and impact to learn, adjust, and improve investment decision-making."

MEASURING REAL-WORLD IMPACT

This year, questions on real-world impact have been included in the benchmark survey. Measuring real-world impact is a complex matter, but it is essential to start measuring the actual impact of investments on the world so as to be able to contribute to solutions for challenges such as climate change, biodiversity loss and human rights violations. Almost all insurance companies do not yet measure the actual impact of their policies in this way. As available data is limited and consensus on how to measure impact on the tangible world has not yet been reached, how to define and quantify real-world impact has proven to be a challenge. What would be needed in order to achieve real world impact is setting science-based targets linked to impact indicators. Insurance companies can use indicators from the Sustainable Development Goals such as climate action and zero hunger with scientifically validated impact strategies. Textbox 1 provides an example of how to measure real-world impact.

RECOMMENDATIONS FOR IMPLEMENTATION

- **Include ESG integration requirements in the selection, monitoring and evaluation process for investments in all asset classes; ensure that all asset managers integrate these criteria in their investment analysis or index product.**
- **Develop and implement an engagement policy for the entire portfolio, including fixed-income and fund managers. Identify relevant ES(G) topics on which to engage such as accomplishing the Paris Climate Agreement.**
- **Use voting as an escalation strategy after failed engagement.**
- **Initiate and/or support shareholder resolutions on sustainability topics.**
- **Align the investment portfolio with real-world impact, including real-world impact indicators and absolute target benchmarks.**

Best practice: measuring real world impact.

Dennis van der Putten and **Kees Ouboter** of **ACTIAM**

This year, questions on real-world impact have been included in the benchmark questionnaire. However, as available data is limited and consensus on how to measure impact on the tangible world has not yet been reached, how to define and quantify real-world impact has proven to be a challenge. The limited availability of data and scientific background makes this a complicated issue to grapple with. ACTIAM is one of the Athora Netherlands brands and is responsible for the asset management of Zwitserleven funds, among others. We spoke to them about their approach to impacting the world beyond portfolios and how to measure this.

Uncertainty about what exactly constitutes real world impact and how to capture this in measuring methods is an obstacle for many asset owners and asset managers. 'However, now is not the time to be hesitant.', says **Dennis van der Putten, Director Sustainability and Corporate Strategy at ACTIAM**: 'During the financial crisis we noticed that society and the financial sector seemed to have become disconnected. At the same time, we felt that the insurance industry has a large societal role to play, for example, by providing solutions in times when it is most needed. The recent floods, which are probably a result of climate change, are an example of where insurance companies helped out. Additionally, it would be impressive if insurance companies, through the way they invest premiums paid by their clients, also contributed to mitigating the effects of climate change and adapting to associated changes. Based on that way of thinking, we also discussed impacting portfolios by making them resilient, thus impacting the real world and real economies. It is our conviction that we have the fiduciary duty to lead the transition towards a sustainable society. This goes beyond managing portfolios.

It is becoming clearer and clearer that we have exceeded the boundaries of our planet, for example, in terms of deforestation, carbon emissions and water use. We urgently need to speed up the transition that could bring us back within the limits which enable the planet to replenish itself. If we don't, we will be faced with indescribable economic, social and ecological impacts. That is why we came up with our triple bottom line: optimising financial and social returns whilst impacting the real world and real economies.

Consequently, our approach to investment had to change. This led to the development of a new sustainability framework, originating from the line of thought set out in 'Doughnut Economics' by Kate Rayworth in which the transition to a sustainable society is central. Based on this, we set long-term targets, as many of them as science-based as possible, on environmental and societal impacts like net zero carbon in 2050, water neutral in 2030 and no net loss of biodiversity in 2030.
The availability of data on how to measure and monitor progress was the biggest challenge. Because we felt strongly that we could no longer hesitate, we decided just to get started with monitoring instead of waiting around for measuring methods to be perfected. To keep things manageable, we started developing ways of measuring impact and collaborated with other financial institutions on platforms (PCAF, PBAF) to ensure uniform ways of measuring.'

Kees Ouboter, Responsible Investment Officer and ESG Analyst at ACTIAM, adds: 'In order to address real world challenges, it is crucial that we do not refrain from measuring impact for fear of potential shortcomings with the measurement methods. Measuring and collecting data is how you gain knowledge and how you can track and monitor whether tools like engagement contribute to the achievement of our targets and overarching goal of operating within the planetary boundaries. To get the right data, you have to embrace new and innovative technologies and explore collaborations. We're starting a project together with Satelligence on measuring deforestation (which is very complicated to measure), supported by satellite images. Using these images, we can map the impact of our investments and stewardship efforts and what needs to change to reach our targets. We matched the images with information on ownership of the land. Looking through the value chain allowed us to search for (listed) companies that are involved. We started engagements based upon this information, raising awareness and demanding change. This approach was so successful that we will expand our efforts on this.

In addition, we are currently developing two other real-world impact indicators. For example, one which we are developing together with the Impact Institute is based on wages. Ultimately these kinds of indicators and actions are needed to really show what the impact of our actions are on the real world. We want to involve and convince others to team up. That includes our clients and partners. Finding the right tone of voice and a shared understanding is key.

One way we make our impact visible for our clients and investors is our dashboard in which real world indicators, like climate- water- and deforestation footprints, can be plotted. By making this information visible, we provide input to clients to make the right investment decisions and steer towards a future-proof portfolio.'

Measuring methods are not the only challenge investors face when significantly changing their investment approach. Van der Putten: 'Athora Netherlands facilitated the development of the new framework which was in line with their mission and vision. With such a major change it is important to take clients along with you in the decision-making process. When the exclusion percentage of the benchmarks rises from 5% to almost 20%, it needs proper explanation. The change in asset allocation seemed a large increase in our risk appetite. However,traditionally the industry uses the tracking error as a way to measure risk, but we've broadened this perspective by also minimising absolute sustainability risks. So, while our tracking error has increased, our portfolio is more resilient in terms of sustainability and, for example, related to the energy transition.' Van der Putten points out that not all activities lead to immediate success stories: 'Impact investments can be very successful in achieving tangible societal as well as financial returns. We have identified conservation and restoration finance as the next step to operate within the planetary boundaries. However, we have not yet managed to set up a restoration finance project. Currently, many investors are cautious to join as, due to the nature of these projects, the investment horizon is expected to be longer than five years, meaning that there will be little to no return during the first few years. Collaboration (and size) is key for success. So, while more action is needed in order to operate within the planetary boundaries, it takes time to overcome barriers.'

During the financial crisis we noticed that society and the financial sector seemed to have become disconnected.

Ouboter recounts that when he first started out in the financial sector it felt as if the sector regarded itself as being in service to the economy. 'My conviction, and this is the case at Athora Netherlands and ACTIAM as well, is that we as a sector are a driving force behind change. We don't just react to it; it is our fiduciary duty to lead the transition towards a sustainable society. And if we can encourage others to join us, we can make a huge impact which in turn will lead to behavioural change on the part of companies. This is how change is accomplished. A good example of this is our Satelligence engagement, which combines innovation from the tech sector and parties that are very involved with deforestation, like traders. It is important to us that we keep evolving and keep pushing ourselves. A lot of our data and research regarding these innovative projects, including Satelligence, are open source, which is another driver for us to keep developing new tools.'

Van der Putten: 'To us our approach is a logical outcome of recent and foreseen developments. Instead of saying you cannot move in this direction because that would be risking legal actions being taken against you, this has turned into risking a lawsuit if you do not invest responsibly. So yes, start and accept that things will evolve over time and be open to alternative data sources. Waiting around for things to change by themselves is no longer an option. Just get started!'

2.4 Accountability | Concrete and transparent reporting provides stakeholders (and society as a whole) with an insight into an insurance company's strategy and results regarding RI. Part of this transparency is to show how the RI policy is designed. It is also important to report regularly and at the highest level of quality on strategies, goals, results, and the impacts of RI. Information in such reports can be the starting point for communication with and accountability to the insurance company's customers while also being informative for other relevant stakeholders.

The 2021 assessment specifically focused on:

- RI information and disclosures being included in (annual) reporting
- Transparency on the investment portfolio
- Transparency on the implementation of RI instruments
- Actively informing customers on RI
- Disclosed information on RI having been verified by external parties

The average score for accountability is 1.6, with a range of 0.2 to 5.

NEW THIS YEAR

This year's assessment included the implementation of (inter)national standards and guidelines to disclose relevant (thematic) ESG information. Disclosing in line with frameworks such as GRI assists comparability and facilitates the measurement of ESG information.

TRANSPARENCY ON THE OUTCOME AND IMPACT OF RI INSTRUMENTS

The biggest differences between insurance companies are visible in the depth of their reporting; while some insurance companies only explain their policy, others provide insightful overviews and concrete results. The majority of insurers include at least a substantial (albeit at times general) explanation of responsible investment in their annual report or RI report on their website. However, 10% of insurance companies do not publish a separate RI report or include RI-specific information in their annual reporting.

Figure 12 | **Reporting on responsible investment**

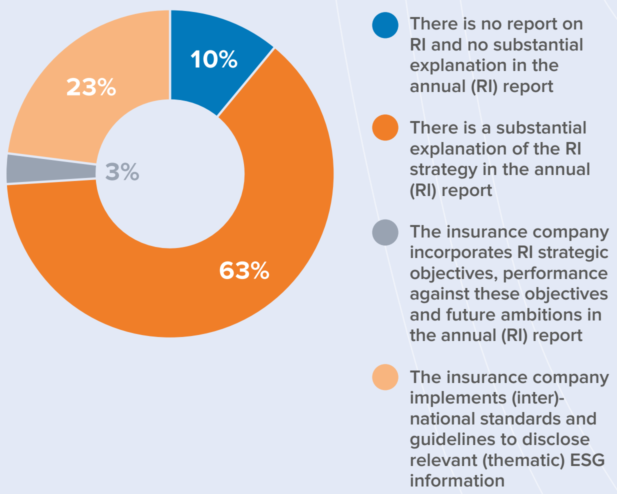
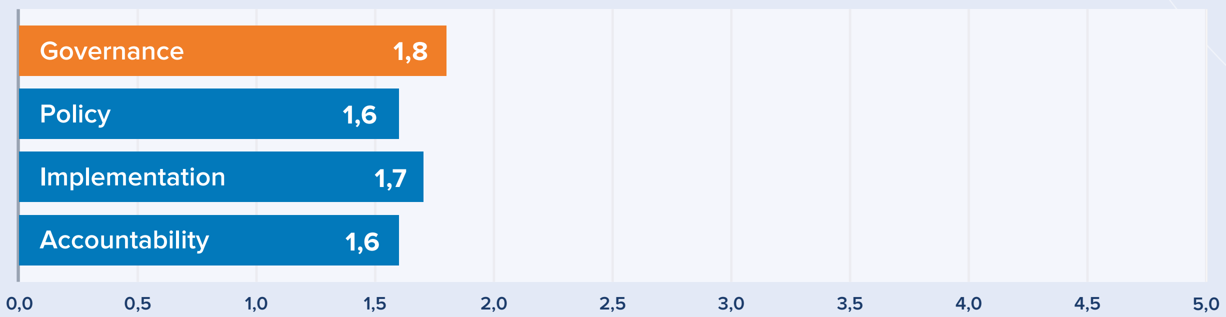


Figure 11 | **Average results per category**



TEXTBOX 3 **Disclosure standards**

To some extent, reporting on responsible investment is encouraged by voluntary codes, guidelines and standards. However, mandatory legislation and current (inter)national developments indicate that disclosure standards are likely to become stricter and legally binding. Current legislation and guidelines include:

- **The Code of Conduct for Insurers published by the Association of Insurers (Verbond van Verzekeraars) indicates that social and ecological components should be part of corporate governance and the investment policy and that insurers should be accountable for this.**
- **The IMVB Covenant for the insurance sector specifies that transparency on the RI policy as well as frequent and consistent reporting on RI and RI instruments is a key requirement.**
- **The EU Sustainable Finance Taxonomy (Regulation (EU) 2020/852) for climate change mitigation and adaptation harmonises the criteria for determining whether an economic activity can be considered sustainable. Institutional investors are required to disclose how and to what extent they use the criteria for environmentally sustainable economic activities to determine the environmental sustainability of their investments.**
- **The Sustainable Finance Disclosure Regulation (SFDR) became effective in March 2021. It requires manufacturers of financial products and financial advisers to end-investors to disclose information regarding the integration of sustainability risks as well as adverse impacts on sustainability topics at entity and financial product levels.**
- **The EU Disclosure of Non-Financial Reporting Directive (NFRD) requires investors to disclose certain non-financial information, including non-financial key performance indicators on environmental matters and human rights. In 2021, the Corporate Sustainability Reporting Directive (CSRD) was proposed by the European Commission. The CSRD is a proposed reform of the NFRD and explicitly requires reporting on double materiality, namely the outside-in perspective and the inside-out perspective as well as reporting on other sustainability matters. Additionally, the CSRD proposes more stringent sustainability assurance requirements.**
- **The Task Force on Climate-related Financial Disclosures (TCFD) guidelines recommend that reporting on material climate risks is integrated into companies' standard financial reporting. The TCFD divides its recommendations into governance, strategy, risk management, and metrics and targets.**

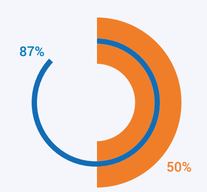
With these developments in mind, insurance companies should ensure that they comply with relevant environmental regulatory standards and recommendations as applicable to their operations. In addition, the RI policy and the reporting on its implementation should be easily accessible through an RI report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

Many institutional investors, service providers and NGOs are in the process of developing guidance on disclosing the outcomes of RI strategies. This guidance is likely to be beneficial for insurance companies. While we see that most (50%) insurers provide a list of excluded companies and countries along with an explanation of their exclusion policy, this is not the case for other RI strategies and instruments. As the results show in figure 13, there is often a large discrepancy between the explanation of the methodology for implementing an RI instrument and the actual reporting on the outcomes of the applied instrument. Therefore, it is also not surprising that only 23% of the insurance companies assessed by VBDO implement thematic disclosure standards and guidelines.

Figure 13 | **Transparency on implementation**

This figure gives an overview of transparency per Responsible Investment instrument. Detailed reporting is lacking for all RI instruments.

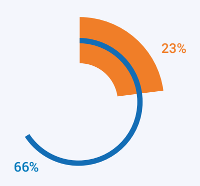
EXCLUSION



87% of the insurance companies publicly explain their exclusion policy.

A total of 50% include a list of excluded companies and countries, and the reason for exclusion.

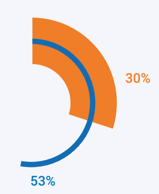
ESG INTEGRATION



66% of the insurance companies publicly explain the methodology for ESG integration.

A total of 23% include an overview of results.

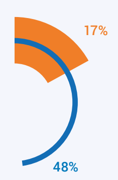
ENGAGEMENT



53% of the insurance companies publicly explain their engagement policy.

A total of 30% report on concrete results.

VOTING



48% of the insurance companies publicly explain their voting policy.

A total of 17% disclose a detailed voting report.

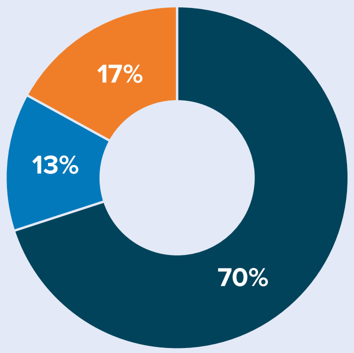
IMPACT INVESTING

40% of the insurance companies publicly report on impact investing.

A total of 13% report on the achieved impact.

We consider correct disclosure on the outcomes and impact of RI instruments as an important step for insurance companies when it comes to accountability to relevant stakeholders.

Figure 14 | **Active transparency on the responsible investment policy**



- Customers are not actively informed about the responsible investment policy
- Customers are actively informed about the content or results of the responsible investment policy (e.g. through newsletters)
- Customers are actively informed about the content or results of the responsible investment policy through more than one communication tool

ACTIVE TRANSPARENCY

In addition to disclosing RI-specific information through public documentation in annual reporting, for example, customers can and should be actively informed of the contents of the RI policy. By communicating directly, insurance companies can improve their active transparency and demonstrate the importance of RI to their investment approach. This area needs significant improvement as 70% of insurers did not actively provide information on the RI policy to their customers in 2020.

RECOMMENDATIONS FOR ACCOUNTABILITY

- **Ensure disclosure complies with regulatory requirements.**
- **Disclose information on the RI policy and RI instruments.**
- **Make use of comparable, widely-used (inter)national standards and guidelines for (thematic) disclosure of ESG information.**
- **Inform customers of the content and impact of the RI policy through multiple channels (e.g. newsletters, direct email and social media).**

2.5 Climate change

It is widely accepted that the effects of climate change have a considerable impact on the financial sector. This ranges from financial risks to opportunities for investing in solutions. In order to reach the goals set out by the Paris Climate Agreement, and to keep the increase in global average temperature to 1.5°C or at least well below 2°C above pre-industrial levels, it is crucial that the world transitions to zero-carbon food supplies and renewable energy sources.

The 2021 climate assessment specifically focused on:

- Consultation with experts on climate change
- Level of detail of the climate change policy
- (Research on) the effect of climate risks and global warming scenarios on strategic investment decision-making
- Active ownership on climate change
- Reporting on climate change

NEW THIS YEAR

The financial sector can (and must) play an active role in the worldwide transition to a carbon neutral economy. If we do not keep the average rise in temperature to well below 2°C, the effects could be catastrophic. For this reason, in this year's survey climate change is a key factor in determining the level of RI by insurance companies. This year, we included six questions related to climate change in our questionnaire.

DIFFERENT TYPES OF CLIMATE RISKS

The Task Force on Climate-related Financial Disclosures (TCFD) developed guidelines for climate-related financial disclosures that can be used by companies to provide information to investors and other stakeholders. The TCFD identifies transition risks and physical risks as the two main risks driving financial impacts on companies and investors .

Transition risks

So far, most investors have emphasised transition risks and portfolio decarbonisation. Transition risks are financial risks which could arise for insurance companies from the transition to a low-carbon economy. These transition risks include the re-pricing of carbon-intensive financial assets and the speed at which such re-pricing might occur. An abrupt transition is likely to have a substantial impact on financial stability as well as on the wider econo-

Figure 15 | **Climate-related consultation**

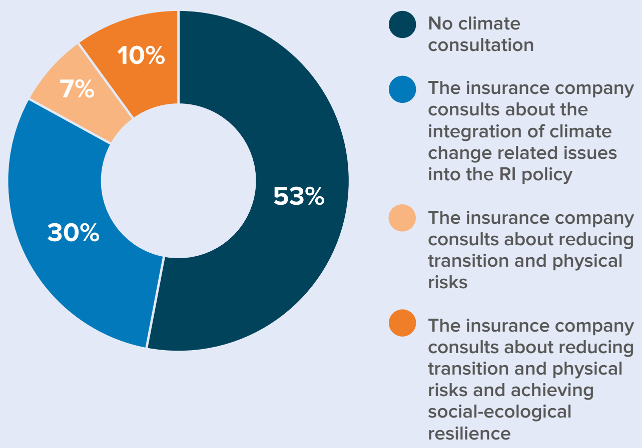
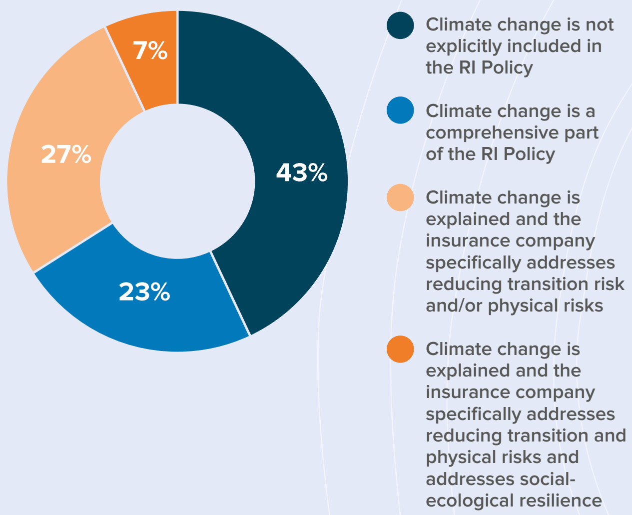


Figure 16 | **Climate change in the responsible investment policy**



my. Therefore, in order to respond to the risks and align their investments, insurance companies need to incorporate the potential risk of a disruptive energy transition into their risk analysis and management, thus enabling them to contribute to the energy transition.

Physical risks

If the Paris Agreement is not met and global warming is not kept well below 2°C, adaptation to the physical risks of climate change will become increasingly relevant. Physical climate risks may have financial implications for organisations, including direct damage to assets and indirect impacts from supply chain disruption. Investors will need to understand how to adapt their investment portfolios to the various types of physical climate risks, both financially and in relation to the protection of their real assets. Ultimately, financial or asset resilience can only exist in a resilient world. That is why it is also in the long-term interests of investors to aim for real-world social-ecological resilience of the areas their investments impact. As well as assessing climate risks to their assets, investors should ideally also assess the impact of their assets on the social-ecological resilience of the area they invested in (directly and through their value chain). Doing so also enables investors to become part of the solution.

CLIMATE-RELATED CONSULTATION

Consulting customers and society on climate-related issues contributes on a regular basis contributes to a solid grounding and understanding of the issue. Moreover, these consultations help build a robust and climate-focused RI policy. Climate change-related consultations can consist of several elements, ranging from the integration of climate-related risks in the RI policy to aligning investments with zero-emission targets and social-ecological resilience. The latter is considered to be a next step by VBDO. To take account of the full picture of climate change risks, consultation with customers and relevant organisations such as expert NGOs can ensure that the insurer understands the full extent of risks associated with climate change, ranging from a just-transition to climate migration.

Results of our study show that 53% of insurance companies do not include climate and/or climate change topics in their consultation rounds. Figure 15 indicates approaches in climate change-related consultation and highlights the fact that only 17% of insurance companies consult on detailed climate information that relates to both transition and physical risk. The remaining 30% does discuss the integration of climate change-related issues into the RI policy.

Figure 17 | **Measuring the effect of ESG risks and climate scenarios on SAA and ALM**

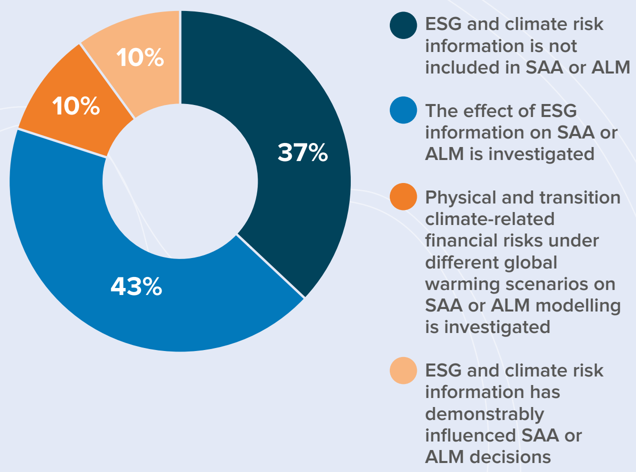
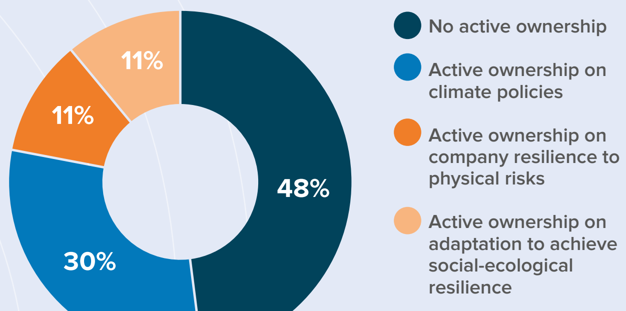


Figure 18 | **Active ownership on climate change**



INTEGRATION OF CLIMATE CHANGE INTO THE RI POLICY

A staggering 43% of insurance companies have not explicitly included climate change in their RI policy. However, over half of insurers have integrated this topic and can be divided into three categories. The first group, accounting for 23% of all insurers, includes climate change in general terms, e.g. related to carbon footprint measurements. The second group, consisting of 27% of insurance companies, includes one or more detailed and ambitious elements in their policy. These include aligning investments with long-term (2050) and short-term (2025) net-zero portfolio emission targets, investing in climate change mitigation, adapting to the physical (asset) risks of climate change, and social-ecological resilience. The remaining 7% address transition risks, physical risks and social-ecological resilience in their RI policy. In conclusion, more attention to incorporating climate change into the RI policy is needed. As a next step, specifying actions (to be) taken to mitigate and adapt to climate change will provide a more solid basis for a policy regarding climate.

ESG IN STRATEGIC INVESTMENT DECISIONS

It is becoming increasingly important for investors to manage climate-related financial risks as they are recognised as being systemic. New insights, metrics and investment solutions are being developed continuously to make responsible investing more accessible across all asset classes. However, not all of these approaches consider top-down integration of ESG and climate-related risks into asset liability modelling (ALM) and strategic asset allocation (SAA). The number of insurance companies which do not integrate ESG or climate information in ALM or SAA has decreased significantly from 79% in 2018 to 37% in 2020. Most insurers include ESG information and/or climate risk on at least a basic level in SAA and/or ALM studies (43%). 10% of insurers surveyed include climate-related financial risks in different global warming scenarios. The remaining 20% can show that ESG and climate risk information has demonstrably influenced SAA decisions or ALM modelling. It is important that insurance companies increase their understanding of the risks that climate change poses to the financial system. Therefore, it is encouraging that more insurers are now using climate risk models to determine strategic investment decisions and are including this in liability analysis.

ACTIVE OWNERSHIP

Changing company climate policy and practice through active dialogue and voting is essential in reaching the goals set by the Paris Climate Agreement. VBDO considers two aspects within active ownership: the types of active ownership practised, and whether specific and in-depth climate change topics have been selected. Almost half (48%) of insurance companies do not practise active ownership with a focus on climate change. The second largest group of insurers (30%) engaged in or voted on company climate policies.

VBDO believes it is important that insurers not only engage on mitigating the causes of climate change but also practise active ownership on adapting to the consequences. Only 11% of the insurance companies engaged in or voted on company resilience to physical risks of climate change such as deforestation; a further 11% addressed company strategy to ensure social-ecological resilience to climate change. The least-used active ownership tool is initiating or publicly supporting shareholder resolutions.

REPORTING ON CLIMATE CHANGE

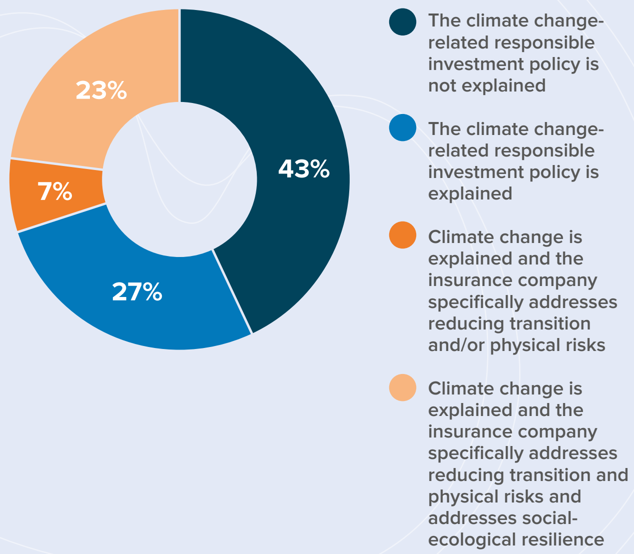
Disclosing information on climate change such as specific policies and performance on related topics is an important step towards accountability. Reporting on RI is encouraged by voluntary codes, guidelines, and standards. Current (inter)national developments indicate that disclosure standards are likely to become stricter and legally-binding. For example, the IMVB covenant for the insurance sector specifies that frequent and consistent reporting on ESG policy and active ownership on ESG should be part of a good RI policy and is therefore a key requirement. Other guidelines on reporting include the EU Disclosure of Non-Financial Reporting Directive (NFRD), the Task Force on Climate-related Financial Disclosures (TCFD), and the Sustainable Finance Disclosure Regulation (SFDR).

Only 57% of insurance companies disclose information on their climate related policy. A total of 30% publicly disclose performance on climate-change activities, including net-zero emissions targets, adaptation to physical risks, and social-ecological resilience. Insurers should improve their reporting on climate change by showing stakeholders how they align with the goals set by the Paris Climate Agreement, how they perform on supporting adaptation to the physical impacts of climate change and how they contribute to climate change mitigation. For guidance on correct climate adaptation disclosure, insurance companies can consult a recent publication from The Institutional Investors Group on Climate Change (IIGCC).

CLIMATE CHANGE IN THE MORTGAGES PORTFOLIO

Although mortgages are one of the major asset classes invested in by insurance companies just 29% implement

Figure 19 | **Climate change reporting**



targeted strategies in line with the Paris Climate Agreement and the Dutch Klimaatakkoord. Most activities are related to energy label improvements (21%). The remaining 8% have implemented a roadmap for the Paris Climate Agreement net-zero carbon target. No evidence of investments in impact mortgages, for example, residences that remove carbon dioxide from the atmosphere, have been found.

RECOMMENDATIONS FOR CLIMATE CHANGE

- **Consult with customers and expert civil society groups on climate change and how to incorporate this into the RI strategy and policy.**
- **Identify and include specific actions to be taken on mitigating and adapting to climate change in the RI policy or other relevant policies.**
- **Include climate-related financial risk in different global-warming scenarios in modelling and allocation studies.**
- **Practise active ownership on adapting to the consequences of climate change.**
- **Implement disclosure on climate-related policy and its results in public reporting.**

TEXTBOX 4 **Net-Zero Asset Owner Alliance**

The Net Zero Asset Owner Alliance (NZAOA) is a coalition of asset owners that commit to leading the way in driving sustainable economies. The Alliance announced its ambition at the UN Secretary-General's Climate Summit in New York on September 23rd, 2019.

The NZAOA works closely with existing investor climate initiatives, such as Climate 100+. The NZAOA Secretariat, consisting of UNEP FI and UNPRI staff, facilitates and coordinates asset owner activities to set ambitious sector-specific targets.

Members of the Alliance commit to transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures. They also commit to taking into account the best available scientific knowledge, including the findings of the IPCC, and regularly reporting on progress, including establishing intermediate targets every five years in line with Paris Climate Agreement Article 4.9.

This commitment must be embedded in a holistic ESG approach, incorporating but not limited to, climate change, and must emphasize GHG emissions reduction outcomes in the real economy. Members seek to advocate for, and engage on, corporate and industry action, as well as public policies, in order to support the low-carbon transition of economic sectors in line with science and under consideration of associated social impacts. Members make their commitment with the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met.

For more information visit: www.unepfi.org/net-zero-alliance

Appendix I - Methodology

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

UNDERLYING PRESUMPTIONS

The most important underlying presumptions in this benchmark are:

I. The scope of the benchmark is determined by selecting from figures produced by the Dutch Central Bank the 30 largest insurance companies active in the Netherlands.

II. The assets that are included in this benchmark are those of Dutch insurance companies, irrespective of where these are being managed.

III. The implementation of the responsible investment policy is considered to be the most important element of the assessment as this is where the actual impact is being made. Therefore, this receives 50% of the total score. Governance, Policy and Accountability account for the remaining 50%.

IV. The topic of 'Governance' is to be considered from the viewpoint of the management of the insurance company and not from the asset manager's perspective.

V. The total score for 'Implementation' is dependent on the different scores of the asset classes (publicly-listed equity; corporate bonds; government bonds; real estate; private equity; mortgages; and alternative investments). The weight of the asset classes in the determination of the implementation score is dependent on the asset allocation. Other assets such as cash, interest swaps and currency overlays are not included in this benchmark study.

VI. It is determined within each asset class which responsible investment instruments are (reasonably) implementable.

VII. VBDO does not differentiate between investors taking an active or passive and direct or indirect investment approach but assesses what responsible investment strategies are being applied.

The above-mentioned underlying presumptions are based on VBDO's consultation with insurance companies participating in this study. This consultation is based on an annual face-to-face meeting with a selection of participating insurance companies. Of key importance in this meeting are the quantified survey results. .

THE BENCHMARK

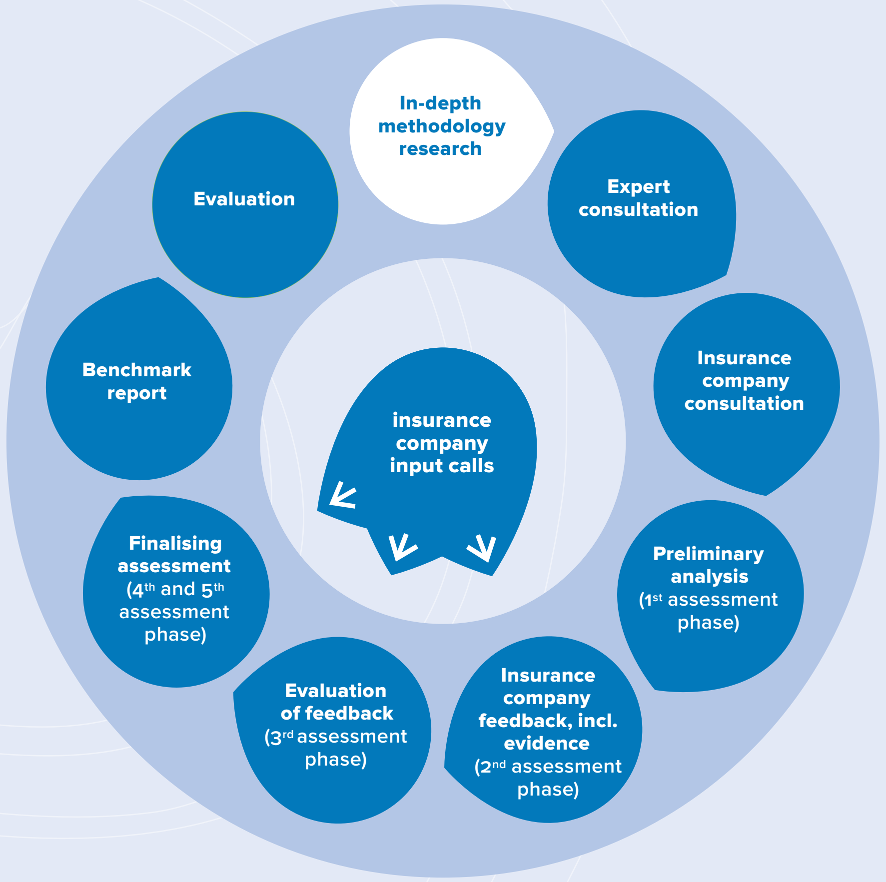
The VBDO Benchmark 'Responsible Investment by Insurance Companies in the Netherlands 2021' compares the responsible investment performance of the 30 largest insurance companies in the Netherlands based on 2020 data. VBDO assesses responsible investment through detailed profiles of each insurance company.

This year, the methodology was thoroughly revised to better reflect developments in responsible investment. While changes have been made in all categories, most of the revisions have been made in the governance and policy categories. We have extended the governance category beyond questions concerning boardroom awareness of RI to incorporate boardroom accountability, expertise and oversight. Under policy, this year we assessed to what extent the insurance companies' investment portfolios are aligned with the RI policy, whether their long-term targets include a clear roadmap for implementation, and whether they implement the UN Sustainable Development Goals. For the implementation category, the questions on voting and engagement have been changed to better assess whether the insurance company is in the lead. A question regarding government bond engagement was also added. Additionally, mortgage investments have been included as a separate asset class to better reflect insurance companies' investment universes. In the accountability category, we have added a question on whether insurance companies report in line with (inter)national standards and guidelines. Lastly, the questions on climate change that were added to previous surveys but were scored separately have been integrated into this year's benchmark. The revision means that scores and star rankings are not directly comparable to the previous year.

VBDO BENCHMARK PROCESS

The benchmark is set up to stimulate insurance companies to raise their awareness of their current status on responsible investment and to challenge them to take further steps. The research process consists of several phases (figure 20).

Figure 20 | Benchmark process



SETUP

The questionnaire is composed of four themes:

I. Governance | The first theme relates to the governance of insurance companies on responsible investment, including boardroom awareness and expertise of RI, boardroom accountability and oversight, and consultation with customers and relevant stakeholders.

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

III. Implementation | The implementation of the responsible investment policy applies to seven different asset classes. Table 2 shows the asset classes with the corresponding responsible investment strategies that are covered in the study. VBDO believes that the asset owners should take responsibility for the investments made on their behalf. Therefore, all implementation questions include the whole investment chain from insurance company to asset manager or fund manager. They are directed towards the status of implemented strategies in 2020.

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

Table 2 | **Responsible investment instruments and the different asset classes included in the benchmark**

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

SCORING MODEL

The categories are weighted differently. Governance, policy and accountability each account for 16.7%, and implementation 50%, totalling 100%. The weighted percentage for implementation is 50% because this category determines the final output and quality of the responsible investment practices of an insurance company. In the governance and policy category, all questions are weighted equally. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class. In the accountability category, 5 subcategories are distinguished: the publication of the responsible investment policy; list of investments; transparency on implementation; actively informing customers and other stakeholders; and verification of the responsible investment report. Figure 21 gives an overview of the scoring model.

Figure 21 | **Overview scoring model**

FINAL SCORE (between 0-5)

GOVERNANCE (16,6%)	POLICY (16,6%)	IMPLEMENTATION (50%)	ACCOUNTABILITY (16,6%)

Total score on category Implementation =
Score public equity X % of the portfolio
Score corporate bonds X % of the portfolio
Score government bonds X % of the portfolio
Score real estate X % of the portfolio
Score private equity X % of the portfolio
Score mortgages X % of the portfolio
Score alternative investments X % of the portfolio

This figure shows the scoring model. The categories are weighted differently. Governance, policy and accountability each account for 16.7%, and implementation 50%. The weighted percentage for implementation is 50% because this category determines the final output and quality of the responsible investment practices of an insurance company. In the governance and policy category, all questions are weighted equally. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class.

Star ranking

This is the first year VBDO uses a star ranking for insurance companies based on a 0 - 5 star range instead of only a 1-30 ranking in numbers. The star ranking is based on the total score and on the scores of the individual categories of the insurance company; governance, policy, implementation and accountability. These minimum standards might be expanded in the future. The following scores and minimum standards determine the number of stars awarded:

★★★★★

5 STARS
A score of at least 4.5 on all categories
(governance, policy, implementation, accountability)

★★★★

4 STARS
A total score of at least 4.0
A score of at least 3.5 on all categories
(governance, policy, implementation, accountability)

★★★

3 STARS
A total score of 3.5 up to and including 3.9
A score of at least 2.5 on all categories
(governance, policy, implementation, accountability)

★★

2 STARS
A total score of 2.5 up to and including 3.4
A score of at least 2.0 on all categories
(governance, policy, implementation, accountability)

★

1 STAR
A total score of 1.5 up to and including 2.4

☆

0 STARS
A total score below 1.5

Appendix II - Responsible investment strategies and asset classes

Responsible investment strategies

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

- **Exclusion**

Certain products, processes or behaviour of some companies and governments are at such odds with international agreements and treaties that they should be excluded from the investment portfolio. Merely taking general issues such as human rights violations into consideration offers insufficient means of judgment for the exclusion of specific companies. It is important to specify these issues and use well-defined Environmental, Social and Governance (ESG) criteria or international guidelines. In relation to the exclusion of government bonds, insurance companies can exclude countries based on the official sanction lists of the EU and UN, for example, or based on other criteria. In January 2013, the legal ban on investments in cluster munitions came into force in the Netherlands. In the opinion of VBDO, responsible investment should be a practice that goes beyond merely following legal obligation. Therefore, insurance companies can only receive points for exclusion criteria that go further than merely excluding on the basis of cluster munition.

- **ESG integration**

Even without the excluded companies, large differences in terms of corporate responsibility sometimes remain between companies in which institutional investors invest. Whereas one company may only comply with the current environmental and social laws of the country in which it operates, another may follow high social and environmental standards in every country in which it is active. Institutional investors should consider this when developing their investment policy and should give preference to companies that perform well in relation to corporate responsibility.

VBDO defines ESG integration as the process by which ESG criteria are incorporated into the investment process. This involves more than screening the portfolios against exclusion criteria, but it does not mean that an investor merely selects the best-in-class companies. ESG integration can go one step further by identifying and weighing ESG criteria, which may have a significant impact on the risk return profile of a portfolio. Therefore, VBDO distinguishes between investors making ESG information available to the portfolio manager and investors systematically incorporating ESG criteria into each investment decision. The latter is rated higher because this fully matches the idea behind ESG integration. An example of ESG integration is positive selection; this is defined as choosing the best performing organisation out of a group of corresponding organisations (sector, industry, class) by using ESG criteria. In this case, ESG criteria do not guide the investment decision process but form the basis for selecting companies that perform above average on ESG issues. Integration of ESG criteria in the investment selection can be applied to all of the selected asset classes in this research. This benchmark takes both the extent and volume of ESG integration into account.

- **Engagement**

Insurance companies can actively exert influence by entering into dialogue with organisations in which they invest. If the policy and behaviour of a company are at odds with the responsible investment policy, insurance companies should to some extent use their influence to alter the conduct of companies in which investments are made. Institutional investors that have formulated an engagement policy actively seek dialogue with companies outside the shareholder meeting. In order to obtain optimal engagement results, it is essential to evaluate and monitor the engagement activities and take further steps based on the outcome of the engagement activities. Engagement can be used for publicly-listed equity as well as fixed income, real estate funds, private equity and mortgage funds.

- **Voting**

Institutional investors can actively exert influence on companies in which they invest by voting during shareholder meetings. Many institutional investors vote at shareholder meetings, but their voting policy is limited to subjects regarding corporate governance. This might push companies towards a better sustainability policy, but that in itself is not enough. A clearly-defined voting policy is required, one that explicitly emphasises social and environmental issues. By introducing or supporting resolutions on sustainable development and corporate social responsibility proactively, companies can be pushed towards improvement and corrective action. Voting is assessed only for the publicly-listed equity asset class.

- **Impact investing**

Impact investing implies active investments that are made in companies or projects and which lead in terms of sustainability or clearly offer added value for sustainable development. Examples are investments in sustainable energy sources, innovative clean technology, affordable medicine against tropical diseases, microcredit, and sustainable forestry. As impact investing may be using the same positive ESG criteria and can be achieved by investing in specially constructed funds, although it might appear to be positive selection, it is not a best-in-class approach. On the contrary, investors choose a specific theme or development and search for companies or projects that match their preference and thus create added value for society in a way that is unlikely to compare with mainstream industry or solutions. VBDO values the measurement and evaluation of the actual environmental and social impact of the investments. This instrument is applicable to all asset classes.

Asset Classes

- **Publicly listed equity**

The public equities market consists of the publicly-traded stocks of large corporations. The risks and opportunities connected to ESG issues are important for the analysis and adjustments of an equity portfolio. Both exclusion and selection of companies within the portfolio as well as voting and engagement give the investor many ways to integrate ESG issues into its investment decisions. Since emerging markets are increasingly reported as interesting opportunities because of their economic growth, they deserve special attention from investors. As a result of the growing demographic and resource challenges and the potential dangers for the environment, a more sustainable approach to economic development is crucial for emerging markets. In many sectors, economic development shows that these countries are already responding to the above-mentioned challenges. Nevertheless, extracting the relevant ESG data on emerging market companies can require a large volume of research. It is also possible to take ESG criteria into account with passive investments by following a sustainable index or by using an engagement overlay.

- **Corporate (including covered) bonds**

For corporate bonds, responsible investment activities can be similar to equities; however, corporate bonds do not have voting rights and carry a fixed return. This not only 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. However, with growing client demand, bond managers are working to integrate ESG factors into fixed-income portfolios.

- **Government / sovereign bonds**

As with 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 consideration for 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 bond portfolios on corporate governance regulatory practices, environmental policies, respect for human rights, and international agreements. Investors can also seek government bonds that support the creation of public goods such as necessary infrastructural improvements, support for schools, or the development of sustainable energy sources, and purchase government debt targeted to a specific activity.

- **Real estate**

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

- **Private equity**

With regard to private equity, an institutional investor can stimulate innovative and sustainable companies because it can directly influence management and encourage entrepreneurs to focus on developing business with high-impact social and/or environmental missions. This can be done in particular in regions and communities that are under-served and promote creation of local business and jobs. With this in mind, integrating the responsible investment policies in the selection process can be an important tool for institutional investors.

- **Mortgages**

Mortgages is a credit asset class to which ESG criteria can be applied during the selection and evaluation of investments, for example, by implementing energy labels as a selection criterion. Additionally, fund managers can be engaged on relevant topics.

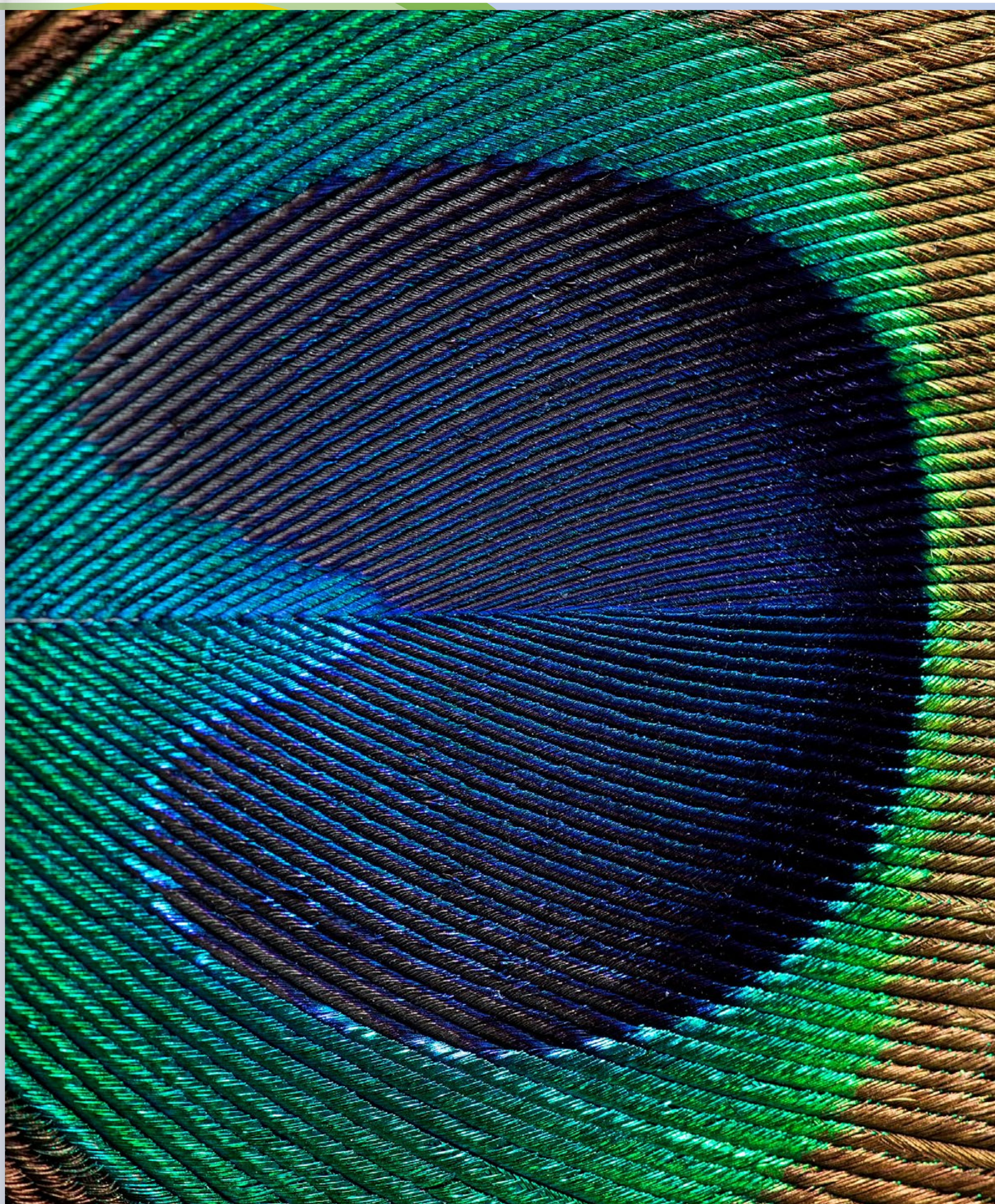
- **Alternative investments**

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. In addition, as the investments are a small part of total investments, this research limits this asset class to hedge funds, infrastructure, commodities, and impact investments. Information provided on other asset classes will not be taken into account. The following opportunities were derived from publications:

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

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

III. Regarding commodities, investors could direct capital to commodities with better ESG profiles and consider the source (region) of the commodity. As there are few ways in which to foster positive ESG changes, investors may advocate change on a broader level within commodities exchanges. The integration of the responsible investment policies in the selection process of commodity investments or asset managers can be an important tool for this category.



Vereniging van Beleggers voor
Duurzame Ontwikkeling (VBDO)
Pieterstraat 11, 3512 JT Utrecht
+31 (0) 30 234 00 31 | info@vbdo.nl

Dutch Association of Investors for
Sustainable Development (VBDO)
Please email us at info@vbdo.nl if
you would like to receive regular
updates from VBDO. Follow VBDO
on Twitter at http://twitter.com/VBDO