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THE SUSTAINABLE INVESTMENT CHALLENGE FOR INSURERS

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The Sustainable Investment challenge for insurers

Incoming regulations and changing attitudes in the market are making sustainability an increasingly high priority for institutional investors like insurance companies. To achieve compliance with regulatory mandates, insurance portfolio managers will soon need to show that where they direct their dollars is having a positive impact on the environment, society and corporate governance. So, as well as making money for insurers, there will be a legal requirement for investment vehicles to reflect sustainable values and high ethical standards.

The rise of ESG analysis

When it comes to measuring sustainability, environmental, social and governance (ESG) standards have been evolving for the past few years, but have come to the forefront in the last year and a half.

Although ratings methodologies have generally been developed separately, most of them allow insurers and other institutional investors to measure ESG standards and demonstrate compliance in generally-accepted categories. For example, greenhouse gas emissions are a science-based indicator of environmental standards; access and affordability are social indicators; and the makeup of a board of directors is a governance indicator.

How will an ESG-compliant portfolio affect yields?

In a 2021 study[1], Fordham University suggests a symbiotic relationship between ESG scores, investment yields and credit ratings. So, although the offer yield and spread are lower when an ESG rating is high, security issuers with higher ESG scores get a better credit rating.

In turn, an investment portfolio with a better ESG profile will help lower the cost of capital for an insurer, thanks to a good corporate social responsibility profile and, again, a better credit rating.

What makes an ESG-compliant investment portfolio?

Mountains of research can be challenging for insurance portfolio managers to interpret – and it's even more difficult to ensure parity between different data sources. For effective ESG analysis, you must be able to drill all the way down from the rating to the information that underpins it.

To make this possible, FIS is going to introduce new portfolio analysis measurements via a modernized dashboard of FIS Insurance Investments Manager. Using the solution, insurance portfolio managers will be able to upload security identifiers and market values and receive a wealth of information that includes comparisons with several different market indicators. Sustainability information will be broken down by ESG categories, industry, sector and more.

Over the coming years, there will be no escaping the pressure to comply with sustainability regulations and reporting requirements. But with user-friendly, intuitive technology, insurance portfolio managers can ease their compliance burden and continue to drive healthy investment returns.

Contact us for more information about our solution.

[1] - "The Impact of ESG Scores on Bond Yields and Bond Characteristics" by Julia de Xavier, Resham Sansi, and N. K. Chidambaran