The role of insurance in promoting the social dimension of ESG

MAPFRE Economics

Gonzalo de Cadenas-Santiago

Insurance Sector (IS) to promote ESG by “remaining the Insurance Sector”

- **A non negligible player** as investor and holder of the financial system (1/6 $ flows, 1/5 $ Non Banking Assets)
- **With a high responsibility**
    - as **investor:** promoting **growth and demand** (long term savings into Investment / credit supply)
    - as **insurer:** stability of balance sheets, efficient risk allocation, preventing prociclicality of the financial system
- While its **nature & business** model remains warranted
    - Retrocession (**risk neutrality**)
    - Inverse production (**liquidity**)
    - Liability driven business model **(stability)**
- All the actions need to be aligned to its nature to warrant its duties (as investor and insurer) promoting growth, financial and real stability and welfare gains.
- It’s the absence of the latter what brings inequality, exclusion, social discontent and the disenfranchisement of civil society.

ESG principles under market discipline

- Abide to **a rules-based** economy with **institutional supervision**
- Abandon the outdated **mindset**
  - *"you cant value what doesn't have a price"* (opposite)
  - "SDGs objectives hard to translate to a market framework" (risk / return / hedge)
  - "Policies will end up being outright taxing" (alternative tools to Pigou)
- Bring **transparency:** solving an agency problem (unobservable actions & incomplete information) against freeriding requires information
  - Metrics / structured data/ principles and KPIs
  - Disclosure ESG related risks (transition) with a possible impact on the balance sheet & setting technical standards
  - Taxonomy needed to systematize and facilitate the investor and insurer job in line with the mandate of HLEG
    - Steer capital towards socially responsible investing
    - Reduce inefficiencies of asymmetric information
    - Help policy making from all angles (ECB too, to be discussed)

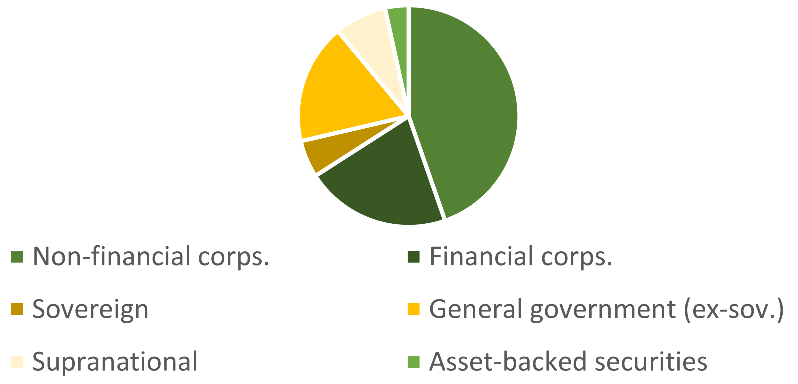
Taxonomies from “green to fair” (2021 Dec.)

- 4+2 climate taxonomies aligned to the climate objectives
- EU mandate to extend taxonomies to a structured aligned with three pillars of responsible finance (HRights, Governance, living condts.) because:
    - Social objetives are key to sustainable investing
    - Increasing demand of social investing
    - Social fracture related risks are permanent and increasingly severe

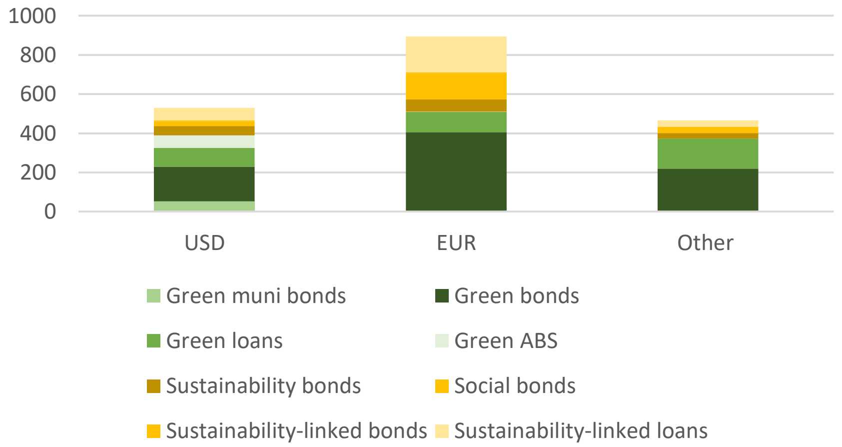
Outdated thought: little or no market room for this

- Less volatility, better alignment to stakeholders interests long end return horizon perfect hedge, safe haven behaviour
- Funds globally to ESG 1,3 Tn USD is +50% than 2019
- Issuance in 2021 was 620 USD bn.vs 515 USD in 2019 (150 in social bonds)

ESG Debt Outstanding Amounts (~$1,9Tn.) by issuer sector



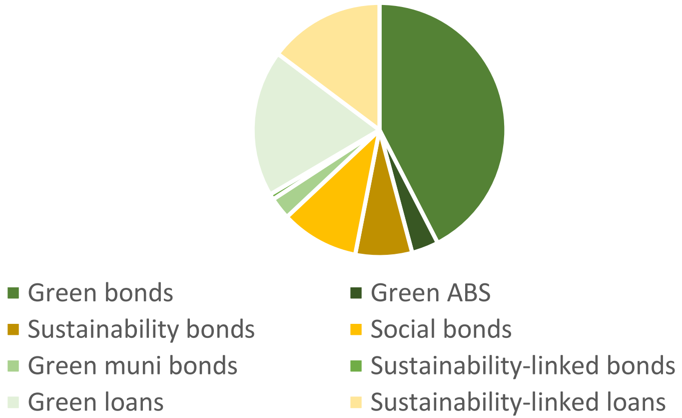
ESG Debt Outstanding Amounts (~$1,9Tn.) by currency



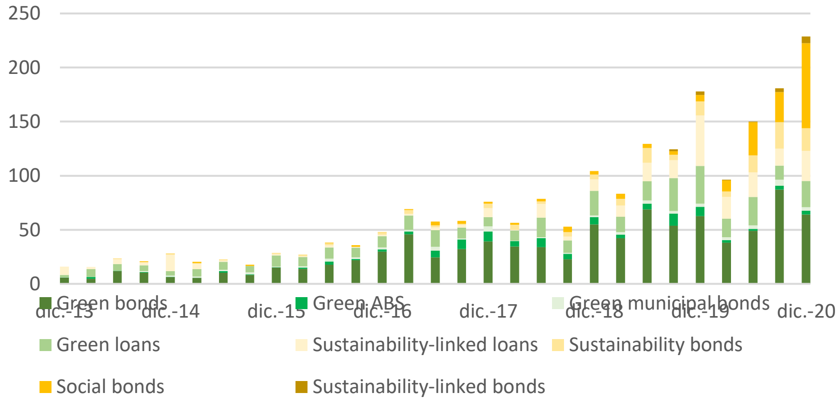
Outdated thought: little or no market room for this

- Less volatility, better alignment to stakeholders interests long end return horizon perfect hedge, safe haven behaviour
- ETF to ESG 2020 is 4x 2016
- Today assets in ESG are 60% S&G 40%E (opposite to three years ago) "social" is hype

ESG Debt Outstanding Amounts (~$1,9Tn.) by Product in %



Global ESG mandate - Debt Issuance (USD Bn.)



ESG has plenty of room in our balance sheets and there is more to come

- Connecting other investments to a local approach. Focus in the cities?

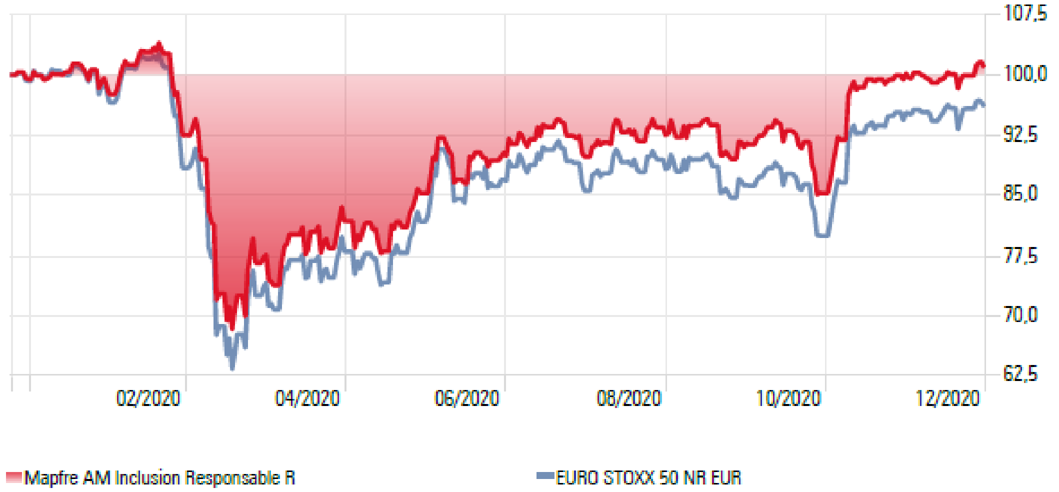
Insurance Sector: Structural Breakdown of Traditional Business Investment Portfolios (2019)

Asset type	Eurozone	United States	Japan	United Kingdom	Spain
Corporate fixed income	31.4%	51.5%	7.1%	36.5%	21.8%
Sovereign fixed income	34.5%	13.6%	39.1%	20.9%	56.9%
Equity	13.9%	13.1%	6.8%	12.9%	6.0%
Loans	5.2%	10.6%	7.9%	9.1%	1.0%
Cash and deposits	4.6%	3.9%	3.1%	10.1%	7.8%
Real estate	2.3%	0.6%	1.7%	2.7%	2.5%
Other investments	8.2%	6.7%	34.3%	7.7%	4.0%

Source: MAPFRE Economic Research (with information from EIOPA, NAIC, LIAJ and GIAJ)

Actions speak louder than words

MAPFRE AM MAPFRE AM INCLUSION RESPONSABLE FUND



Thoughts and critique

- How to mantain the level playing field
- What should be the correct policy approach (pigouvian taxing or balance sheet policies outright aimed taxing or inflation taxing of the effort, who should pay?)
- Standards and metrics should be a best practice approach or else?
- Exceptions and Exclussions
- Is there hype? Whats the role of narratives regarding this and how could this affect?

Wrap up

- The way IS can contribute is remaing the IS amdist the new context
- Three conditions needed, abide to a rules based economy, embrace market discipline and pursue transparency
- All informative efforts are relevant, in need of data, standardization, metrics and targets (socially speaking)
- ESG is already a market in full, oportunities are there hype and narratives too. Watch out.

Thanks

MAPFRE Economics

Suscribe to our bi anual Review"Economics & Insurance" and get regular updates of MAPFRE Economics,