

# ESG considerations in the insurance industry

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An introduction to the key environmental, social and governance (ESG) issues relevant for lawyers and compliance professionals working in the UK insurance industry.

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## Legislation and regulation

### Significant legislation

#### Environment

In 2019, the UK became the first major economy to pass a net zero emission law when the Climate Change Act 2008 was amended to set a net zero greenhouse gas emission target, to be achieved by 2050.

While there is no insurance-specific environmental legislation at present, the Financial Services and Markets Act 2000 (FSMA) (the key legislation relating to the regulation of the UK financial services industry) was amended by the Financial Services and Markets Act 2023 (FSMA 2023) to include a new regulatory principle for the main UK financial regulators. Under this principle, the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) must have regard to the need to achieve the net zero emissions target when discharging their general functions. This may, in turn, result in changes in the regulatory framework. For further information, see *Anticipated legislative, regulatory and industry developments*.

#### Social

The Equality Act 2010 requires UK companies, including insurers, not to discriminate on the basis of protected characteristics. Insurers are permitted to take account of matters related to age and, in certain circumstances, disability, but not other

protected characteristics such as gender. However, consideration of these factors does not permit insurers to refuse coverage on a blanket basis. For further information on the Equality Act 2010 in the context of insurance, see [Practice notes, Insurance conduct of business regulation: ICOBS overview: Equality Act](#) and [Discrimination in goods and services: exceptions: Financial and insurance services](#).

#### Governance

A key source of governance requirements for insurers is provided by the Solvency II regime, originally derived from EU law (primarily the Solvency II Directive (2009/138/EC) and the Solvency II Delegated Regulation ((EU) 2015/35)), but retained (to the extent possible) in UK law post-Brexit. The UK conducted a review of the Solvency II regime following Brexit which resulted in certain amendments to the regime, but divergence from the EU is fairly limited.

Solvency II, as incorporated into UK law, covers governance requirements including those in relation to required business functions, remuneration, outsourcing, delegation and various other matters. The requirements are primarily set out in the [Rulebook](#) of the PRA, the prudential regulator for insurers (see *Key regulatory bodies and rules*). The PRA expects insurers to maintain an effective and robust system of governance, including:

- A clear allocation of responsibilities.
- Appropriate risk management.
- Business continuity measures.

For further information, see [Practice notes, UK prudential regime for insurers and reinsurers: Governance](#) and [Corporate governance in financial services firms](#).

For information on the corporate governance requirements applying to companies, both within

and outside financial services, see [Practice note, A guide to Practical Law's UK corporate governance materials](#).

### Key regulatory bodies and rules

Under FSMA, insurers are regulated by both the PRA (the prudential regulator) and the FCA (the conduct regulator). Because of this they are known as dual-regulated firms. Insurance intermediaries, such as brokers and managing general agents (MGAs), are regulated by the FCA only (so are known as solo-regulated firms).

Lloyd's of London (Lloyd's) and Lloyd's managing agents are also regulated by both the PRA and FCA. In addition, managing agents and underwriters at Lloyd's are subject to separate supervision by the Council of Lloyd's.

These various regulators produce their own rules and guidance that financial services firms, including insurers and insurance intermediaries, must comply with, including the [PRA Rulebook](#), the [FCA Handbook](#) and associated supervisory materials.

For further information on the regulation of insurers and insurance intermediaries generally, see [Practice note, Insurance sector: regulatory overview](#), and for more information on Lloyd's, see [Practice note, Lloyd's of London: overview](#).

Some examples of regulatory developments relevant to ESG include the following:

- In April 2019, the PRA became one of the first insurance supervisors globally to set supervisory expectations for insurers on the management of climate-related financial risks (see [Supervisory Statement 3/19](#) (SS3/19)). This covers various aspects of these risks, including governance, risk management, scenario analysis and disclosure. Following this, the Bank of England (BoE), of which the PRA is the prudential arm, has published further reports (including a recent [analysis](#) of the risks posed by climate change to the PRA's operations and policy objectives), as well as conducting the [2021 Climate Biennial Exploratory Scenario](#) (CBES), which explored the resilience of the largest UK insurers and banks to certain physical and transition risks associated with climate change. Similarly, in January 2025, the PRA's [Dear CEO](#) letter on its 2025 priorities for insurance supervision identified the risks arising from climate change, particularly in the context of underwriting strategies and risk management.

For further information on the PRA's expectations of insurers in managing climate-related financial risks, and on the 2021 CBES, see [Practice notes](#),

[Managing climate-related financial risks: PRA requirements and expectations](#) and [Stress tests and scenario analysis: implications for banks and insurers: Climate biennial exploratory scenario](#).

- The FCA's [ESG Sourcebook](#) (ESG), which broadly applies to life insurers providing various types of investment products, as well as other financial services firms, sets out specific annual climate-related financial disclosures (see [Practice note, FCA disclosure regime for climate-related financial information](#)). See [ESG reporting frameworks, measuring ESG and industry-specific ESG taxonomies](#) for additional details on ESG reporting frameworks.
- The PRA, FCA and Lloyd's each have extensive rules and guidance relating to the governance of insurers, and this is the area in which these regulators have consistently been the most active. For example, the PRA issued [Supervisory Statement 5/16](#) (SS5/16) in March 2016 setting out its expectations in relation to the governance of insurers, which was further updated in 2018. Similarly, Lloyd's Minimum Standards (a series of principles and standards that apply to all managing agents and new entrants seeking admission to the market) include governance expectations. The PRA has in recent years increasingly focused on governance risks and challenges in the insurance industry. In January 2025, the PRA's [Dear CEO](#) letter, setting out its 2025 priorities in insurance supervision, highlighted its ongoing attention to insurers' resilience in their governance arrangements.
- In April 2022, the FCA introduced new provisions under the UK Listing Rules (UKLR), which set board diversity and inclusion (D&I) targets for UK listed companies and require annual reporting on a "comply or explain" basis detailing whether they have met these targets. The targets are broadly that:
  - at least 40% of the board are women;
  - at least one senior board position (chair, CEO, senior independent director or CFO) is held by a woman; and
  - at least one member of the board is from a minority ethnic background.

For further information, see [Practice note, Diversity and inclusion \(D&I\): UK reporting requirements for companies: Comply or explain diversity target disclosures in annual report](#).

While these rules only apply to listed companies, the PRA and FCA have for many years used the listed company governance regime as a model for their governance requirements for insurers. In

the authors' view, it is not unreasonable to expect that the PRA and the FCA will push towards these standards for the insurance industry and the UK regulators already have an expectation in respect of board diversity. In September 2023, the FCA and the PRA published consultation papers on D&I in the financial sector, building on the ideas discussed in the regulators' joint discussion paper on D&I (DP21/2) published in July 2021. However, in March 2025, the UK regulators announced that they do not currently plan to publish new rules on D&I, and do not intend to return to this topic until after the substantive implementation of any new legislation in this area. See [Legal updates, FCA and PRA consult on measures to improve diversity and inclusion in financial services](#) and [FCA and PRA update on diversity and inclusion proposals](#).

### Industry reporting frameworks, ratings, industry standards and initiatives

#### ESG reporting frameworks, measuring ESG and industry-specific ESG taxonomies

##### Solvency II

Under the Solvency II regime, insurers are required to publicly disclose, on an annual basis, their material risks and governance frameworks (as well as the adequacy of their systems of governance for the risk profile of the firm), among other matters, in a solvency and financial condition report (SFCR). Insurers are also required to report to the PRA on, among other things, their system of governance and risks (see [Practice note, UK prudential regime for insurers and reinsurers: Reporting and disclosure](#)).

##### Companies Act 2006 (CA 2006)

All authorised insurance companies or companies carrying on insurance market activity (among other types of in-scope companies) must prepare, as part of their annual strategic report, a non-financial and sustainability information (NFSI) statement (section 414CA, CA 2006). The required climate-related disclosures in the NFSI statement are broadly in line with the Taskforce on Climate-Related Financial Disclosures (TCFD) Recommendations (and these disclosures should have been incorporated into insurers' 2022 financial statements). Much of this is supported by piecemeal guidance from various governmental and non-governmental sources. See, for further information, [Practice notes, Strategic report: non-financial and sustainability information](#)

[statement](#) and [Task Force on Climate-related Financial Disclosures \(TCFD\) recommendations](#).

##### FCA ESG Sourcebook

Life insurers offering specific investment products (among other types of regulated firms) are required to make mandatory disclosures aligned with the TCFD Recommendations, both at the entity-level and the product-level, pursuant to the FCA's [ESG Sourcebook](#) (ESG). Broadly, this requires:

- At an entity level: in-scope insurers must provide an annual TCFD entity report that:
  - includes climate-related financial disclosures regarding the overall assets managed or administered by the firm in relation to its TCFD in-scope business (which includes, among other things, providing insurance-based investment products (IBIPs));
  - explains where its approach to a particular investment strategy, asset class or product is materially different to its overall entity-level approach to governance, strategy or risk management under the TCFD Recommendations; and
  - briefly explains how the firm's strategy under the TCFD Recommendations has influenced decision-making and the process by which it delegates functions.
- At a product level: in-scope life insurers are required to make disclosures (including on specific climate-related metrics) in relation to the identified products that are provided or operated by an in-scope insurer, accompanied by relevant contextual information to explain how the metrics should be interpreted.

See, for further information, [Practice note, FCA disclosure regime for climate-related financial information](#).

The PRA has also asked insurers more broadly to develop an appropriate approach to climate-related financial disclosures and has indicated that they are expected to consider engaging with the TCFD Recommendations (see paragraph 3.21, [SS3/19](#)). The PRA indicated in its January 2025 [Dear CEO](#) letter on its 2025 priorities for insurance supervision that it would plan to consult on an update to this supervisory statement to improve firms' management of climate-related financial risks.

##### FCA SDR regime

The FCA Sustainability Disclosure Requirements (the SDRs) sets certain minimum standards and requires in-scope firms to, among other things:

- Make climate-related product disclosures under the TCFD Recommendations.
- Put in place plans to supply broader sustainability disclosures in addition to the SDR reporting.
- Label retail products into four categories on the basis of the sustainability of investments.

The core elements of the regime apply to asset managers and their UK-based fund products and portfolio management services. In addition, all FCA authorised firms are required to reinforce that sustainability-related claims must be fair, clear and not misleading. The FCA has also indicated that it will consider extending the scope of the regime in due course to include pension products and other investment products marketed to retail investors, such as IBIPs. However, in February 2025, the FCA announced an additional delay to the application of its SDR to portfolio managers. The FCA had been expected to publish a policy statement on this proposed application of the regime during Q2 2025.

For more information on the SDR, see [Practice note, Hot topics: FCA sustainability disclosure requirements \(SDR\) and labelling regime](#).

### Voluntary frameworks

In addition to these legal and regulatory requirements, the industry is developing numerous voluntary reporting frameworks. For instance, Lloyd's has used the United Nations' Sustainable Development Goals to develop the reporting framework that it uses for the purposes of its ESG activities.

### Taxonomies

Other than the TCFD Recommendations described above, the authors are not aware of any insurance-specific taxonomies to define ESG-positive or negative activities or products. However, the UK is currently considering how it may design and subsequently implement a UK green taxonomy, which would aim to define the criteria for environmentally sustainable activities and launched a [consultation](#) on this in November 2024. See [Practice note, Hot topics: UK regulation of sustainable finance: UK green taxonomy](#).

### Challenges for ESG reporting

One of the main challenges in respect of ESG reporting in the insurance industry for customers and other stakeholders is "greenwashing", which the FCA has described as "making exaggerated, misleading or unsubstantiated sustainability-related claims about ... products; claims that don't stand up to closer scrutiny" (see [FCA: Sustainability](#)

[Disclosure Requirements \(SDR\) and investment labels consultation paper \(CP22/20\)](#)). The risks presented by greenwashing have increased in recent years due to:

- The rising demand for ESG-linked insurance products.
- A lack of standardised terminology and data.
- No consistent definition of what an "ESG product" is.
- Difficulties for customers and other stakeholders in verifying such claims without uniform or comparable reporting standards.

The FCA has taken steps to address these risks and in its November 2023 [policy statement](#) on the SDRs (PS23/16) it proposed the introduction of sustainable investment product labels and restrictions on how certain sustainability labels can be used in product names and marketing. For further information, see [Practice notes, Hot topics: FCA sustainability disclosure requirements \(SDR\) and labelling regime](#) and [Greenwashing in advertising and consumer protection law](#).

In addition, customers may find it difficult to compare products across the entire industry given the varied types and focuses of products, without any clear guidance on what the terms might mean. The FCA's SDR regime attempts to clarify this gap. Separately, as mentioned above, work is underway to develop a UK green taxonomy (see [Practice note, Hot topics: UK regulation of sustainable finance: UK green taxonomy](#)).

Beyond reporting on products making ESG claims, more generally, there is no consistent terminology for ESG reporting in the UK; different bodies refer to ESG reporting, sustainability report, climate-related disclosures and other terms. This can make it difficult for insurers to prepare reports on the required topics and ensure that they are meeting the sometimes vague reporting requirements. By way of example, if there is no agreed definition of "sustainability", how can an insurer be sure it is meeting its requirement to report on its "sustainability" actions? A coherent approach is needed to make any information useable by the public (a key feature of the Solvency II reporting obligations) and to assist with operational efficiency.

### Key industry standards and initiatives

#### Net Zero Insurance Alliance

One of the key ESG initiatives for the insurance industry, on a global basis, was the Net Zero

Insurance Alliance. Members committed to transition their insurance and reinsurance underwriting portfolios to net zero greenhouse gas emissions by 2050 in an effort to contribute to the implementation of the Paris Agreement. However, between March and May 2023, nearly half of its members (including Munich Re, Zurich, Hannover Re, AXA, Lloyd's, Allianz, SCOR and Swiss Re) announced that they would be leaving the alliance, with some citing US competition concerns. The alliance was discontinued as of 25 April 2024. See, for further information, [Practice note, Net zero targets for business: Net-Zero Insurance Alliance](#).

### Forum for Insurance Transition to Net Zero

The Forum for Insurance Transition to Net Zero (Forum) is a UN-led (and chaired) structured dialogue and multi-stakeholder forum to support the acceleration and scaling up of voluntary climate action by the insurance industry and key stakeholders. Current participants in the Forum from the UK are Aviva, Beazley and the Fidelis Partnership. The Forum arose following the termination of the Net Zero Insurance Alliance. The four initial priorities of the Forum are:

- Advancing frameworks for net-zero insurance metrics and voluntary targets, and developing new net-zero insurance concepts.
- Engaging with the real economy, including supporting the transition plans by corporates across different sectors.
- Tackling challenges and opportunities to develop insurance solutions and taxonomies that would support the transition.
- Developing transition plan guidance for insurance market participants.

See [Practice note, Net zero transition plans for UK companies: Forum for Insurance Transition to Net Zero](#).

### Industry pledges and activities

While to date there has not been a significant push to set industry-wide initiatives and programmes in relation to ESG, many key players in the insurance industry have been vocal and proactive in highlighting how they are looking to tackle ESG issues. Among the many statements, pledges and actions in the industry:

- Zurich has incorporated a risk-based approach to human rights due diligence when onboarding and managing third parties, including suppliers.
- AXA has placed underwriting restrictions on the coal and oil sands industries and has developed

“green” and “sustainable” products in both its Property & Casualty and Life & Savings ranges, as well as publishing targets for the first time in 2023 in connection with reducing the carbon intensity of its P&C insurance portfolio.

- The former Legal & General group CEO (Nigel Wilson) has previously come out in support of linking executive pay with ESG performance targets.
- In 2021, Beazley launched the first Lloyd's syndicate (syndicate 4321) to focus underwriting capacity for businesses with high ESG ratings.
- The Association of British Insurers (ABI) launched its Diversity, Equality and Inclusion Blueprint in 2022, with the aim of improving D&I in the insurance sector both at the entry and upper levels.

For a framework designed to help insurers develop a broad corporate ESG strategy, see [Practice note, Developing an ESG strategy: framework for insurers](#).

### Lloyd's

Lloyd's has brought together 12 signatories, including Ascot and Phoenix Group, to form the Insurance Task Force of the Sustainable Markets Initiative. The initiative has a particular focus on sustainable supply chains, as well as the creation of innovative and new insurance products and services. In connection with this, in October 2024, Lloyd's announced a new disaster resilience vehicle (partnering with Aon and the United Nations Capital Development Fund) to provide disaster risk financing for Fiji, Papua New Guinea and Samoa, with the long-term aim of replicating the vehicle throughout the Pacific region as well as the Caribbean, Asia and Africa.

## Anticipated legislative, regulatory and industry developments

In September 2023, the FCA and the PRA published consultation papers on D&I in the financial sector, following on from the 2021 discussion paper (DP21/2) produced on the same topic. However, the UK regulators subsequently announced that they do not currently plan to publish new rules on D&I. For further information, see [Legal updates, FCA and PRA consult on measures to improve diversity and inclusion in financial services](#) and [FCA and PRA update on diversity and inclusion proposals](#).

In addition, FSMA 2023 amended FSMA to include a new regulatory principle for the PRA and FCA in

respect of contributing towards achieving the UK government's net-zero emissions target. It remains to be seen whether and, if so, how the UK regulators will change the existing regulatory framework given this legislative principle. See [Practice note, Financial Services and Markets Act 2023: Regulators' objectives and regulatory principles](#).

For discussion of the FCA's SDR regime and work on the UK green taxonomy, see [ESG reporting frameworks, measuring ESG and industry-specific ESG taxonomies](#).

### Key risks

#### Counterparty risk

There are various specific ESG-related risks impacting the insurance industry in respect of firm's dealings with counterparties. The key risks are detailed below.

##### Greenwashing

Possible greenwashing by corporate policyholders can complicate an insurer's ability to properly price risk and assess exposure under the policies it writes, making risk assessments (a fundamental component of its governance obligations under Solvency II) more challenging.

##### Sanctions and anti-money laundering (AML)

Sanctions and AML considerations have been built into insurers' governance arrangements for many years. However, in the current climate, particularly following the significant increase in sanctioned individuals and companies as a result of the conflict in Ukraine, this issue requires significant consideration. Non-compliance can constitute a criminal offence and lead to a real reputational impact.

##### Consumer perception

There is a real risk of consumers discontinuing their relationship with companies that are perceived to treat the environment, employees or the community in which they operate poorly.

##### Social inequality

Social inequality may have an impact on insurers' ability to sell products and services. This is particularly relevant to the issue known as the "protection gap" (see [Internal ESG risks](#)).

##### Supply chain due diligence

Insurers need to factor in a potential expansion of supply chain due diligence obligations. Insurers

with a turnover of at least £36 million are already required to consider and report on their modern slavery risks pursuant to the Modern Slavery Act 2015. For further information, see [Practice note, Modern Slavery Act 2015: slavery and human trafficking statement](#). However, ongoing developments suggest that this obligation could be extended. For example, a broad spectrum of businesses in September 2022 [called](#) on the UK government to introduce mandatory human rights and environmental due diligence obligations, with corresponding penalties to hold companies and investors to account for any failures. A private members bill was introduced by Baroness Young of Hornsey in the House of Lords in November 2023 that would place a duty on commercial organisations and public authorities to prevent human rights and environmental harms, including a requirement to conduct due diligence assessments on their operations, subsidiaries and supply chains. However, the bill has not progressed past a second reading (see [Legal update, Private Members' Bill: duty to prevent human rights and environmental harms in supply chains](#)). For further information on ESG supply chain due diligence laws, see [Practice note, Developing an ESG and sustainability programme: supply chain guide: ESG due diligence laws and frameworks](#).

#### Managing counterparty risk

##### Supply chain risk

Certain insurers have already started incorporating environmental and human rights due diligence into their review of supply arrangements. For example, AXA has identified a long-term plan to measure and reduce supply chain risks, including in conducting ESG risk assessments of suppliers pursuant to an internal risk matrix.

Insurers are also managing these risks through their contractual arrangements with third parties, including requiring counterparties to comply with certain minimum standards, such as AXA's sustainability clause in its contracts with vendors that has been incorporated globally, which includes an obligation to comply with the principles of the International Labour Organization (ILO).

##### AML and sanctions

Most insurers have robust AML and sanctions compliance structures in place given their separate ongoing (and historic) regulatory obligations. However, in recent years, given geopolitical developments, many have reviewed their existing arrangements and conducted additional risk

assessments to ensure the ongoing effectiveness and accuracy of their systems and structures.

### Consumer perception

Insurers are increasingly promoting their social awareness and sustainability objectives in respect of their broader policy offerings. In particular, Lemonade, an InsurTech firm with a focus on social impact, which donates unclaimed premiums to charities chosen by customers, entered the UK market in October 2022 in a long-term, strategic reinsurance partnership with Aviva. Similarly, many UK firms have emphasised the sustainability credentials of their operations and, more specifically, their investment management functions.

Many insurers in the UK have taken considerable steps to effect long-term community engagement projects. For example, the M&G in the Community Fund supports local causes and projects that benefit the community with funding grants between £500 to £5,000 (or equivalent in local currency) per project.

### Internal ESG risks

#### Underwriting risk

ESG risks affect both the underwriting and investment businesses of an insurer. The failure to appropriately consider ESG factors in the underwriting process and as part of the assessment of risk will likely cause a misstatement of the potential outcomes and the related risks that a particular policy is covering (see *Opportunities* for additional details). This may lead to increased claims on policies, which could significantly reduce an insurer's ability to derive underwriting profits. For example, property and casualty (P&C) insurers are having to factor the increasing severity and frequency of extreme weather events into their catastrophe and property models.

#### Reputational risk

There is a reputational risk that insurers may not be publicly viewed as socially or environmentally aware and that an event highlighting any deficiencies in their approach to ESG could result in a significant increase in lapse rates (that is, non-renewals) and a fall in new business.

As policyholders become more environmentally conscious and seek socially responsible and green investments, long-term insurers offering unit linked and investment products will need to provide such products to sustain new business and avoid lapses of current business.

### Investment risk

Failure to consider ESG factors can also be detrimental to the value of insurers' investment portfolios. ESG-related incidents, such as oil spills and supply chain disruptions due to extreme weather events or protests, can have an immediate and significant impact on a companies' profits, market values and revenues. This can have a knock-on effect on insurers' investments in those companies. Taking a longer-term view, some companies may ultimately fail in the face of challenges stemming from long-term trends such as climate change. A failure to factor this in could significantly impact the value of investment portfolios.

ESG can also impact the ability of insurers to secure funding. Insurers could face being excluded from socially responsible investment funds, in cases where they cover socially undesirable risks (tobacco and energy companies are often excluded from such funds). On the other hand, this may be an area of opportunity for insurers that have a strong ESG profile to attract investment, as institutional investors and policyholders start to compare products and turn to those more aligned with their personal and institutional values.

However, certain asset managers are publicly distancing themselves from the use of ESG metrics in their investment decision making, which has attracted some backlash from UK investors, including insurers and pension funds.

### The protection gap

The "protection gap" is an important social and environmental risk for the insurance industry to manage. The International Association of Insurance Supervisors (IAIS), for example, is considering this issue intently. Principally, the protection gap arises where the cost of insurance, often combined with poor financial education, results in insurance policies not being taken up by an increasing proportion of the community. For example, as the frequency and severity of natural catastrophes increases due to climate change, the increasing risk may result in an increased cost to the consumer (by way of higher premiums). The consequent insurance coverage may become unaffordable for the policyholder, widening the insurance protection gap. However, the issue of a protection gap does not only arise in relation to catastrophe-related insurance, with key protection gaps also being reported in the areas of pension, cyber and health insurance.

### Artificial intelligence

There is increased attention from insurance regulators on the use of artificial intelligence (AI) by the industry, where the use of algorithms in the underwriting process may have a disproportionate impact on a protected class, for example, by perpetuating bias. Insurers will need to consider their approach to the programming of such AI and the subsequent underwriting of any risk. The UK regulators have indicated that insurers and other authorised firms should continue to apply the general principles governing the UK financial sector in connection with their use of AI, although additional guidance (or other regulatory tools) may be used to clarify how these apply to the industry's use of AI (see [BoE: The Bank and the PRA's response to DSIT/HMT: update on our approach to AI \(22 April 2024\)](#) and [FCA: AI update \(22 April 2024\)](#)).

For further information on the use of artificial intelligence in the UK financial services sector, see [Practice note, Artificial intelligence: benefits, risks and regulation in financial services](#), and for Practical Law's content on artificial intelligence generally, see [Artificial intelligence toolkit](#).

### Managing internal ESG risks

#### Pricing

One of the key ways that insurers have already considered ESG risks in respect of their businesses is through adjusted pricing of policies where there are increased ESG-related risks. However, this is more broadly being considered in the context of the insurance protection gap and is a balancing act that is not easily accomplished.

#### Underwriting restrictions

Certain insurers have publicly committed to underwriting restrictions to help minimise ESG risks. For example, in 2021, AXA announced it would stop underwriting new upstream oil greenfield exploration projects, except where they are carried out by companies with extensive and credible transition plans.

#### Private-public collaboration

The Insurance Development Forum (a public-private partnership of which many large UK insurers are members) launched the Global Risk Modelling Alliance in 2022. This seeks to expand the ability of public authorities in certain countries to analyse risks by providing them with risk management tools, data and access to operational risk finance expertise and, in particular, aims to reduce protection gaps in various countries, including Costa Rica, Ghana and Pakistan.

More specific to the UK, there are public-private partnerships in place for specific risks. These aim to ensure that insurance coverage is affordable for risks that the UK government deems essential to be insured. One example of this is Flood Re, which has been in place since 2016 and operates through a system of levies with UK insurers offering home insurance. This scheme seeks to ensure appropriate and affordable flood insurance for UK homeowners at the highest risk of flooding.

### Investment risk

Insurers, like other significant investors, are increasingly taking account of ESG risks in their own investment strategies. For example, Aviva has publicly indicated that it has integrated ESG considerations as a central pillar in its investment process.

### Shareholder and investor activism

Historically, in part due to the fulsome UK regulatory framework, in particular the corporate governance requirements applied to financial institutions, insurers have not been subject to significant shareholder activism. However, commentators have noted that a rise in ESG-related shareholder activism against insurers is inevitable. In the banking sphere, both Barclays and HSBC have been on the receiving end of climate change-related resolutions introduced at their Annual General Meetings (AGMs) by ShareAction. In both cases, the banks offered their own successful resolutions in which they committed to act on climate change matters and report on their progress.

While insurers themselves have not been subject to such shareholder action, as shareholders in their own right, insurers have taken active stances on these issues (for example, Legal and General Investment Management was part of a group of shareholders that co-filed a resolution ahead of Glencore's 2023 AGM asking for details on its coal reduction targets) (see also [ESG priorities for insurers as investors](#)).

For further information on climate-change-related shareholder resolutions, see [Practice notes, Shareholder resolutions on climate change: legal and practical issues and engaging with investors](#).

### ESG litigation and regulatory enforcement

#### Significant litigation and regulatory enforcement

In the UK there have been significant developments in relation to ESG litigation

as a whole, specifically in relation to climate change. However, the authors are not aware of any claims brought directly against insurers. Certain non-governmental organisations (NGOs) have threatened legal action; notably, in 2019, ClientEarth put Lloyd's on "notice" of legal and financial risks in connection with Lloyd's failure to rule out underwriting the Adani Group's Carmichael coal mine in Australia. One of the biggest potential impacts from the increasing wave of ESG litigation is in relation to increased risk regarding directors' and officers' (D&O) insurance, both for executives within the insurance industry and for its customers.

See, for further information on ESG litigation generally, [Practice note, Climate change litigation: key concepts and trends](#) and [ESG and sustainability toolkit \(UK\): ESG litigation and enforcement](#).

### Anticipated litigation or regulatory enforcement

Given the limited ESG-focused litigation against insurers to date in the UK, it is difficult to determine likely areas of focus for the future in the insurance space. However, given the focus in various courts internationally on the actions of private companies in supporting (or risking) governments' net zero emissions goals, one area of litigation could be in respect of insurers' underwriting projects that are deemed to pose an environmental risk, for example, the approach at Lloyd's to the Carmichael coal mine (see *Significant litigation and regulatory enforcement*).

It is likely that regulatory focus on insurers will increase in the coming years, particularly in light of the new PRA and FCA regulatory principle to have regard to the need to achieve net zero emissions (see *Anticipated legislative, regulatory and industry developments*). For example, this may be in relation to breaching the FCA ESG Sourcebook or failing to meet the PRA's expectations on managing climate-related financial risks (see *Key regulatory bodies and rules*).

Governance matters are already hardwired into the regulatory framework for insurers as a result of Solvency II in the UK (and in the EU more broadly). In the past, the PRA has enforced its own governance standards against insurers and has conducted governance reviews on most of the large UK insurance groups. It continues to do so as other risks develop. Further, the PRA has indicated in its 2025 areas of focus that governance issues, particularly with regard to operational resilience, will be a high priority agenda item (and therefore

may be a source of greater regulatory enforcement) (see [PRA: Insurance supervision: 2025 priorities \(9 January 2025\)](#)).

## Factors impacting ESG progress

### External factors

The key external factor limiting the ability of insurers to achieve their ESG goals is the lack of standardised (and therefore comparable) data to measure ESG factors and their impact. This makes it difficult for insurers, like other investors, to use data objectively in reaching investment decisions, particularly where there is a public commitment to invest (or not invest) in certain assets. The lack of such data is also relevant on the underwriting side of an insurer's business as it makes it difficult to appropriately assess a particular risk before binding. ESG risks are increasingly forming part of insurers' analysis and modelling when determining whether and how to write and price risks and this is reliant on the provision of appropriate and useable data.

### Internal challenges

Given the various developments in AI and its capacity to assist insurers in different aspects of their business, it will be important to manage algorithms and machine learning (ML) technologies to ensure that bias against protected characteristics does not limit the usefulness of the technology, particularly as regulators globally are paying increasing attention to the use of AI in underwriting decisions. For further discussion of how AI is used in the financial services sector and its challenges and risks, see [Practice note, Artificial intelligence: benefits, risks and regulation in financial services](#).

As insurers increasingly develop underwriting restrictions where risks have a negative ESG profile, they are required to build in additional protections and governance frameworks to ensure that the restrictions are met. As noted in *External factors*, this is not necessarily always easy where the data is neither consistent nor available.

Insurers' employees and other internal governance issues are also key areas of focus for the UK regulators. For example, the UK regulators have previously raised concerns about non-financial misconduct, particularly relating to allegations of sexual harassment and bullying within the London market (see [PRA: PRA current areas of focus for general insurance firms \(5 November 2019\)](#)).

### Investment, M&A and opportunities

#### Key ESG considerations in M&A and private equity transactions

Broadly speaking, as referred to in *Internal ESG risks*, a buyer may consider ESG factors in its assessment of both the valuation and attractiveness of a potential asset. For example, vulnerability to climate change on the liability side and on the asset side, the amount of investable funds and their current deployment, as well as any restrictions will be important to a potential buyer.

Some of the key ESG factors that may be considered when undertaking M&A in the insurance industry include:

- Conducting appropriate due diligence of the governance arrangements of the target insurer (both from the perspective of the target's compliance with its regulatory obligations and also how the existing governance arrangements may work with (or need to be amended to better suit) the acquirer's systems of governance). Appropriate warranty protections may also be sought.
- Reviewing the insurer's investment guidelines as part of the due diligence process and understanding how this is incorporated into decision-making processes (and, again, how this may interact with the acquirer's plans for the business).
- Considering the insurer's underwriting guidelines (and any restrictions), which may have a material impact on how a potential buyer views the business it is acquiring and how it will operate. A buyer may consider requesting a warranty from the seller that these policies have been materially complied with.
- The board composition, D&I, executive pay and the use of accurate and transparent accounting methods. To the extent that changes are expected to be made to the board of an insurer, approval of certain new directors will be required from the UK regulators. If such consent is required, this may need to be built into the conditions to closing under the relevant transaction documents.
- The employment conditions, any ongoing employment-related litigation or employment-related action should form a key part of any diligence of a business, particularly given the focus in recent years on employee rights from an operational, customer, regulatory and public-perception basis.

- A potential target's market reputation (as well as its broader reputation with customers and the general public) is likely to be a consideration for a potential buyer. For example, recent public D&I disputes, climate change protests or public governance failings may cause concern for potential acquirers.

#### Investors and stakeholders

##### ESG priorities for investment in the industry

There are various ESG aspects that an investor may consider when investing in the insurance industry in the UK. In relation to matters that may impact the potential economics of a deal, investors may consider things such as the scope of underwriting (and any relevant exclusions) and the insurer's investment policies and guidelines (and how that might interact with the purchaser's own requirements).

Governance matters (both in terms of the target's compliance with Solvency II and the additional requirements of the UK regulators, as well as the target's day-to-day structure and how that might work (and change) following completion of the acquisition) are a traditional focus for investors, but also tie into the more recent focus on governance in the context of ESG.

A target's public profile in relation to ESG may also form a key part of how a potential investor views the opportunity, for example, recent displays by protestors, such as Extinction Rebellion, against the target may cause concern. In January 2025, for example, a group of protesters targeted the CEOs and officers of Lloyd's, Marsh, Howden, AXA and Hiscox, among others.

In terms of metrics investors may use, a number have been or are being developed to provide ESG indices and measurement methodologies. For example, MSCI, a provider of ESG indices, has created specific ESG ratings to measure a company's management of risks and opportunities under each of the three ESG pillars.

As noted above in *FCA ESG Sourcebook*, the TCFD Recommendations at an entity level provide certain climate-related financial disclosures regarding the overall assets managed or administered by the firm in relation to its TCFD in-scope business. These may be useful, and to a degree comparative, across categories of insurance products. However, for the time being, this is limited broadly to life insurers.

##### ESG priorities for key industry stakeholders

For those stakeholders prioritising ESG there are a vast array of issues that are often individual to the

particular person or entity. However, assuming we take a broader view of the issues, certain patterns emerge.

For example, the ESG issues that employees may focus on (versus other stakeholders) include employment rights, the operational approach to sustainability within the insurer and underwriting guidelines (and exclusions).

Similarly, customers may focus, particularly in respect of longer-term policies such as life insurance policies, on the availability of ESG products and the investment restrictions or guidelines with respect to the premiums that they and other customers are paying for that particular product.

As we have noted in previous sections (particularly *Key regulatory bodies and rules* and *Anticipated legislative, regulatory and industry developments*) the UK regulators have focused, in particular, on:

- Governance (including as part of the broader Solvency II obligations).
- Climate change (and the role of financial services in the transition economy).
- D&I matters, particularly in relation to insurers' boards of directors.

### ESG priorities for insurers as investors

As noted elsewhere, see, for example, *Internal ESG risks*, insurers should (as part of their general corporate duties) take ESG issues into account when making investment decisions when it is reasonably believed that the ESG factors in question will have an impact on (long- or short-term) financial return or risk.

This is particularly relevant when they are investing funds to support longer-tail liabilities (such as annuities). Various insurers, when acting as investors in the UK and global markets, indicate that they screen and consider ESG risks as part of their broader consideration of a potential investment (and consequently exclude investments that are considered unacceptable). Further, many insurers have expressed their intention to move towards net zero emissions by a certain date (often 2040 or 2050) in line with the Paris Agreement. It is generally acknowledged that reaching this goal will require further investment into transitional and "green" assets. In line with this, many insurers have announced that they are in the process of moving capital towards ESG needs (particularly portfolio decarbonization). For example, Admiral has indicated that it prioritises investments in firms that have science-based targets and products that focus on providing climate solutions, such as green bonds.

Similarly, long-term insurers (for example, life insurers) offering unit linked investments, pensions and other investment products are seeing increased demand for ESG funds as a broader base of policyholders are increasingly concerned by ESG issues and expect their investment profile and risks to correspond with their ESG goals (see discussion of consumer perception and reputational risk in *Consumer perception and Reputational risk*).

However, beyond the initial investment decision, insurers are increasingly taking active positions in relation to their investments. For example, both Aviva and Prudential plc indicate that they have an active investment policy and work to vote in favour of a majority of actions on climate change and other ESG matters, as well as being in dialogue with their investment companies about the risks and opportunities ESG presents. Similarly, Legal & General's asset management business has adopted an active voting policy on ESG issues and, in 2021, divested from various interests on the basis of its policies around coal production, carbon disclosures and deforestation. Further, Lloyd's launched its first fund on the Lloyd's investment platform in 2023, allocating £250 million into the sustainability-focused, open-ended Lloyd's Private Impact Fund, which focuses on climate mitigation, climate adaptation, circular economy and social inclusion.

As noted above, the industry has the same issues that various industries face in their ESG-related investments in relation to data gaps and comparative metrics (see *Challenges for ESG reporting* and *External factors*). However, many insurers are taking active steps to combat this. For example, Aviva's investment arm conducts proprietary research that seeks to deliver ESG scoring tools that are predictive of performance and assist in its investment decision-making process.

## Opportunities

When making investment decisions, insurers, and investors more generally, are expected to derive significant financial benefits in the longer term where ESG issues are considered. Considering ESG risks and factors can also assist with managing portfolio risk. Various recent analyses show that ESG investments may offer higher returns as compared to more traditional investments. As investors responsible for billions of pounds in assets, insurers have the capacity to make significant investments in ESG-related assets and assist in various essential projects, including the move to net zero emissions, as well as having considerable influence over the ESG direction of other investments.

## ESG considerations in the insurance industry

For insurers, considering ESG risks as part of underwriting decision-making is also beneficial to firms' risk management. For example, as well as considering whether to refuse to offer, renew or refuse coverage for certain projects, considering these factors also enables insurers to price their coverage more accurately, helping to avoid or mitigate potentially large losses associated with certain ESG risks. By incorporating the results of ESG data analysis into their decision-making processes (for example, where available data and technology can better predict catastrophic weather events), insurers can continue to make better informed underwriting decisions.

In addition, insurers that are able to demonstrate compliance with their own ESG commitments (and the increasing number of regulatory requirements) may be rewarded by attracting the growing class of consumers and investors concerned with ESG issues, who seek to use, or invest in, similarly minded companies.

For information on how insurers can develop a broad corporate ESG strategy, putting in place business initiatives to address ESG and identify growth opportunities, see [Practice note, Developing an ESG strategy: framework for insurers](#).

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