



ESG and the global insurance industry: Bermuda as a pathway to encourage sustainable growth

Service area / [Insurance, ESG](#)

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2020 has been a transformative year in many ways, from extreme weather events (such as wildfires, floods and most recently ‘medicanes’ in Europe) to the COVID-19 pandemic, resulting in the discussion on sustainability now taking centre stage.

Heightened awareness of the complex environmental, societal and governance challenges currently faced by society and the wide-ranging effects of the pandemic have accelerated the need for global businesses to demonstrate an express commitment to sustainability as an integral part of their individual business practices and external investment policies.

The insurance industry, as one of a group of key stakeholders, is uniquely placed to respond to the current economic and environmental uncertainties by creating and promoting financial solutions that contribute to more resilient and sustainable businesses, communities and economies.

Insurance is, at its core, a risk mitigation tool employed to protect and support businesses, communities and economies from loss, and the impact of the COVID-19 pandemic will no doubt be one of the largest insurance events in history.

The global insurance industry has long been a proponent of collective responsibility through its support of the Principles for Sustainable Insurance (under the auspices of the UN Environment Programme Finance Initiative) launched in 2012 and the Insurance Development Forum launched in partnership with the UN and World Bank in 2015.

Members of Bermuda’s insurance sector are actively involved in both initiatives.

Bermuda’s insurance industry has a long history of evolving to meet the needs of the investors, businesses and communities it serves through the creation of flexible, innovative and entrepreneurial solutions to provide protection against a wide variety of risks and to ensure fast and efficient deployment of capital where it is needed most.

The development of insurance-linked securities (ILS) in Bermuda as an alternative to traditional insurance and reinsurance models created a unique asset class of financial instruments correlated to non-financial risk. This asset class is able to inherently satisfy the foundational principles of sustainability whilst also providing insurers with capital liquidity and investors with positive investment returns.

ILS tells a compelling ESG story, particularly with respect to its ability to provide ready access to capital to insure against environmental risk factors. It is important to also note that protecting against such risks has tangible social and governance benefits.

The intersectionality between the insurance and capital markets to (1) *encourage better management of climate risk* (through the use of sophisticated environmental data modelling to price insurance risk), (2) *promote social and economic welfare* (through the provision of speedy access to direct capital for disaster relief, economic recovery and

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rebuilding projects) and (3) *offer increased transparency* (through the use of clearly defined and efficient payment mechanisms on a trigger event) demonstrates the inherent value of including ILS assets in mainstream investment allocation strategies.

Although ILS is recognised as a sustainable development investment class under the UN Sustainable Development Goals and as an ESG compliant investment by certain market participants across Europe, the opportunities that ILS affords in this space to global investors and fund managers seeking to deploy capital within an ESG compliant framework cannot be underestimated.

As the market for sustainable investment continues to grow (evidenced by the substantial influx of capital into ESG driven investments during the pandemic), the ILS market has an opportunity to clearly demonstrate its specific alignment with ESG factors to ensure the growth and development of the asset class in what will become a much more competitive marketplace for sustainable financial products.

Bermuda is perfectly positioned as a natural home for the continued evolution, effective management, investment and trading of ILS and other sustainable financial instruments. Bermuda's robust business environment with access to a deep pool of traditional and non-traditional insurance expertise is able to support the entire ecosystem of a mature ILS market with the capital and capacity to adapt as needed to changing investor appetites and risk profiles.

The Bermuda ILS market can provide investment opportunities at all levels of the capital structure. These include establishing ILS issuers to raise capital, deploying capital directly in listed ILS or indirectly through ILS funds, and more recently the use of equity investments in key ILS market participants such as service providers or specific operational platforms to further develop ILS infrastructure.

For more information on how Carey Olsen Bermuda Limited can advise you on the use of sophisticated ILS structures to meet your business and investment needs, our key contacts below would be delighted to assist you.

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