



Environmental, Social, and Governance strategies in insurance

A guide for SME Brokers

by the CII Broking Community New Generation Group 2021/22
cii.co.uk/membership/professional-communities/your-professional-broking-community/





Contents

01 Executive summary	3	06 Governance	10
02 Introduction	4	Governance Awareness	10
03 Methodology	5	Governance Structure	11
04 Environmental	6	07 Recommendations	12
Corporate Responsibility	6	08 Authors	13
Staff Awareness	7		
Corporate Action	7		
Greenwashing	7		
05 Social	8		
Succession planning	8		
Diversity	9		
Employee engagement & external stakeholders	9		

About us

The CII Broking Community is dedicated to those working within the insurance broking sector. Offering a truly enhanced member experience, we are here to support you at every stage of your career. Providing a dedicated programme of continuing professional development and good practice guidance, our focus is on addressing the key developments that impact upon claims, ensuring members are kept up to date with the latest trends and evolution of the sector.

Aligned with the Chartered Insurance Institute's Royal Charter commitment of building public trust, we are committed to raising professional standards through instilling the importance of professional ethics and a customer-centric culture. Working closely with the Government and regulators, our aim is to ensure best practice is promoted and championed, helping to achieve better customer outcomes.

Find out more at: [cii.co.uk](https://www.cii.co.uk)



01 Executive summary

Within the insurance sector, ESG (Environmental, Social and Governance) principles have shot up the agenda in recent years, but what does this mean for the future of brokers and insurers? It has been assumed that ESG strategies, closely linked to sustainability and future proofing businesses, provide a route to modernise the insurance industry to improve its reputation. By focusing on improving the actions of stakeholders according to ESG criteria, the insurance industry can eliminate any social-environmental harm through ensuring strongly held principles are upheld across the sector.

Whilst high level plans and statements have been announced by several large firms, the full reality of the ESG agenda is yet to play out. As the insurance industry begins to action its ESG agendas, small and medium sized (SME) Brokers have been left needing to make crucial decisions about their ESG strategies without matched internal resources.

The Broking Group for the CII 2021/22 New Generation Program has focused on what ESG means to SME Brokers and how ESG can be used to improve the integrity of the insurance industry on the SME level. This bottom-up approach can provide guidance and assistance for SME Brokers who are currently without accessible,

transparent methods to ensure compliance with the growing movement towards ESG performance.

This brochure provides a guide for SME Broker decision makers to assist in making logical and informed decisions to benefit both the future of their firms and the reputation of

the wider industry. We hope that our study provides insights for the wider industry regarding the understanding, application, and relevance of ESG policies across the sector from the SME perspective.





02 Introduction

There is a growing emphasis across all industries for companies to be more responsible and diverse in their operations. Whereas in previous decades profitability was pursued by any means necessary, there is now more responsibility placed on companies to ensure that they are trading in an ethical manner. The insurance industry is no exception to these pressures.

Since being coined in 2005, ESG has become a growing buzzword throughout all markets.

In the past few years, the emphasis to have ESG considerations has compounded with a renewed appreciation of accountability from industry stakeholders. In a recent report from PricewaterhouseCoopers (PWC, 2022), 76% of consumers said they would discontinue their relationships with companies that treat their environment, employees or community poorly.

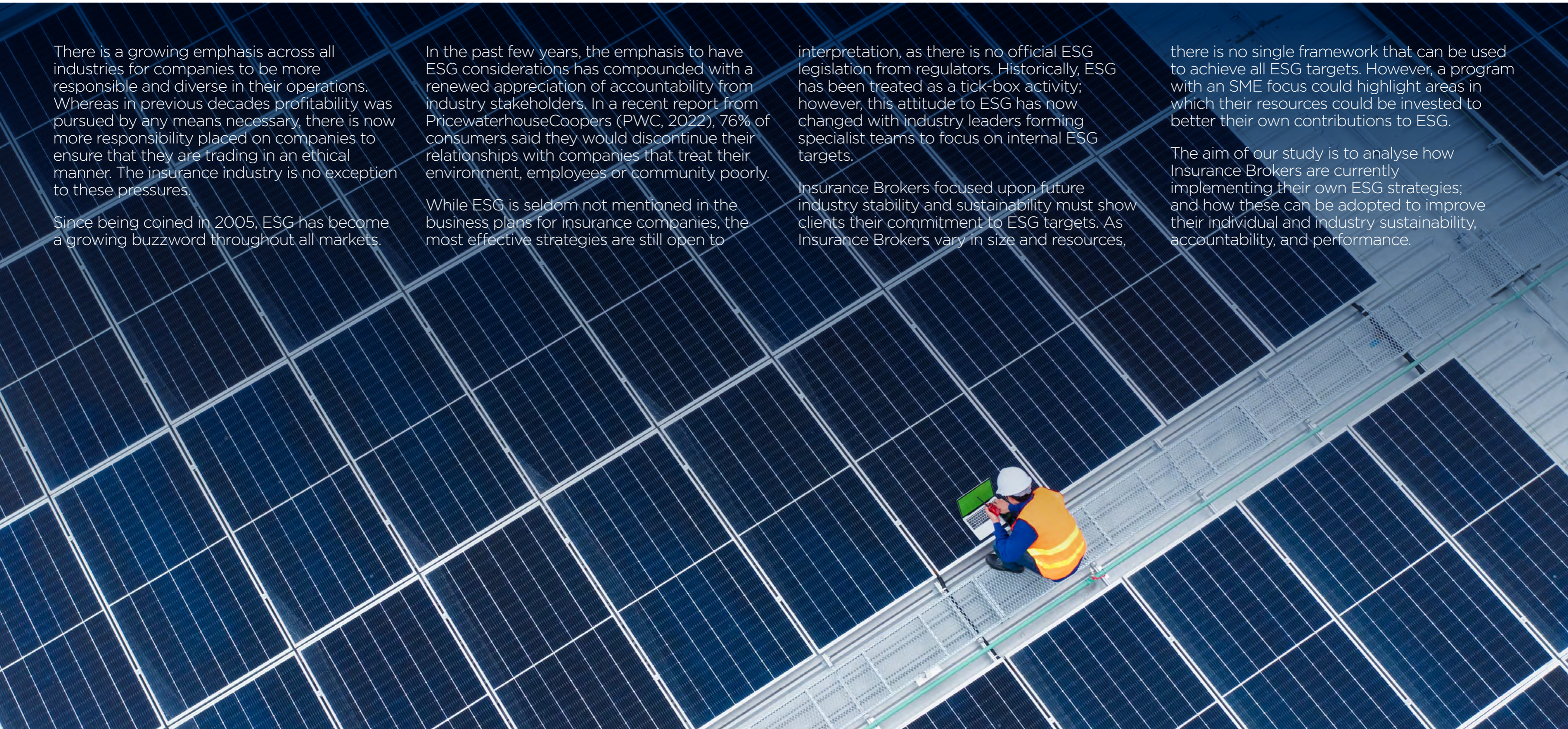
While ESG is seldom not mentioned in the business plans for insurance companies, the most effective strategies are still open to

interpretation, as there is no official ESG legislation from regulators. Historically, ESG has been treated as a tick-box activity; however, this attitude to ESG has now changed with industry leaders forming specialist teams to focus on internal ESG targets.

Insurance Brokers focused upon future industry stability and sustainability must show clients their commitment to ESG targets. As Insurance Brokers vary in size and resources,

there is no single framework that can be used to achieve all ESG targets. However, a program with an SME focus could highlight areas in which their resources could be invested to better their own contributions to ESG.

The aim of our study is to analyse how Insurance Brokers are currently implementing their own ESG strategies; and how these can be adopted to improve their individual and industry sustainability, accountability, and performance.





03 Methodology

To gain insight into current ESG understanding, and how this can be used to improve the integrity of the insurance industry, a purpose-built survey was designed and distributed amongst insurance broking professionals. The survey had been developed following informal interviews with a range of industry experts to guide the topic of questions. The findings and results of these informal interviews fed into the questionnaire to better understand the views and awareness of ESG amongst insurance broking professionals, and the impact this can have on the image of the industry.

The questionnaire was comprised of a mixture of qualitative and quantitative questions used to provide a deeper understanding into the views of respondents, with a small selection of questions allowing free text responses to encourage more insightful input. The questionnaire was created and distributed via Survey Monkey.

The sample size for this project was initially targeted at 100, although this was surpassed with 117 responses received in the space of one month. All respondents work in the sector but vary by seniority, position type, and

organisation size. To achieve a representative sample across the sector, the survey was distributed via the LinkedIn profiles of the CII New Generation Broking Group and insurance broking groups on LinkedIn. The distribution of the questionnaire was also supported by the CII marketing team.

Following demographic segmentation, questions were asked around the size of organisation respondents worked for and their level of seniority within their organisation to allow for deeper analysis where appropriate. Questions also sought to gather information about respondent's knowledge of the three pillars of ESG (Environmental, Social and Governance), their understanding of their own organisation's current approach to ESG, and their views on ESG within the wider financial sector.

The results of questions were compared between different levels of seniority and different organisation sizes. From this, common themes were identified within responses to establish trends in discussion.

Key Terminology and Abbreviations

ESG

Environmental, Social and Governance. Defined as the strategies a business has in place regarding these three aspects of the firm, the concept is closely linked to the idea of sustainability and future proofing business strategies.

SME

Small and Medium Sized Enterprises. Defined as business with up to 250 number of employees.

Firm Sizes

Small Broker: a firm with less than 50 employees.

Medium Broker: a firm with between 50 and 250 employees.

Large Broker: a firm with over 250 employees.



04 Environmental

The sub-group that focused on the E/Environmental aspect of ESG analysed results and literature along the following four themes:

How well is the insurance industry permeating ESG targets through businesses to increase employee engagement?

Do respondents have internal leaders to execute ESG targets?

Have organisations formally aligned their ESG targets with those of their external stakeholders?

How as an industry can we step away from issues of misrepresentation?



Corporate Responsibility

Large financial organisations often have a framework for overseeing and managing their corporate responsibility initiatives. In the insurance industry, this often comes in the form of ESG Committees. Marsh and McLennan (2020) have their own charter to “oversee and support the company’s commitment to social, environmental and other public policy initiatives”. Similarly, Aon reported that firms need to address ESG issues on many fronts – from their own policies and practices to their role in ESG reporting and consulting. It is therefore essential for professional service firms to stay informed about ESG concerns.

SME brokers should look to implement an individual or committee to stay on top of ESG topics and work with the board of directors to ensure that these requirements are incorporated into every day working practice. We found in our research that 52.94% of respondents stated that their company has an individual or committee responsible for considering ESG within their business. While representing a positive step, this was heavily weighted towards respondents from large brokers (more than 250 workers). We envision that this is an area where SME brokerages can achieve parity. SME brokers should not feel too limited to appoint an internal committee, or individual, to implementing ESG factors with the business.



04 Environmental - continued

Staff Awareness

Our research suggested that the understanding of ESG targets is not consistent between different seniority levels within insurance firms, or between different sizes of firms. Senior management are significantly more likely to have a meaningful understanding of their firms' ESG targets compared to those in entry or intermediate level roles. Furthermore, we found that employees in larger broker firms are considerably more likely to understand their firm's ESG targets when compared to those at SME brokerages.

Our research suggested that 93% of senior management had some understanding of internal ESG targets, with over 60% having a meaningful understanding. In comparison, less than 25% of entry level employees felt confident in their understanding of ESG targets, and over a third of those surveyed had no understanding. In order to action ESG targets and add value to clients, it is important that firms consider how they communicate their targets throughout their organisations, ensuring that all employees understand and can explain their firm's strategy.

We had theorised that employees at large broking firms would have a clearer understanding of their ESG targets, due to prolonged significant attention from the public, press, and regulator, on the actions of publicly listed firms. Alternatively, smaller brokers are likely to have limited resources to produce and communicate ESG targets.

If SME Brokerages want to improve their integrity by using ESG standards, they must first ensure that colleagues can understand and communicate the firms' actions. This will ensure colleagues are working towards meeting these targets and best practices, as well as ensuring they are able to articulate their actions and the value of these actions to clients. Our survey illustrated this notion, with over half of respondents at large brokerages having awareness of their firms' targets internally. In comparison, only 32% of those at small brokers understood the ESG targets at their firm. This illustrates the need to percolate internal targets within brokerages and highlights an area where SMEs can outperform larger brokerages.

Corporate Action

Stakeholders have growing environmental expectations. Suppliers are now expected to align their ESG factors with their clients'. One factor often overlooked by SME Brokerages is incorporating ESG standards within their Terms of Business with insurers and clients. There are several insurers who have aligned themselves to be greener, more socially aware to set an example for the insurance industry.

Brokers now have the unique opportunity to ensure that all insurers can do better. Within our survey we found that only 12% of respondents knew whether their Terms of Business considered ESG standards. Many Brokers are keen to promote ESG factors in their business, but very little is contractually documented in TOBAs. This is an area we would suggest to formally action ESG performance within the industry.

Greenwashing

Pressure for positive environmental practices within the insurance industry has grown. Industry data suggests consumers are willing to pay more for environmentally focused products (Nielsen Media Research, 2015). Therefore, when customers perceive firms as socially responsible, pricing power follows. This pricing mechanism can intensify stakeholder pressure to oversell their institutional environmental prowess through green marketing. This represents an area an SME insurance broker should be hesitant to involve themselves with.

Greenwashing, the intentional misdirection of a company's consumers about their environmental performance, has vastly increased in recent years (Delmas and Burbano, 2011). Whilst there is significant pressure to illustrate progress in ESG measurables, there is a significant downside risk that SME Insurance Brokers must consider. The impact of a greenwashing accusation can have profound negative effects, particularly around misrepresentation of corporate performance.

To understand the degree that greenwashing that exists within our industry, we asked respondents to provide details on internal targets for Carbon Neutrality. From our research 40% of all our respondents indicated that their brokerage did have specific Carbon Neutrality targets. Whilst respondents generally agreed with the sentiment, we found that the results were significantly weighted towards those in large brokerages, of which

64% responded positively - compared to only 6% of Small Enterprises having explicit internal Carbon Neutrality targets. From the 40% of organisations that have internal Carbon Neutrality targets, overwhelmingly 80% of their respondents were not aware of current performance. This highlights the general trend of ESG metrics not being filtered down through the business.

Appetite for ESG information, both from regulators and investors, has outpaced the industry's ability to internalise and measure performance. This has led to information asymmetry across the sector. Our findings show a lack of internal accountability of environmental targets throughout all insurance brokers.

Pressure from activist groups targeted at the insurance sector has risen in recent months, growing the concern for the industry and beyond. An examination of the internal prevalence of greenwashing - within insurance upon can help mitigate the cross-sector challenge; and SME Brokers need to show internal accountability.



05 Social

The sub-group who focused on the S/Social aspect of ESG analysed results and literature on the following four themes:

How wide is the generational talent gap within many insurance brokers, particularly for large firms or SME organisations that remain under long-term private or family ownership?

Is Diversity and Inclusion a consideration within employment and progression?

How is the industry improving employee engagement?

How are external stakeholders considered within business practices?



Succession planning

Recent research carried out by ECI Partners suggests that the “skills gap”, a lack of technical skills and knowledge, is a significant industry challenge across financial sectors. As the workforce ages, there is a risk that a gap will develop between senior executives and the more junior, inexperienced employees. An important part of tackling this challenge is ensuring that succession planning is a priority within businesses.

Results from our survey found significant consideration towards succession planning (87% strongly agreed or agreed). However, there was a significant skew of the perception of succession planning within organisations. Over 90% of Executive level respondents agreed their organisation was fully accounting for the skills gap risk through proper succession planning, however only 58% of Entry Level Staff agreed. This indicates issues in the communication or implementation of employment pathways.

SME brokers should ensure that senior managers are actively discussing and implementing succession planning with more junior members of staff. This could include graduate/apprenticeship schemes or active mentoring schemes. Formalised and well communicated internal policies are likely to improve the retention and progression of junior staff.



Diversity

The Financial Management Magazine reported that the “ethnic and racial diversity of CFOs has nearly tripled over the past decade, and the diversity of CFOs across all industries has increased 150% since 2013”. However, as indicated through our survey, improvements within the insurance industry are still required. We found that, overall, 22% of respondents felt their board is not diverse at all.

Our hypothesis anticipated that larger brokers would demonstrate greater diversity. However, our survey indicated that the lack of diversity is an institutional issue. Our analysis found that 17% of large broker employees felt their boards were not diverse at all, a result matched by respondents from SME brokers (17%).

Over 70% of respondents strongly agreed or agreed that their company actively considers diversity when recruiting. This suggests that larger brokers are more actively considering diversity in recruitment – only 11% disagreeing compared to 23% of small brokers.

Given this disparity, SME brokers should ensure there is diversity on interview and selection panels. Job adverts should be written in an inclusive manner that does not discriminate – for example, beware of gender-coded words and highlight inclusive benefits such as shared parental leave and flexible working.

SME brokers should ensure they have Diversity and Inclusion policies in place, but more importantly they should focus on how these are put into practice. They could look to arrange diversity training to educate and encourage open communication and feedback. Unconscious bias training is also something that could be offered to employees. An easy idea to implement is to celebrate all traditions and holidays across different religions and cultures. Diversity and Inclusion requires ongoing commitment and deliberate action – there is no easy quick fix. It needs to be embedded across the entire business, businesses of all sizes and in all sectors should strive to have an inclusive culture.

Industry wide promotion and support must be developed to achieve a fully inclusive workforce and allow cognitive diversity. An important point to note is that “tokenism” – for example adding a minority member to your board just to give the appearance of a commitment to diversity – should be avoided. SME Brokers should take incremental yet persistent steps towards a cognitively diverse end goal - as opposed to making ad-hoc decisions with the aim of addressing short-term perceptions.

The insurance industry can and should improve the degree of diversity and inclusion. The profession as a whole is trying to take steps in the right direction. Difficulties can

arise as there is no solution that will fit all - there is a major variance between the resources available to the largest brokers to enact change and the smallest. However, our research identified several low-cost actions that smaller firms can take to improve their social practices. As discussed, changes in this area are not immediate, and it can take years for effective solutions to evolve and for their benefit to be realised.

Employee engagement & external stakeholders

The majority (74%) of our respondents felt that their company places enough emphasis on employee satisfaction and supporting the wider community through activities such as volunteering days and charity competitions, which suggests most companies are conscious of the need and benefit of helping others where they can.

Employee engagement is particularly important for SME Brokers who arguably must fight harder than larger firms to retain their most talented staff, especially given the talent gap and succession planning problem mentioned above. Retaining talent through employee engagement provides SME Brokers with an opportunity to grow and develop their culture and differentiate themselves from the competition. It is vital that SME Brokers take the opportunity to review their existing practices regarding employee benefits and

personal development opportunities in order to make their businesses attractive in the long-term for their existing workforces.



06 Governance

The sub-group focused on G/Governance aspect of ESG analysed results and literature on the following two themes:

How does transparency allow for sustainable governance?

Is accountability a driver for ESG commitment?



Governance Awareness:

The growth of ESG within businesses has brought greater expectations from all stakeholders. Strong governance allows an organisation to align its incentives to stakeholder expectations. Through leadership, transparency expectations are permeated via businesses ensuring accountability. Our research focused upon the theme of transparency and how accountability of internal metrics would flow from leadership towards stakeholders.

The survey showed that the size of brokerage has an impact upon the knowledge of the internal ESG targets. We found that 65% of small broker employees were not aware of their internal targets compared to under half (50%) of medium to large broker employees. We expected larger businesses would have more transparent ESG targets due to increased stakeholder, regulator and media interest. However, our research highlights a key area where SME brokers can improve their stance compared to larger firms. SME brokers are in a unique position to incentivise an ESG-aware culture due to their nimbleness.

A lack of awareness on governance targets directly impacts the ESG performance, so businesses must engage with all stakeholders over a sustained time period to meet ESG targets. Our research highlighted that despite the differences in expectations from different sized brokerages there needs to be more communication internally to highlight ESG targets; and to ensure that all areas of the SME brokerages can work towards achieving ESG targets from the top down.



06 Governance - continued

Governance Structure:

The platform and 'spotlight' that ESG is given within an organisation is an essential part of sustainable governance. At the CBI 2021 conference, Raymond Greaves, Head of Research at FinnCap Group, stated "we all want businesses to make money today, tomorrow and in ten years. This crucial point of sustainability is not just the environment but also the durability of the business model is the key issue and why ultimately companies should take ESG seriously".

The perceived difference in importance of governance within smaller and larger brokers is highlighted within the results of our research. We saw a meaningful variance of accountability between SME and large brokers. Only 41.67% of SME brokers have an individual or a committee responsible for assisting or monitoring with regards to ESG, in comparison to 76.67% of larger brokers. Our research suggests that incorporating effective governance into business operations is not a primary concern for smaller brokers as less resources are dedicated to ensuring implementation.

Establishing corporate committees, or appointing an individual within the organisation with the responsibility of handling aspects of ESG, can assist senior leaders within the organisation and result in valuable recommendations. In addition, recent research has suggested that having a multidisciplinary team to promote a company's ESG

commitments signals "an active strategic posture with regards to stakeholder relationships", which can help to raise the profile of ESG across the organisation.

Governance goals should be given the same priority as Environmental and Social targets. As there is no tangible measurement for governance it is often treated as less important, with more focus given to meeting Environmental and Social targets. Although Environmental and Social targets do support governance it is important that equal value is placed on governance within an insurance brokerage – irrelevant of their size. Strong governance will not only ensure compliance with legislation, but it will also evidence to all stakeholders that the business is committed to socio-economic performance. Sustainable governance will ultimately contribute to the long-term success of an insurance brokerage and the industry as a whole.



07 Recommendations

Implement an individual or committee responsible for considering ESG within your business.

Internalise accountability for reaching and maintaining ESG metrics.

Encourage and support your employees through implementing workplace environmental benefits such as: electric car leasing/charging and participation in cycle2work schemes.

Implement stakeholder action through including ESG targets within Terms of Business Agreements (TOBA).

Senior managers should discuss succession planning with junior members of staff through mentoring and knowledge sharing.

Work with an external HR adviser to review the current recruitment practice and, if necessary, improve it so that it is appropriate and avoids traditional biases during the recruitment process and interview stage.

Arrange Diversity training for all employees and work on putting an inclusion and diversity policy in place.

Avoid “Tokenism” – focus on making small and gradual changes that will improve the business culture and practices in the long-term.

Engage with consultants to consider environmental and social initiatives to benefit the local community.



08 Authors

Joseph Buckley ACII

Joe is a Client Manager at Aon with experience of various commercial insurance risks. Joe has been in the insurance sector for eight years and has experience of servicing small and medium sized clients through to large global PLCs.

Chloe Burrow ACII

Chloe is a Chartered Insurance Broker at Hettle Andrews & Associates Ltd. Chloe has over 6 years' experience in the insurance industry, starting as a Graduate Trainee progressing to Client Advisor and Account Executive. She now manages the Client Advisor Team and is responsible for all Graduate training.

Emma Cooke ACII

Emma is an Associate Director working as a placing broker for Aon in London. Having joined the company in 2019, Emma has experience across the Marine Class. Her focus now is on Port, Terminal and Marine Liability risks, as well as assisting with the Marine ESG strategy at Aon.

Paul Dymond DipCII

Paul is part of the Client Services Team at AmWins Global Risks, servicing financial institutions and commercial companies in both a Reinsurance and Insurance basis. He is also experienced in implementing effective enterprise risk management programmes and enhancing organisational resilience within Higher Education Institutions.

George Gardner ACII

George is a Corporate Insurance Broker at Griffiths & Armour. Having experience in mid-market insurance placements, George now specialises in the placement of Cyber Insurance as the dedicated Cyber Lead. George has oversight of placements of cross sector Cyber Insurance.

Gemma Haythorne ACII

Gemma is a Chartered Insurance Broker and an Account Manager Leader at Marsh Commercial. Gemma has over nine years' experience with various commercial clients with a specific specialism within the mid-corporate Real Estate and Construction classes.

Callum Higgins ACII

Callum is an Account Broker at Thomas Carroll Brokers. Since joining from Marsh Commercial two years ago he has achieved his chartered status and been invited onto the development program within the company. Callum's focus is general commercial insurance for new and existing clients. With experience in the SME Callum has moved across to corporate risks since joining Thomas Carroll.

Dheeren Patel ACII

Dheeren is an insurance broker for Ellis David Ltd specialising in commercial insurance. Dheeren has also been named as a Rising Star 2022 by Insurance Business UK and was winner of The Peter Checketts award 2020, for the highest ACII completion awarded by The Insurance Institute of Luton & Hertfordshire.

Charlotte Smyton DipCII

Charlotte is a French speaking Global Credit, Surety and Political Risk Broker at Gallagher Re. She previously worked in the WTW Global FAC team where she completed an apprenticeship. Charlotte is passionate about making the re/insurance industry more inclusive.



CII Broking Community

3rd Floor, 20 Fenchurch Street,
London EC3M 3BY

Tel: +44 (0)20 8989 8464

 Chartered Insurance Institute

© The Chartered Insurance Institute 2023
THE CHARTERED INSURANCE INSTITUTE, CII and the CII logo are
registered trade marks of The Chartered Insurance Institute.