

# Risk management frameworks & how to integrate ESG

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# Hello!

## I am Adél Drew

I am a senior consultant at Milliman specialising in risk management.

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# Agenda

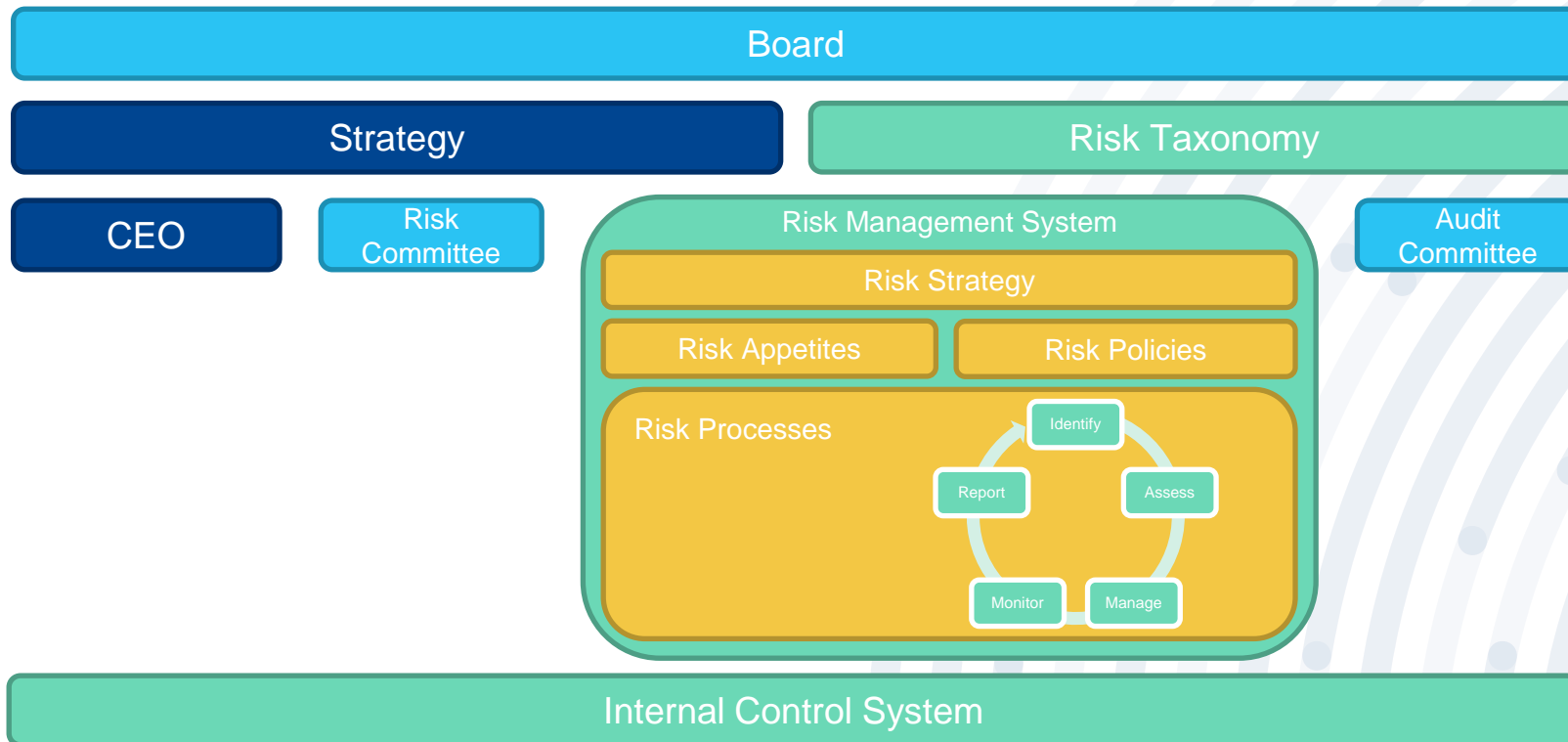
1. Key elements of a risk management framework
2. Introduction to ESG
3. Defining an ESG strategy
4. Embedding ESG in a risk management framework
5. The role of Governance

# 1. Key elements of a risk management framework

# In managing risk the broad approach taken is:

- Recognising the context;
- Identifying the risks;
- Assessing and comparing the risks with the risk appetite;
- Deciding on the extent to which risks are managed;
- Taking the appropriate action; and
- Reporting on and reviewing the action taken

# These concepts form the Risk Management Framework



2.

# Introduction to ESG

“

ESG is a set of standards measuring a business's impact on society, the environment, and how transparent and accountable it is.



# ESG is made up of

## E

### nvironmental

focuses on how the business minimises its impact on the environment



## S

### ocial

focuses on how a business impacts wider society as well as its workplace culture



## G

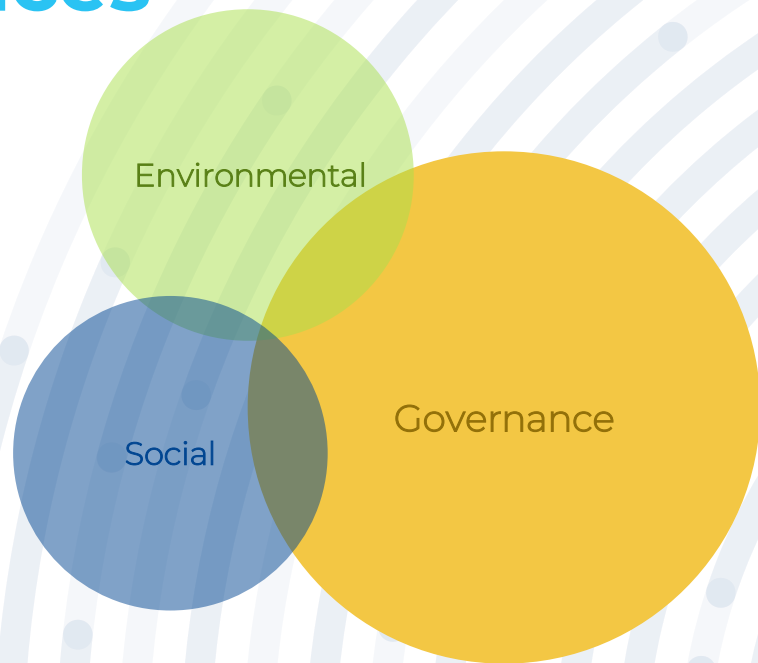
### overnance

focuses on the processes of decision-making, reporting, and the logistics of running a business



# The three components of ESG overlap in some instances

- Minimising a business' impact on the environment has social implications
- Governance has diversity considerations which is also a social consideration
- Governance looks at the transparency and decision-making behind environmental and social considerations



# Why adopt an ESG framework?

- Regulatory requirement
- Reputation
- Reduce costs
- Attract talent
- Attract customers
- Increase investment
- New growth opportunities



Environmental  
**A subset of  
environmental is  
climate change**



# Climate change

## Nigeria: The Climate Change Act 2021

Private entities that have a minimum of 50 employees have obligations under the CCA. These include the requirement to put in place measures to achieve the annual carbon emission reduction targets in line with the Action Plan and to designate a Climate Change Officer or an Environmental Sustainability Officer with the responsibility of submitting the annual reports on the entity's efforts at meeting its carbon emission reduction and climate adaptation plan. The Council may also require a private entity to prepare reports on the status of its performance of its climate change obligations, and prescribe the period for reporting.

# Examples of UK regulations on ESG

## E

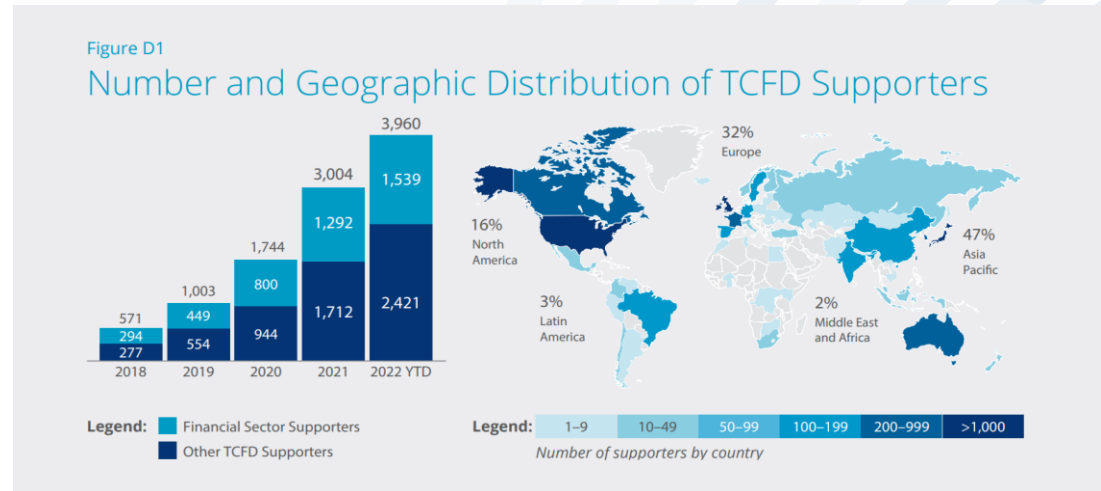
### nvironmental

The Prudential Regulation Authority (PRA) required companies to formally include **financial risks from climate change within their risk management framework**

Mandatory **climate disclosure requirements** in UK law in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations

# Taskforce on Climate-related Financial Disclosures (TCFD)

- Governance
- Strategy
- Risk Management
- Metrics & Targets



Source: 2022 TCFD Status Report

# Examples of UK regulations on ESG

## E

### Environmental

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## S

### Social

The Financial Conduct Authority (FCA) **Consumer Duty** regulations sets out standards for consumer protection across financial services, & requires firms to put their customers' needs first.

The UK finance industry regulators jointly have **Diversity & Inclusion** discussion paper on their business plans for 2023

## G

### Governance

The **Senior Managers and Certification Regime** seeks to ensure that financial institutions adhere to exemplary standards of governance and accountability



# 3.

## Defining an ESG strategy

# How ESG can impact an organisation

Organisations face potential risks which arise from ESG factors

As investors and product providers, organisations can choose to impose ESG values on the firms they invest in and the customers who buy their products

As a buyer of services, organisations can impose ESG values on their suppliers

Organisations can have a positive impact on ESG through the way in which they run their business

# Questions to ask

- What is our ESG landscape?
- What is our ESG ambition and current maturity?
- Which financial risks from ESG factors are material to us?
- How does ESG fit into our existing strategy?
- How will we measure our ESG strategy?

# What is our ESG landscape?

The UNEP Finance Initiative (FI) Principles for Sustainable Insurance serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.

These can be used as a guide to determine your specific ESG landscape

Source: <https://www.unepfi.org/insurance/insurance/>

1. We will embed in our decision-making environmental, social & governance issues relevant to our insurance business

- Company strategy
- Risk management & underwriting
- Product & service development
- Claims management
- Sales & marketing
- Investment management

2. We will work together with our clients & business partners to raise awareness of ESG issues, manage risk & develop solutions

- Clients & suppliers
- Insurers, reinsurers & intermediaries

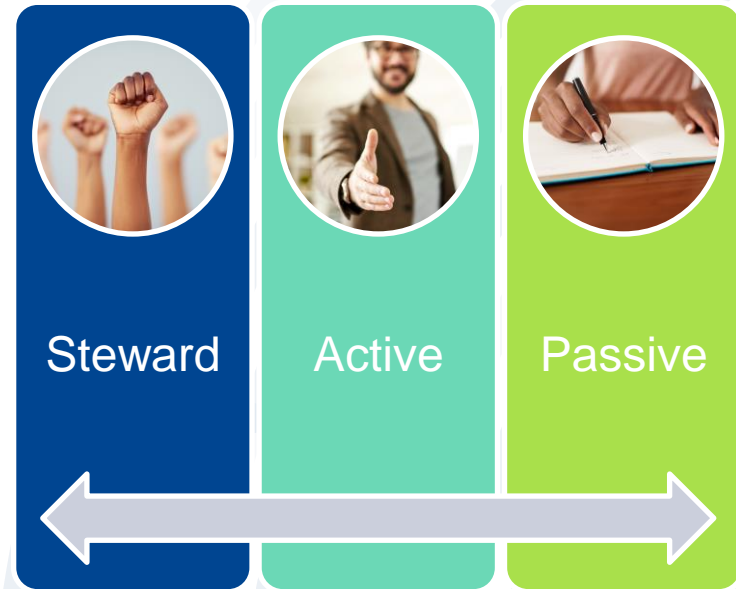
3. We will work together with governments, regulators & other key stakeholders to promote widespread action across society on ESG issues

- Governments, regulators & policy makers
- Other key stakeholders

4. We will demonstrate accountability & transparency in regularly disclosing publicly our progress in implementing the Principles

# What is our ESG ambition and current maturity?

- Core business ethos
- Cultural ambitions
- Current business strategy
- Investment capabilities



# Examples of ambitions



“At Nokia we believe that there is no green without digital. We believe that ESG is a driver of value creation and new revenue streams. **Our ambition as first movers** is to create new competitive opportunities while creating tangible environmental and social benefits.”

Source: [Nokia Sustainability Approach](#)



“At British Airways, we’re on a journey to create a better, more sustainable future. We call it BA Better World. It means we’re putting **sustainability at the heart of our business**. From creating a great place for people to work to reducing our emissions and waste and contributing to the communities we serve to build a thriving, resilient, responsible business.”

Source: [British Airways BA Better World](#)



We spoke with over 9,000 people: **our customers, investors, intermediaries, employees and other organisations we work with**, to understand how we can make the biggest impact. What they told us led to our sustainability ambition, which sets out our commitment to create a brighter future. This is focused on three core areas – acting on climate change, building stronger, more resilient communities and embedding sustainability in our business. It is complemented by clear governance and decision-making, transparent reporting and by proactively engaging our stakeholders.

Source: [Aviva's Sustainability Ambition](#)

# Which financial risks from ESG factors are material to us?

Customer experience

Protect Health

Reputation risk from  
investment strategy

Electric vehicle  
insurance



Exposure to properties  
on a flood plain

Loss of talent due to  
inclusivity of senior leaders

# How does ESG fit into our existing strategy?

- How could ESG impact upon our company's strategy?
- How does our company's actions impact Environment and Social issues?

*“Guiding PepsiCo is our vision that captures PepsiCo’s competitive spirit, intense focus, and shared values: to Be the Global Leader in Beverages and Convenient Foods by Winning with PepsiCo Positive (pep+). pep+ is our strategic end-to-end transformation that puts sustainability and human capital at the center of how we will create value and growth by operating within planetary boundaries and inspiring positive change for planet and people.”*





# How will we measure our ESG strategy?



# Examples of metrics



## Climate Action

	2022	2021	2020
Weighted average carbon intensity (tCO <sub>2</sub> e/\$m revenue) of credit and equities in Aviva's shareholder and with-profit funds for UK, Ireland and Canada	96	120	New for 2021
% reduction in absolute Scope 1 and 2 (market based) emissions from 2019 base year	43 %	20 %	17 %

<sup>1</sup> % reduction in absolute Scope 1 and 2 (market based) emissions from 2019 base year is a cumulative metric

## Stronger Communities<sup>2</sup>

	2022	2021	2020
Amount invested in UK infrastructure and real estate	£6.9bn	£4.3bn	New for 2021
% of operating profit invested in communities (average per year 2020-2025)	2 %	2.2 %	2.4 %
% of UK adult population saving or retiring with Aviva	14 %	14 %	New for 2021

<sup>2</sup> amount invested in UK infrastructure and real estate is a cumulative metric

## Sustainable Business

	2022	2021	2020
Number of customers	18.7m	18.5m	18.4m
% Employee engagement	86 %	72 %	80 %
% of women in senior leadership roles in UK, Ireland and Canada	37 %	34 %	32 %
% of ethnically diverse employees in senior leadership roles in the UK	9 %	9 %	11 %

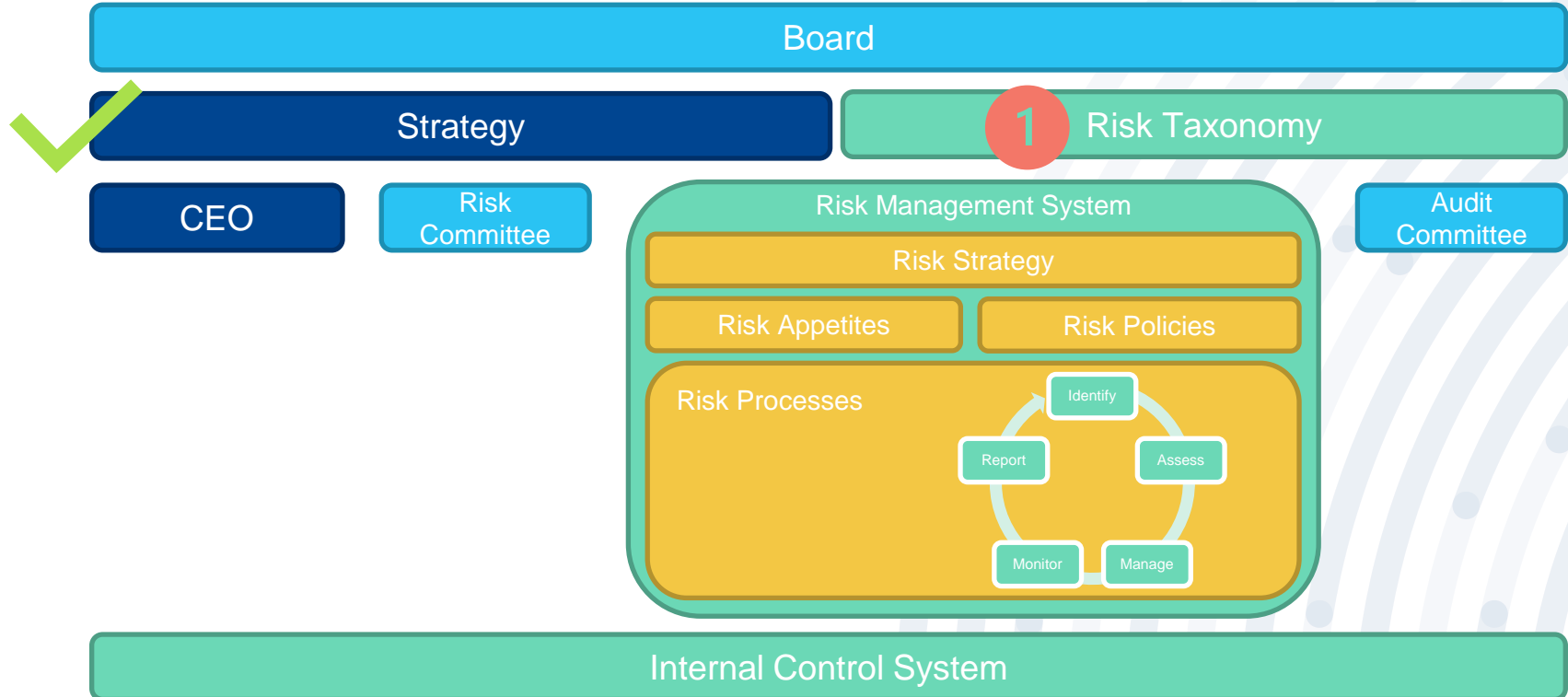
Source: [Sustainability Reports](#)

**A successful ESG  
strategy must be  
auditable,  
purposeful and  
authentic.**

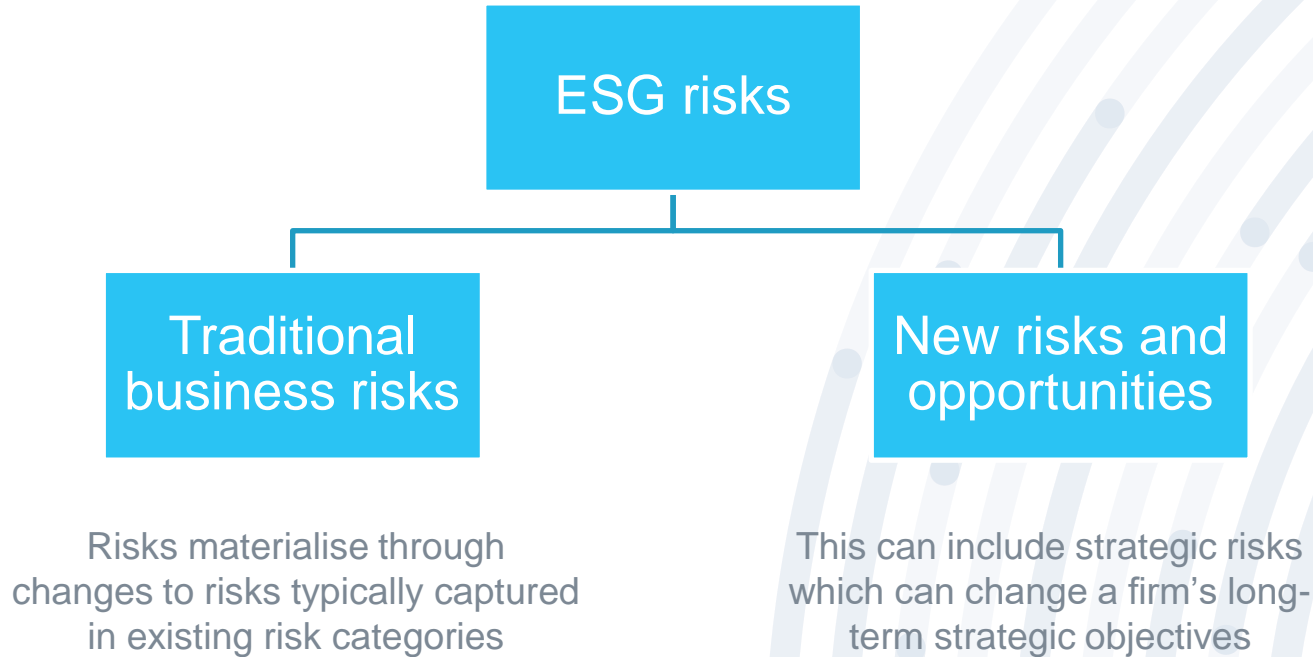
4.

# Embedding ESG in a risk management framework

# Now consider how ESG fits in the Risk Management Framework

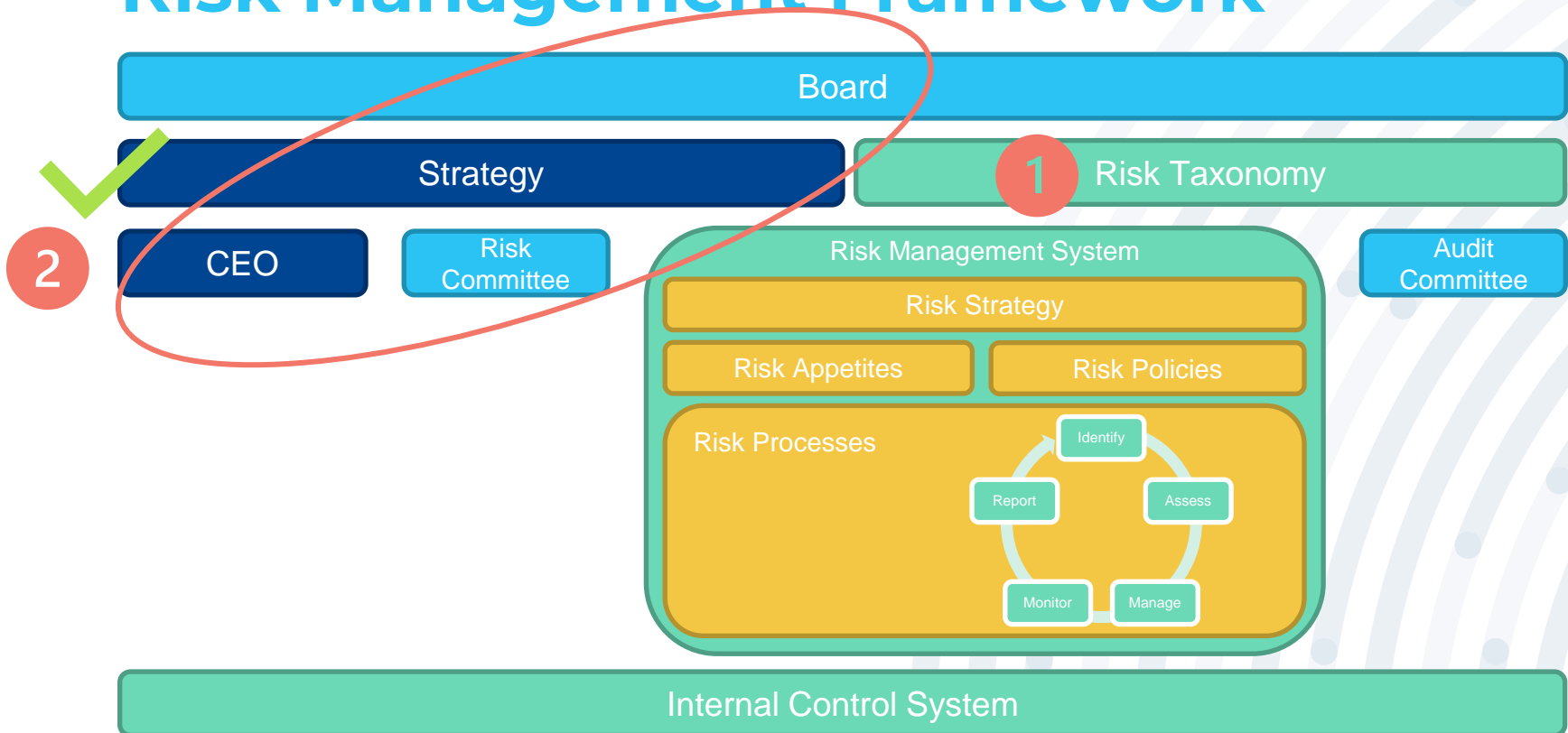


# Risk taxonomy

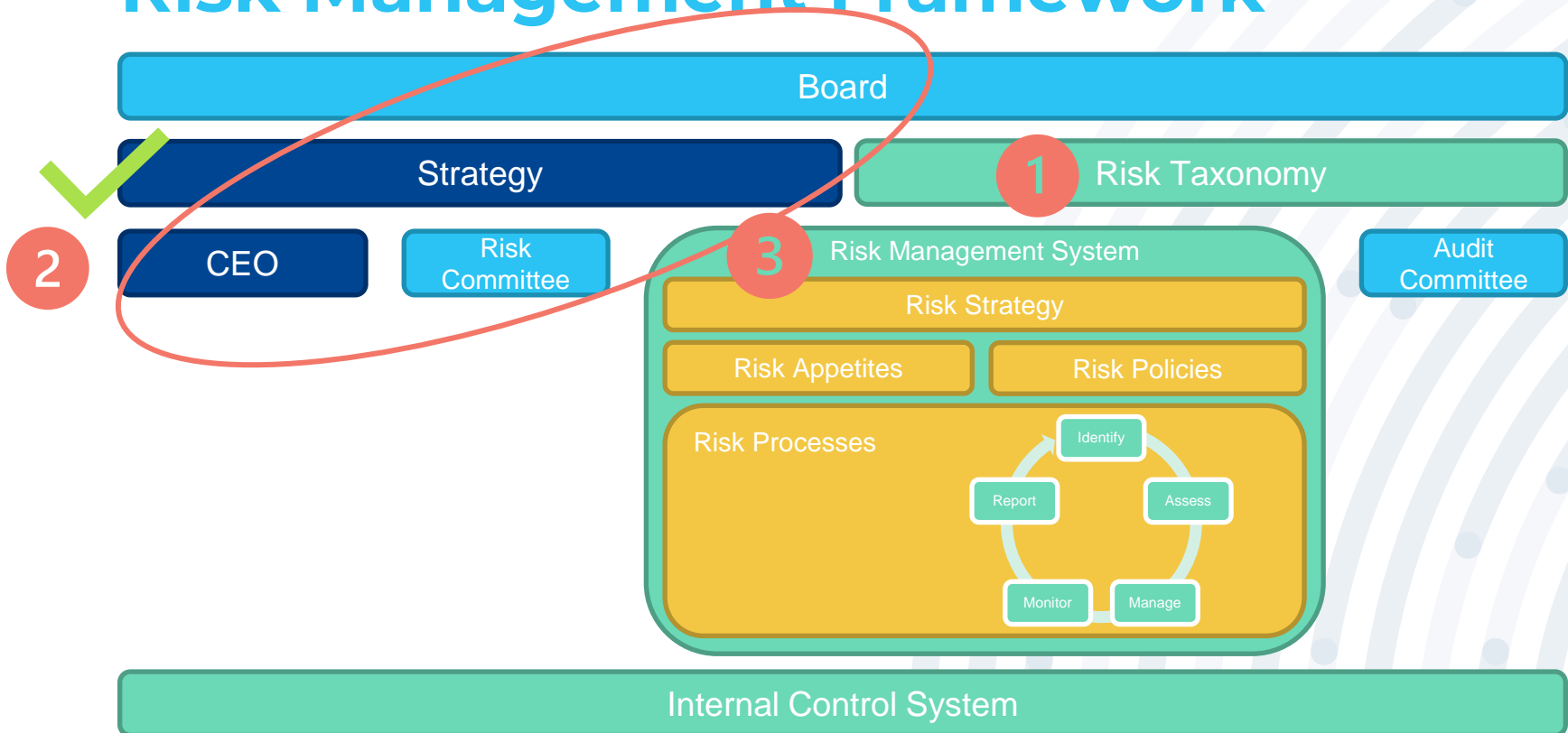




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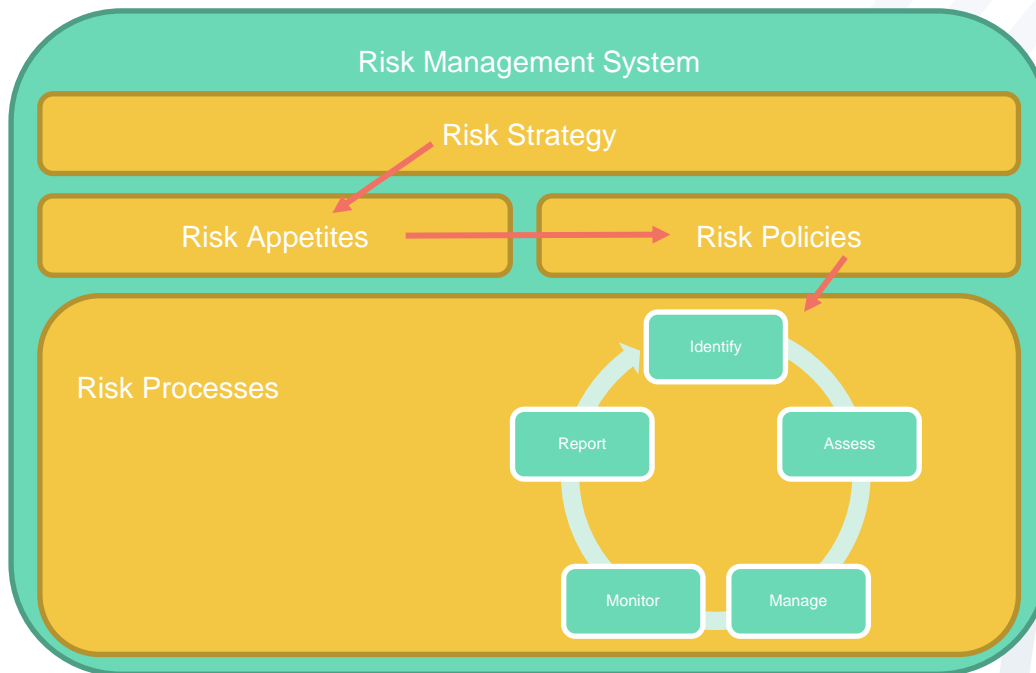


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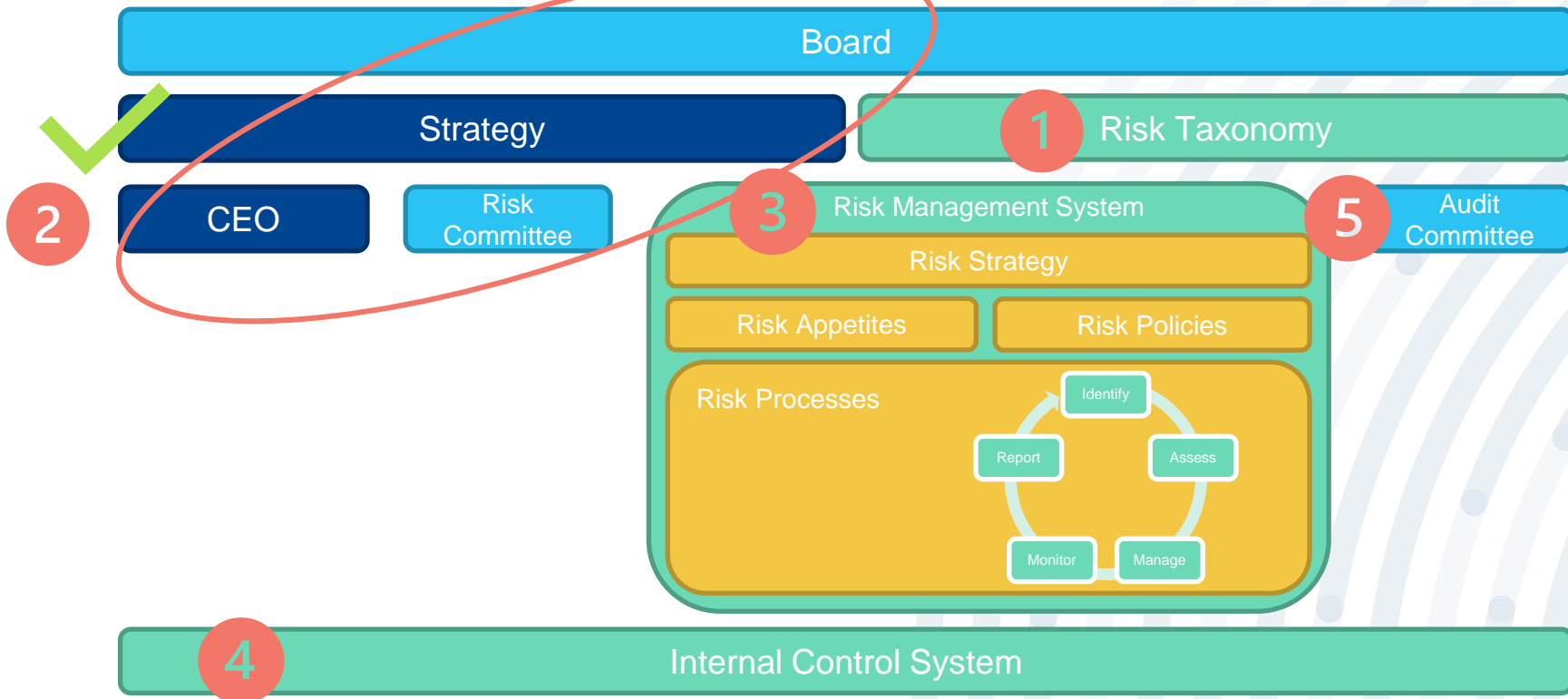




# Cascade into the Risk Management System



# Now consider how ESG fits in the Risk Management Framework



# 4. The role of Governance

# Key aims of Governance

- Detect
- Monitor
- Manage
- Transparency

# Typical best practice Governance principles



# Specific Governance aspects of ESG

- Understanding of key ESG risks and the ability to assess these at **Board level**
- Clear **roles and responsibilities** assigned with regards to managing ESG risks
- **Adequate resources** with **sufficient skills** assigned to managing ESG risk

# Specific governance aspects of ESG

- **Senior management responsibility** for identifying and managing financial and operational issues arising from ESG factors
- **Effective oversight**, and demonstration of this, of ESG risks by the Board
- **Evidence** of ESG being managed in line with a firm's strategy and risk appetites

# Key points

- E, S and G factors should not be considered in isolation
- There are commercial advantages to adopting ESG
- Starting point is to define a corporate strategy for ESG
- And then continue to cascade into all elements of your risk management framework



# Thanks!

## Any questions?

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