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Designing a More Sustainable Future:
ESG in Life & Health Insurance

RGA
50 YEARS

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Foreword

This year, RGA celebrates its 50th anniversary and through that time we have always experienced change. But arguably the changes we currently see impacting our employees, our clients and their customers are greater, more complex and evolving faster than ever.

These involve a myriad of forces including the COVID-19 pandemic, our changing climate, and geopolitical turbulence, among many others. As a result, consideration of Environmental, Social and Governance (ESG) risks and opportunities have become a critical part of our response.

Our role as a leading Life and Health reinsurer means that we have a responsibility to meet ESG expectations, but we are acutely aware of the very real human impact forces are having and will continue to have. As a result, we understand the importance and urgency of finding strategies and sustainable solutions that will provide resilience to individuals, families and communities as this landscape evolves.

A key part of this is to identify and understand the catalysts driving market change, explore the challenges we face within the insurance industry and examine the real opportunities that can make a difference. We are delighted to join our partner, Sønr, as well as additional contributors from the wider insurance ecosystem to explore the topic of ESG in a way that goes beyond theory and into practical execution of building more sustainable products.

There is still much to be done. But, if different industry participants align to a common purpose and combine their unique capabilities, we will have the greatest impact on the lives and health of current and future generations alike.

O. Cuiper

Olav Cuiper,
Executive Vice President
& Chief Client Officer, RGA

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2 Introduction

An interconnected age

The world is changing at an increasing pace. From a rapidly warming climate to population migration, emerging technologies to new societal norms, these changes are numerous, complex and highly interconnected.

The anticipated scale of impact is significant, with 80% of the world's largest companies reporting exposure to physical or transition risks from climate change. The cost to businesses of climate-related weather events alone is expected to exceed $1.3tn by 2026.

Few will remain unaffected by such change either directly or indirectly. Insurance – in particular the Life & Health sector – has an increasingly vital role to play in protecting the lives and livelihoods of vulnerable individuals and communities.

Enter ESG

The solutions to such evolving, systemic challenges will of course need to be holistic. ESG considerations and goals are great measures of businesses' impact at solving them. As such, they have been progressively affecting corporations, including insurance, over the past two decades.

Throughout this period the regulatory framework has evolved to become increasingly stringent and mandated. At the same time, consumer sentiment has also shifted – with over 3 in 4 claiming they will penalize companies that treat the environment, employees, or the community in which they operate poorly, according to a PwC 2021 ESG Consumer Intelligence survey.

While the ever-changing set of standards and expectations is challenging for insurers, the value that ESG and sustainability initiatives can create is substantial. For example, by improving access in sectors with low or declining penetration or reaching entirely new segments, insurers can contribute to creating a fairer, more equitable society but also improve their commercial performance.

Bridging the gaps

As a result, meeting ESG expectations could form the backbone of new Life & Health insurance solutions. With technology as an enabler, there is a clear opportunity for product design to help bridge the gap between periodic support and continuous policyholder coverage throughout their lives.

These gaps are also evident in the emphasis placed on each component of ESG – particularly 'Social'. Similarly, there is some evidence that dealing with the changing regulatory landscape is leaving a disparity between insurer's ability to meet the required standards and translating that into value for consumers. Understanding these areas for opportunity will be essential if the industry is to develop proactive and cohesive strategies to embed ESG expectations into its products and services.

This report will explore some of the key challenges faced by the Life & Health sectors, and how insurers and startups are preparing to meet them. It will draw upon a combination of data, analysis, and the experience and perspectives from a range of insurance ecosystem participants – including reinsurers, startups, and consultants – from across the globe.

3 ESG: Opportunities & challenges

With the rise in prominence of climate change and related events, there has been particular focus on the environmental and governance aspects of ESG. This will continue, but it also highlights the opportunity for Life & Health players to drive changes associated with the social component of ESG across three key areas:

- **Holistic** - To promote a more comprehensive concept of 'wellbeing' – incorporating physical and mental, but also financial and societal health as their interconnected nature becomes increasingly clear
- **Inclusive** - To enhance insurers' capabilities to design and distribute products that meet the needs of underserved or marginalized communities
- **Lasting** - To support people in remaining healthier for longer by helping them take action to improve their health, and by rewarding their efforts, throughout their life pathways

Achieving this doesn't come without its challenges. Unlike environmental and governance issues, social factors are less tangible and still offer limited data on how they can impact corporate performance. This is evidenced by a Global ESG Survey by BNP Paribas in 2019, which revealed that 46% of investors considered the 'S' in ESG to be the most challenging to analyze and embed in their investment strategies.

A guiding framework

Furthermore, a paper from the Geneva Association in November 2022 concluded that "a decision-useful, conceptual framework that captures the insurance industry's contributions to social sustainability is still non-existent." To mitigate this, it proposes a 'three scope' framework:

SCOPE 1
Employees

Impacts on everything the insurance company directly controls, first and foremost it's employees

SCOPE 2
Communities

Insurers' impacts on communities, both direct (through their operations) and indirect (through their employees)

SCOPE 3
The insurance value chain - effects from:

- Business as usual
- Explicit integration of ESG considerations
- Avoidance of potentially negative impacts

Downstream
- Customers
- Investees

Upstream
- Value chain partners

Source: The Geneva Association

From a Life & Health perspective, this could incorporate the following considerations as examples:

1 **Resources controlled by the insurer** – principally their employees. There is a natural synergy in terms of employees' physical and mental wellbeing, but also in promoting equality in the workforce through diversity and inclusivity policies, and through paths to progression.

2 **Communities they influence** – both directly through operations by actively seeking to understand and remove underlying bias or supporting underserved markets; and indirectly, through sponsorship of employee projects and initiatives with social impact.

3 **The wider insurance value chain** - this could include risk taking and servicing; selecting partnerships and, of course, ensuring products are safe and the data is secure and used appropriately.

While not designed specifically for the Life & Health sector, such frameworks can act as a useful guide to evaluating how product and service design is objective and inclusive: from delivery and distribution to marketing and customer relationship management.

Systemic shifts

The value of a more holistic approach is clear when considering how challenges to the insurance industry are becoming increasingly systemic.

Climate change is a good example, where the frequency and severity of natural disasters is growing. This will inevitably result in increased migration and geopolitical disruptions linked to resource scarcity, including water and food – the results of which could have profound effects.

Some of these effects have already been quantified by incumbents. Increased air pollution, for example, has already compelled several insurers in China to review their Life & Health policy terms to cover heightened risks of respiratory illnesses. While largely eradicated from developed economies, there is also evidence that climate change has also been linked with the return of diseases, including polio.

Ongoing environmental degradation and destruction (whether climate-related or man-made) is also playing a significant role in driving species together, increasing pandemic and epidemic risks by creating new pathways for zoonotic transmission.

The result is that COVID-19 may not be the only pandemic we face, which is significant given both its acute near and longer-term impact. In addition to increased mortality, according to the Institute of Health Metrics and Evaluation, Long COVID affected over 145m people across the globe between 2020-2021 alone; many of whom have been unable to access resources that support recovery. In this way it has also highlighted social disparities and the challenge for governments to provide a safety net for all.

In each of these examples, insurance plays a crucial role in providing resilience to such seismic shocks to people's lives, health, and finances.

Regulation and ESG requirements

The regulatory landscape is becoming increasingly challenging for insurers, evolving from simple compliance monitoring to increasingly prescriptive targets and objectives, including net zero emissions. This is happening at both a global and domestic level and is particularly true for ESG-related financial and funding activities.

"There is a need for more standardized and transparent reporting practices of ESG data and greater collaboration between companies, regulators, and stakeholders."

Sabine VanderLinden, Alchemy Crew

In 2012, the UNEP FI Principles for Sustainable Insurance were launched to serve as a global framework for the insurance industry to understand, manage, and address environmental, social and governance risks and opportunities.

Despite this, compared with perils such as financial risk, an understanding of the relevance of ESG issues and their practical application for insurance remains in its infancy. The ESG profile has only recently found its way into risk analysis in the industrial insurance segment; it is not, however, fundamentally different to general insurance risk assessment.

A long road

The 2022 PWC Report: ESG Impact on the Insurance Industry suggests that work is still to be done to fully consider both the positive and negative impacts of sustainability and ESG standards on the sector:

- **25%** of global insurers believe that understanding ESG-related regulations is the main challenge
- **17%** shared that understanding how best to act on ESG is a crucial challenge
- **15%** consider matching ESG initiatives with customers' needs is the most important problem

If representative of the wider market, this suggests that a significant proportion of insurers are wrestling with how to deal with regulation, translate requirements into action, and also align both business and customer needs. These considerations impact how products and services are being designed, and the rate and scale of change within the industry.

For some time, the 'sustainability' issue has formed part of risk management activity, based on target variables and existing data on sustainability. In most cases, insurers embed their sustainability strategy in their governance structures. However, there are clear signs that the winds of change are blowing, and in the direction of a more strategically and commercially focused consideration of ESG expectations as drivers for business and product development.

"ESG and sustainability considerations are no longer a nice-to-have for the insurance industry. They are an essential part of managing risk, driving innovation, and meeting the evolving needs of customers and stakeholders. Embedding ESG into insurance products is not only good for the planet and people but also for business growth, as it enables companies to build resilience, create long-term value for customers asking for more transparent products, and stay competitive in a rapidly changing world."

Sabine VanderLinden, Alchemy Crew

Balancing sustainability and commerciality

At the same time, providers must consider how to balance new risk profiles with commercial considerations, unless there is investor and stakeholder willingness to trade profitability for meeting ESG expectations. Increased awareness of risks could theoretically render an individual almost uninsurable, or make the cost of cover unaffordable. The expectation, however, is insurers will not and should not blend their risk pools for the sake of inclusivity, but will instead use innovation to find sustainable solutions, including mitigation.

For instance, people living with HIV can now live long and healthy lives if they have access to appropriate treatments early enough. As a result, while this group may not have standard mortality in relation to other health conditions, the blanket policy exclusions of the past are no longer necessary.

4 An evolving landscape

The role of technology is critical to delivering sophisticated, customer-focused, and frictionless experiences. In addition to reducing operational costs and improving speed to market, technology enables greater product accessibility through enhanced distribution capabilities. The larger opportunity to connect consumers with services has broadened the playing field for insurance services.

The options available to consumers in terms of both solutions, and who provides them, has seen ongoing growth well beyond insurers alone. This includes a growing number of startups, but also an evolving competitive landscape as Big Tech and mobile players consider and approach entry into the insurance market in different ways.

"Digital innovation has potential to increase access to insurance solutions that transform from purely reactive and accessible to only the most wealthy 20%, into becoming proactive and protecting large population segments."

George Kesselman, Insurtech Asia

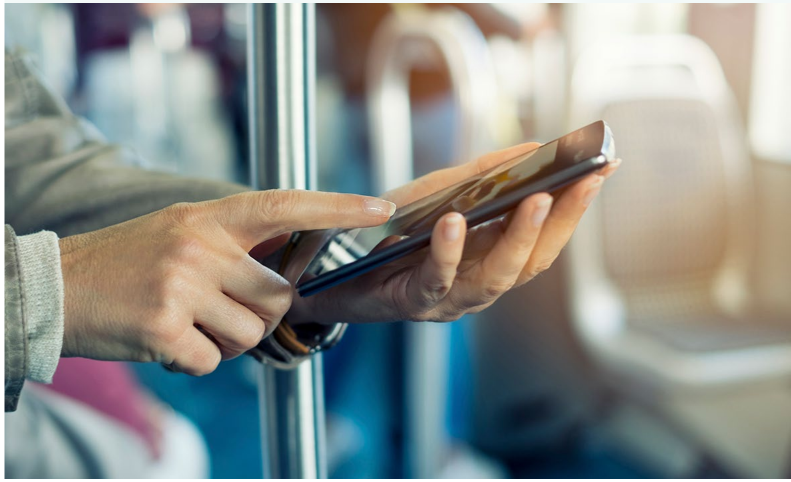
Digital transformation

Digital technologies are becoming increasingly pervasive parts of consumers' lives and applications for insurance. Four that will influence product design and Life & Health insurance business offerings include: data and analytics, internet of things (IoT), artificial intelligence and machine learning (AI/ML) and public blockchain. In each case the data these systems ingest, and resulting decisions they make, have ESG-related implications in terms of ethics, privacy, and inclusivity for example:

- **Data and analytics:** digital technologies are being used to collect, analyze, and disseminate data, allowing companies to make more informed decisions about their operations and investments
- **IoT:** connected in real-time via 5G networks provides an ability to perform real-time monitoring of customer's lives and health, as well as performance against ESG targets to reduce waste and improve operational efficiency
- **AI/ML:** enable large scale analysis and prediction of customer and ESG performance-related data to inform product development and risk management decisions
- **Public blockchain:** provides secure, transparent, and decentralized tracking of data and product information, as well as the growing volumes of personally sensitive data to improve accountability and trust

"Embracing technology can be both a challenge and an opportunity for life and health insurers. We are seeing more and more the importance of partnerships in this rapidly evolving space, with many large, traditional insurers actively exploring insurtech partnerships to help scale, enable and advance their digital and ESG strategies."

Jaqui Wassenaar, VP, Head of Digital Distribution, RGAX



Startup examples

The following examples illustrate how these technologies are being deployed in new sustainable products to help improve underwriting, provide ongoing care, support chronic condition management, and increase accessibility.

To learn more about any of the featured startups, you can visit Sønr for detailed profile information.

Qumata's data and AI/ML solutions support the development of inclusive and sustainable insurance by improving the efficiency and accessibility of underwriting processes.

It works with a range of insurers, including **AIA Group**, providing fast, accurate health status insights for anyone with a smartphone – avoiding lengthy questionnaires or medical examinations. In exchange, Life & Health insurers leverage the data to generate a clear picture of current and future mortality, morbidity, and health risks at the customer and segment level.

AMAE is a partnership between a Mexican insurer and **RGA** aiming to support chronic conditions with the first coverage targeted to individuals with Type 2 diabetes. Mexico already has one of the highest rates of death in the world attributable to the disease, driven largely by the growing issue of obesity which affects more than 30% of the adult population. AMAE's digital platform provides a comprehensive suite of personalized services, including diet and exercise plans, lab tests, and medical monitoring, and a wellness rewards program, to help incentivize healthy behavior.

Monsenso provides a digital care platform to provide ongoing support to one of the most underserved groups of consumers: patients suffering from severe mental health issues. The patient app collects patient-reported and sensor data, which enables proactive advice and guidance to better manage conditions between consultations. While prevention-driven, this accessible care and early intervention reduces the likelihood and severity of illness recurring, which also helps insurers reduce costs: a true win-win.

Another good example of how products are being developed specifically around the needs of customers is Nigeria-based insurtech, **Soso Care**. Their accessible health insurance offering enables customers to pay for cover using both cash and recyclables. By removing a dependency on cash alone, they are driving access to healthcare for a market with less than 5% insurance penetration, whilst also incentivising recycling to help tackle environmental pollution.

Finally, **Otonomi** is an example of a supply chain management startup that is using digital technologies to improve ESG performance. Otonomi is a blockchain-based platform that enables companies to manage their supply chain more effectively and to improve sustainability performance. The platform uses blockchain technology to create an immutable record of transactions and to ensure transparency and traceability throughout the supply chain.

The rise of big tech and retail

Big tech and retail firms have been exploring opportunities in the insurance sector for some time – leveraging their core data, infrastructure, or vast reach to bring new customer propositions to market.

For over a decade, the GAFAM **(Google, Apple, Facebook/Meta, Amazon and Microsoft)** and BAT **(Baidu, Alibaba/Ant Technologies and Tencent)** have been developing an interest, or investing directly, in the insurance sector.

Though they might be tempted to develop their own insurance products, for now, based on their individual strengths and expertise, Big Tech's foray into insurance is mainly through distribution and product development partnerships with incumbents.

Mobile by design

Operators who provide mobile money services are increasingly expanding into mobile insurance. In 2021, the number of registered accounts reached 1.35bn globally, up 18% year-on-year, according to the worldwide association of mobile operators, GSMA. There were more than $1tn in mobile money transactions.

Initially loyalty-based, these services have grown to offer insurance as a stand-alone product, with many of them using mobile money to collect premiums and pay claims. These offerings can be led by either insurance players, service providers, or mobile money operators. Life & Health represented over 74% of all mobile insurance products in 2021.

The dominance of these segments is driven by a number of factors, including the requirement for mandatory health insurance in many countries, a low understanding of why insurance is necessary, plus a lack of trust.

Yet consumer preference for mobile services – mobile money and health services in particular – are supporting adoption of insurance products via this channel. One example is BIMA. Powered by mobile technology, it allows 5m people across nine countries to protect their family with microinsurance products. Partnering with other players including insurers, mobile operators, and technology providers, **BIMA** has created a platform for financial and insurance inclusion.

Mobile giants such as **Orange Group, MTN, and Vodafone M-Pesa**, already active in mobile financial services, have developed new mobile insurance subsidiaries or products in Africa, often in partnership with incumbents like AXA, or startups. For those who are financially excluded, mobile networks provide an ideal delivery mechanism for microinsurance to spread across the African continent. An example is **aYo Holdings**, an MTN subsidiary, aims to unlock this potential, and has inked partnerships with local and global insurers in several markets, including South Africa.

5 Developing products for the future

Not only are consumers willing to exclude brands who do not honor their ESG objectives, they are prepared to pay a premium for those who can. PwC found that 83% of consumers believe companies should be actively shaping ESG best practices, not simply reacting to them.

Such conclusive customer sentiment alone can be a compelling reason to embed ESG considerations into the design of new products and services. But the deep understanding of customer needs that underpins it is also a fundamental requirement in the design of commercially viable propositions.

Social determinants: Underwriting innovation

A key driver of product innovation in the Life & Health segment is through leveraging new datasets and frameworks.

One example, created by the WHO, is the 'Social Determinants of Health' (SDOH): a series of non-medical factors that influence health outcomes. These relate to the environments where people are born, live, learn, work, play, worship and age that affect a wide range of health, functioning, and quality of life outcomes and risks. They can be grouped into five domains:

- **Economic Stability**
- **Educational Access and Quality**
- **Healthcare Access and Quality**
- **Neighborhoods and Built Environment**
- **Social and Community Context**

SDOHs contribute to wide health disparities and inequities. A simple example is the impact of a lack of access to grocery stores with healthy foods. Over time, this raises the risk of conditions like heart disease, diabetes, and obesity – and even lowers life expectancy relative to those who do have access to healthy foods.

Public health organizations and their partners in sectors like education, transportation, and housing need to take action to improve environmental conditions, which have an overall bearing on people's quality of life. This highlights the importance of implementing a holistic and deliverable vision with regards to sustainability. It also includes the provision of Life & Health insurance.

Embedded design

In 2022, the UN's Environmental Program's Finance Initiative/Principles for Sustainable Insurance Guide for Managing ESG Risks in Life & Health Insurance developed a Life & Health Risk Heatmap. These indications are helpful not only for the industry to build their underwriting models and evaluate risks, but also provide a useful framework to create holistic solutions that cover both direct and indirect aspects of Life & Health insurance.

Unsurprisingly, we see these holistic considerations for product design and embedding ESG expectations into market and product development.

For example, where specific customer needs exist product design should consider:

- **What are the customer's complete financial needs?**
- **How can insurance protect them and their family better?**
- **Is the pricing transparent enough?**
- **What are the best channels for distributing the product?**

The result of this can be to move away from traditional 'vertically' structured Life & Health insurance products to 'horizontal' solutions.

> "Incorporating ESG considerations into our investment, product development, and risk assessments is important to both our day-to-day and long-term vision. Its fundamental to our purpose that we help roll out insurance protection to communities and segments that were excluded in the past."
>
> Matthew Blakely, Vice President,
> Corporate Social Responsibility & Sustainability, RGA

Life & Health Risk Heatmap

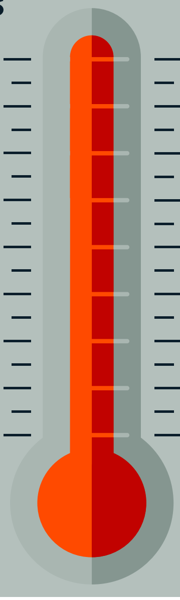
LIFE & HEALTH UNDER WRITING RISKS

Mortality:
The risk of the insured dying prematurely

Longevity:
The risk of the insured living longer than expected and running out of money before dying

Morbidity:
The risk of the insured developing a condition or contracting a disease

Hospitalisation:
The risk of the insured requiring private medical treatment



ESG FACTORS

Antimicrobial and antibiotic resistance
Climate change
Ecosystem imbalance
Environmental degradation
Infectious diseases
Unsustainable practices
Algorithmic underwriting
Customer characteristics
Financial capability
Health capability/awareness
Human rights
Lifestyle behaviour

Source: UNEP-FI/PSI, Managing environmetal, social and governance risks in life & health Insurance business, June 2022

These can both cover traditional needs, but also encompass related ones. By doing this insurers can respond to customer's changing-life events over time, and create tangible, persistent value that engages and builds deeper relationships with them. For example, health insurance, typically covering a range of illness-related costs, might also incorporate solutions for financial losses from being out of work for self-employed or 'gig economy' workers.

An example is the insurtech venture of the Southeast Asian ride-sharing leader, **Grab**. They launched a digital solution to offer micro-embedded insurance for drivers. It allows an accumulation of critical illness coverage based on the trips that they drive, and has created an additional safety net for vulnerable gig economy workers and their families.

Evolving models

Accessing these customer segments with a direct-to-consumer model is possible, but there is growing evidence that insurers are choosing a partnership model. There are also a range of examples of how personal and business banking services, as well as more focused audience-specific offerings, are providing or extending access to existing customer segments:

- **Personal and business accounts:** Revolut, Starling and Monzo
- **Digital native banks focussing on the self-employed:** Qonto and Tide
- **Money transfer services:** Monese and Compte Nickel
- **Open banking-enabled platforms:** Optiopay and Meniga

While their offerings vary, all are working in partnerships with insurers – in particular distribution and marketing of new insurance products, with a strong focus on inclusivity.

“A primary objective of the RGAX Global Accelerator is to help connect the reinsurer with pockets of populations that have been underserved and under-represented – many of which are now being reached by digitally native companies and startups.”

Max Kraus, Director of RGAX Americas Ventures & Partnerships

6 Conclusion

Standing at the crossroads of interconnected priorities, challenges and changes, Life & Health insurers face new risks, but can also seize new opportunities to serve their customers in a more sustainable way.

- There is an acute need for Life & Health sector players to support the social aspect of ESG in a structured and coherent fashion.
- The evolving regulatory and policy frameworks are key drivers of ESG strategy. They also represent challenges to moving beyond simply managing requirements, to actually using them to drive new product and service design.
- Embedding ESG considerations into product design represents strategic value. By doing this they can go beyond a purely compliance-focused approach to deliver a more proactive strategic vision, and even begin to shape the evolution of ESG itself.
- This evolution will be critical to establishing a formal set of ESG standards for Life & Health insurance products.
- There is growing demand for more personalized products. This includes a shift from periodic, reactive support to preventative solutions that adapt through a customer's life pathways.
- It is not just regulation that is driving change. Consumers have become increasingly conscious of the sustainability and ESG compliance track records of the companies that provide their services. They will reward those that are able to demonstrate delivery against their ESG credentials.
- Digital technologies play a fundamental role in reaching new customer segments, providing channels and platforms that customers trust and delivering efficiencies that make serving them commercially viable.
- There are potential dangers to be avoided, particularly in the development of new risk and underwriting models and ensuring the data upon which they are based is representative of the specific end users.
- It is crucial that the next steps in embedding ESG objectives focus on three core areas:
  - Making access to **insurance inclusive and universal** for customer segments and/or geographic markets that are either excluded or underserved.
  - Developing **proactive innovation**, digital and technology partnerships with other market players, including startups, directly addressing ESG expectations and specific customer segments.
  - Cultivating a truly **holistic vision** of innovation and sustainability spanning the entire insurance value chain, overcoming existing siloes to address the insurance needs of policyholders and consumers throughout their lives.

By doing this, we see that insurance is and will play a fundamental role in supporting ESG agendas – in particular, the social component. Ultimately, this helps provide protection to those who need it most, in an evolving landscape of increasingly complex risks.

About RGA

Reinsurance Group of America, Incorporated (NYSE: RGA) is a global industry leader specializing in life and health reinsurance and financial solutions. RGA and its subsidiary brands help clients effectively manage risk and optimize capital, in keeping with the company's fundamental purpose of making financial protection accessible to all.

Founded in 1973, RGA is proudly celebrating its 50th anniversary in 2023. The last half century of innovation and customer focus have helped it to become one of the world's largest and most respected reinsurers, including being named among Fortune's World's Most Admired Companies. Already widely recognized for superior risk management, underwriting expertise, innovative product designs, and dedicated client focus, RGA is poised to help its clients and partners in key markets around the world meet the challenges and opportunities of providing innovative and sustainable solutions for the next 50 years.

RGA has approximately $3.4 trillion of life reinsurance in force and assets of $84.7 billion as of December 31, 2022. To learn more about RGA and its businesses and our goal of making financial protection accessible to all visit **www.rga50.com**

Thank you

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