A Sustainable environmental change and ESG initiatives by the manufacturing and others service Industries during COVID19 Pandemic

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Abstract: Covid -19 has improved the economy's ESG plan. The ESG rating of an industry is crucial for stakeholders and will influence future business practices. ESG is commonly understood to refer to a set of criteria for making long-term investments in the areas of the environment, social welfare, and governance. Climate change is a systemic concern, and governments, companies, and society are increasingly determined to meet it. Climate change, according to the ESG, is the world's most complicated challenge, posing collective risk and ambiguity to society. The impact of ESG elements and climate risk in the insurance business is investigated in this research. The research will also look into how insurers are responding to climate change. The research will also look into how insurers are pursuing climate-friendly activities such as creating green jobs, supporting socially responsible investing, and prioritizing environmental, social, and governance (ESG) and commercial sustainability in their operations. As a result, the study's major recommendation is that potential clients and insurers increase their horizons of ESG risk awareness.

Keywords: Climate Change, Environment, ESG, Insurance, Corporate Social Responsibility, Climate risks
1. INTRODUCTION

Environmental, social, and governance concerns make up ESG. It began to take shape in the 1990s, with international events and agreements such as the Kyoto Protocol, and more recently, the Paris Agreement and the United Nations Sustainable Development objectives. ESG had its origins in investment and matters concerning financial markets, specifically pertaining to an organization’s investment approach. Recently insurers as well companies engaged in financial services have ceased investment in companies with poor track record in environmental domain.

The biggest challenge in the ESG is the climate risk. Climate change is no longer solely the concern of scientific community. Governments, businesses, and individuals are making a determined effort to change their patterns to protect the environment. Especially as economies around the world restore themselves from the COVID-19 pandemic, many private and public entities are following the model set by the United Nations to take climate-positive activities.

According to MCSI 2021 trends in ESG investing report the big trends that matter for corporations. These are urging businesses to make fundamental changes or face a swiftly dwindling universe of eligible investments. Policymakers and investors will notice the fear of biodiversity loss, adapting a set of rules they had set for assessment and management of climate risk. There will a surge of data for ESG investing and investing community will take footsteps towards a more creative, systemic approach, with those in the frontline willing to risk a few disappointments in search of solutions [1].

In days of dominance of social media when information travels around the world swiftly and negative public relations due to environmental, social or governance aspects have become a continuously increasing threat to reputations of companies. According to report on global sustainable investment review 2018 in 2016, application of ESG while investing across assets [2–4]. Investment managers said that climate change was a key issue under consideration and assets to which this criterion applied doubled from 2016 to 2018 to $3.0 trillion. Table 1 shows the investment made by key developed economies of the world in sustainable assets.

![Snapshot of Global Sustainable Investing Assets](image)

**Table 1: Investment in key economies of the world in sustainable assets**

| Region             | 2016          | 2018          |
|--------------------|---------------|---------------|
| Europe             | 12040         | 14075         |
| USA                | 8723          | 11995         |
| Japan              | 474           | 2180          |
| Canada             | 1086          | 1699          |
| Australia/New Zealand | 516          | 734           |
| Total              | 22890         | 30683         |

Asset Values in US Dollars in billions at 2015 exchange rates

Source: Global Sustainable Investment Review 2018

Entering the world of ESG investing for a standard portfolio manager begins with data. This involves the need to consciously adjust exposure to social wellbeing, green activity development, gender equity, and other restricting exposure to activities such as coal production and weapon production [5,6]. ESG issues go to the essentials of the industry’s value proposition. Insurers also have a unique multidimensional engagement with ESG issues given their role as risk assessment experts, institutional investors, and operating companies, often with a substantial global workforce and network of partners and consumers. Environmental changes have a significant impact on the insurance sector. Insurance firms are crucial in subsidizing the transition to a low-carbon economy. Insurers, as risk managers, also play a critical role in identifying and assessing climate hazards [7–9].

The Principles for Sustainable Insurance make available the path for the union of environmental, social, and governance (ESG) risks into insurance risk management. The aim of these principles is to nurture a resilient insurance industry based on a complete and futuristic view on risk management in which ESG issues are considered [10,11]. As a result, the PSIs encourage a risk-aware environment in which the insurance business is trusted and plays a role in supporting a healthy, safe, irrepressible, and long-term social order. These principles are included in benchmarks for the insurance industry, such as the Dow Jones Sustainability Index and the FTSE4 index [12,13].
Climate change has serious impact with high possibility risk and prospects that entails grave action. Environmental changes are required for carbon reduction goals require change in way of doing business by corporations worldwide. Stakeholders are currently pressuring boards to take a statement on environmental issues. Now, there is a greater focus on how a corporation manages risks and opportunities. The insurance sector has a cognitive model that renders it vulnerable to new risks arising from sustainability's environmental, social, and governance (ESG) concerns. Insurers can join the PSI as signatories. Signatories must provide an annual report on their progress in implementing the PSI principles. According to UNEP, FI signatories control more than a quarter of global premium volume and manage USD 14 trillion in assets [14–16].

According to Mckinsey research, global climate change will be locked in for at least the next ten years, and insurers' main worries are the exchanges between the global climate and human systems, not individual catastrophic events [17–19]. Climate risk is likely to strain local economies and generate market disasters that harm both consumers and insurers because of its systemic consequences. More frequent catastrophic events may jeopardize company business models, making insurance unaffordable for consumers and insurers unprofitable. According to McKinsey study, the value at risk from climate-related exposures might rise from roughly 2 percent of global GDP to more than 4 percent of GDP by 2050, see figure 1.

2. Literature Review:

Strategic Risk Management is the answer to risk mitigation issues and complete risk avoidance faced by risk managers. Articulate that strategic risk approach ensures sustainable development resulting in benefits for investors [20,21]. Natural catastrophes have an element of uncertainty and magnitude of losses caused by them can impair claim paying abilities of an insurer. The criticality of meeting obligations of policyholders on time cannot be overemphasized, as the frequency of disasters caused by climate change increase, also there has been a growth in industrial activities worldwide.

While focusing on environmental considerations along with social and governance factors there is need for regulatory measures and reporting of adoption of ESG practices by corporations. This Currently European Union(EU) has the most comprehensive regulatory standards. Non-governmental
reporting by bodies like Global Reporting Initiative (GRI) standards are also in place. United Nations also has sustainable development goals (SDGs) and SDG 13 goal on climate action was adopted in 2015.) lay emphasis on the need for regulatory framework in the insurance sector which creates conditions for market development.

The focus on complete and open sharing of information on the integration of the ESG-focused style is indispensable to ensure sustainable development of insurers.

When consumer buy insurance it is not possible for them to know whether the insurer will honour the promises made in the insurance policy. Consumer rely on reputation of the insurer while making a purchase decision. Insurer may suffer due to loss of reputation and this is a risk. Various factors contribute in creation of a positive reputation and ESG practices enhance the reputation. point out the need to acquire and retain customers, through customer relationship management. The ability to engage with stakeholder’s aids in creation of a positive reputation for insurers.

According to , it is critical to encourage corporate societal responsibility in order to improve reputation. Consequently, insurers are at an advantage competitively and in terms of profitability if they are socially responsible and give proper disclosure of information.

Customer satisfaction comes from the work done by employees. Hence, employees are stakeholders in perpetuation of the sustainable development of insurers.

The increase in complexity of processes and the requirement of customization for meeting consumer needs, reducing product life cycle of services and products require modifications in management practices and development urgencies.

Chartered Financial Institute (CFA) in its research highlights that ESG factors are interconnected and it is difficult to brand an ESG issue as either environmental, social or governance. ESG analysis has become a critical part of the investment process. ESG data usage is an integral part of investment strategy by investment managers to gain understanding about companies where they make investments. confirmed the influence of societal responsibility of organizations on their sustainable growth. Researchers have stressed on the requirement to develop the investment approaches of insurers considering the sustainable growth objectives.

As a result, ESG-focused approaches are being executed for the growth of enterprises in a variety of fields. calculated the value of incorporating ESG motivated methodology into corporate and national investment strategies.

3. METHODS

We reviewed secondary data and articles current published in last five years on ESG investing to examine the impact of climate change concerns and how ESG investments can be best used by insurers to their advantage. To know the readiness of the insurance industry and trends in making ESG investments we went through the tenth annual Insurance Survey 2021 released by Goldman Sachs Insurance Asset Management which takes into account the opinions of 228 CIOs and CFOs who manage over USD 13 trillion in assets, the insurance industry accounts for over half of the global economy. This was the tenth annual insurance survey performed by Goldman Sachs Asset Management. The respondents comprised of diverse participants coming from insurance industry from different locations, type of business and quantum of business done by them. A part of the survey went through thorough answering questions pertaining to the extent is ESG Investing an investment consideration and to what extent is climate risk a consideration in the investment process. We studied these each the questions further in our paper.

4. Results and Discussion

Figure 2 below showed, insurers’ consideration of ESG in the investment process has grown. Today, 83% of global insurers evaluate ESG in their investment processes, in comparison to only 32% of insurers in 2017.
Insurance claims for property and casualty (P&C) have a considerable influence. However, they have a longer-term impact on public health and, as a result, on the cost of health and sickness reimbursements, as well as the value and cost of annuity policies. As a result, ESG factors may have a significant impact on property damage claims (due to floods, fires, pollution, and so on), health insurance claims, and mortality trends.

Figure 3 clearly brings out the motivations for ESG strategy implementation were largely similar year-over-year, with some regional distinctions. The key driver, according to global insurers, is current and future regulation, as opposed to risk mitigation, which was a huge driver last year. Risk mitigation came in second place globally this year.

Underwriting and investment decisions will be the most impactful environmentally and socially. Moving back from carbon-intensive businesses and inventing solutions to fill the gap in natural disaster protection will strengthen the world population’s climate resilience. Insurers’ indirect social effect will be reduced by divesting from sectors with unethical practices and human rights breaches, while investors will be encouraged to consider ESG.

Figure 4 shows that minority of global respondents deem climate risk a primary portfolio consideration. However, the vast majority of global respondents do consider climate risk in the investment process.
Lloyd's of London, a major player in the global insurance and reinsurance markets, has joined the ESG bandwagon and will release its first ESG report in December 2020. This includes a spate of market assurances. By 2025, reduce emissions from operations to a net-zero level. Over the next 18 months, evolving a plan for firms to adopt ESG into their operations.

By January 2022, fresh investments in coal-fired power stations, coal mines, oil sands, or new Arctic exploration activities will be phased out, while existing investments will be phased out by 2030. From 2022 beginning, request that its managing agents cease offering insurance coverage for oil, coal, or Arctic exploration.

ESG is beginning to find a place in the regulatory systems of insurers in a few places of the world. The Prudential Regulation Authority (PRA) in the United Kingdom and EIOPA (European Insurance and Occupational Pensions Authority) in the European Union have now clarified that insurers must model and quantify the effect of ESG factors (and specifically climate change risk) in their solvency stress-testing drills on a regular basis and report on the consequences.

Climate change is undoubtedly one of the critical and politically relevant ESG risks. It is often termed as having three constituents– physical, transition and liability. The physical risks from climate change are the risks like the costs and losses from flood, fire, storms, etc. They affect claims, asset prices generally and credit related risks to increase. Assessment of both the asset and liability sides of an insurer’s balance sheet will need to change to adjust not only to changing climate trends but also to long-term ups and downs e.g. of morbidity and mortality.

The second constituent is transition risk which refers to the costs and impact of the changes ushered by the new climate environment. It may happen that regulators step in to bring changes or consumers preferences may lessen demand for products and services for certain businesses. Lastly the insurers and policyholders are confronted by liability risk which claims for damages from third parties, etc. which may affect insurers directly due to their underwriting exposures.

Insurers own real estate worldwide through their investments and are well placed to influence improvement of the current building structures and promote building energy efficiency. The insurance business is one of the largest institutional investors in the world. Because of its ability to make large capital expenditures, the insurance business is very effective at driving corporate behavior and shifting investment trends. The insurance business has the size and potential to invest significantly in cleaner energy solutions, thereby assisting society in its transition to a low carbon culture. The insurance industry’s ability to make huge capital investments makes it highly effective in motivating behavior of corporations and changing investing trends. The insurance industry has the magnitude and the opportunity to provide substantial capital to cleaner energy technologies and benefit society to move towards a low-carbon economy. Insurance industry is the key originator of the pursuit for new insurance ingenuities and technologies. An insurance company manages risk and is an investor also, insurance sector is placed well to influence the behavior of economic key players in an economy and improve their risk profile.
For insurance firms, the environmental factor is anticipated to be significant. Environmental concerns, according to the International Association of Insurance Supervisors, provide five key risks that include underwriting, market, tactical, functioning, and reputational hazards. Khovrak (2020) in her paper did a detailed analysis of reports of insurers to discover the finest practices for application the ESG-focused methodology to bring about viable development based on data from GRI Sustainability Disclosure 2020 database which is depicted in figure 5 below.

![Diagram of ESG-driven approach](image)

**Figure 5:** Insurance businesses' finest practices for using an ESG-focused methodology to manage their long-term progress.

Source: Khovrak, Inna. “ESG-Driven Approach to Managing Insurance Companies' Sustainable Development.” Insurance Markets and Companies, 2020.

A definite target within the Sustainable Development Goals (SDGs) is the role to be played by business. Goal twelve aims at “sustainable consumption and production patterns”, target six appeals for evolving sustainability reporting worldwide and assisting responsible business practices. By assessing and disclosing their social and environmental effects, companies can work towards sustainable social and economic development.

The direction toward long term responsible investing should be central for all kinds of sensible investors in order to achieve their fiduciary responsibilities and better bring into line investors' interests with the wider objectives of society. This necessitates a detailed and understanding of how to
integrate ESG conditions into investment processes to harness the complete potential of value-augmenting ESG factors.

Because of its broad impact on underwriting, investments, and corporate governance, climate change is a unique enterprise risk management problem.

Climate change is slowly getting recognition as a risk concern and a developing investment area by a large section of Chief Investment officers of corporations.

As rising climate-related losses threaten insurers' books of business and investment selections, many regulators are either unaware of how well-prepared insurers are to deal with the hazard. One-third of responding regulators don't know how well insurers are ready to deal with disasters, according to a Deloitte Financial Services 2019 survey.

One-third of the regulators said they have no idea how well insurers are ready to deal with the business stability effects of climate-associated risks, see Figure - 6

![Figure 6: Insurers readiness to react to climate associated risks](source: Deloitte Financial services 2019)

Insurers now have a better opportunity to report on and demonstrate the effectiveness of any efforts and initiatives they are pursuing to analyse and mitigate climate-related risks. This may assuage regulators' concerns about insurers' ability to withstand major weather events, explain underwriting and pricing choices made as a result, and maybe avoid future more time-consuming mandatory disclosures.

5. CONCLUSION

Long-term trends must be recognized and their impact on the global insurance sector must be understood. Business risks, reputational risks, and regulatory risks are all dynamic and ever changing and must be managed in a proactive manner. Climate-change risk management is becoming one of the insurance industry's most important initiatives. The numbers are staggering, and the consequences are far-reaching financially, spanning the asset and liability sides of the insurer's balance sheet, as well as operationally and culturally. The insurance sector must successfully respond to this problem since it is also a chance for insurance companies to profit from a long-term trend.

Climate change resilience is achieved through risk mitigation and insurance of the effects of life-threatening weather occurrences. Climate change management initiatives are supplemented by insurance products in various kinds. Insurers might implement a long-term strategy to improve their climate change resilience preparation, both internally and internationally. Building a culture within the organisation that regards climate change risk as a critical component of overall strategy provides
opportunity in order for insurers to become more robust to the hazards of climate change. Insurers will reduce the impact of climate change by using data analysis and technology to analyse the situation. Finally, while releasing new products, they should be aware of the concerns of their customers as well as regulators, and maintain high levels of interaction to address any issues that may arise.

ESG is a hot topic of debate, but it may appear to be just another short-term fad from the outside. However, ignoring its integration into an insurer's overall strategy can be costly, as the effects of its adoption are real and follow the momentum of a trend. Natural disasters have a significant impact on insurers, and reducing that impact is a major priority. With a growing number of companies speaking out about ESG and advocating for its implementation, the necessity to demonstrate its implementation to the broader public by adopting relevant measures is becoming more important. ESG should not be considered as a burden but as an opportunity by the insurance industry. Knowing the interplay of several ESG benchmarks in portfolios and how ESG principles are implemented effects financial performance should be a strategic aspect of prospective research. This understanding will improve understanding of the impact of ESG elements on long-term positive performance.

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