

## The shifting sands of liability: working together in support of a more sustainable and secure future

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Consideration of environmental, social and governmental (ESG) policies and practices has been front of mind for companies of all sizes and industries, insurance included, for quite some time. However, ESG has risen sharply up the corporate agenda in recent months and years, in part due to social justice movements highlighting sexual and racial inequalities and discrimination, as well as investor activism and heightened awareness around climate change and sustainability among the public at large.

Regulation and governance is now also moving at pace. The US Securities and Exchange Commission (SEC) recently announced its intention to scrutinize company disclosures regarding their involvement in environmental, social, and governance issues.<sup>1</sup> And, while companies have long since known that

having a more diverse board is statistically proven to boost financial performance<sup>2</sup>, conversations about boardroom diversity are becoming more prevalent and meaningful. This is reflected in more companies tying executive compensation to greater representation of women and ethnic minorities in the workforce.<sup>3</sup> There is growing recognition among corporates that they will be judged on their actions as a responsible business by clients, employees, recruits and regulators alike, and not their words.

The scope of activity that falls under the ESG banner is constantly evolving, meaning that it is attracting more attention from lawmakers, shareholders, activists and influencers. It also means that the associated risk landscape shifts regularly, creating potential D&O exposures and leaving executives at greater risk of claims if they are not prepared or properly insured.

Beazley recognizes the significance of these developments and we are keen to support the efforts that companies are making to become more responsible corporate citizens and improve their ESG status. We too have been taking firm steps to integrate more ESG-focused objectives into our business plans including their integration into our underwriting approach. You can read more about our responsible business strategy here: [beazley-responsible-business-strategy-report-2021-final.pdf](#)

## What have we been doing, and why?

As a specialist insurer we want to better support our clients in becoming more resilient and sustainable and we want to build relationships with and support responsible businesses. Not only do we have shared values but we believe these organizations are likely to be better and more resilient from a long-term risk perspective.

Having analyzed our US D&O claims data, our insureds' ESG scores, diversity profile at board level and a number of additional parameters relating to the board, this hypothesis was proven resoundingly true. Those companies that perform well on ESG indices have less frequent claims and, when they do experience claims they tend to be less severe. Another significant benefit for ESG-engaged companies to emerge in our analysis is that related claims tend to be more defensible when a sustainable business framework is in place.

The strong correlation between ESG implementation and better risk informed an update to our underwriting guidelines, to include metrics pertaining to diversity at board level, a company's chosen response to significant social events, and their environment-related disclosures and actions, in addition to the traditional underwriting data.

## What does this mean for our insureds?

While there are many factors that are considered in the underwriting process, more recently and on the

basis of our findings, we are actively considering a company's ESG behavior as part of the process, and taking a positive view where we see organizations demonstrating best practices. We want to work with like-minded companies, not only because we have seen evidence of the benefit of ESG adoption from a business perspective, but because we recognize the wider societal benefits of ethical behavior.

Internally we have been working hard to elevate our focus on being a responsible business, demonstrating our support of a greener economy, fairer societies and cultural inclusion and equality. But we also understand that an internal focus is not enough – we aim to lead by example in the market by role-modelling innovative and responsible business practices.

By recognizing the efforts of our insureds to become more sustainable and considering how we can support them on their journey, we seek to foster an enduring partnership that allows them to prioritize what matters most; business continuity, longevity and sustainable profitability while being a responsible business.

From improving diversity at the executive level to supporting employees' wellbeing to reducing our carbon footprint, being a responsible business has never been more important. Companies can no longer ignore ESG responsibilities, and directors and officers must drive change across the organization to ensure adoption.

<sup>1</sup> <https://www.etftrends.com/esg-channel/sec-could-begin-to-take-esg-stance-on-disclosures/>

<sup>2</sup> <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

<sup>3</sup>

<https://www.bloomberg.com/news/articles/2021-05-11/carlyle-to-tie-ceo-pay-worker-bonuses-to-diversity-goals>

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