

# Embracing Sustainability: Why the Future of Insurance Is Green



Insurance leaders must prepare for shifting regulations, consumer demands, and environmental risks by recognizing their role in sustainability.

As environmental risks escalate around the globe, the insurance industry faces a predicament. Increasing demand for climate-related coverage—particularly through catastrophe, life, and property insurance—is advancing the sector’s [growth](#). And yet the heightened use of policies to alleviate natural disaster costs puts the profitability at risk as claims costs soar. Between January and June 2023, severe thunderstorms alone led to a record-breaking [\\$34 billion](#) in insured losses in the U.S.

The financial impact of climate-related events, combined with [rising regulatory pressures](#) and consumer demand, has exposed a business-critical need for insurers to actively protect the environment. Insurance companies that make the shift toward sustainability will be best positioned for long-term success.

### **The Shift Toward Sustainability**

So, why is sustainability in insurance so important? Due to climate change, the unpredictability of loss in the insurance industry has reached new heights. In 2023, the U.S. has experienced 25 climate-related disasters— nearly double the annual average from 2018 to 2022—which caused [over \\$1 billion](#) each in damages and 464 deaths. Extreme weather is hitting unexpected locales, urging insurers to recognize their role in protecting the environment.

However, the shift toward sustainability is also driven by rapidly evolving societal attitudes and consumer preferences. Shoppers are becoming more environmentally conscious—[25%](#) of consumers are willing to pay more for sustainable products—and expect the companies they purchase from to align with their values. [McKinsey](#) reports businesses that make environmental, social, and governance (ESG) initiatives—such as “vegan,” “eco-friendly,” and “bio-degradable”—experience significantly more growth over a five-year period.

Regulatory shifts are another external force driving transformation. Government bodies are imposing stricter environmental standards and disclosure requirements, forcing insurance companies to be more transparent about their sustainability efforts. The first half of 2023 saw [over 1,715](#) state insurance regulation changes, including many designed to address climate-related issues—and far more are anticipated. The Securities and Exchange Commission (SEC), for instance, is gearing up to [require climate risk disclosures](#), which can negatively impact public insurers who *don't* make an effort to combat climate change.

For insurance firms, sustainability is a critical path to greater profitability, and it begins with reducing their own carbon footprint.

### **Environmental Responsibility in the Insurance Sector**

While the insurance sector itself isn't a leading source of greenhouse gas emissions, it certainly holds the power to shape the priorities of major corporations. The [role of insurers](#) as *investors* cannot be overlooked. U.S. insurers hold [over \\$500 billion](#) in fossil fuel-related assets alone, with the 16 largest firms owning 50%.

Proactive insurance leaders must rethink their investing strategies and begin to implement ESG standards in their evaluation processes. For some insurers, this may mean allocating funds to support sustainable projects, such as renewable energy initiatives and green infrastructure development. By directing capital toward environmentally responsible investments, insurers can contribute to positive outcomes while benefiting financially in the long run.

Of course, insurance companies also have a responsibility to limit their own carbon footprint, just as much as the businesses they invest in. This begins with measuring carbon emissions, identifying areas for improvement, and adopting environmentally friendly practices—for instance, by adopting green building standards for company facilities, reducing business travel, and transitioning to paperless transactions.

Top insurance firms are already putting innovative sustainability initiatives into place. [Allianz](#) has committed to net-zero emissions in their investment portfolio by 2050—and the firm [offers guidance](#) and incentives for implementing climate strategies to clients and investee companies. [Zurich Insurance](#) already reduced carbon emissions from their own operations by 73%, in part by investing in sustainable buildings and limiting energy consumption. For these companies, chief sustainability officers (CSOs) have been instrumental to success.

### **Driving Consumer Sustainability**

CSOs (and other climate-conscious executive leaders) can be instrumental in the global adoption of green practices. In addition to leading the charge toward internal environmental accountability, these leaders—when equipped with sufficient resources—can also identify, advocate for, and act on profit-driving opportunities to promote sustainability.

In particular, the development of eco-friendly insurance products can drive up demand from sustainability-oriented customers while encouraging other consumers to go green. These products can include electric vehicle insurance and green building insurance, which provides coverage for sustainable construction and energy-efficient buildings. Sustainability incentives for policyholders, like premium discounts for customers who own energy-efficient homes or take public transportation, can also provide the same effect. In the long run, these eco-conscious offerings can significantly enhance an insurance company's brand reputation, further elevating savvy insurers' competitive advantage.

### **The Path Forward for Sustainability in the Insurance Industry**

By actively addressing environmental risks and promoting sustainability, insurance companies are better equipped to

mitigate their own losses and contribute to climate resilience. The better an insurer understands and manages climate-related perils, the more effective they can be in assisting policyholders—and therefore, serving their primary role in our society—during times of need.

But while insurers are making considerable strides in embracing sustainability, the path forward isn't free of challenges. Assessing climate risks in the insurance industry is a complex process, and without significant precedents to follow, insurance leaders must newly discover data analysis and modeling opportunities. Regulatory uncertainties also remain.

Nevertheless, the importance of sustainability in the insurance industry is undeniable—and efforts to reduce carbon emissions can certainly drive long-term profitability. Insurance companies must turn to CSOs who are data-driven, business-minded, and champions of ESG goals to effectively navigate the current insurance market and pursue the expansive benefits of going green. And insurers must grant sustainability executives the authority and resources to drive widespread transformation.

How will your firm integrate sustainability into your operations and insurance products?