

# AM Best and the Principles for Sustainable Insurance (PSI)

## Principles for Sustainable Insurance AM Best Annual Disclosure 2023

In 2021, AM Best became the first Credit Rating Agency to become a Signatory to the United Nations Environment Programme's (UNEP) FI Principles for Sustainable Insurance (PSI). As a PSI signatory, AM Best is committed to incorporating the Principles into our processes and policies across all areas of our organization, as documented below.

### Principle 1

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

#### Best's Credit Rating Process

1. Analytical Staff Training
  - Analytical staff was provided training on AM Best's ESG disclosure and ESG inclusion in credit reports throughout the year.
  - Analytical staff was provided with continuous training on global regulatory updates.
2. ESG Disclosure Working Group
  - The ESG Disclosure Working Group is composed of senior directors and analysts with representatives from all global offices. The working group assists analysts on matters related to ESG in the credit rating process, including how to write ESG commentary in a Best's Credit Report, guidance on topics in AM Best reports and briefings, and understanding general ESG topics and issues.

#### AM Best Human Resource Developments

1. Management's commitment to ensuring equal rights, diversity, social responsibility, and community involvement:
  - Continue to reinforce policies pertaining to labor and workplace rights, equality and diversity, flexible working (remote/hybrid), community volunteering, and modern slavery/human trafficking.
  - Continue to reinforce policies pertaining to business ethics, anti-bribery and anti-corruption, sanctions, fraud, data privacy, whistleblowing, and other related matters.
2. Staff Development and Training: A full suite of training is available to all employees on diversity, equity, and inclusion. On a rolling basis, current staff receive new or updated training on this subject as well as:
  - Preventing Discrimination and Harassment (Employees), April 2023.
  - Preventing Discrimination and Harassment (Managers), April 2023.
  - Cultural Competency (All), October 2023.
  - Improving Your Mental Health at Work (All), August 2023.
  - Career Development Opportunities at AM Best: Employees are provided with financial assistance and time off to pursue professional designations and certifications. Paid summer internships and an analytical career development program are also available.



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## Principle 2

**We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.**

### AM Best Client and Industry-Facing Thought Leadership

1. Best's Research: AM Best's exclusive research and analysis provide valuable insight into current and historical trends affecting the insurance industry. The following are representative of ESG-related content in reports we have published:
  - AM Best's Market Segment Report: "Hard Market Gives Way to Changing Dynamics for D&O Insurers," February 13, 2023.
  - AM Best's Market Segment Report: "US Health Insurers Prepare for Shift Driven by End of Government Mandates," February 27, 2023.
  - AM Best's Special Report: "Parametric Solutions Offer Risk Management and Loss Mitigation Opportunities," December 20, 2023.
2. AM Best's Briefings: AM Best shares its insurance expertise and insight through its complimentary insurance market briefings, which cover a broad range of topics and trends, from segment updates to in-depth analyses of current market developments. The following briefings addressed ESG issues:
  - AM Best's France Insurance Market Briefing – Paris
  - AM Best's Egypt Insurance Market Briefing – Cairo
  - AM Best's Italy Insurance Market Briefing – Milan
  - AM Best's Germany Insurance Market Briefing – Cologne
  - AM Best's Germany Insurance Market Briefing – Munich
  - AM Best's Netherlands Insurance Market Briefing & Networking Reception – Amsterdam
3. AM Best Speaking Engagements
  - AM Best EVP and Chief Strategy Officer spoke on a panel titled "Navigating Global Risks & ESG while Advancing Resiliency" at the American Property Casualty Insurance Association (APCIA) Emerging Leaders Conference on February 6, 2023.
  - Senior AM Best Director spoke on a panel titled "Integrating ESG across the Insurance Balance Sheet – Balancing the Underwriting Portfolio with the Asset Portfolio" at the Mercer Global Investment Forum Europe on March 21, 2023.
  - AM Best EVP and Chief Strategy Officer participated in a discussion on "Building Financial Resilience in Developing Countries" with other senior leaders from the insurance industry, governments, donors, and the development community at the American Council of Life Insurers' headquarters in Washington, D.C., on April 14, 2023.
  - AM Best Managing Director made a proposal to outline how we can assist the member insurance companies of the Philippines Insurance & Reinsurance Association (PIRA) to fully understand and comply with the ORSA governance framework requirements on April 17, 2023.



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## AM Best Client and Industry-Facing Thought Leadership (Continued)

- AM Best Director gave a presentation titled “Flood Mapping Failures and Risk Rating 2.0 – Hinges on Access to the Industry and Community” at RIMS RiskWorld on May 1, 2023.
  - AM Best Director discussed significant international developments in product innovation and the delivery channel for embedded insurance coverages in a presentation titled “Embedded Insurance 2.0: Has the Time Come?” at RIMS RiskWorld on May 2, 2023.
  - AM Best Senior Directors presented “ESG Developments and Their Impact on Insurer Ratings” to the American Property Casualty Insurance Association (APCIA) on May 19, 2023. Topics included the impact of ESG on credit quality, the assessment of ESG in the ratings process, and ESG regulatory requirements.
  - AM Best Managing Director gave several presentations on the importance of governance for the Asia Pacific market, including “Understanding the Regulatory Requirements and Expectations,” “ORSA Implementation Issues,” and “Project Preparation and Planning.”
  - AM Best EVP and Chief Strategy Officer participated in a panel titled “Achieving the SDGs, What Is the Role of Insurance?” at the UNEP FI Regional Roundtable for Europe in Spain on September 13, 2023.
  - AM Best Senior Financial Analyst presented at the IASA Metro NY/NJ Chapter Fall Meeting on September 15, 2023. The presentation covered industry hot topics, including the importance of ESG concepts.
  - AM Best Senior Director spoke on a panel titled “ESG in Insurance” at the EY Insurance Executive Forum on September 27, 2023.
  - AM Best Associate Director spoke on a panel titled “Insurance & Sustainability: From Climate to Net-zero” at the Bahrain Institute of Banking and Finance (BIBF) Sustainability in Insurance Forum on December 10, 2023.
4. AM Best TV hosts and produces informational webinars on prominent industry topics, connecting viewers with influential industry leaders as they share their expertise on the latest market developments.
- AM Best spoke with the new leader of Delaware’s Captive Bureau as he discussed plans to create a more streamlined, modernized process while exploring opportunities in ESG, in April 2023.
  - AM Best attended and covered the Global Reinsurance Market Briefing at Rendez-Vous de Septembre in Monte Carlo in September 2023. Discussions included pressing issues facing the global reinsurance industry, including climate change, weather challenges and the increasing emphasis on ESG topics.
5. AM Best’s monthly insurance magazine, *Best’s Review*, provides in-depth coverage of a wide range of topics written by our journalists and backed by AM Best’s extensive database and industry experience. Recent ESG coverage includes:
- “Maple Syrup Producers Concerned About Impacts of Climate Change,” January 2023. *Best’s Underwriting Reports* and *Best’s Loss Control Reports* provide insight into the lines of coverages, exposures and loss control for maple syrup producers.



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## AM Best Client and Industry-Facing Thought Leadership (Continued)

- “As Catastrophic Weather Proliferates, Art Insurers Paint a Picture of Uncertainty for Capacity and Rates,” February 2023. While a hard market in the art insurance industry isn’t what it is in other segments, experts expect the increase in frequency and severity of storms to drive up rates.
  - “Kuczinski: Insurers Can’t Handle Climate Change, Catastrophic Risk by Themselves,” March 2023. Retired Munich Re executive Tony Kuczinski spoke to *Best’s Review* about how insurance companies have to do a better job of speaking as an industry to deal with rapidly evolving risks.
  - Climate Risk & Review: The April 2023 edition of *Best’s Review* focused on emerging risks in insurance and how the industry is meeting the challenges of climate risk regulation. Insurers also view climate-related coverage as a big business opportunity.
  - ESG & Recruitment, May 2023: Industry experts say insurers need to broaden their talent base if hiring continues to be a challenge.
  - Critical Issues in Insurance Asset Management, June 2023: *Best’s Review* contributor Alex Wells discusses “The Heads and Tails of Climate Change.”
  - “Parametric Insurance Helps Restore Dwindling Coral Reefs,” October 2023. The first-of-its-kind policy in the US finances work by The Nature Conservancy to repair ecosystems critical to the health of water and the land.
6. Examples of Media Requests and Interviews:
- AM Best EVP and Chief Strategy Officer was interviewed by Insurance Day on April 27, 2023, and discussed how climate risks impacts the financial strength and creditworthiness of a re/insurer. She also articulated how these risk factors affect ESG.
  - AM Best Senior Director was interviewed by *BestWire* on January 27, 2023, and discussed reform efforts in Florida and Louisiana ahead of a special session in the latter state: “Louisiana, Florida Special Sessions Aimed at Similar but Different Issues.”
  - AM Best Associate Director was quoted in an August 31, 2023, NBC News story discussing the impact of Hurricane Idalia on Florida’s insurance market.
  - AM Best Senior Director participated in a Canadian Underwriter podcast on September 20, 2023, and discussed the financial pressures of catastrophe-related losses on Canada’s insurers.
  - AM Best Senior Director and Chief Rating Officer was quoted in an NBC News article discussing the impact of climate on property insurers.
  - AM Best Managing Director was quoted in a feature article in the September 29, 2023, edition of *The Wall Street Journal* on the growth in the catastrophe bond sector.



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## AM Best General Public-Facing Community Outreach

1. AM Best fosters meaningful connections with local communities through a variety of community engagement efforts.
  - Charitable Work Day Program: AM Best supports volunteer activities to enhance and serve the communities our employees live and work in and are passionate about. The program's purpose is to support communities impacted by disasters and address issues that affect their quality of life. Examples include packing bags of food at the Flemington Food Pantry, harvesting vegetables for the Community Food Bank of NJ, and working on construction projects for the New Salem Baptist Church.
  - Adopt-a-Family: AM Best sponsors local families; employees donate Christmas meals and gifts, along with essential items like clothes, household items, and cleaning supplies to underserved families in the local community.
2. AM Best's 2023 Student Challenge was an insurance solutions-based competition sponsored by the AM Best Foundation to empower undergraduate and graduate students by taking them beyond the classroom, to promote thought leadership in the field of insurance and risk management and provide exposure to insurance professionals. Student submissions from 2023 included solutions for managing insurance risks, such as new products, distribution methods, creative ways to increase insurance penetration, incentive programs, digitization models, implementation of private/public partnerships, alternative risk transfer. The Student Challenge and the AM Best Foundation are part of AM Best's ongoing efforts to support the development of new talent in the insurance industry.

### Principle 3

**We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.**

## AM Best Governments and Regulators

1. AM Best conducted a Mock Rating Committee meeting for the Ohio Department of Insurance, which illustrated how AM Best looks at items such as innovation, ESG, and Enterprise Risk Management, BCAR, and operating performance in combination. The meeting took place on February 2, 2023.
2. AM Best Rating Services Senior Director participated in a panel for the National Council of Insurance Legislators (NCOIL) Special Environmental, Social, and Governance (ESG) Series on July 20, 2023.



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## AM Best Key Industry Stakeholders Collaboration and Leadership

1. AM Best Rating Services President and CEO serves as Chair of the Leadership Council of The Institutes Griffith Insurance Education Foundation, a leading resource for objective insurance information that offers non-advocative programs and resources for public policymakers.
2. AM Best Rating Services EVP and Chief Strategy Officer serves as vice chair on the Board of Directors of the Microinsurance Network (MiN), a non-profit association of organizations and individuals committed to building a world in which people of all income levels are more resilient and less vulnerable to daily and catastrophic risks, through improved access to effective risk management tools, including insurance services. It was established in 2002 by donors, multilateral agencies, non-governmental organizations, private insurance companies and other interested parties. MiN is the only global multi-stakeholder platform that promotes the development and delivery of effective risk management tools, including insurance services, for underserved people.
3. AM Best Rating Services EVP and Chief Strategy Officer serves on the Insurance Development Forum's Inclusive Insurance Working Group. Its mission is to optimize and extend the use of insurance and related risk management capabilities to strengthen resilience and protection for people, communities, businesses, and public institutions vulnerable to disasters and their associated economic shocks.
4. To support the effective implementation of the Principles and the PSI's purpose and vision, AM Best Rating Services EVP and Chief Strategy Officer serves on the PSI Board.

## Principle 4

**We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.**

## AM Best ESG Working Group

AM Best's ESG Working Group is dedicated to developing the company's annual PSI disclosure. It reported on AM Best's progress embedding the principles into its operations and activities in February 2024.

