

AM Best and the Principles for Sustainable Insurance (PSI)

Principles for Sustainable Insurance (PSI) AM Best Annual Disclosure 2022

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

Best's Credit Rating Process

1. Analytical Staff Training
 - AM Best analytical staff was provided training on AM Best's ESG disclosure, ESG inclusion in credit reports, and regulatory updates. Three separate training sessions took place in July and August 2022.
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 relating 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
 - Environmental: Implemented eco-friendly processes to reduce waste and increase the use of renewable and sustainable materials, including compostable utensils and recycled plastic building materials. Sustainability initiatives include reduced paper use; using eco-friendly, non-allergenic cleaning products/agents; increased recycling; and installing energy efficient LED lighting. AM Best also encourages all employees to use direct deposits for expense reimbursements to help the company reduce its carbon footprint.
 - Social: AM Best has implemented policies pertaining to labor and workplace rights, equality and diversity, flexible working (remote/hybrid), community volunteering, and modern slavery/human trafficking.
 - Governance: AM Best has implemented policies pertaining to business ethics, anti-bribery and anti-corruption, sanctions, fraud, data privacy, whistleblowing, and other related matters.



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AM Best Human Resource Developments (Continued)

2. Staff Development and Training: A full suite of training is available to all new employees on the subject of 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 2022.
 - Preventing Discrimination and Harassment (Managers). April 2022.
 - Risk Management: This training discusses the important elements of the AM Best Risk Framework and your responsibilities for effective management of potential threats facing our organization. April 2022.
 - Security Awareness Training: This training educates AM Best employees on techniques cybercriminals use and ways to respond to those attempts while keeping the company secure. Upon completion, employees gain a firm understanding of how to identify and protect against an attack that would put the organization, themselves, and our customers at risk. July 2022.
 - 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.
3. AM Best's Flexible Work Arrangements
 - AM Best's flexible work policy (implemented in September 2022) provides employees with the flexibility to choose when and where they work. This arrangement enables individuals to balance their work with caregiver responsibilities and to manage life events and health conditions. The policy helps create an inclusive, healthy work culture as well as broadening the talent pool available to AM Best. The arrangement has reduced AM Best's operating costs, helping ensure the organization's long-term sustainability. Moreover, by cutting the number of commuter journeys to the company's offices, the policy has reduced our carbon footprint on the environment.
 - Employees are incentivized to find fuel efficient methods to travel to the office, such as the London Cycle to Work program, rail season ticket loans, and commuter fund benefits.

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 provides valuable insight into current and historical trends affecting the insurance industry. The following are representative of ESG-related reports we have published:
 - Commentary: [ESG and Insurance Credit Ratings: Frequently Asked Questions](#) – AM Best's guide to frequently asked questions about ESG and related definitions. January 1, 2022.
 - Commentary: [Embedded Insurance Gradually Gaining Traction](#) – Well-designed embedded insurance programs benefit the insurer, the distributor, and policyholders. June 6, 2022.



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

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 Germany Insurance Market Briefing – Cologne
 - AM Best's Germany Insurance Market Briefing – Munich
 - AM Best's Middle East and North Africa Insurance Market Briefing – Dubai
 - AM Best's Canada Insurance Market Briefing – Toronto
 - AM Best's Europe Insurance Market Briefing & Methodology Briefing – London
 - AM Best's Insurance Market Briefing – Singapore International Reinsurance Conference (SIRC)
3. AM Best Speaking Engagements
 - AM Best Director of Criteria led a discussion on “ESG Developments and Their Impact on Insurance Ratings” for the PA Dutch Chapter of the Chartered Property Casualty Underwriting (CPCU) Meeting on January 13, 2022. The session covered AM Best views on ESG in the ratings process.
 - AM Best Rating Services' EVP and Chief Strategy Officer led a roundtable discussion called “ESG Impact on the Industry” at AM Best's 29th Review & Preview Conference on March 14, 2022. AM Best discussed how ESG trends, which started largely in Europe and now are sweeping the United States, have affected the insurance industry, including AM Best's own activities. A roundtable discussion was held on the topic following the opening commentary, where industry participants shared their observations of the trend, and commented on the pressures and opportunities and how we as an industry should move forward in this evolving environment.
 - Senior AM Best Directors gave a presentation titled “ESG and Financial Strength” at AM Best's 29th Review & Preview Conference on March 16, 2022. The presentation covered the impact of ESG, the relevance of ESG to financial strength, and the incorporation of ESG factors in the Best's Credit Rating Methodology.
 - Senior AM Best Ratings analysts provided a presentation entitled “ESG Impact on the Industry” for the APCIA ERM Committee Meeting on March 29, 2022. They discussed ESG factors in the ratings process and ESG impact on credit quality.
 - Senior AM Best Ratings analysts gave a presentation to the Medical Professional Liability Association (MPLA) Rating Agency Relations Committee (RARC) on April 19, 2022. The presentation covered ESG commentary in credit reports and the main ESG risks forMPL carriers.
 - AM Best Director of Credit Rating Criteria spoke on a virtual ESG panel hosted by Baker Tilly on May 5, 2022. The panel focused on the growing importance of ESG in the insurance industry.



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

3. AM Best Speaking Engagements (Continued)

- Senior AM Best Ratings analysts led a webinar titled “Embedded Insurance” for the Ohio Department of Insurance on May 10, 2022. Embedded insurance can foster financial inclusion and insurance culture in uneducated or low-income segments of the population.
- AM Best sponsored the El Salvador Microinsurance Network Workshop on May 12, 2022. Associate Director of Analytics gave a presentation titled “AM Best: Comprometidos con un Futuro Sustentable,” covering the relevance of ESG factors in the microinsurance market.
- AM Best Chief Rating Officer spoke on a panel titled “Climate Preparedness: Regulators and Rating Agencies” at the RAA Cat Risk Management Conference on May 24, 2022.
- AM Best sponsored the Peru Microinsurance Network Workshop on June 22, 2022. AM Best Associate Director of Analytics presented on the growing importance of ESG in the insurance industry.
- AM Best Senior Analyst provided training for members of the Casualty Actuarial Society (CAS) on June 23, 2022 on ESG in the ratings process.
- A Senior AM Best Analyst was a panelist on “Midi de la Microassurance - Sustainable insurance” for the Microinsurance Network on July 6, 2022.
- AM Best Analyst presented “Agricultural Risk Management in the Present and the Future: Industry Perspectives” to the Agriculture & Applied Economics Association (AAEA) on July 31, 2022. This session focused on some of the key climate challenges facing agricultural risk management, the actionable lessons learned from the past and potential vision for the future, from the industry perspective.
- AM Best Senior Directors led a session called “Captive Solutions for ESG Headwinds” at the Vermont Captive Insurance Association (VCIA) Annual Conference on August 9, 2022.
- AM Best sponsored the India Microinsurance Network Workshop on September 21, 2022. AM Best Managing Director spoke on the importance of incorporating ESG principles for insurers in a session titled “Democratising Insurance: Driving Inclusion Through Innovation.”
- AM Best sponsored the Philippines Microinsurance Network Workshop on September 25, 2022. AM Best Managing Director spoke on the importance of incorporating ESG principles for insurers in a session titled “The Upside For People, Planet And Business.”
- AM Best sponsored the Bermuda Captive Conference on September 14, 2022. AM Best Director of Credit Rating Criteria presented a session titled “Using Captives for ESG Initiatives.”
- AM Best Analyst presented “ESG and AM Best Perspectives: What Internal Auditors Should Know and Do Now, Next and Later” to the Insurance Internal Audit Group (IIAG) Fall Conference on October 5, 2022.
- AM Best sponsored the Cumbre Seguros Masivos América Latina on October 25, 2022. AM Best Senior Director gave a presentation titled “AM Best’s Vision of Embedded Insurance.” The session covered the definition of embedded insurance, examples of embedded insurance, and the relationship with the insurance protection gap.



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

3. AM Best Speaking Engagements (Continued)

- AM Best Senior Analyst presented a Mock Rating Committee at the Casualty Actuarial Society (CAS) Annual Meeting on November 9, 2022. This session provided a look at the AM Best rating committee process. A hypothetical insurance company was used to illustrate the typical rating committee meeting process. Included were illustrations and examples of how AM Best looks at innovation and ESG, as well as Enterprise Risk Management, Best's Capital Adequacy Ratio, and operating performance in combination.

4. AM Best's Informational Webinars

- AM Best TV hosts and produces content-rich webinars on prominent industry topics, which connect viewers with industry leaders as they share their expertise on the latest market developments in an interactive panel forum. "Asset Management and ESG Imperative" was a four-part series that discussed different aspects of ESG. April 2022.
 - Asset Management Professionals Examine Growing Role of ESG in Insurance Portfolios
 - For ESG Investors, It's Getting Easier to Be Green
 - Focus on ESG Expands Beyond Environmental, Energy
 - ESG Under Insurance Regulatory Spotlight
- AM Best: Embedded Insurance Gaining Traction, June 8, 2022.
 - Latin America and Asia Pacific markets, and Europe to a certain degree, are seeing growth in embedded insurance programs, according to AM Best Associate Director, referencing a Best's Commentary.

5. AM Best's monthly insurance magazine, *Best's Review*, provides in-depth coverage of a wide range of topics written by our team of talented journalists and backed by AM Best's extensive database and industry experience. Recent ESG coverage includes:

- *ESG Under Insurance Regulatory Spotlight*: U.S. and U.K. environmental, social and governance oversight raises litigation challenges for insurers. May 2022.
- *Spotlight on ESG Widens to Social Concerns*: The May issue included a special presentation on ESG that aired on AM Best TV in April. Other coverage includes a look at insurtech innovation, the impact of rising interest rates on life insurers and a ranking of P&I clubs. May 2022.
- *For ESG Investors, It's Getting Easier to Be Green*: The environmental, social and governance movement raises many challenges for insurers, including: Do green investments come at the expense of return and a whole raft of future uncertainties? May 2022.
- *Focus on ESG Expands Beyond Environmental, Energy*: Diversity, equity and inclusion along with sustainable investing are top of mind in the insurance industry. May 2022.
- *Asset Management Professionals Examine Growing Role of ESG in Insurance Portfolios*: Asset managers explore the strategies and considerations insurers are employing to adapt their portfolios. June 2022.



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

5. *Best's Review* (Continued)

- AM Best: Climate, Reinsurance and Cyber Remain High in the Caribbean Risk Landscape: The Caribbean insurers rated by AM Best posted favorable earnings in 2021. See the Best's Rankings of the Largest Caribbean Insurers — 2022 Edition. October 2022.

6. Media Requests and Interviews

- Senior AM Best Directors were interviewed by Carrier Management magazine on the SEC proposal for publicly traded companies and disclosure requirements. They specifically wanted to understand how AMB viewed the SEC climate-related disclosure proposal, specifically the Scope 3 emissions across the value chain and its impacts on publicly traded insurers, assuming it is implemented in its current state.
- AM Best Senior Director of Criteria were interviewed by Oxbow, an insurance management consulting company, and participated in a survey with a consultant working with the Society of Actuaries on an ESG research project focusing on Climate Change and Investments.
- AM Best Senior Directors were interviewed for an Asia Pacific-focused ESG piece published in Insurance Pulse.
- AM Best Senior Directors were interviewed by Bloomberg on the Treasury's call for climate-related data from homeowner insurers.
- AM Best Senior Directors wrote an article titled "ESG and Captives: How They Relate" for the January 17, 2022 edition of Captive Insurance Times.
- AM Best Director participated on an ESG panel for the Intelligent Insurer which resulted in an article titled "ESG: Why Size Matters" on April 1, 2022.
- AM Best Senior Director discussed environmental losses from the annual A&E report in an April 1, 2022 article ("Coal Industry on Notice for Cleanup") for Business Insurance.
- AM Best Senior Director of Criteria discussed the impact of climate disclosure regulations on publicly traded insurers with Carrier Management in an article titled "Insurers Brace for SEC Climate Risk Disclosure Rules" on June 28, 2022.



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AM Best General Public-Facing Community Outreach

1. 2022 Community Engagement
 - Charitable Work Day Program: AM Best supports volunteer activities to enhance and serve the communities that our employees live and work in and are passionate about. Its purpose is to support communities that are impacted by disasters and address issues that impact quality of life.
 - Examples include harvesting produce for America's Grow-a-Row, stocking shelves and sorting donations at local food pantries, and staff volunteer firefighters giving fire safety demonstrations at local elementary schools, among many others.
 - Adopt-a-Family: AM Best sponsors local families through employee donations to provide Christmas meals and gifts, along with essential items like clothes, household items and cleaning supplies to underserved families in the local community.
 - AM Best donated gently used office furniture to local charities.
2. The AM Best Foundation: A non-profit organization established to support charitable organizations that encourage education and thought leadership in insurance and risk management, as part of AM Best's ongoing efforts to support the development of new talent in the insurance industry.
3. AM Best's Student Challenge is an insurance solution-based competition, sponsored by the AM Best Foundation, which empowers undergraduate and graduate students by taking them beyond the classroom—promoting thought leadership in the field of insurance and risk management, and providing exposure to insurance professionals. Student submissions include 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 responded to inquiries from the European Commission Directorate General for Financial Stability, Financial Services and Capital Markets Union on June 6, 2022.
2. AM Best Analytical staff participated in two meetings with Federal Insurance Office (FIO) staff, discussing the impact of climate risk on wildfire, flood and catastrophe modeling, as well as the availability and affordability of related insurance products and reinsurance in the US property insurance market.



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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 who are committed to building a world where 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 Inclusive Insurance Working Group at the Insurance Development Forum (IDF). Its mission is to optimize and extend the use of insurance and its related risk management capabilities to build greater resilience and protection for people, communities, businesses, and public institutions that are vulnerable to disasters and their associated economic shocks.
4. In an effort to support the effective implementation of the Principles and the PSI's purpose and vision, AM Best Rating Services EVP and Chief Strategy Officer self-nominated for an open seat on the PSI Board and was, ultimately, elected by the PSI Signatories to serve a three-year term on the 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 2023.

