

Sustainability and Practices of Insurance Companies: Literature Review

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Abstract: The objective of this paper is to review the literature on the relationship between insurance companies practices and sustainable development, focusing on the Environmental, Social, and Governance (ESG) approach discussed in both developed and developing countries. Insurance companies encounter numerous opportunities and threats related to sustainability, with climate change and environmental pollution standing out as the most significant challenges impacting the insurance industry, particularly the life insurance sector. The paper concludes that insurance companies are prepared to offer sustainable insurance products in the future by committing to environmental and social standards. However, challenges exist regarding adherence to governance principles, particularly due to the predominance of small and medium-sized insurance companies. The current study also underscores the intimate connection between the insurance industry and sustainability factors. They mutually influence each other in an integrative relationship, necessitating the integration of ESG factors into the business strategies of insurance companies.

Keywords: Sustainability, Insurance Companies, Environmental, Social, Governance.

1. Introduction

The increasing societal awareness and demand for corporate responsibility drive companies to adopt several initiatives, aligning with sustainable development goals to mitigate environmental and social risks while enhancing long-term financial performance (Al Koliby et al., 2024; Al-Swidi et al., 2023a,b). Indeed, market forces, regulatory frameworks, and stakeholder expectations converge to exert pressures on organizations to integrate Environmental, Social, and Governance (ESG) considerations, fostering a holistic approach to business sustainability. ESG stands for Environmental, Social, and Governance Practices, which have become increasingly significant for investors, scholars, and businesspeople. This concept encompasses a set of standards for assessing the sustainability and ethical impact of investments. ESG represents considerations that investors and

stakeholders must weigh when deciding on investments (Manninen & Huiskonen, 2022). The notion of responsible investment, synonymous with green investment, socially responsible investment, or values-based investment, is closely tied to the three ESG criteria. Many financial institutions, including insurance companies, mutual funds, and pension funds, adopt a long-term investment strategy aligned with their extended responsibilities to achieve sustainable development and explore new growth opportunities. Consequently, businesses are keen to incorporate ESG principles into their strategies (Li et al., 2022).

Classifying ESG standards accurately is challenging, leading the Institute of Chartered Financial Analysts (CFA) to categorize them into three groups. First are environmental factors, encompassing climate change, hazardous waste, nuclear energy, carbon emissions, air and water pollution, biodiversity, deforestation, water scarcity, and animal welfare. Second are social concerns, including diversity, human rights such as child labor, consumer protection, data protection and privacy, and notorious stocks (alcohol, tobacco, gambling, weapons). Third is Governance, encompassing the rights and responsibilities of the board of directors and stakeholders, including management structure, employee relations, executive compensation, corruption and bribes, political contributions, and the structure of the audit committee (Al-Kubaisi & Nobanee, 2022).

This paper aims to discuss literature regarding the integration of environmental, social, and governance concepts into the practices of the insurance sector. It also seeks to identify trends among insurance companies towards offering sustainable insurance products aligned with environmental, social, and governance principles. The insurance sector, being subject to strict regulation and possessing long-term resources suitable for profitable investments, plays a crucial role in sustainable practices. This study contributes to the literature by highlighting the intrinsic relationship between the insurance industry and sustainability factors. Insurance companies engage in analysing and managing environmental and social risks to navigate the diverse challenges they face. This involves encouraging innovation and the development of new insurance products, often referred to as sustainable insurance.

2. Literature review

This paper discusses various literatures on the relationship between insurance company practices and sustainable development, according to the ESG approach that is frequently discussed in both developed and developing countries.

Al-Kubaisi and Nobanee (2022) proposed that the concept of sustainability presents a variety of opportunities and risks for the insurance industry. The purpose of this study is to examine how sustainability affects insurance company performance. As investors, especially in the life insurance industry, we strive to take on long-term risks that are proportionate to our long-term resources. ESG policies can help insurance firms attain stability, minimize ESG risks, and increase their long-term profitability. The findings indicated that while governance has no bearing on the performance of

insurance companies, there is a favorable association between insurance risks and sustainability practices because of the environmental and social aspects. To ensure chances to generate more sustainable investment returns, the study advises expanding environmental knowledge among insurance businesses and incorporating environmental and social aspects into customer service.

Abdulwahab et al. (2022) conducted a study examining the factors that affect business sustainability in the insurance sector using a questionnaire that included 116 individuals working in the Malaysian insurance sector. The results concluded that process and product innovation have a significant impact on business sustainability. Strategic orientation also helps improve the relationship between business sustainability and product innovations.

Surminski et al. (2022) conducted a study using a survey of 70 experts aimed at understanding the role of sustainable insurance in managing climate risks in Africa. The study confirmed that there is a dynamic interaction between insurance companies and governments. The role of insurance companies in motivating governments towards proactive management of climate risks is highlighted by providing information on climate risks associated with insurance.

Pfeifer and Langen (2021) emphasized that insurance premiums must be invested in secure locations due to how crucial insurance is in protecting people and businesses from significant losses. Many new, rising hazards, such as climate change, which has a substantial impact on the life insurance industry, are being faced by small and medium-sized insurance companies. In particular, it highlights how these strategies are supported by strong legal orientations in Europe. This study discusses appropriate strategies to deal with emerging risks related to sustainability other than climate change, such as poverty, repression, migration, and the sustainable development goals set by the United Nations, which must be attained by European insurance companies. Through the direct sponsorship of environmentally and climatically friendly projects, insurance companies can concentrate on secure investments (green assets). These initiatives provide cutting-edge solutions known as "green insurance," which helps to safeguard the environment and achieve sustainability. These tactics include substituting worn-out home appliances with energy-saving models, limiting the use of chemical fertilizers in agriculture, using car liability insurance products with premiums based on individual driving habits, investing in alternative energy sources, and encouraging employees to participate in healthy sports activities. The survey found that small and medium-sized businesses are eager to adhere to all ESG legal requirements and help promote ESG principles, despite the legislation requiring insurance companies with more than 500 employees to comply with and report ESG principles. As a result, future small and medium-sized insurance companies will be able to achieve the UN's sustainable development goals.

Mittal et al. (2021) conducted a study to understand the effects of ESG factors, particularly climate risks, on the insurance industry and how insurance companies handle climatic changes. Climate change is considered the world's most complicated problem, prompting insurance companies to provide environmentally friendly services through green products, socially conscious investing, and

integrating ESG priorities into their daily operations. Managing climate change risks has become a crucial focus for insurance businesses, reflecting long-term effects on both assets and liabilities in the balance sheet. Insurance firms have contributed to climate resilience and risk mitigation by securing the effects of weather accidents on life and leveraging data analysis and technology to analyze conditions. According to a report, in 2018, 83% of insurance businesses assessed ESG in their operations, up from 32% in 2017. The study highlighted the major impact of the COVID-19 issue on mortality trends, health insurance claims, and property damage claims resulting from floods, fires, and pollution. Despite the significant impact of climate risks on the insurance business, the study found that addressing these risks can eventually be cost-effective. The report makes recommendations, emphasizing the need to increase public knowledge of ESG risks and urging insurance firms to prioritize the effects of natural catastrophes.

Khovrak (2020) conducted a comparative examination of data from 156 insurance businesses in 26 countries between 2019 and 2020. The study aimed to determine the ability of insurance companies to achieve sustainable development and comply with ESG risks. It also assessed the performance of 16 insurance companies using the ESG methodology, revealing a significant correlation between insurance company performance and the risks of sustainable development related to ESG. Insurance businesses were categorized into three risk levels: 24 firms with low ESG risk, 111 companies with medium risk, and 21 companies with high risk. The study identified three components of the right ESG approach to business management for insurance businesses: the environment, social, and governance components.

Maftuchah et al. (2020) highlighted the growing importance of ESG practices in fostering a more stable environment for businesses and industries in both developed and developing nations. Using information from 44 Indonesian insurance businesses, the study assessed how well insurance companies used the ESG strategy to foster a stable environment for achieving sustainability. The findings indicated that an insurance company's performance and willingness to offer sustainable insurance products in the future are positively impacted by its knowledge of ESG principles, the degree to which insurance products are currently developed, and its understanding of sustainable financing principles. The majority of Indonesian insurance firms, according to the report, are prepared to adopt sustainable insurance through the development of organizational structures, identification of suitable working practices, and staff capacity-building initiatives. The survey highlighted emissions-related harm insurance and insurance against environmentally friendly damages as the most ecologically friendly insurance products that insurance firms attempt to offer.

Pagano et al. (2018) aimed to review literature dealing with methods provided by insurance companies to develop acceptable forecast models for managing climate risks and natural disasters. The study concluded that there is a significant link between insurance companies and the necessary response to natural hazards through the development of tools in the field of insurance and reinsurance to manage environmental risks.

Kalkavan (2015) sought to identify sustainable leadership practices in the Turkish insurance sector using a questionnaire that included 70 managers in the insurance sector. The study revealed that sustainable leadership skills among managers in the Turkish insurance sector are below average and need improvement.

3. Methodology

The study aimed to identify the relationship between insurance companies' practices and sustainability. For this purpose, the study used the conceptual theoretical approach through a broad reading of the existing literature and understanding, analyzing and discussing the different points of view that contribute to understanding the relationship between insurance companies' practices and sustainability. Then, a comprehensive critical review is conducted to reach a general view of the reality of sustainable insurance companies' practices.

4. Discussion

4.1 ESG Factors

Organizations face numerous opportunities and threats related to the concept of sustainability, such as climate change and environmental pollution, which are issues that significantly impact business results. Consequently, organizations have heightened their interest in achieving sustainability by deepening their understanding of ESG principles and contributing to spreading awareness about the importance of ESG risks.

The concept of ESG is linked to the ability to achieve sustainable development and engage in socially responsible investments within the business environment. ESG, an acronym for Environmental, Social, and Governance Practices, has garnered interest among businessmen, investors, and researchers. ESG represents sustainability factors that investors and stakeholders must consider when evaluating investment options (Maftuchah et al., 2020), as shown in Table 1. The three ESG criteria are closely associated with the concept of responsible investment, now known as green investment, socially responsible investment, or values-based investment. Consequently, organizations are eager to integrate ESG practices into their strategy to achieve sustainability and foster new growth opportunities (Mittal et al., 2021).

Classifying ESG criteria accurately is challenging, prompting the CFA Institute to define them in three groups: environmental factors, encompassing climate change, hazardous waste, nuclear energy, carbon emissions, air and water pollution, biodiversity, deforestation, water scarcity, and animal welfare. Social concerns include diversity, human rights such as child labor, consumer protection, data protection, privacy, and involvement in notorious stocks (alcohol, tobacco, gambling, and weapons). Governance encompasses the rights and responsibilities of the board of directors and stakeholders, including management structure, employee relations, executive compensation,

corruption and bribery, political contributions, and the structure of the audit committee (Pfeifer and Langen, 2021).

Table 1. ESG Factors

Environmental	Social	Governance
Climate Change, Hazardous Waste, Nuclear Energy, Carbon Emissions, Air and Water Pollution, Biodiversity, Deforestation, Water Scarcity, Animal Welfare	Diversity, Human Rights Such as Child Labor, Consumer Protection, Data Protection and Privacy, Notorious Stocks (Alcohol, Tobacco, Gambling, and Weapons)	Management Structure, Employee Relations, Executive Compensation, Corruption and Bribery, Political Contributions, Structure Of The Audit Committee.

Source: Illustration of the researchers.

4.2 Insurance Practices and ESG Factors

Previous studies describe the integrative relationship between the insurance sector and sustainable development according to the ESG approach, showcasing their mutual influence. Due to the specific considerations received by the insurance sector as one of the highly regulated financial sectors, previous articles converge at the point where they emphasize the importance of the insurance sector's positive contribution to reaching ESG sustainability aspects. Looking at insurance businesses as a sector capable of absorbing business risks and their capacity to absorb long-term investments commensurate with the nature of their financial resources are two of these concerns.

On the other hand, the insurance industry is significantly impacted by ESG sustainability issues because of its connection to novel and developing risks like climate change, environmental degradation, and expanding societal concerns. Ignoring these issues could result in significant long-term losses for insurance firms, making it important to combat and restrict these risks. Some key ideas from the earlier literature are reiterated here, including how insurance businesses can use ESG variables to boost long-term profitability and improve performance. Additionally, the majority of current insurance companies have a good understanding of ESG factors and are ready to offer sustainable insurance in the future. One effective way to achieve green agricultural development is to implement a sustainable development strategy and improve the productivity of green agricultural factors (Fang et al., 2021).

Given the international interest in the concept of sustainability and the responsible use of available resources, many insurance companies have begun to partner with governments to establish practices to achieve societal well-being. Insurance practices constitute an essential part of insurance companies' strategies aiming to balance economic development, environmental and community preservation, and enhance community confidence by focusing on environmental and societal aspects (Salem and Al-Khattat, 2018). Insurance companies are currently considered among the largest actors

in achieving sustainability. Their role is no longer limited to providing insurance services and maximizing profits for owners, but extends to providing socially responsible projects by developing awareness and education programs on sustainability and insurance issues. Through these practices, insurance companies attempt to confront the challenges associated with the concept of sustainability and satisfy all stakeholders. Taking responsibility for sustainability contributes to improving the company's reputation and enhancing its competitive position in the market. It also leads to deepening customer loyalty to the company and achieving efficiency in the use of resources (Makki and Boutiba, 2014). Table 2 shows insurance practices related to environmental, social, and governance issues in insurance companies. Sustainability requirements include answering many questions related to environmental, social, and governance aspects and then making sustainable decisions in the company. Among these questions are the following (Rahman et al., 2020).

1. How will climate change be responded to, and how will waste, water and energy use be managed?
2. How will poverty be dealt with in society?
3. How are the wages of the company's employees determined?
4. Does the board support a sustainable culture in the company?
5. Are violations and impacts reported?

Table 2. Insurance practices and ESG factors

Environmental Practices	Social Practices	Governance Practices
Responding to Climate Change, Spreading Environmental Culture, Eliminating Emissions and Waste, Follow a Green Economy Policy, Rationalizing Water and Energy Consumption, and Supporting Environmental Research.	Achieving The Welfare of The Community, Taking Care of Workers' Affairs (Developing Their Abilities and Skills), Providing Health Care, Occupational and Job Security, Charitable Initiatives, Supporting People of Determination in Society, and Empowering Women.	Accountability of The Administration, Prevention of Bribery and Corruption, Protection of The Rights of Stakeholders, Reporting of Violations, Disclosure and Transparency, Preparation of The Control Structure, Compliance with Regulatory Regulations.

Source: Illustration of the researchers.

Insurance companies contribute to addressing environmental and social risks through various practices. These include offering insurance products that cover environmental risks such as climate change and natural disasters, managing investment portfolios considering environmental, social, and governance factors, analyzing and evaluating emissions resulting from companies' activities, promoting the use of energy sources and renewable energy, enhancing the civil responsibility of insurance companies, and fostering transparency and accountability (Pfeifer and Langen, 2021).

There are several tools used to manage sustainable decisions and address ESG issues, including a decision-making model, stakeholder analysis, and impact assessment. Achieving sustainability requires implementing specific practices within the company, with an emphasis on understanding the impact of decisions on all stakeholders. To achieve this, a sustainable decision must go through the following stages: recognizing the need to make the decision, collecting relevant information, identifying available alternatives, choosing between alternatives, making the decision, and reviewing the decision and its effects (Manninen and Huiskonen, 2022).

4.3 Requirements for Achieving the Effective Contribution of Insurance Practices to Environmental, Social, and Governance Issues

Insurance companies must integrate sustainable practices into their strategies aimed at achieving long-term sustainability. This is accomplished through a set of activities such as:

1. Providing high levels of trust, cooperation, and information exchange between concerned parties.
2. Achieving convergence and transparency in administrative practices.
3. Activating the principle of leadership accountability regarding the administrative methods used.
4. Developing the capabilities of managers and employees regarding corporate social responsibility.
5. Reducing conflicts of interest within the company.
6. Building a logical basis for decision-making that helps anticipate the expected effects of decisions on all stakeholders.
7. Integrating sustainability factors into the company's policy and organizational culture.
8. Exchanging experiences and sharing good sustainable practices between companies.
9. Consolidating social responsibility and sustainable development initiatives.

5. Conclusion

In accordance with the ESG approach, most frequently discussed in both developed and developing nations, this study analyzed numerous pieces of literature on the relationship between insurance companies' practices and sustainable development. The ability to accomplish sustainable development and make socially conscious investments in the global business environment is tied to the idea of ESG. The concept of sustainability presents insurance firms with both opportunities and risks, including climate change and environmental degradation, which is the issue that the insurance industry, particularly the life insurance sector, is most affected by. Therefore, the interest of insurance companies in achieving sustainability increased by enhancing their understanding of ESG principles and their contribution to spreading awareness of the importance of ESG risks.

The mission to implement and disseminate ESG principles has become one of the current initiatives of insurance companies to provide sustainable insurance products. Studies show that insurance companies are prepared to offer sustainable insurance products in the future due to their adherence to social and environmental standards. However, there are some challenges concerning upholding the principles of governance because the majority of insurance companies are small and medium-sized businesses, and their organizational structures do not always permit the seamless incorporation of governance principles into their work strategy.

Finally, as one aspect impacts the other in an integrative way that necessitates integrating ESG issues into the insurance companies' business strategy, this paper highlighted the close relationship between the insurance industry and sustainability factors.

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