

IPMC ESG REPORT LAUNCH

For Nigerian Insurance Companies



JUNE 2024

INDEPENDENT PROJECT MONITORING COMPANY LIMITED

Environmental, Social, And Governance Evaluation

Overview of IPMC ESG Ratings

Globally, there is a growing demand for corporate organizations across sectors to integrate sustainability practices into their corporate strategies. Environmental, social, and governance (ESG) ratings are one of the platforms to drive industry players to scale up their sustainability reporting and compliance. This has propelled IPMC to launch the 2023 ESG ratings report for the insurance sector, which was themed: "Driving Impact: Harnessing ESG for Sustainable Finance". A keynote speech was given by the Special Assistant to the President on National Economic Council (NEC) and Climate Change, Rukayat El-Rufai. She underscored the urgent need to integrate ESG considerations into the core of our financial systems. As financial institutions navigate the complexities of the modern financial landscape, it becomes increasingly clear that sustainability is not just a moral imperative but a strategic necessity. She stressed that corporations could leverage frameworks, standards, ratings, and guidelines to establish clear expectations and avoid blind spots in their operations. Ratings will help corporations set ESG performance standards, benchmark performance, and stimulate healthy competition in ESG performance. It also fosters accountability and transparency.

Insurance companies have the mandate to mutualize and manage risks, which is central to setting environmental, social, and governance (ESG) metrics. Climate risk issues are driving insurance companies to monitor their impact on the insurance business. Driving a sustainable insurance business will require industry players to insure less carbon-intensive projects. Similarly, ESG will shape the core areas of investments, risks, and underwriting in the insurance industry. Insurance companies are finding it challenging to measure key environmental metrics such as greenhouse gas (GHG) emissions. Nigerian insurance companies need to scale their environmental and social impact reporting from basic metrics, such as diversity, equity, and inclusion, to more comprehensive social metrics

such as human rights, human capital development, corporate citizenship and labour practices. Environmental metrics reporting on greenhouse gas emissions should include Scope 1, 2, and 3 emissions, decarbonization strategies, and climate strategies.

Globally, the commitment of leading insurance companies is yet to gain traction, unlike banking industry players. Seven members of the Net-Zero Insurance Alliance (NZIA), which launched in 2021, have now left, including five of the eight founding signatories, due to political pressure from the United States that identified the commitment as an anti-trust law violation against clients to reduce carbon emissions.

Most Nigerian insurance companies' disclosed reports did not prominently address environmental considerations such as carbon footprint, energy efficiency, and climate-related risk assessments, raising concerns about their commitment to environmental challenges. Similarly, social impact metrics such as diversity and inclusion efforts, community engagement, and employee well-being were not sufficiently addressed in the reports of numerous companies. This oversight hinders stakeholders' ability to assess their societal contributions. Insights from our findings reveal that only 21% of assessed insurance companies consider reporting their sustainability performance necessary, and 79% of the rated insurance companies do not have sustainability reports. Only 6% of the rated insurance companies meet the threshold for equal gender representation within the workforce. Sustainability creates new streams of income through the development of new products and solutions for clients, building climate resilience, and supporting the scale-up of renewables, clean tech, and carbon markets. The sustainability of insurance companies will be enhanced through the prompt payment of claims.

“88% of investment professionals currently rely on third party ESG ratings, with projections suggesting this figure will rise to 92% in the future.” Stanford University, 2022

This assessment is prepared in response to the growing awareness of the importance of Environmental, Social, and Governance (ESG) practices in the financial sector, with insurance companies looking to integrate ESG considerations into their operations, risk management, and reporting, to stay adaptive to changing regulations, increasing expectations from regulatory institutions, customers, intergovernmental agencies, investors and general public.

The launch of this rating report provides an opportunity to communicate key findings, insights, and recommendations to stakeholders, raise awareness about the importance of ESG considerations in corporate decision-making, and demonstrate organizational commitment to transparency, accountability, and sustainability. It serves as a platform for engaging stakeholders, building relationships, and catalyzing action towards a more sustainable future. We benchmark our process against the leading global ESG rating companies such as S & P Global and MSCI Sustainability Ratings.

These weightings were determined following a comprehensive analysis of both global rating standards and the specific nuances of the Nigerian business landscape, resulting in allocations of 13% for environmental factors, 43% for social factors, and 44% for governance factors.

The environmental pillar focuses solely on greenhouse gas emissions, decarbonization strategy, and climate strategy. The questions are designed to measure the performance of the participants banks and insurance across the each of the pillars of sustainability.

The social pillar encompasses aspects such as labour practices, human rights, human capital development, talent attraction and retention, corporate citizenship, social reporting coverage, and privacy protection.

Our governance pillar weighting structure covers key sub factors such as corporate governance, risk management, business ethics, policy influence, information security/cybersecurity, and materiality.

Process Review: Our ratings methodology, process and procedures were reviewed and validated by PriceWaterhouseCoopers(PwC).

Some of the key gaps identified at within the insurance industry and the recommendations are highlighted below:

- **Sustainability Reporting:** Only 21% of assessed insurance companies consider reporting their sustainability performance necessary. Evidence shows that 79% do not have sustainability reports.
- **Gender Representation:** Only 6% of participating insurance companies meet the threshold for equal gender representation within the workforce.
- **Social Impact Transparency:** Only 44% of participating insurance companies publicly report on social indicators, highlighting a significant gap in the transparency and public accountability of social impact within the insurance industry.
- **Corporate Citizenship and Philanthropic Strategy:** Only 21% of rated insurance companies have a comprehensive group-wide strategy guiding their corporate citizenship or philanthropic activities.
- **Board Diversity:** 62% of rated insurance companies have a board diversity policy explicitly reporting factors such as gender, country of origin, and nationality.
- **Climate Risk Assessment Prioritization** Only 11% of the participating insurance companies prioritize climate risk assessment, this underscores a potential gap in recognizing and addressing climate-related risks.
- Insurance companies should develop and enforce gender diversity policies aimed at increasing female representation across all levels of the organization. Establish clear targets and timelines, and implement mentorship and career development programs to support women in advancing their careers.
- Regulator should mandate insurance companies to adopt and publicly disclose social impact metrics. Leverage existing frameworks such as the UN Sustainable Development Goals (SDGs) to guide reporting and align with global standards.
- Insurance companies should develop a cohesive corporate citizenship strategy that aligns with the company's core values and business objectives. Integrate philanthropic activities with broader sustainability goals to create a positive societal impact and enhance corporate reputation.
- Regulator should continue to promote board diversity policies, ensuring they are implemented effectively. Regularly review and update these policies to reflect best practices and evolving diversity standards.

Recommendations

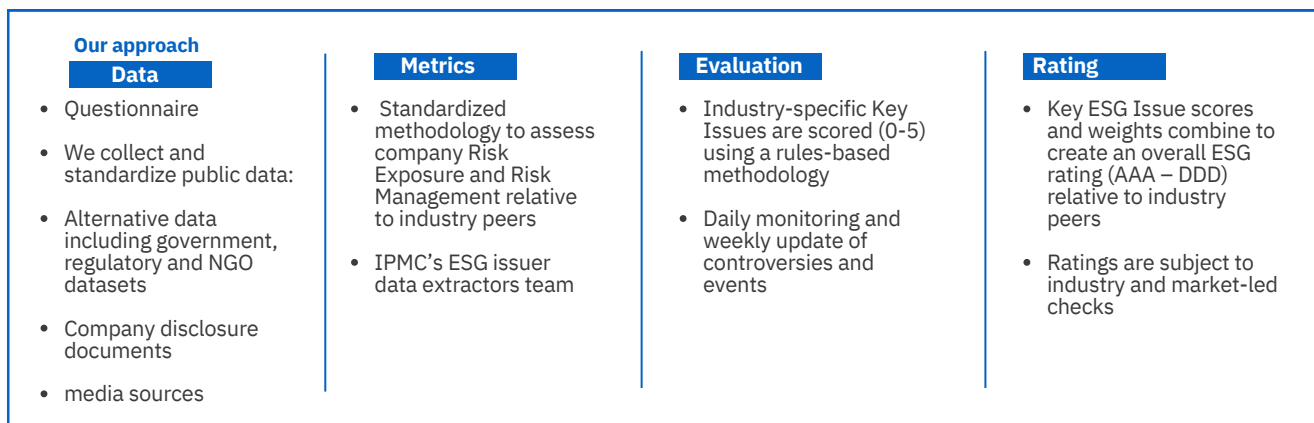
- Insurance companies should be encouraged to align their operations with the sustainability reporting requirements to enhance transparency and accountability.
- Companies should adopt standardized frameworks like GRI or SASB to ensure consistency and comparability of sustainability performance.

Given the increasing importance of climate change considerations in business strategy and risk management, this finding suggests that many companies may not be adequately prepared to navigate climate-related challenges.

Nigerian Insurance ESG Rating Results



IPMC ESG Rating Framework and Process Overview



Methodology

We applied a comprehensive ESG (environmental, social, and governance) rating methodology to evaluate the performance of industry players in the financial sector. Our methodology integrates ESG considerations at all levels of evaluation and decision-making, ensuring a holistic approach to sustainability.

ESG Integration and Governance

We consistently monitor ESG risks and integrate them into our management practices. The methodology involves normalizing the scores of individual sub-factors relative to expected values, allowing for a standardized assessment across diverse parameters.

We have assigned overall weightings to the ESG pillars as follows:

Governance (44%): Focuses on corporate governance, risk management, business ethics, policy influence, and information security/cybersecurity.

Corporate Governance (11%): Evaluates board composition, board independence, board diversity, rate of board performance assessment, board election process, practices, and ownership.

Risk Management (9%): Assesses the company's risk management frameworks, emerging risks and their impacts, risk mitigating strategies,

Business Ethics (11%): Looks at ethical practices, codes of conduct, anti-corruption measures, anti-competitive practices, and customer satisfaction measurement.

Policy Influence (4%): Measures the company's involvement in public policy.

Information Security/Cyber-Security (5%): Examines data protection measures, information security, cyber security and systems, cybersecurity governance, cybersecurity infrastructure,

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Materiality (4%): Considers the material issues, business case for material issues, impacts of material issues on costs, revenue, and risks, and materiality disclosures.

Environmental (13%): Includes environmental reporting, greenhouse gas emissions, decarbonization strategy, and climate strategy.

Environmental Reporting and Greenhouse Gas Emissions (2%): Looks at reporting practices and emissions levels. **Decarbonization Strategy (5%):** Evaluates efforts to reduce carbon footprint. **Climate Strategy (7%):** Measures plans and actions to address climate change.

Data Requirements and Scoring

A minimum data requirement for participating banks and insurance companies is the provision of audited financial statements. The IPMC ESG Score is on a scale of 0 to 100, where 100 signifies the highest attainable score. We established a predefined scoring framework to guide the assessment of responses to questions, aligning them with their respective degrees of materiality.

Transparency and Disclosure

Transparency is a pivotal aspect throughout the entirety of the rating process. Banks and insurance firms with a high level of publicly disclosed data receive higher scores. Our qualitative data undergoes scrutiny based on its availability and the depth of policies influencing the scoring process. For instance, in areas such as corporate governance and climate strategy, companies can only attain the maximum sub-factor score if they adequately disclose the requisite supporting evidence.

Transparency and Disclosure

The primary data from participating banks and insurance companies, as well as data extracted through secondary sources, are subject to detailed review to enhance validity and accuracy. This process aims to rectify any discernible errors and improve overall credibility.

Our ratings methodology, process, and procedures are reviewed and validated by PriceWaterhouseCoopers (PwC).

Research Team and Expertise

Our multidisciplinary team, comprising experts in sustainability consulting, research, environmental analysis, statistical analysis, data analytics, graphic design, and content creation, collaboratively conducts the rating. Each team member contributes specific responsibilities and expertise to the project, ensuring the achievement of successful rating outcomes.



Sub-factor Calculation and Weighting

The weighting of fundamental factors, sub-factors, and questions is determined based on their relevance and material significance to the banking and insurance industry. The IPMC ESG Rating (IPMCESG) is calculated as a factor of E (environmental), S (social), and G (government). Environment (E = 13%): Includes environmental greenhouse gas emissions & reporting, decarbonization strategy, and climate strategy. Social (S = 43%): Covers human rights, human capital development, corporate citizenship, labor practices, and transparency. Governance (G = 44%): Encompasses corporate governance, risk management, board expertise, policy influence, information security, privacy protection, and materiality.

Commitment to Standards and Continuous Improvement

We are committed to adopting international frameworks to inform our impact activities. Our methodology aligns with renowned financial indices such as S&P and MSCI, reflecting their relative significance in assessing ESG performance. We continuously review and refine our process to enhance the accuracy and credibility of our ratings.



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The Report provides a cross-sector, relative analysis of an entity's capacity to operate successfully in the future and is grounded in how ESG factors could affect stakeholders and potentially lead to a material direct or indirect financial impact on the entity. ESG factors typically assess the impact of the entity on the natural and social environment and the quality of its governance.

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2023 Annual Insurance Sector Assessment

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We have developed a comprehensive report for stakeholders that offers valuable insights into the performance of banks and insurance companies across the ESG pillars. The report includes ESG risk exposures, trends, regulations in operating countries, key gaps, and recommendations. For further details, please contact our Marketing & Corporate Communications Officer, Timilehin Adelokun, at 07039536875/09168630022 or via email at timilehin.adelokun@ipmc-ng.com. We look forward to your response and the opportunity to work with your institution towards a sustainable future.

This report does not constitute credit rating.

The results showing detailed performance of individual companies can be assessed on the website. – www.ipmc-ng.com/esg/



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