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Abstract	The purpose of our investigation is to analyse the contribution of the insurance industry to sustainable finance in Spain and how this, in turn, is transforming the insurance industry itself. From there, we will also explore how insurers themselves and the concept of sustainable finance have an impact on Sustainable Development Goals (SDG) and how they may help to accomplish them. The proposed research methodology includes a section based on studies conducted by the sector's employers' association in Spain and another based on a series of interviews with experts and reference specialists. This is combined with an evaluation of best practices from leading entities, as well as a bibliographical review from institutional sources and monographs. Using these methods, we have demonstrated that insurance companies add value to sustainable finance from a triple perspective: as investors with high resource mobilisation potential; as expert risk managers, which now include environmental, social, and governance risks (ESG); and through the insurance business itself, through subscription policies and product and services creation/ modification. Moving forward, we identified several areas of work which will be critical in defining the full potential of the insurance sector in the development of sustainable finance, such as EU regulatory development, integration of ESG risks into internal models, access to sustainable investment offer, and stakeholder valuation.
Keywords (separated by " - ")	Sustainable finance - Insurance market - Sustainable investment - Sustainable products - Sustainable Development Goals - SDG

Analysis of the Emerging Contribution of the Spanish Insurance Sector to the Development of Sustainable Finance

Elena Sevilla Sanromán and Manuel Fernández López

1 Introduction

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The notion of sustainable finance refers to the incorporation of environmental, social, and good governance principles into financial businesses' strategy, operations and decision-making processes, particularly those connected to investments. If linked to the Bruntland Commission's traditional definition of sustainability, its goal would be to mobilise financing for the global economy while "meeting the needs of the current generations without jeopardising future generations' ability to meet their own needs," favouring the transition to a low-carbon and more sustainable economy.

As suggested by the Spanish Network of the Global Compact, the financial sector, which insurance companies are a part of, is called upon to be a channel of economic resources to "invest in the transformation of the world," and thus be a part of and act as an accelerator to this vital solution. According to the World Bank, an estimated 3% of global GDP is required to fund sustainability, and states are unable to achieve this task without the assistance of the private sector. At this stage, insurance companies must make a significant contribution from their triple role as risk managers, providers of insurance products and services, and investors.

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Due to the nature of its operations, insurance does not directly harm the environment or society. However, according to the World Economic Forum's report *The Global Risk Report 2023*, five of the ten most prominent risks in the next decade are environmental, including natural disasters and external climate events, failure to mitigate climate change, large-scale environmental damage, failure to adapt to climate change, and natural resource crises. Two of these risks are associated with the social dimension: the cost-of-living crisis and erosion of social cohesion.

These risks would have an impact on economic sectors such as industry, agriculture, energy, transportation, construction, pharmaceuticals, and others that are insurance company clients, either as legal entities or as natural individuals. Investors, on the other hand, require sustainability information in order to make judgements and analyse companies' exposure to ESG or sustainability risks in addition to financial risks. These elements are also connected to the existence of a palpable shift in the preferences of more conscious and well-informed consumers who take action by incorporating social and environmental values into their purchasing decisions, which were previously defined rather by variables such as quality or price.

Aside from these facts, sustainability is entering the heart of financial institutions, in general, and insurers, in particular, are offering up new business opportunities. It is no longer a question of choosing between ethics and profitability and solvency, but rather of finding a way to include ESG features into products and investments that provide value to shareholders and to society.

Sustainable finance is already a material issue for insurance companies' strategy and business. The international framework, as well as European and Spanish regulations, are pushing to take a step forward in considering and taking action on the environmental, social, and economic ramifications. As a result, the impacts are no longer simply about how companies are managed internally but also about how to actively contribute to minimising the effects of economic activity in general in order to benefit society and the planet. The position that entities take in this regard may have an influence on their value as a company.

According to the notion of double materiality, sustainable finance may thus be viewed in terms of impact and also financial consequences. This also entails taking into account financial and non-financial challenges and opportunities, with increasingly ambiguous limits, for example, proper integration of ESG risks and generation of sustainable products can increase insurer profitability or reduce their competitiveness.

2 International and Normative Framework

The UN Summit on Sustainable Development in 2015 established the so-called 2030 Agenda and the SDGs, which serve as the foundation for humanity's efforts to create a more sustainable world. Almost simultaneously, the Conference of the Parties, COP 21, held in Paris, concretised the global goal of limiting global

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temperature to 1.5 °C above pre-industrial levels, calling for increased "financial flows" towards sustainable development with lower emissions.

These two milestones positioned humanity in the face of its greatest challenge of its conscious history, highlighting the necessity for private funding to supplement state funding. However, it was the European Commission which included, amongst other measures, a description of the concept of sustainable finance in its Action Plan and began to establish a classification system of sustainable actions and products, known as Taxonomy. Further legal developments include the Sustainable Finance Disclosure Regulation (SFDR), and the recently enacted Corporate Sustainability Reporting Directive (CSRD). Almost simultaneously, the European Financial Reporting Advisory Group (EFRAG) approved the first set of Sustainability Reporting Standards (ESRS) covering environment, social issues, and governance in November 2022.

As a result, we are confronted with a unique challenge that appears to have an unprecedented national and international consensus, but not without obstacles. The financial sector's contribution to the 2030 Agenda includes banks, insurance companies, and investment firms.

The United Nations Finance Programme's most recent initiative is Net-Zero, a coalition that strives to decrease and eliminate greenhouse gas (GHG) emissions from economic activity. The Net-Zero Insurance Alliance and *Net-Zero Insurance Alliance* and *Net-Zero Asset Owner Alliance programmes* are applicable to the insurance industry.

Most large insurers adhere to the Principles of Sustainability in Insurance (PSI) that comprise the concept of sustainable insurance, which include managing ESG risks and opportunities in a "responsible and forward-looking manner" throughout the business value chain and in relationships with stakeholders.

The UN-PRI (Principles of Responsible Investment) serves as a guide for sustainable investments. Its goal is to encourage the integration of ESG criteria into investment decision-making and asset management for a more sustainable global financial system, as a result of the collaboration between the United Nations Programme Finance Initiative and the Global Compact (UN Global Compact).

In Spain, the Law on Climate Change and Energy Transition, as well as the Sustainable Development Strategy form the framework for a path that will continue to move forward and has no way back. In this context, sustainable finance attempts to shift financing and investments towards more sustainable projects and enterprises, thus contributing to the decarbonisation of a more social economy and assuring long-term equitable growth through the incorporation of ESG standards.

3 Results

The investigation was conducted utilising a mixed research strategy that combined collection of quantitative and qualitative data. In addition to consulting nonempirical secondary sources and bibliography, the qualitative section includes a series of

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interviews with institutional and corporate executives as a primary empirical source. The main conclusions are summarised below.

3.1 The Sight of the Experts

In her public speeches, UNESPA President Mirenchu del Valle asserts that the insurance industry is well-established in society, with a strong and profound capillarity. It also emphasises the sector's key role in sustainable finance as a risk expert, focusing on the prevention and mitigation of ESG risk events. She highlights the commitment of a sector that, while emitting minimal pollution, is currently contributing and has the potential to contribute significantly more to the goal of decarbonisation of the economy, both by itself and by assisting others in their transition process.

According to Alfredo Yagüe, consultant and sustainability manager at Analistas Financieros Internacionales (AFI), specialised in insurance, sustainability, in general, and sustainable finance, in particular, are the sector's most transversal challenges, the only ones that apply to the entire value chain until the end customer is reached.

Del Valle provides the fact that, in its role as an investor, the industry has invested 22 million euros per day for the past 25 years, so it can become a natural ally of Social Responsible Investments (SRI) if the required legal clarity is supplied. Currently, this is not happening more decisively because the regulatory framework is incomplete, and there are contradictions such as the obligation to report indicators on ESG issues that are still in development, according to schedules that put a lot of pressure on private operators, who need time to adapt their own internal structures.

This is stated by Raúl del Pozo, UNESPA's head of economy and finance department. In his opinion, regulatory certainty is one of the main outstanding issues, as is the homogenisation of criteria across analysts and ESG rating agencies in order to produce a similar shared framework and non-financial accounting using the same rigour as financial accounting.

Much related to this topic, the need for reliable and traceable data based on realities is also identified. Currently, according to Ricardo Pedraz, technical secretary of FinResp, investments in ESG assets can be made based on estimates, which create concern amongst insurers due to their nature and the application of the sector's prudence principle. As a result, the industry invests below its real potential.

Transparency obtained from compliance with European taxonomy, according to Mariluz Catilla, strategic business advisor and benchmark for ESG and sustainability, is one of the primary levers to push the industry in its active contribution to sustainable finance. In accordance with the CSRD Directive, this standard demands the publishing of the percentage of income, Opex (operation or operating expenses), and Capex (capital expenditure) of eligible and aligned activities, and therefore considered sustainable.

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Patricia Reverter, partner of ESG and sustainability at KPMG, believes that the industry has significant potential as a manager of investment and insurance products, a point which is shared by the rest of the interviewees. In her opinion, sustainable finance has an influence on business because it completely integrates risk analysis and may be an attractive argument from a commercial point of view in the face of new social.

According to del Pozo, insurance has great potential to influence companies through their role as service providers or customers. Indeed, they are included in scope 3 of the carbon footprint measurement as part of the value chain of insurance products, thus they must provide data that insurers require for reporting. They can demand said information in accordance with their internal policies. In this way, they assist them in their shift to a decarbonised activity.

On the other hand, the experts emphasise the critical social dimension that must be monitored in these providers companies, which is manifested in respect to labor rights and the adoption of equality and diversity measures. This is in response to the demands that will arise as a result of the future social Taxonomy and the newly adopted Directive on the submission of sustainability information, both of which will be applied proportionality to them. According to Silvia Agulló, responsible business manager and reputation at DKV, part of the Munich Re group, insurance will be in social matters where insurance can demonstrate its real potential because it is an aspect inherent to the origin and nature of its activity.

According to Yagüe, the sector is called to take the lead by raising awareness of its consumers and suppliers. In addition, its shareholders already demand a clear positioning and strategic plans outline everything that is to be done, including risk management, subscription policy, product governance and investment strategy. In the same vein, Ignacio Lerga, sustainability director of Axa in Spain, highlights the commitment of the insurance European leading corporations, with ambitious objectives in this regard that are concretised in internal policies, programmes, and projects, to the point of including them in the variable remuneration of management.

In summary, Del Pozo believes that we are still in a development phase, not even transitional, of the integration of sustainability in the insurers' strategies for activating their full potential within sustainable finance. For Pedraz, the most pressing priority at the moment, in addition to awaiting greater regulatory certainty from the European and Spanish authorities, is to review the public partnership between the Insurance Compensation Consortium and insurance companies in order to include new events caused by climate change.

Reverter emphasises insurers' huge potential to bring new well-built products to the market, as well as the need to have well-trained experts. Reinforcing this argument, Castilla highlights the need for companies to invest in innovation in order to provide solutions that help prevent and cover ESG risks that benefit their customers, since their own solvency depends on it.

Agulló points out the challenge posed by the new European requirements for all entities, even for those whose positioning has long been constructed, by his own conviction, around the Corporate Social Responsibility (CSR). Lerga emphasises

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the requirement of uniting all areas of the company behind a shared vision, led by senior management and which must be communicated effectively.

Finally, Yagüe insists on the sector's leadership capability and the significance of establishing good governance because sustainability is not a passing issue, but will have long-term consequences.

3.2 Quantitative Results Are Still Limited

Because the existence of data on sustainable finance in the Spanish insurance sector is recent, there is no way to conduct a historical comparison. The main study available was carried out in 2022 with data from 2021 by the insurance sector statistics and studies service in Spain, ICEA, at the request of UNESPA, within the framework of their collaboration agreements.

Under the heading "*Sustainability Statistics in the Insurance Sector,*" 300 indicators from 126 entities belonging to 69 insurance business groups were presented. Representativeness reached 92% of the total volume of premiums in Spain, a high figure that legitimises its results.

Specifically, the "Survey on Sustainable Investments and Products, Emissions from Entity Activity*"* was carried out for the first time*, and the "Sector's Contribution to Sustainable Development Goals and the Vision by Goals*" was carried out for the second time. As a result, we are facing the most relevant study at sectoral level to date, to which new indicators will be added in the coming years (2023–2024) relating to sustainable investments, the financial impact of climate change on insurance activity and, in the opposite direction, from the climate and society insurance business. The main key results are given in Figs. 1, 2, and 3.

The results are self-explicit. The insurance sector has embarked on a path of no return in integrating ESG factors into its business and decision-making, which is formalised through Sustainability Policies and whose progress is accounted for through ad hoc reports that respond to a commitment of transparency in relation to their stakeholders. On the other hand, the precise indicators assessing their active contribution to sustainable finance through products and investments do not provide such a clear reading. Although three-quarters of the entities declare that sustainability criteria are incorporated in the relevant policy, the number of those who claim to have at least one product that promotes environmental or social characteristics is less than 25%, and we do not currently have investment data.

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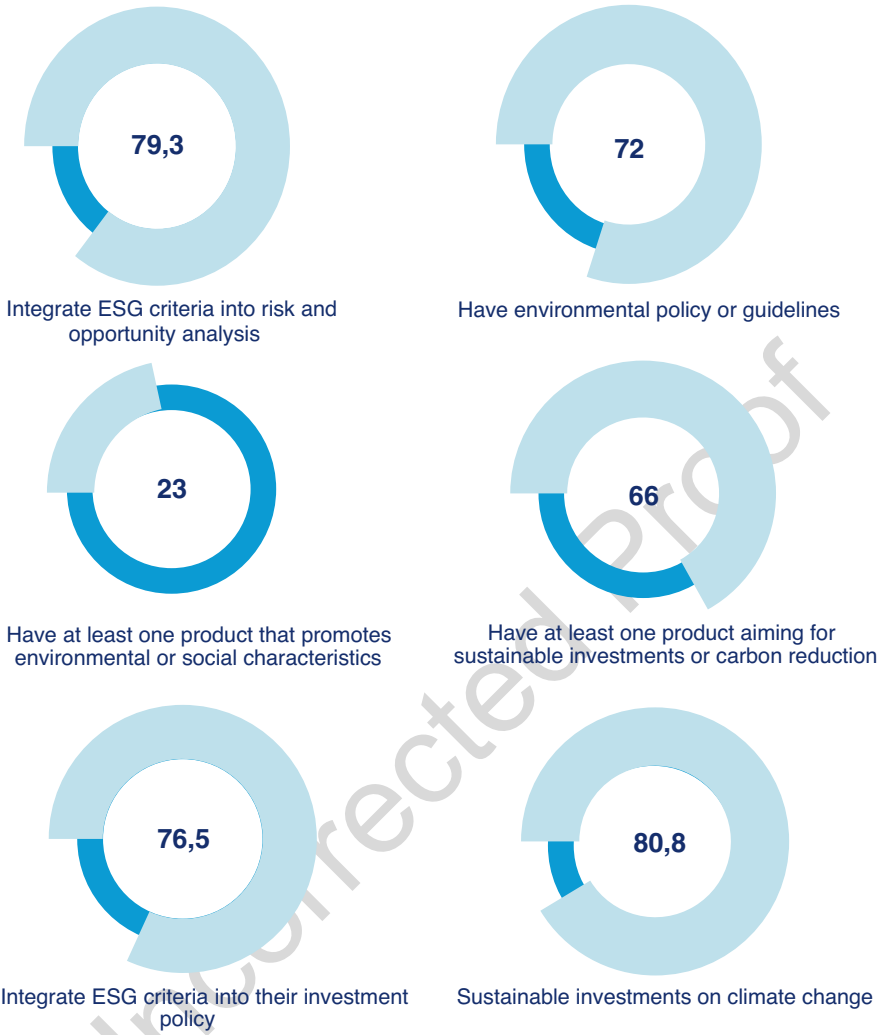

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Fig. 1 Management of environmental factors

3.3 Sustainable Finance Challenges and Opportunities in the Insurance Sector

The transition to sustainability and sustainable finance presents challenges and opportunities arising from the perspective of double materiality, which refers to the impacts of business on the environment and society, as well as the same external conditions that can influence the financial results.

Fig. 2 Social factors GSA government and transparency

Fig. 3 Management of corporate government and transparency

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Opportunities	*Challenges*
– The opportunity to make a committed contribution to the financing of the United Nations 2030 Agenda, demonstrating an active commitment to society and the environment, and boosting the sector's reputation. – The opportunity for leadership if suitable adaptation measures are taken, including the development of a decision-making governance system that incorporates ESG issues. Those that understand how to make sound judgements will be at the forefront of the industry. – The opportunity for profitability, because investments with integrated ESG considerations have proved to be more resilient to risk, particularly in times of crisis. – The opportunity to reduce costs by predicting and properly managing the effects of ESG risks. – The opportunity to reach new consumer groups through the development of products with environmental and/or social aspects. It reaches an audience more aware about sustainability who take into account the balance of profitability/risk/ESG.	– The challenge to transparency stems from one's personal conviction as well as the desire of interest groups. It manifests itself via reporting obligations that must be met in a timely manner and, in many circumstances, validated. – The challenge of trusting stakeholders, particularly regulators, supervisors, shareholders, investors, analysts, ESG rating agencies and clients. In terms of suppliers, the challenge is to provide support for them to make their own ESG transition, in addition to the trust factor. – The challenge of business model change, traditionally oriented towards economic benefits, toward a new model that also includes ESG factors in its management. – The challenge of connecting digitisation and sustainability, with the goal of producing marketable, comparable, and rigorous management and control models of sustainability data. – The challenge of protecting reputation and reducing the possible impact of systemic risks—with external causes, operations connected to stems in processes and/or entity personnel due to external causes, as well as those derived from their commercial ties.

Insurers may contribute to the transition to a decarbonised and fairer economy while also taking advantage of market opportunities and boosting their business figures.

3.4 The Triple Role of the Sector in Relation to Sustainable Finance

At this point, we can already assess the insurance sector's emergency contribution to sustainable finance based on three core business functions: risk management, insurance activity, and asset investment, all of which have a high capacity to mobilise financial resources.

3.4.1 Insurance as an ESG Risk Manager

Sustainable finance impacts insurance companies that act as risk managers and must now include ESG risks into their system, in particular those associated with climate change, as well as the analysis of adverse sustainability implications. Insurance

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240 companies contribute to economic and social stability, as well as to environmental
241 protection by absorbing the probability and the hypothetical consequences of the
242 materialisation of such risks.
243 EU Regulation 2019/2088 on the disclosure of sustainability information in the
244 European Union's financial services sector establishes a definition for the concept
245 of sustainability risk, which is understood as "an environmental, social or gover-
246 nance fact or condition that, if produced, could cause a negative material impact on
247 the value of the investment"as defined in the current regulations."
248 This standard, in particular, requires insurers to incorporate ESG risks into their
249 risk management, including their identification and evaluation. This has an influ-
250 ence on the actuarial function when it comes to measuring the "uncertainty associ-
251 ated with estimates made when calculating technical provisions." Consideration is
252 also required in the remuneration policy and in the application of the principle of
253 prudence.
254 ESG risks are incorporated into the conventional risk map, at the same level and
255 importance as underwriting, market, operational, counterparty, financial and credit
256 risks, as well as risks arising from the political and economic environment.
257 Furthermore, insurers can develop their own models that incorporate actuarial
258 assessments, taking into consideration not only ESG criteria but also market factors,
259 social trends, and stakeholder's expectations.
260

ESG Risk Classifications

Environmental risks fall into three categories: physical risks, transition risks, and liability risks.

Physical risks are caused by weather events due to climate change that can damage company assets and even the value chain. They are further categorised as follows:

- acute risks, such as hurricanes or floods;
- chronic risks resulting from the medium- and long-term increase in global temperature, such as the increasing heat waves or sea level rise.

The transition risks stem from the necessary adjustment to a low GHG or "net-zero"economic model.

Finally, liability risks are associated with claims, as well as potential penalties, related to weather events, particularly under liability insurance.

Social and governance risks lack this level of specificity. Depending on the model, they can be considered to be covered by traditional risks, such as compliance and reputational risks, which are managed through compliance policies, internal control, good corporate governance, ethical codes, and human resources.

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- Social risks: they are those resulting from the observation and respect of human rights, labour rights, human resources, social factors, such as the demographic composition of the population or health hazards such as pandemics.
- Governance risks: these are resulting from compliance with regulations, including reporting obligations; of reputation towards stakeholders as shareholders, rating agencies and public opinion; innovation and digital transformation, cyber risks, etc.

In a similar way, insurers create their risk strategy based on the level of risk that the Board of Directors agrees to accept (risk appetite) and integrate into the business according to the objectives that each of them has set. The highest governing bodies receive regular information on exposure to risk and observation of limits defined by the entity. An SFCR (*Solvency and Financial Condition Report)* and an ORSA (*Own Risk and Solvency Assessment)* report are also generated.

Risk management also entails developing, revising and, if necessary, modifying the underwriting policy, as well as the policy on provisions and reserves to account for the potential negative consequences of ESG risks.

3.4.2 Insurance as a Supplier of ESG Products and Services

The contribution of insurance activity to sustainable finance extends, both in a real and potential way, along with the most important phases of its value chain as a generator of products and services that are critical for society.

Underwriting

The harmful effects of climate change on the planet are evident through the rising frequency of extreme natural events that cause damage, which, of course, have an impact on insurance activity. These climatological events cause more accidents and, as a result, a greater need for financial and non-financial resources for their management. On the other hand, environmental risks linked to climate change lead to a reconsideration, adaptation, or modification of underwriting policies where, as a rule, the criterion of technical rigour is applied to ensure solvency.

In the social realm, factors such as population ageing in Spain, the potential emergence of pandemics defined geographically or globally and the economic crisis also have an impact on the likelihood of insurance-covered cases occurring.

Underwriting in insurance is the process of carefully assessing the risk of any product, taking into consideration market conditions, claims, the possibility of

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occurrence, losses, etc. Underwriting professionals facilitate, through their work, the decision of the risk limit that a company can accept. Although much of the work is now automated, expert human control is still essential to determine if something is outside the normal parameters. The process is completed by designing the included guarantees and premium pricing.

Climate change risks underwriting is based on detailed reports that include loss estimates if these potentially catastrophic events occur, as well as on risk limit control systems, which can be stress tested.

It is common for insurers to outsource the excess risk they are willing to manage to reinsurance if they believe that they will exceed the limits defined by management, thereby safeguarding their level of solvency and liquidity.

Insurers may contribute to the goal of sustainable finance by including commitments associated with the Paris Agreement, the EU Plan and, in coherence, facilitate the transition to a low-carbon economy through underwriting policies.

Underwriting Exclusion Criteria

Leading companies in the sector in Spain and Europe have established general exclusion criteria affecting polluting industries such as fossil fuels (coal and oil). In particular, they refer to activities such as those listed below, which is not an exhaustive list:

- Construction of new coal-based power plants
- Operation of new coal mines
- Service infrastructure for coal mines or coal-fired power stations
- Enterprises with revenues from coal-fired energy
- Undertakings or entities with plans to increase coal-based energy consumption
- New mining companies
- New projects for extracting or transporting tar sands
- Gas and/or oil extraction and transport projects in the Arctic Ocean

In relation to the existing portfolio, the most common trend is to conduct a reassessment aimed at assisting the transition of the above-mentioned industries, including, for example, the requirement to address energy-efficiency measures, reduction of greenhouse gas emissions, alignment with the objectives of the Paris Agreement, etc.

The ethical conflict that arises in these cases is the risk of insurers failing to meet their civil liability obligations if they refuse to contract with particular sectors. It is one thing to assist them in their transition to decarbonise their activity and another to refuse to provide products and services that can prevent and, in the event of a disaster, rectify a mishap that would otherwise have far worse implications.

Sustainable Insurance Products and Services

Sustainable insurance products are defined in existing European legislation. In general, the European Taxonomy establishes the criteria for an economic activity to be considered environmentally sustainable.

(a) It must contribute to one or more of the defined objectives of mitigation, adaptation to climate change, water and marine resources conservation, transition to a circular economy, pollution prevention, and biodiversity and ecosystem protection.
(b) It must not cause any material damage to the aforementioned objectives.
(c) It is carried out in compliance with the Regulation's minimum guarantees.
(d) It adheres to the technical selection criteria defined by the European Commission.

If a product meets these four criteria, it could be eligible as sustainable and would be aligned according to the Taxonomy.

Given this legal framework, we could refer to environmental insurance products and services such as those whose objective is adaptation to risks and opportunities related to climate change. This typology would be incorporated into the concept of sustainable finance.

In parallel, and pending a forthcoming regulation through the development of the Social Taxonomy regulation, social insurance products and services would be aimed at responding to the people's needs through life and health protection or to vulnerable groups such as individuals with disabilities or low income, etc. In the absence of knowledge about the objectives to be included in the standard, consistent with the SDGs, it is apparent that criteria of diversity, non-discrimination, respect for human rights and labour rights will be included.

Third, good governance insurance products and services are those that provide coverage to companies, such as through cyber-attack protection.

Following the terminology used in the insurance sector, examples of sustainable non-life products that promote sustainable mobility, renewable energy, energy efficiency, reducing emissions in agriculture or the circular economy.

The European Insurance Taxonomy

The European Commission Delegated Act 2021/2139 refers specifically in paragraph 10 to such insurance covering climate-related risks and to those using the substantial contribution criteria to climate change adaptation, health insurance, income protection, workplace accidents, civil liability, motor vehicle liability, maritime, aviation and transport, fire and other damage to property and assistance are specifically addressed.

Relevant leadership inputs in climate risk measurement models, product design, innovative coverage solutions, data sharing, and quality of service following disasters are amongst the technical selection criteria.

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Supplier Management within the Value Chain

The insurance sector's role in prescribing and supporting the transformation of the economy has great potential in the management of its network of collaborators and suppliers within its value chain.

Specialised collaborators are those suppliers that provide services required for insurance activity performance, such as mediators and brokers, experts, lawyers, doctors, workshops, and repairers. There are other general providers who supply products and/or services outside the insurance process. Maintenance, cleaning, hardware and computer support, stationery, food, etc. could all fall into this category.

Suppliers' policies often contain selection and relationship criteria with this relevant stakeholder, as well as the commitments of objectivity, equal treatment, quality, and transparency.

The traditional management model has incorporated ESG aspects to accompany and even demand changes with the aim of aligning the actions of suppliers with the insurance company's sustainability positioning. Measures such as the engagement to compliance with the code of ethics and sustainability policies, accountability for internal and external audits and the implementation of continuous improvement systems are examples of these improvements.

3.4.3 Insurance as a Responsible Investor

Insurance plays a dual role in long-term investments. On the one hand, it is a sector that demands this type of investment and, on the other hand, acts as a manager of sustainable investment assets through the marketing of its own products. This role is mostly fulfilled through PIBS, insurance-based investment products, which are incorporated with life products.

A sustainable investment is, according to the European Taxonomy, "an investment that finances one or more economic activities that can be considered sustainable". The criteria and objectives defined by the commission for what is considered sustainable have been outlined above.

In addition, the SFDR classifies financial products into three categories based on their degree of sustainability:

- Article 6 products, which incorporate sustainability risks.
- Those referred to in Article 8, which promote environmental characteristics.
- Those aimed at sustainable investments, as outlined in Article 9, to which we shall refer below.

PBSs are the primary financial products through which the insurance sector contributes to the objective of sustainable finance. They are defined as products that offer "a maturity or redemption value that is exposed in whole or in part, directly or indirectly, to market fluctuations" according to EU Regulation 1286/2014.

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Investment funds, pension plans and funds, and green, social, and sustainable bonds are examples of sustainable savings and living products included in the offer of insurers and their asset managers.

Social Responsible Investment (SRIs) include the purely economic criteria of risk, profitability, and liquidity, other non-financial factors, in particular environmental, social, and good corporate governance.

The ESG Investment Strategies

According to Spainsif, the following strategies are used in the investment policy of insurers committed to sustainability:

- Exclusion excludes certain activities, sectors, or geographical areas because they do not meet ESG criteria, such as the arms industry, anti-personnel mines, cluster bombs, pornography, tobacco, animal abuse and most recently, the extraction of fossil fuels, coal and oil.
- *Policy Screening* entails adhering to the international framework on sustainability, selecting assets that adhere to OECD standards, the United Nations and its organisations such as the International Labour Organization (ILO) and the Global Compact.
- *Best in class* invests in companies or assets with better performance and greater ESG commitment within a sector or category. The analysis carried out by sustainability indices such as the Dow Jones Sustainability Index, MSCI, Morningstar, or S&P serves as a reference to facilitate the indexed management of the portfolio.
- Thematic investment selects companies or assets that help to improve climate or social objectives. The former may include topics such as the fight against climate change, renewable energies, or sustainable mobility. The latter may cover human rights, diversity, and corporate accountability.
- Impact investment refers to positive investments aimed at actively contributing to generating a social or environmental benefit. They are implemented through investment instruments, such as green bonds, social bonds, and others that are linked to the SDGs.
- ESG integration complements traditional return/risk analysis when selecting and managing investment portfolios. The *non-financial analysis is based on ratings* and external and/or internal assessments of environmental, social, and governance criteria.
- *Engagement and voting* involves dialogue and influence in those participating companies through the right to vote to support their transition to decarbonisation of activity and the improvement of other ESG practices.

These strategies can be used independently or in combination. According to the aforementioned study by Spainsif, 77% of the entities claim to incorporate five or more criteria into their investment policy compared to the 64% they said they did last year, a figure that reflects the progressive maturity of the Spanish economy, and can be extrapolatable to the insurance sector.

3.5 Impact of Sustainable Finance and the Insurance Sector on the SDGs

Another factor to consider is the role of sustainable finance development to the achievement of the SDGs. In fact, one of the challenges for the financial sector in this area, aside from incorporating ESG factors into its decision-making, is to act as a funding vehicle for the United Nations 2030 Agenda and the European Community's own Sustainable Finance Action Plan, which proposes an emissions-neutral economy in the old continent by 2050.

It is projected that the contribution to the SDGs would amount to between 5 and 7 million euros, with just 3 being allocated in 2019. The insurance's ability to act as an engine of capital flows within the financial services sector is supported by its great penetration, capillarity, and economic muscle.

The primary objectives in this case that we can see in Fig. 4 would be:

- SDG8 Decent Work and Economic Growth refers to access to financial services including insurance, as well as *compliance*, due diligence and ESG aspects as requirements within the value chain.
- The SDG10 Reducing inequalities call for the inclusion of ESG aspects in decision-making to invest in developing countries, as well as in projects that seek equality and improvement of the living conditions of the most vulnerable groups.
- The ODS12 Responsible production and consumption is linked to the objective of prescription and active influence in the value chain and in the choice of investment assets based on companies or ESG projects to contribute to the transformation of the economy.
- SDG13 Climate Action is directly linked to the international framework and European climate change regulation, as well as to the role of the financial sector as a channel of funds to achieve the goal of a carbon-neutral economy.
- Finally, SDG17 relates to the mobilisation of resources for development in the most challenging countries and the institutional framework that integrates the development of sustainable finance, primarily the United Nations and the European Union.

The European Union Action Plan supports this alignment. In line with this, it has devised instruments to facilitate this, such as the Taxonomy Regulation, with the goal of mobilising €1 trillion of capital through SRI. According to the Spanish

Fig. 4 SDGs impacted by sustainable finance

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Linking the SDGs to environmental taxonomy	Linking the SDGs to social taxonomy
Climate change mitigation	Workers
Climate change adaptation	Customers
Protection and sustainable use of water and marine resources	Sustainable and inclusive communities
Transition to a circular economy	
Prevention and control of pollution	
Protecting and restoring biodiversity and ecosystems	

AU7 **Fig. 5** Linking the SDGs to EU taxonomy

Global Compact Network, the current Environmental and Social Taxonomy, currently under development, are linked to the SDGs as follows in Fig. 5:

The link between sustainable finance and the SDGs may be extended to the insurance sector, specifically through the incorporation of ESG criteria into risk management, underwriting policies, the development of new products, and of course sustainable investments. These activities are geared towards contributing to the goals when they are included in the business strategy and endorsed by senior management.

4 Conclusions

This chapter has demonstrated the high exposure of insurance companies to environmental, social, and governance factors, as well as their emerging contribution to sustainable finance from their triple role as risk managers, insurers themselves and investors in ESG assets, who are also held accountable under current regulations.

Sustainable finance is, as proved, a significant issue for insurance companies. This means that they have a significant weight that influences the situation and the development of the business, as well as its results. This is acknowledged by the international reference bodies, the legislators, the market, and the insurance entities themselves, which are adapting their business and investment models to align with the Paris Agreement, the SDGs, and the European Union Action Plan. In particular, the sector has potential to make a substantial contribution to climate change adaptation.

The call to align the ESG criteria applied to investments and the underwriting policy presents an ethical dilemma with regard to economic reality. On the one hand, industry actors generally believe that there are not enough issuers of sustainable assets that are accredited and operating in a secure legal framework, as this is still incomplete. On the other hand, reviewing the portfolio by introducing sustainability strategies may limit some industries considered brown, causing a liability and ethical problem. It is part of the insurance DNA to provide coverage for its activities, whose risks of damaging the environment and society would be even greater if they were not insured. Another issue is that the insurance sector encourages and accompanies its clients in their own process of decarbonisation, including specific conditions to achieve it.

The sector's potential role is more than evident in all aspects of its operation. However, the implementation of the criteria derived from the European legal framework is still recent and its development is incomplete. Therefore, while there has been progress in disclosure according to recognised standards, we still lack global and reliable data on sustainable products that are eligible and aligned with the Taxonomy or ESG investments.

Similarly, it is still difficult to find information on sustainability risk management and its integration into companies' traditional risk models. The analyses are still at an early stage and lack historical, reliable, and comparable data.

In terms of the market, there are almost unlimited opportunities in the design of new products, adaptation of existing ones with bonuses or price benefits, development of data management models, and response to the demands of greater responsibility for current and future customers.

Overall, the Spanish insurance sector is eager to contribute to the United Nations SDGs. These are easily linked to ESG criteria and aligned with sustainable finance objectives through contribution to SDG8 Decent Work and Economic Growth, SDG10 Reducing Inequalities, SDG12 Responsible Production and Consumption, ODS13 Climate action, and ODS17 Partnerships to achieve the goals.

In conclusion, insurers must position themselves, or have already done so, on environmental issues by realistically reviewing their portfolios, but also including

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risks arising from climate change and enhancing the transition to an emissions neutral commitment. In terms of social aspects, establishing the target audience, supporting insurance that promotes equality, and integrating stakeholders through relationships of transparency and trust. Finally, in terms of governance through the adoption of policies at the highest level, with the active involvement of the Board of Directors, and accountability that incorporates compliance while ideally demonstrating greater commitment.

Going forward, we may see how the consolidation of sustainability models in insurance companies evolves in the future. That is, what projects and initiatives they are implementing, how much funding they are contributing to the achievement of the SDGs and, by extension, to the 2030 agenda and the European Union Action Plan. Beyond declarations and adhesions to reference organisations, which define the formal commitment, this would be the way to measure the real contribution of the sector to the challenges of society and the planet. Finally, it would also be interesting to see how interest groups assess the effort to adapt and transform the sector.

The insurance sector has an excellent opportunity to demonstrate with facts and data that its activity can promote climate adaptation, articulating solutions to the consequences of global warming and benefiting the transition to a more respectful and fairer decarbonised economy.

Interviews with Experts

- Silvia Agulló, responsible business manager and reputation. DKV Insurance Group, ERGO, Munich Re
- Mariluz Castilla, strategic business advisor and expert in ESG and sustainability
- Pedro del Pozo, head of the Economy and Finance Department. UNESPA
- Ignacio Lerga, Sustainability manager. AXA Spain
- Ricardo Pedraz, Public Finance. AFI. General Secretariat. FinResp
- Patricia Reverter, ESG Partner and Sustainability. KPMG
- Alfredo Yagüe, consultant and manager of the insurance sector. AFI International Financial Analysts

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Author Queries

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AU2	Please check the term "assurement" in sentence, "Within her functions on sustainability, she has..." for correctness.	
AU3	Please check if "Currently, Elena works as Strategy Manager at Anthesis Lavola" can be deleted as it seems to be a repetition.	
AU4	Please check if "Currently, he is assistant professor at the Dublin City University (DCU)" can be deleted as it seems to be a repetition.	
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