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**Sustainability in the Insurance Sector:
Management opportunities to create value with ESG and
Investment strategies**

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“The world is a fine place, and worth living for”

Ernest Hemingway



Abstract

In this document, there will be an analysis and the development of the context of what is and will be one of the driving sectors of managerial actions and strategies in the field of environmental Sustainability, the insurance sector.

The reference framework draws inevitably inspiration from the UN 2030 Agenda, as well as the specific focus on issues concerning environmental Sustainability and the related objectives set in this context.

The work starts with an Institution based View approach -functional in order to study the Insurance Industry- and from guidelines and the regulatory state of art at a European Community level.

In the following stage, another theme is dealt with, which is to say the Management opportunity to create value with the ESG framework and with Sustainable Finance needs and strategies, drawing inspiration from what is considered a "Manifesto" of the financial world, that is the annual letter from the CEO of Blackrock, addressed to the CEOs of the most important companies in the financial perimeter.

The central part of the work is dedicated to the Sustainability themes in the Insurance Sector and the specific role of Insurers, taking also into account the post-pandemic scenarios and the opportunities offered by the PNRR.

A significant part is spent to present a perspective view of investment scenarios and policies with an ESG matrix in the Insurance sector (change Management strategy, business approach and market offer, managerial choices, risk and opportunity assessment and analysis).

The final focus is related to governance, managerial and investment strategies and decisions that Generali Insurance Group -the most important Italian insurance player and one of the most relevant globally- is pursuing.

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Introduction

The actual production model brought as a byproduct a substantial environmental, social and economic incompatibility. Hence, driving the way business is made towards a more ethical economy taking into accounts the new needs of people and the concept of liveability is indeed crucial.

It is demanded for all companies -whatever its sector, dimension and localization might be- to adopt a strongly proactive approach towards a sustainable development, via the adoption of new management and responsible business models, investment & technological innovation policies, acting in partnerships, with a constant and increasing orientation towards to the by now essential and necessary Environmental, Social and Governance (ESG) logics.

From ethical and sustainable finance, to a sustainable growth and up until the ESG layout, i.e the criteria and new rules governing corporate and investment strategies, with the aim of stimulating firms towards a positive impact on the environment and the society and in the direction of applying corporate governance models that are inspired by ethical protocols.

The Environmental, Social and Governance are an increasingly more essential factor for the success and reliability of many firms, to the extent that today the ESG analysis is regarded as an ad-hoc non-financial assessment, with its on specific and growing relevance, to have the scanning and valuation of corporate assets and to verify the degree to which the company adheres to the peculiar normative and reputational needs.

None of the companies should and is allowed to doubt adopting a mentality that perhaps might determine its ability to survive. In other terms, our world is increasingly more turning to a society based on the principle of Sustainability; such a new conceptual approach, yet not fully developed, is acquiring a paramount significance nowadays. In fact, the UN Agenda for 2030 devised a total of 169 targets at a global scale, with reference to a broad-spectrum action plan, in relation to people, the planet and welfare.

Within such an all-encompassing action, the focal point I represented by the 17 Sustainable Development Goals (SDGs) the UN devised in order to pursue positive and substantial results over 3 dimensions of sustainable development: economic, social and ecological.

A great contribution to sustainable development and to the imprinting of our society as a whole can indeed be ensured by the insurance companies. There are several reasons why this sector will reveal to be a central actor in pursuing those specific aims. First of all, there is a matter of time span; it is crystal clear that the SDGS expect actions and results in the medium-to-long term. The insurance

companies, fully in line with the 2030 UN action plan, operate in fact as long-term investors and are hence more inclined to undertake sustainable transition paths, showcasing their fruits as time elapses. Much more with respect, for instance, to commercial banks, following instead an approach often based on short-term operations.

Not to mention the inner nature of the sector itself. Still in comparison with the banking industry, it is arguably more tailor-made and *ad-persona*, featured with closer and more personal relations with clients compared to banks. This is really in line with the S component of the ESG, the “Social” side. The insurance sector has in its own structure a strong social vocation, given that it places the subject right at the centre of its activities, as in fact the insurance companies are in contact with citizens to simplify their lives and to guarantee them a safer existence.

Moreover, there is also the theme of positioning and economic impact. The insurance sector is remarkably rich, with still high growth rates and having already experience a vigorous rebound after the pandemic.

The approach to Sustainability by the insurance companies can hence produce a strong impact on the Italian economy in toto. The insurance sector, managing noticeable investment volumes, can really be the driving player in orientating the whole financial sector towards a much more sustainable imprinting.

Through which means is the insurance sector integrating the Sustainability ESG guidelines in its own businesses and industrial plant? Which are accordingly the expected investments in the next future? In the insurance sector the ESG is clearly experiencing a dramatic acceleration both at a normative & regulatory level and from a market standpoint, and currently there is the need to indeed develop the model (calculating, measuring and enforcing) of the ESG indexes in terms of business opportunities and reputational positioning.

The strategic positioning of insurance top players goes through a series of initiative linked to ESG; medium-term objectives, institutional communication, training of the firms’ management. In Italy, companies are increasingly more committed to formulating schemes to integrate the ESG themes in their core business, both relatively to peculiar Sustainability-related initiatives and to specific business management and market offer (insurance products and protection tools more in general) actions.

Moreover, according to the UNI ISO 2006:2010 guidelines related to social responsibility in organizations, the sector is particularly sensible to the constant evolution of the regulatory and normative framework instrumental in interiorizing with a dynamic aptitude the specific advancement

associated with the European Community, with an Institution Based View approach, and guiding also ESG actions and projects keeping an eye on standards, ratings and benchmarks that are useful measure and monitor the Sustainability performances. By integrating the Sustainability ESG criteria in their own activities and investment policies, the insurance sector is a key and central actor in the sustainable development path of our society.

As stated last year in the openings of the works for the ANIA Insurance Summit, managed in partnership with the G20 Italian Presidency, at the moment the goal, at a national level, is that of ensuring a prosperous future for people and the planet. The G20 Italian Presidency, among its top priorities, referred to the contribution of the insurance sector on Sustainability, in the broader spectrum of a global response to climate changes.

It is worth mentioning the invitation by Larry Fink, CEO at Blackrock, the biggest investment fund worldwide managing over 10 billion USD in its renowned letter to all the CEOs at a global scale; its letter represents a sort of “manifesto” of the financial industry in our days. Fink addresses global managers suggesting them to commit to the main stakeholders and to keep their promises. For the BlackRock CEO this is the building block of the so-called “stakeholder capitalism”. By talking about our sustainable future and illustrating how the energy transition (including also the adoption of a net-zero impact approach) will be systematically redefining the global economy, he stresses the fact that the business models of each and every company will be deeply influenced by the need of a transition towards a net-zero carbon emissions economy.

The focus of his last letter pertains hence the specific theme of Sustainability, for which by the way he has been pushing since several years by now. The BlackRock CEO very neatly warns that companies will be left behind unless they adopt sustainable commercial practises. “Putting your company’s purpose at the foundation of your relationships with your stakeholders is critical to long-term success”. And again: “We focus on sustainability not because we are environmentalists, but because we are capitalists and fiduciaries to our clients”.

1. Institutional Based View approach to study the Insurance Industry

1.1. UN 2030 Agenda and ESG guidelines

1.1.1. Generalities

Sustainability is a very broad concept in itself. Sustainability is much more alike a general guideline of how to conduct your life. In sum, being sustainable means being happy and live better, hence in a healthy, respectful and environmentally friendly way. It means also leaving a meaningfully good impact on the local or global community you live in. This concept has many deployments. It is already widespread and takes a predominant role in many fields. The theme of Sustainable Development is often underestimated. As a matter of fact, everyone is increasingly being filled by this concept in their everyday activity. It seems to be really in fashion.

Universities around the world are even creating Masters' Degrees related to this¹; Bocconi has just created, for instance, a new Master in Transformative Sustainability through a joint partnership with the Politecnico of Milan. Ernest Young makes 312.000 employees attend a Master in Sustainability through an agreement with the Hult International Business School. Carmine Di Sibio, CEO and Global Chairman at Ernest Young expressed impactful words in this sense: “Sustainability is one of the defining issues of our time and taking a lead on climate change is a vital element of building a better working world. *“EY people are passionate about tackling global challenges and this qualification will help both the EY organization and EY clients become true leaders in building a more sustainable world”*” (Carmine Di Sibio, 2022). This is a tangible proof that there is nowadays a pervasive need of showcasing that you and even your firm act in a sustainable way. It will soon be key in every firm's value chain, strategic decision making and industrial plan, just to include some aspects; these guidelines, as soon as they will be defined in their different fields, will assume a pivotal role. Companies will need to comply with such, intangible so far, and much more of a morale rather than a written rule, guidelines as to prevent from losing their businesses and market shares one day. Everybody now is starting to encapsulate this idea, consciously or not.

Often times, whether you really act as a sustainable person, or undertaking a sustainable approach in what you do, it does not really change your life; no one seems that touched by the impellent need of making sustainability a big deal. As a matter of fact, the Sustainability, great and very peaceful

¹ See unibocconi, (2022), Corsi di studio, Lauree Magistrali, Transformative Sustainability. https://www.unibocconi.it/wps/wcm/connect/bocconi/sitopubblico_it/albero+di+navigazione/home/corsi+di+studio/lauree+magistrali/transformative+sustainability/

² See EY Malta, Press Release, (6th March 2022), *EY and Hult International Business School announce new Masters in Sustainability, free for all EY people.* https://www.ey.com/en_mt/press-releases/ey-and-hult-international-business-school-announce-new-masters-i

concept as it may appear, still needs to be conceptualized in its entirety. Given the broadness of its applications, few people perhaps really know what this is about precisely. Many efforts are being made as to give full meaning to this word, and even narrowing its action field to some specific themes.

It is in this context that the United Nations have created a complete agenda for 2030 with several targets in the path of Sustainability. As a result of the General Assembly on September the 25th 2015, the 2030 Agenda for Sustainable Development by the UN was created, and we are fully part of this mission, right in the middle of the program also in a time frame perspective³. Many are the targets of this agenda, among which mainly people, the planet and prosperity in broad terms. The document also works in terms of guaranteeing peace at a global scale. The real boost that gave rise to the UN Agenda as a whole has been poverty, recognized as having established a tyranny which human beings have to be freed from. Poverty is the real challenge that everyone is called to face, making in this way our planet safer. It is indeed a global mission, a shared life journey.

More concretely, the UN Agenda is divided in 17 Sustainable Development Goals and 169 targets. The SDGs in particular are the continuum of another mission, the Millennium Development Goals to be reached by 2015. After this, an ambitious post-development 2015 agenda was created. The MDGs were 8 very general guidelines, taking as benchmark the levels of many indicators -poverty included- of 1990. Many of the indications are linked to health. Among the main aims of the 2030 UN Agenda, there is the pursue of gender equality. As a general picture, all the goals and targets are encompassed along three main dimensions, which are the economic, social and environmental sphere, the so-called ESG criteria⁴.

An important point to state is that throughout the whole chapter I chose to proceed through an Institutional Based View (IBV) approach, the very reason being that, given the complexity and the broad spectrum of the Sustainability theme in the insurance industry, a priority is describing among the rules and regulations both at an EU and at a global level, being hence able to give the most general and inclusive perspective possible. In particular, in this first half of the chapter I will provide an institutional view at a global scale, taking into account themes regarding UN, SDGs and international agreements reflecting directly on the community as a whole.

³ See United Nations, (21st October 2015), *Resolution Adopted by the General Assembly on 25 September 2015*, https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

⁴ See World Health Organization, (19th February 2018), *Millennium Development Goals (MDGs)*, [https://www.who.int/news-room/factsheets/detail/millennium-development-goals-\(mdgs\)](https://www.who.int/news-room/factsheets/detail/millennium-development-goals-(mdgs))

1.1.2. The Paris Climate Conference

Particularly regarding the environmental sphere, some concrete actions have already been taken at an institutional point of view. A concrete initiative dates back to December the 12th 2015. This date is quite important as it defines something never happened before: the representatives from 196 countries⁵ of the world for the first time made a joint effort as to set concrete efforts and goals as to face the increasingly overwhelmingly issue of climate change; never before something before had happened in human history. Not only single countries were involved, rather among the parties signing the EU is included (bringing along, of course, its member states). At a closer look, as a matter of fact the Paris Conference, officially recognized as the COP 21 (Conference of Parties) is to be enclosed in the broader picture of the United Nations Framework Convention on Climate Change (UNFCCC) of May the 9th 1992 in New York⁶. In more concrete terms, the declared goal of the Conference, mostly known as the “Paris Agreement”, is to deal with global warming, particularly setting out a threshold of global average temperature increases below 2 degrees Celsius, preferably 1.5 degrees. With its 29 articles as a whole, it is legally binding for the parties at stake; this is perhaps the elements attributing this high value to the Conference; simply, the countries agreeing to the terms set by the conference are obliged to comply in general terms.

The solutions proposed were brought into action only at a second stage after conditions were reached by the signees, on November the 4th 2016⁷ with nearly a month elapsing. There are indeed technical reasons behind it, based on Article 21 paragraph 1: “This Agreement shall enter into force on the thirtieth day after the date on which at least 55 Parties to the Convention accounting in total for at least an estimated 55 per cent of the total global greenhouse gas emissions have deposited their instruments of ratification, acceptance, approval or accession.” Each nations submitting its targets in a climate perspective during the Conference promised to cover about 90% of global emissions⁸ specifically the greenhouse gas. As to make the Conference smoother, all the participants agreed to set out and communicate to the secretariat prior to the Conference the INDCs, the Intended Nationally Determined Contributions⁹. These are not binding national plans highlighting actions to be taken in view of the climate change, such as a drop in greenhouse gases levels in the national soil, as to better allow the aims of Paris to be reached.

⁵ See United Nations Framework Convention on Climate Change, (2015), *The Paris Agreement*, <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

⁶ See United Nations, (12th December 2015), *PARIS AGREEMENT*, https://unfccc.int/sites/default/files/english_paris_agreement.pdf

⁷ See United Nations, (12th December 2015), *PARIS AGREEMENT PARIS 12 DECEMBRE 2015*, <https://treaties.un.org/doc/Publication/CN/2016/CN.735.2016-Eng.pdf>

⁸ See United Nations, (2015), *COP 21 - Frequently Asked Questions*, <https://www.un.org/sustainabledevelopment/wp-content/uploads/2015/10/COP21-FAQs.pdf>

⁹ See United Nations Framework Convention on Climate Change, (2015), *Intended Nationally Determined Contributions (INDCs)*, <https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/indcs>

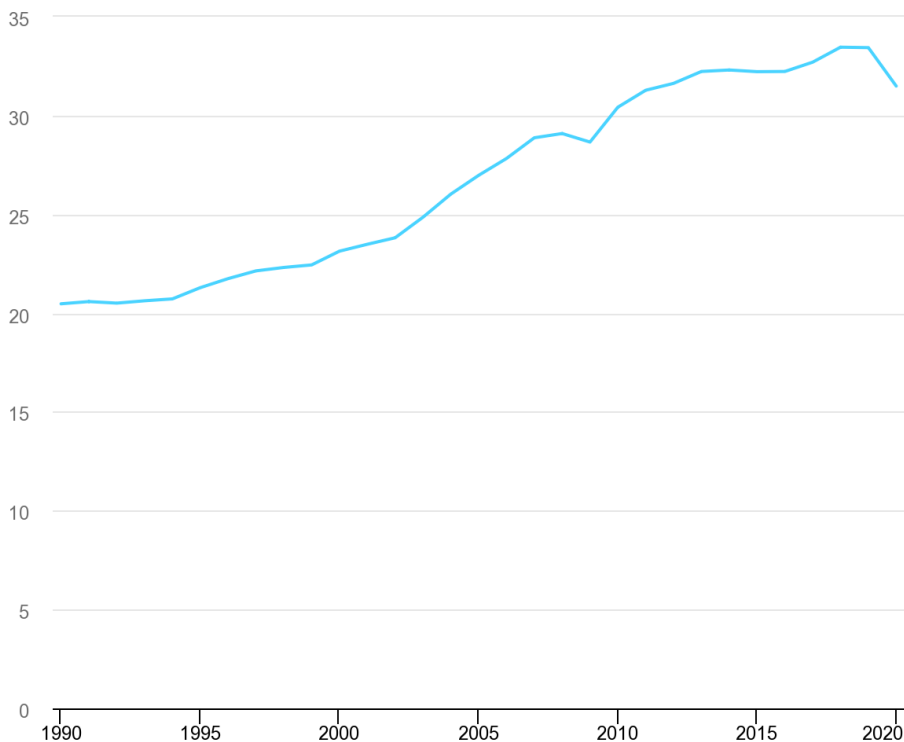
Following the path of the abovementioned INDCs, the Paris Agreement is structured as defining a program of a 5-year base. It is about deep transformation at a social and economic level, and, as a consequence and respecting the timeframe target, by presenting the plans, most commonly recognized as NDCs (Nationally Determined Contributions). They are indeed concrete, an obvious reason lying in a simple wording sphere, as they were not intended any more as the INDCs set out and proposed in advance to COP21.

Still, the plan includes a much broader view. In a long-term perspective, in fact, the signees are expected to present by 2020 the so-called LT-LEDS, which is to say, the long-term low greenhouse gas emission development strategies. Tricky as they might seem, they represent a planning including prosecutable measures that a country is expected to take by 2020 and in the future in accordance to the main principle of reducing the GHG (greenhouse gases) emissions, still in the context of the Paris agreement¹⁰. There is a double-sized benefit in implementing the LT-LEDS, as they both aim at reducing emission and favour a sustainable development for the country in question. An important point here is: did those futuristic measures effectively work? According to several stats of the International Energy Agency (IEA), it indeed appears to be so. At least as far as gases amounts at a global scale are concerned, the CO₂ emissions passed from 32.2 Gt in 2015 -the starting year of the Paris Agreement, when nations actually started setting those long-term goals- to 31.5 Gt in 2020 - exactly the deadline proposed for showing the results of those plans- according to a table of the IEA tracking the CO₂-related emission over the timeframe 1990-2020¹¹ with an overall change in the five-year period of interest for this analysis of a negative 2.17%¹². Even though the LT-LEDS are not mandatory as much as the NDGs, still they have been a way of contributing to this overall drop in CO₂ emissions, and more than this are still useful in defining a path for countries in view of a climate-driven growth.

¹⁰ See Global Green Growth Institute, (October 2020), *GGGI's services on supporting the development of LT-LEDS*,

¹¹ See IEA, (2nd March 2021), *Global Energy Review: CO₂ Emissions in 2020*, <https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020>

¹² See IEA, (1st March 2021), *Global energy-related CO₂ emissions, 1990-2020*. <https://www.iea.org/data-and-statistics/charts/global-energy-related-co2-emissions-1990-2020>



Global-energy related CO2 emissions 1990-2020 (Gt), IEA, 9 March 2021

Being more specific, countries work together as to reach this common and sustainable goal in different ways. Among the preponderant themes in terms of decisions to put in place the agreement, important elements ought to be considered in three major contexts: Finance (53-65), Technology Development and Transfer (66-71), Capacity-building (72-84)¹³. The Agreement specifically offers a framework for countries with respect, among others, to these abovementioned areas.

As far as the *financial part* is concerned, the basic mechanism provides that developed countries should offer aids to developing countries, as jointly the Convention and the Protocol prescribe. It is crystal clear in the decision 65, also referring to Article 2 of the Agreement, according to which the resources should help the beneficiaries to cope with policies and action plans. Several kinds of policies, of course depending on the conditions in the countries implementing them, are recognized, ranging from results-based payments, incentives as to drop emissions from degradation of forests up until joint mitigation and adaptation approaches still with regards to forests. Furthermore, the Convention, according to article 11, addresses the management of the operation of the Financial Mechanism to some external bodies¹⁴. As a matter of fact, in decision 59, the entities in charge of this aspect are several, among which the Green Climate Fund (GCF), the Global Environment Facility

¹³ See United Nations Framework Convention on Climate Change, (2015), *Decision -/CP.21. Adoption of the Paris Agreement. Draft decision - /CP.21*, https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/cop_auv_template_4b_new__1.pdf

¹⁴ See United Nations Framework Convention on Climate Change, *Climate Finance*, <https://unfccc.int/topics/climate-finance/the-big-picture/climate-finance-in-the-negotiations/climate-finance>

(GEF) along with the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF).

For what concerns the *Technology side* of the Agreement, the main aim is to provide guidance for the amelioration and development of the Technology Mechanism. Once again here, a support is asked to bodies not intrinsic to the Paris Conventions, such as the Technology Executive Committee (TEC) and the Climate Technology Centre & Network (CTCN). As referred to in decision 66, the main focus of those two authorities are R&D and endogenous technologies within countries, including also the ones obtained by replicating and re-adapting technologies already in use¹⁵. Along with this, the Agreement imposes that a period assessment on the results of the Technology Mechanism is to be made as to guarantee its effectiveness. Finally, the body designated for the implementation of the Mechanism is the Subsidiary Body for Scientific and Technological Advice (SBSTA), as decision 68 reads out. It is made of government members with expertise in the field, with recommendations to the COP -already more than 200 from since its advisory role began- in terms of biological diversity and measures in place following the guidelines provided by the Paris Agreement.

The *Capacity-building* aspect is a third important leg in the Decisions of the Convention. Here, there is a particular reference to developed countries, for the very reason of them not managing to confront with all the challenges put forth by climate change. That's why there is an attention to capacity-building, in the sense that developed countries help developing ones to literally build measures as to face the environmental challenges, proposing in this sense a working agenda over the period 2016-2020, with the essential duty of keeping and empowering transformation over time¹⁶.

So far everything seems to be very smooth. They are addressing the right problems, using the appropriate external and supportive bodies. Still, how did the Conference make sure that progress was actually tracked? In practice, as expected in article 4 paragraph 2, a new scheme is proposed, the enhanced transparency framework (ETF) with the aim of keeping an eye on the progresses of the NDCs set by 2020¹⁷. More than this, there is even a longer-term perspective going past the official target year of the works. According to what the Agreement requires, the signees are called to abide to a unique transparency process. As a matter of fact, and in order to be more precise, the real operationalization, the so-called modalities, procedure and guidelines (MPGs)- of the ETF occurred only in 2018, still it provides the way through which an effective track of progress is feasible throughout the years.

¹⁵ See UN Climate Technology Centre & Network, *Endogenous technologies*, <https://www.ctc-n.org/technology-sectors/endogenous-technologies>

¹⁶ See United Nations, *Capacity-Building*, <https://www.un.org/en/academic-impact/capacity-building>

¹⁷ See United Nations Framework Convention on Climate Change, *Introduction to Transparency*, <https://unfccc.int/Transparency>

Eventually, the whole initiative seems to have had some positive results. Apart from the previously cited graph of the IEA, there is an optimistic trend towards zero-carbon solutions and new markets. In any case, the process has been designed in a very long-term perspective -just think that the ETF has 2024 as first benchmark year- and, even more interestingly, this is probably an initial phase of the whole process, as countries might with high chance then called to set out new an increasingly more ambitious targets in the next future.

1.1.3. Description of the 17 SDG Goals

In the 2030 Agenda by the UN General Assembly, the core is represented by the 17 Sustainable Development Goals (SDGs). The main principle behind this is “leaving no one behind”¹⁸. A particular attention is drawn on the theme of disability; in spite of this not being mentioned precisely in the SDGs, there is a push towards the inclusion of all people hence that is why indeed this theme is included. The SDGs have a 15-year time frame target, and with respect to disability, the UN takes on a global mission of ensuring equality in this sense in global terms. The promise to be delivered, at a general level of the Goals, starts in September 2015. It is interesting to notice that they are effectively pursuing a joint action along with the principles of the Paris Conference, where the common denominator is, once again, Sustainability. Not only as regarded in the strict sense of a sustainable development from a purely environmental and economic point of view as Paris is doing, rather the UN embraces the challenge with a broader view, involving sustainability at a personal level, as to build a better, more inclusive and eventually happier global community and society. That is why in fact the UN prefixes to really changing the world through the adoption of the SDGs.

Indulging on an historical perspective of the principles, they are not stand-alone guidelines, but are instead following a path towards more equality and reduction in poverty rate started some decades ago¹⁹. Already in 1992 nearly 180 countries adopted Agenda 21 during the Earth Summit, with a focus on lives of human beings and on the environment. A further step forward was taken in New York in 2000, where, as a result of the Millennium Summit, the Millennium Development Goals (MDGs) were devised, with the specific aim of contrasting the extreme poverty and the year 2015 as target. They were 8 in total, and the results had been concrete, with for instance around 1 billion people managing to get past the extreme poverty line, as well as a drop of child mortality rate, not to mention the increased volume in children being able to access basic education²⁰. Even though the outcomes had been inspiring, still many other problems had to be addressed. In any case, the MDGs

¹⁸ See United Nations, #Envision 2030: 17 goals to transform the world for persons with disability, <https://www.un.org/development/desa/disabilities/envision2030.html>

¹⁹ See United Nations, *Do you know all 17 SDGs?* <https://sdgs.un.org/goals>

²⁰ See Robeco, *Millennium Development Goals (MDGs)*, <https://www.robeco.com/it/punti-di-forza/investimenti-sostenibili/glossario/millennium-development-goals.html>

has been a first experiment, quite successful though, of the fact that by setting goals effective results could indeed be reached. That's why, taking also into consideration the relatively narrow scope of the MDGs, the UN carried out a second experiment in a way, the one we are all experiencing in these years, in other words, the General Assembly opted for setting a new set of guidelines, this time much more encompassing and addressing not only poverty as before, rather thinking about the society as a whole (as cited before, for instance, the disability theme is a hot theme), in all aspects contributing to a happier life for everybody, in a sense in an even more responsible way as before: the 17 SDGs.

The plan is quite similar in terms of target time, as it is still concerning with several targets to be reached within a 15-year span. These Goals are:

1. No poverty
2. Zero hunger
3. Good health and wellbeing
4. Quality education
5. Gender equality
6. Clear water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, Innovation and Infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, Justice and Strong Institutions
17. Partnerships for the goals



I will now proceed with a brief analysis of some of these important goals, outlining the existing issue and the targets set out specifically by UN in this respect.

Goal 1: No poverty.

Lacking clean water and food, an unimaginable amount of people is starving to death and suffering. There are 4 sub-targets²¹:

- 1.1- The extreme poverty line is acknowledged with 1.25\$ a day as the upper bound of the money people deemed to be in such condition are living.
- 1.2- Poverty rate reduction by 50% or more. It refers to people in a poverty state according with respect to any dimension.
- 1.3- Social protection systems to be implemented nation-wide, with particular focus on the poor and disadvantaged
- 1.4- Ensuring equal right regarding economic resources, basic services, land ownership and control among others
- 1.5- Build Resilience to Environmental, Economic and Social Disasters, with regards to shock of any type, economical as well as environmental
- 1.6- mobilize resources to implement policies to end poverty, from a heterogeneous set of sources and devising also programmes and policies in a poverty-reduction perspective
- 1.7- Create pro-poor and gender sensitive policy frameworks, giving an incentive for investments in for poor and women (gender equality is another theme of great interest in the SDGs, soon following the Goal 1)

²¹ See The Global Goals, *1 NO POVERTY*, <https://www.globalgoals.org/goals/1-no-poverty/>

Goal 5: Gender equality

The aim is to give a halt to all situations where women and girls are discriminated, as well as violence; among this, also women trafficking is condemned. There is also a concern regarding the role of women in society as a whole, with the target of ensuring higher, or at least equal, participation in any sphere in terms of leadership in the decisions, in an economic and political sense. Giving possibility to fully express in these contexts is a fundamental prerequisite for women being able to take active roles in society. Moreover, a reference is made in terms of reproductive rights -such as abortion and fertility treatments²² - following the Programme of Action of the International Conference on Population and Development along with the Beijing Platform for Action of 1995²³.

Goal 13: Climate action

There is the preponderant theme of the greenhouse gas emission, exactly the same one faced in the vast program announced in the Paris conference. An important theme is indeed regarding world economies shifting in the direction of carbon neutrality in view of the year 2050. There have been some progresses in the latest years with regards to this. In particular, in 2020 it was recorded a 1.2 degrees Celsius increase in average temperatures globally, fully in line with the Paris guidelines of a target 1.5 degrees and in any case staying below 2 degrees Celsius. Hopefully, national adaptation plans have already been executed by the vast majority of the 154 developing countries so far²⁴.

1.1.4. The 3 ESG Dimensions

We are now increasingly hearing around us about those ESG criteria. Hence, it is dutiful to examine them more deeply. ESG is an acronym that stands for Economic, Social and Governance. They are mostly related to the investors, in a sense that those fissures, in undertaking actions and specifically in choosing the company to put their money in, are increasingly taking as one of the determinants those ESG criteria. The palatability of the company at stake depends, among other factors, also on these criteria, as a guide for investors in making their screening when about to take economic decisions. The ESG concept in the labour market is now becoming really pervasive, there are even new positions created on this purpose, such as the ESG analyst. This is to say that any company must now be very conscious about, and act accordingly as to leave a positive impression to potential investors; it is not only about making a positive environmental impact on society, which of course is of primary relevance -increased even more by the pandemic by the way- but, more than this, it really

²² See FinLaw, (19th November 2018), *What are Reproductive Rights?* <https://www.findlaw.com/family/reproductive-rights/what-are-reproductive-rights-.html>

²³ See UN Women, *SDG 5: Achieve gender equality and empower all women and girls*, <https://www.unwomen.org/en/news/in-focus/women-and-the-sdgs/sdg-5-gender-equality#:~:text=Targets,and%20other%20types%20of%20exploitation>

²⁴ See United Nations, *Take urgent action to combat climate change and its impact*, <https://sdgs.un.org/goals/goal13>

has to do also with economic gains: a company ensuring to comply with those ESG criteria in offering its products or services will be well ahead with respect to the ones ignoring this fact. It is for instance the case of mutual funds and brokerage firms, offering Exchange Traded Funds (ETFs) following the ESG principles²⁵. It is worth reminding that the ESG criteria are not entirely new, rather they have been devised various decades ago, still they really came in fashion in the last years.

- *E for Environmental:*

it is about the impact of companies' operations on the environment, both in a direct and indirect way, as well as in terms of supply chains. The threat of those companies disregarding these principles is a higher financial risk, therefore less attractiveness in an investing perspective. An issue at the moment is represented by the fact that the E is an even more important aspect at the moment, due to the drawbacks represented by climate change, improving the environmental risk, with ultimately uncertainties on the economic growth of countries. E is about, for instance, the way companies utilize the natural resources at their disposal in creating the final product or service. More concretely, investors, with the E parameter, often take a look at the extent to which companies are aiming at reducing, for instance, CO2 emissions. There might also be, and this is a further reason for companies to really take into consideration the E component of the criteria, related risks and incidents such as mining explosions or similar, with an even more damaging effect in terms of legal consequences, at least with fines if no worse than this. Obviously as it is, all this would potentially result also in a bad status for the company in the eyes of markets, with in turn effects on sales and profits in the short and long term. Still today, however, there is actually a lack of a common framework for policymakers. The trackers are different, depending on the reference area²⁶:

1. The SEC prescribed reports of greenhouse gases emission for listed companies starting from March the 21st 2022, the so-called Scope 1 and Scope 2 emissions, with potentially the need for a Scope 3 emission if considered to be material
2. The European Commission made on March the 8th 2022 a proposal as to reduce by the year-end gas from Russia aiming at diversifying gas suppliers. On March the 15th,

²⁵ See Investopedia, (18th March 2022), Thomas Brock & Ariel Courage. *Environmental, Social and Governance (ESG) criteria*, <https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp>

²⁶ See S&P Global, (22nd April 2022), ESG Regulatory Tracker – March 2022. <https://www.spglobal.com/esg/insights/esg-regulatory-tracker-march-2022>

instead, it made a step forward by introducing the Carbon Border Adjustment Mechanism (CBAM) in the reform pack “ready for the 55%” of the EU²⁷

- *S for Social:*

According to a recent KPMG report²⁸ the S is quite a tricky one. In the sense that, contrarily to E and G, it is quite hard to capture and quantify. It is quite obvious that with S we are dealing with social issues. Here the problem is that they are, as a matter of fact, less tangible as far as data are concerned; in other words, it is harder to find figures witnessing that a company is doing good in a social sphere. Still with regards to the United Nations, there is a body, called the Principles for Responsible Investment (UNPRI in alternative to PRI), with the specific aim of giving clearer insight for investors in terms of the implications brought in by Sustainability. They seem to confirm what just said in terms of the tangibility of the social factor of the ESG: “The social element of ESG issues can be the most difficult for investors to assess. Unlike environmental and governance issues, which are more easily defined, have an established track record of market data, and are often accompanied by robust regulation, social issues are less tangible, with less mature data to show how they can impact a company’s performance.” More specifically, the S can very well be interpreted in the context of the ESG criteria -equivalently referred to as socially sustainable finance- with a wide variety of aspects, ranging from labour standards, human rights and supply chain issues²⁹.

- *G for Governance:*

Governance is the most solid of the three pillars of the ESG criteria. For instance, the simple fact that, taking into consideration these criteria with a general perspective, they are all in all governance guidelines is enough to understand how fundamental the G part is. More than this, G is very appealing also due to the fact that in many cases the issues it is referring to are about questions that an average prudent investor would normally ask himself before taking action. In broad terms, Governance refers to the series of interactions between the company in question and the full range of stakeholders, which amounts to say that G is a very comprehensive factor in this sense. A typical issue for a potential investor, addressed by G, is for instance the chance of experiencing conflicts of interest between their person and the

²⁷ See Consiglio Europeo, (15th March 2022), *Il Consiglio approva il meccanismo di adeguamento del carbonio alle frontiere (CBAM)*, <https://www.consilium.europa.eu/it/press/press-releases/2022/03/15/carbon-border-adjustment-mechanism-cbam-council-agrees-its-negotiating-mandate/>

²⁸ See IRSG & KPMG, (June 2021), *Accelerating the S in ESG – a roadmap for global progress on social standards*, <https://assets.kpmg/content/dam/kpmg/uk/pdf/2021/06/irsg-kpmg-accelerating-the-s-in-esg-report.pdf>

²⁹ See Jason Paul, (22nd February 2022), *Fixing the S in ESG*, https://ssir.org/articles/entry/fixing_the_s_in_esg#

company; they want to obviously know it in advance before investing. Or, once more, they might be interested in assessing the degree of independency of the board of directors as to ensure a smooth and efficient management of the target company by the investor. To make another tangible example, if maybe once investors would have deemed a cartel formed by a company as normal in the game, now instead they would be regarded as breached in the G, with seriously negative effect on the company. All this is to say that now the standards tightened a lot, especially regarding the G factor, the most influential one in the tripod, hence companies should now really think twice before initiative a potentially harmful action in this sense, to the eyes of the investors³⁰.

1.2. CE Sustainable Finance Disclosure Regulation

1.2.1. Generalities

By prosecuting the analysis of the insurance market following an Institutional Based View approach, a fundamental aspect for the European Commission and a macro-theme of primary importance for all European bodies nowadays is sustainable finance. In terms of insurance industry, several adjustments have been made in the last decades. In simple terms, sustainable finance means specifically undertaking investments in accordance to ESG criteria as to ensure that they are sustainable in the long term³¹. In a more European Union perspective, it amounts to saying all the investments with the double benefit of enhancing an economic development for the member states and reducing pressures at an environmental level. By virtue of this very encompassing purpose, many actions have been taken by the European and Global community so far, ranging from the Green New Deal, to the Paris Agreement up until the UN Agenda for 2030. Now we will take a closer look at the regulations produced more specifically in terms of insurance industry. ANIA is an important player in this sense as it keeps track of many of the European initiatives in the field. More interestingly, it even created not long ago an Observatory with purely the aim of looking at initiative in terms of Sustainability of the Insurance companies.

The basic framework from which everything is built is the Taxonomy Regulation, which provides the different KPIs' disclosure requirements as to allow for a correct and suitable assessment of investments which are eco-friendly and environmentally sustainable. All the further actions of the

³⁰ See Deutsche Bank Wealth Management, *What is the "G" in ESG?* <https://deutschewealth.com/en/our-capabilities/esg/what-is-esg-investing-wealth-management/corporate-governance-g-in-esg-governance.html>

³¹ See European Commission, *Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL*, https://eur-lex.europa.eu/resource.html?uri=cellar:e77212e8-df07-11eb-895a-01aa75ed71a1.0001.02/DOC_1&format=PDF

European community have been and are taken with reference to the TR. Even traditional regulatory bodies such as Consob are now obliged to take actions in agreement with what prescribed in the TR and taking it as a benchmark. The Taxonomy Regulation is based on 6 macro-aims with the objective of guaranteeing a sustainable development for the economies, and these are addressed in the different Regulations implemented so far by the EU, among which the Climate Delegate Act, the art no. 8 Disclosure Delegated Act, the Complementary Climate Change Delegate Act and the Platform of Sustainable Finance (PSF).

Having just mentioned how the ESG criteria are crucial in the broader aspect of the Sustainable Finance and focusing on the G part, another theme of relevance has become the Sustainable Corporate Governance. Until few years ago, basically none really had a concern in terms of a sustainable governance in companies. The real fact drawing attention to this aspect was a report from EY in 2020. Although having it been object of widespread criticism even from illustrious scholars, it had the merit of making people, for the first time, aware of this. That is why then in the Official Journal the EU published a few months ago a Directive on Corporate Sustainability due diligence. It is very important and perhaps among the first decisive resolutions in terms of sustainable governance, as in fact it prescribes the responsibility for firms to overlook activities causing harms in terms of human rights, labour rights and stakeholders more in general.

Eventually, it is dutiful mentioning that, as to have an ever more technical and a fully complete vision in terms of sustainable investments by insurance companies, the green bonds are to be included. These debt instruments have been created, as a matter of fact, by the European Investment Bank in 2007. They then got reinforced and even more justified with the Green New Deal in 2020 and they are fundamental as they basically create a shared framework. A standard which is recognized by everyone is of the highest value for all parties, both firms and investors, in order to more suitably insert their action in a market which is increasingly demanding compliance with the ESG criteria.

The analysis and the development of the regulatory themes according to the IBV framework is instrumental in contextualizing the business strategies, as well as market, investment and in-house organization decisions of the insurance company Generali Italy which I will be analysing in the last paragraph.

1.2.2. Taxonomy Regulation

What do we precisely mean with taxonomy regulation? It is basically a classification, or better, in technical terms, it prescribes disclosure requirements for KPIs of both a quantitative and qualitative

type- think about, for instance, KPIs in investments as well as inventory or number of sales³²- in terms of the extent to which an insurance company's business is sustainable in the non-financial statement³³. Under a quantitative point of view and related to the insurance industry, there are two main KPIs in particular: investment and underwriting.

The investment KPI is about the life business of an insurance company. The portfolio of investments is divided into: eligible (permissible -in a way- by the Taxonomy Regulation), aligned (to art.3 of the Taxonomy Regulation) and non-eligible investments (not included by the TR). On the other side, the underwriting KPIs focus more on the non-life side, as well as the reinsurance one, of the insurance company, by dividing the premiums using the exact same criteria of the other abovementioned key performance indices. As far as disclosure requirements are concerned, there are two "moments" for the businesses. In this first one, which is referred to the years 2021 and 2022, there will only be clarifications in terms of eligible investments and premiums, up until a full alignment with the Taxonomy Regulation is expected in 2023. There is also at the moment the willingness, through a Corporate Sustainability Reporting Directive (CSRD) of broadening the pool of insurance companies to be bound to respect the Taxonomy Regulation framework. In particular, it is done by revising and modifying the Non-Financial Reporting Directive (2014/95/EU). According to this regulation by the European Union, at the moment the subjects linked to those disclosure obligations only include big-sized insurance businesses, which is to say the ones exceeding 2 of these 3 parameters: asset value greater than 20 M euros, net turnover of about 40 M euros, or 250 as number of people employed on average. Given that nowadays, regarding at the moment the number of employees and actually keeping this amount relatively low, the other two criteria are often times abided to by small and middle-sized insurance businesses, with the eventual result of being able to include them as well in the Taxonomy Regulation. Moreover, also a sustainability report is required to be disclosed by the complying insurance companies, explaining the plans and outcomes in a sustainable key and the potential bad effects, for instance in terms of supply chain. It is for this very reason that, quite interestingly given the discussions of the previous chapter, that some ESG criteria for this exact purpose are introduced by the Sustainability Accounting Standards Board), as a tool in enhancing the disclosures of the insurance companies according to the Taxonomy Regulation. Also, some standards are proposed in addition along the same path, such as the Task Force on Climate-Related Financial Disclosures (TCFD) or the Principles for Responsible Investment (PRI). In this way, there is a uniformity in terms of corporate responsibility for the various stakeholders within the company, with

³² See Lavery Mc Glynn, (24th June 2015), *QUANTITATIVE VS QUALITATIVE KPIs*, <https://www.laverymcglynn.co.uk/blog/news/quantitative-versus-qualitative-kpis>

³³ See Corrado Avesani & Lisa Sparapan, (January 2022), *La Sostenibilità nel Settore Assicurativo*, <https://assets.kpmg/content/dam/kpmg/it/pdf/2022/02/ESG-settore-assicurativo.pdf>

the duty of ensuring that the European Union Sustainable Reporting Standards have been followed in disclosing.

Along with this, there is also a prominent role of independent auditors, whose main task is to check that disclosures had been proceeded by the insurance company in compliance with the regulations. Specifically, the Consob – the supreme regulatory body for Italian listed companies- includes two different types of assurances the independent auditors are called to give³⁴:

- A “limited assurance”, which is to say that external auditors will report whatever they noticed not to be in line with the standards in the NFS. In this case, there is a “negative” approach in the sense that auditors start with the presumption that there is something wrong; it is an “absurdum” reasoning as to detect, by highlighting from this point all the elements actually in line with the Taxonomy Regulation, possible failures in complying with the just mentioned TR. Even though it might be more rigorous, as far as the engagement is concerned the limited assurance is lighter
- A “reasonable assurance” might appear as a milder check in a way, as the auditors limit themselves to give an opinion related to the possible incompliance of the disclosures with the framework. As a matter of fact, it is not. In this context, contrarily to the other form, the final consideration is expressed in a positive way, by reporting all the elements and facts abiding to the Legislative Decree no. 254/2016. This one, in terms of engagement, is much more substantial on the other side.

The option for the insurance companies, based more than anything else on the degree on engagement, it is advisable, and there is already a trend in this direction, to switch from a “limited assurance” to a “reasonable assurance”.

In order to have a more up-to-date insight of the current state of the art of the Taxonomy Regulation, as illustrated by ANIA, the National Association of all the Italian Insurance Companies, probably among the most competent bodies in this respect, it is dutiful making a further clarification. As it is nowadays, the TR introduced in the EU normative system the taxonomy of the sustainable economic activities based on 6 environmental macro-aims. An economic activity, in order to be regarded as eco-friendly, must overcome certain performance criteria and ought not to be harmful towards the other environmental aims, in compliance with some “minimum” clauses of a social character, with an eye on the respect of human and labour rights. The Taxonomy Regulation, in itself, has many declinations and expresses itself through several regulatory frameworks.

³⁴ See Silvia Dallai & Patrizia Riva, (7th May 2020), *L'assurance sulla DNF*, <https://iris.uniupo.it/retrieve/handle/11579/116072/86023/CAP.7.pdf>

- The Climate Delegate Act, published on December the 9th 2021 and enforced from January the 1st 2022, details the technical screening criteria in order to classify an economic activity as environmental-friendly and not causing any particular damaged. It deals specifically with the themes of climate change mitigation and adaptation in the different fields³⁵
- Article no. 8 Disclosure Delegated Act, published on December the 10th 2021 and enforced from January the 1st 2022, which specifies that, as Arthur Cox LLP explains³⁶, “the content and presentation of disclosures required in accordance with Article 8 of the Taxonomy Regulation”. It really acts in support of the TR.
- A proposition for the Complementary Climate Change Delegate Act, published in the Official Journal (OJ) on February the 2nd 2022 by the European Commission³⁷ and expected to be applied starting from the beginning of 2023, introducing further economic activities in the energy sector with the related disclosure requirements in terms of natural gas (including electricity and heat) and nuclear sources (comprising R&D on new technologies and renovation or modification of nuclear plants). It is an “on top” document with respect to the Climate Delegated Act
- The Platform of Sustainable Finance (PSF), grouping a number of experts as to enhance the development of sustainable finance policies, recently sent out two draft resolutions concerning further aspects of regulations for insurance companies: respectively published on March the 29th and the 30th in the OJ, in terms of extending the taxonomy on the environmental goals and regarding recommendations with respect to developing technical screening criteria over the 4 targets of the EU Taxonomy not covered so far

1.2.3. Sustainable Corporate Governance

Sustainable Corporate Governance is a crucial theme in terms of EU setting regulations following the ESG principles, especially for insurance companies. As a matter of fact, making some quick steps behind, an initiative in this sense dates back to 2020. Ernest Young produces in fact a whole paper called a “study on directors’ duties and sustainable corporate governance” in which basically the main point in favour of a push in reforming the governance in firms towards a more sustainable vision is represented by the fact that there is a lack of a long-term vision by the EU corporate governance; hence EY proposes some measures to remediate to this, given the possible harm caused to

³⁵ See European Commission, (2022), *Taxonomy regulation Delegated Act*, https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2022-631_en.pdf

³⁶ See Suzanne Kearney, (14th December 2021). *EU Taxonomy Regulation: Article 8 Delegated Act published in Official Journal*, <https://insights.arthurcox.com/post/102hefr/eu-taxonomy-regulation-article-8-delegated-act-published-in-official-journal>

³⁷ See Deloitte, (2022), *The Complementary Climate Delegated Act*, <https://www2.deloitte.com/ce/en/pages/tax/the-complementary-climate-delegated-act.html>

stakeholders and the environment, bringing as a proof of this the a rise in gross pay-outs to shareholders, perhaps in any case disregarding evidence showing the opposite view of their theory, with consequent criticism³⁸.

Apart from the perplexities the report rose, it had the very important function of bringing this issue to the table and enhance the awareness for a broader audience of the theme. Following up -probably among the most important concrete actions in this sense- the EU published the Proposal of a Directive on Corporate Sustainability due diligence on February the 23rd 2022 (Level 1 proposal). The Directive proposal of companies' due diligence with regards to Sustainability expects that, whatever firm is eligible within the applicability parameters, is obliged to detect and -if necessary- prevent, put an end or soften the negative consequences of the economic activities of the insurance businesses on human rights and on more generally on the environment. At the moment, it finds itself in a negotiation phase with the European Parliament and Council. As far as the enforcement date is concerned, the negotiation period has to first of all finish before an effective implementation. As soon as a general agreement is reached, then actually there is quite a long-term vision actually in terms of this Directive proposal. In fact, the Member States will be offered a two-year time span in order to integrate the Directive in their respective national laws.

What about ANIA's position in such a situation? As a matter of fact, the Association for the Italian Insurance Companies is keen on stressing two important points³⁹:

- There is a heavy reliance on a “principle-based” approach. In this case, in more practical terms, a limited set of Level 1 principles must be defined and set; moreover, an extensive use of “soft-law” instruments is advisable (they are already in use in Italy as well as other countries). With “soft laws” it is normally referred to all actions that are not law in its properly statutory meaning. They are rather other courses of action, ranging from market mechanisms, private charity, education, up to moral sanctions⁴⁰
- An impellent need of coherence with governance requisites is present; those are already contained in the sectorial norms and are demanded by the Sustainable Finance Disclosure Regulation (SFDR).

³⁸ See Mark J. Roe, Holger Spamann, Jesse M. Fried, Charles C. Y. Wang, (27th April 2021), *The European Commission's Corporate Governance Report: A Critique*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3711652

³⁹ See Angelo Doni, Alessandra Diotallevi, Anna Maria David, Giorgia Esposito, Martina Bisoffi, (February 2022), *Osservatorio ANIA sulla Sostenibilità per le Imprese Assicuratrici*, <https://www.ania.it/documents/35135/144872/OSSERVATORIO+ANIA+SULLA+SOSTENIBILITA+PER+LE+IMPRESE+ASSICURATIVE.pdf/6be97699-32c4-a605-c1fb-74e6de67d503?t=1646668947385>

⁴⁰ See Dinah L. Shelton, (2008), *Soft Law*, https://scholarship.law.gwu.edu/cgi/viewcontent.cgi?article=2048&context=faculty_publications

1.2.4. European Green Bond Standards

The regulation proposal on the Green Bond entails the creation of a European standard, voluntary in nature, in line with the Taxonomy Regulation, featuring the emission of very high quality green bonds as to clearly identify the activities green and environmental-friendly with the eventual benefit of reducing the risks in terms of reputation and of harmonizing the control and review practises by external parties. As standards obligations, they are useful in the financing of investments and projects, but with the peculiarity by the way of not actually referring to any kind of initiative, rather exclusively to the ones for which there is an approach towards climate issues, such as sustainable investments for instance. All of this is done for the common goal of enhancing a greener place to live, green not only in the literary sense of course, encompassing instead all initiatives towards an environmentally conscious community and, more than this, a low-carbon economy. In other words, the green bond emissions are instrumental to achieving the goals set in the Paris Conference of 2015⁴¹.

As a matter of fact, neither the European green bonds are now. But, on the same page with respect to Sustainability and ESG criteria more in general, they came in vogue in the very last years. They were firstly created by the European Investment Bank (EIB) in 2007.

The EIB is a very important entity in the context of climate action, being actually the world's first financier. As a matter of fact, Sustainability is among the central goals of the Bank, jointly with the European Union. The same goes for the Paris Agreement and the SDGs. As a further indication of this, in the time span 2021-2030, a lot of investments are being made and planned to be delivered for a sustainable economy and future. At the moment, according to the official data of the EIB, in 2021 51%⁴² of the total investments -corresponding to 27.6 billion euros- were channelled in the climate action, an interesting data witnessing the great relevance attributed to this issue by the EIB. Of this amount slightly more than 15 billion euros were destined to climate action properly said, around 1 billion for the environmental sustainability and the remaining part benefitting both instead.

In particular, the EIB set a series of cardinal points and themes to work on over the following years, which are the target projects of the future Bank's investments⁴³:

- *Climate Migration*, with an orientation towards a reduction in GHGs through several initiatives, such as R&D for low-carbon technologies or renewable energy

⁴¹ See Think Tank Parlamento Europeo, (12th January 2022), *European green bonds: A standard for Europe, open to the world*, [https://www.europarl.europa.eu/thinktank/it/document/EPRS_BRI\(2022\)698870](https://www.europarl.europa.eu/thinktank/it/document/EPRS_BRI(2022)698870)

⁴² See European Investment bank, *Climate and environmental sustainability*, <https://www.eib.org/en/about/priorities/climate-action/index.htm>

⁴³ See European Investment Bank, *EIB climate action explained. Aligning all out operations with Paris agreement goals and principles*, <https://www.eib.org/en/about/priorities/climate-action/explained/index.htm>

- *Climate Adaptation*, which is to say projects anticipating climate changes and with the aim of weakening the adverse effects
- *Environmental Sustainability*, specifically relating to promoting sustainable management of natural resources

Following the path toward a definition of a common standard, on January 2020 the European Commission approved the resolution of the European Green Deal. In this respect, the President of the European Commission Ursula Von Der Leyen declared his willingness of making Europe “the first Climate Neutral Continent by 2050”. More than half a billion euros will be directed to finance the Deal. The real objective the Green New Deal is aiming at is the reduction of net greenhouse gas emissions by at least 55% by 2030.

Eventually, last year the European bodies actually took a concrete action as to make something concrete in terms of green bonds, after 2007. In fact, on July the 6th 2021, a Proposal on Regulations over the European Green Bond Standard was published in the Official Journal, with the main reason of legitimizing and of giving concreteness the environmental ambitions of the green bond market. Still, at the moment there are no real clues in terms of a possible exploitation, given the relative newness of the Proposal and the difficulties in implementation. A common standard in the field of green bonds is extremely useful, to both parties. In fact, if on the one side issuers can in this way show their compliance with the European Union Taxonomy, on the other side of the moon investors can be much more conscious about where they are actually putting their money⁴⁴. The creation of a shared framework is a great step forward, in a world where sustainability and green initiatives, despite having become so popular and important, are not at the same time perfectly classified and regulated yet.

⁴⁴ See Eurosif. *EU Green Bond Standard*, <https://www.eurosif.org/policies/eu-green-bond-standard/>

2. Management opportunity to create value with the ESG framework

2.1. State of the art on a global level

2.1.1. Generalities

Having already talked extensively about the relevance of ESG factors in business lives nowadays, it is hence crucial to being able to make an ESG proposition in order to create value for companies. With the ESG elements overlapping in many cases and being interdependent, there are 5 ways to explain how the value creation is obtained.

As a confirmation of that, as a result of the US Business Roundtable August 2019 statement on companies acting by caring all stakeholders, shareholders included, the ESG-oriented investments experienced a massive upsurge. In particular, according to a McKinsey report⁴⁵ the value of those investments had been \$30 trillion, 10 times more with respect to the relative level in 2004. The main driver here being the fact that managers are now much more committed to ESG as a way of ensuring a success, and in most cases, a survival of firms in a long-term perspective. Data show that, for several thousands of companies with an ESG-driven path being studied for the purpose, more than 605 of them recorded an improvement in the ROI.

So far so good, still there is one point missing. What is the real relation between ESG and value creation? In other words, in a cruder way, how do firms adopting those criteria improve from a financial point of view? There are 5 main elements in this case: top-line growth, cost-reductions, regulatory & legal interventions, productivity uplift, investment and asset optimization. It is important to mention that those criteria are not the bible, and in many cases can't be seen in their entirety in every business. Nevertheless, they are comprehensively addressing the main point of how creating value with the ESG framework.

1. *Top-line growth:*

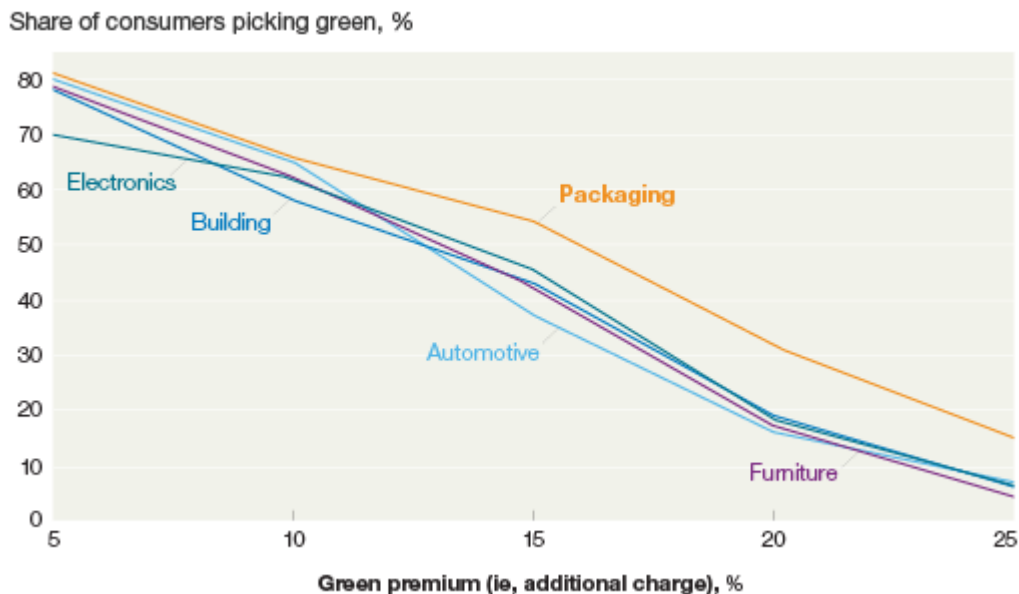
It indicates how a company can improve its revenue stream by exploiting the core business⁴⁶. When a company aims at growing in an already-established market or is willing to pursue a blue ocean strategy, the endorsement of authorities is needed. In this context, usually they go on a screening process of the companies, basing themselves, among other parameters, on the sustainability policy and performance of each of them.

⁴⁵ See McKinsey, (14th November 2019), *Five ways that ESG creates value*, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value>

⁴⁶ See Chris B. Murphy, Michael J. Boyle, Ryan Eichler, (25th March 2022), *Bottom-Line Growth vs Top-Line Growth. What's the Difference?* <https://www.investopedia.com/ask/answers/difference-between-bottom-line-and-top-line-growth/>

Consequently, a firm acting in accordance to ESG guidelines is probably going to be the one managing to get approvals and licenses for their growth strategy by the monitoring bodies. It is most of all here a matter of how you are perceived by stakeholders and the community as a whole: the more sustainability-oriented your company is, the greater the chances you are granted access in view of the initiative pursued. It is just not about recognition though, rather, from a strategic perspective, compliance with ESG may ensure the company cuts the competition as well.

Finally, this commitment for ESG parameters is crucial also in terms of consumer tastes. McKinsey found that, by analysing a sample of approximately 1000 consumers in the West (US and Europe), something about 70%⁴⁷ would pay a premium to get a green product, even though, in percentage terms, this additional contribution would rarely be over 5% on average. Still, it is another important indicator of how valuable is the green attitude of companies for stakeholders, end-users being here the case.



2. Cost reductions:

There is another advantage of making use of the abovementioned criteria, being the fact of being able to reduce operative costs by a considerable amount. A good case exemplifying

⁴⁷ See McKinsey Sustainability, (1st October 2012), *How much will consumers pay to go green?* <https://www.mckinsey.com/business-functions/sustainability/our-insights/how-much-will-consumers-pay-to-go-green>

the matter might be limiting the consumption of energy. Many companies are already on this page, by implementing environmentally friendly policies. These allow them to cut on costs, for instance improving and smoothening the manufacturing or redistribution processes and by pursuing appropriate recycling practises. It can really make firms save up a lot of money, simply, for instance, by acting on the value chain and improving it with an eye on the environment.

3. *Reduced regulatory and legal interventions:*

On the regulatory side of the matter, ESG is a real pass for companies. The main aim of companies is to reach a reasonable degree of strategic freedom in this context. As a matter of fact, the ESG compliance has a twofold positive effect: it contributes to lowering the possibility of getting opposition from governmental bodies, and on the other side it might even foster support by them.

Particularly delicate are for instance sectors government-subsidized or with a particular attention on the customers, such as, respectively, banks and aerospace, a failure in compliance with the ESG may put in question more than half of the revenues, whereas we get to, which is still a lot in any case, an impact of about a quarter in case, as an example, of consumer goods.

4. *Employee productivity uplift:*

A company showing positive behaviour toward society and the community has also an internal reflection, as far as employees are concerned. Many empirical researches are in favour of this. For instance, Alex Edmans from London Business School states that ROI of firms are improved by an average 2.8-2.9%⁴⁸ with respect to competitors not putting in place policies centred about ESG.

In fact, employees are basically happier in these cases. They feel part of a community, and also, they sense the fact that their work and effort is contributing to something in a social

⁴⁸ See Alex Edmans, (19th December 2013), *Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=985735

way, being further valuable in terms of social impact. Everyone is benefitting from this, both the firm being able to work more efficiently and the employees, really feeling part of something broader, of a common sustainable project as to build a better society to live in. Obviously, the opposite case is valid as well; employees not fully being integrated in a sustainable company are more likely to not be satisfied of their jobs at full, deriving from this, poor performances causing slowdowns in a firm's growth.

5. Investment and asset optimization

There are issues related to national measures by countries with the possibility of impairing profits for a firm, for instance regulatory measures in terms of emission relating to a firm operating in the carbon sector. Hence, instead of doing anything and then finding yourself in having to catch up by changing the way of doing after the downturns on the Balance Sheet, it is far better reprioritizing the assets. It is crucial to give a new purpose sometimes, taking into account the rapid market changes and being respectful in terms of people, process and technology⁴⁹.

2.1.2. Letter from BlackRock to CEOs

Let's start with a broad description of what sustainable investments are, with a particular focus on Blackrock. It is basically about experimenting new ways of doing business and encouraging increasingly more people to choose a sustainable future that companies are building up. Blackrock has a strong commitment towards sustainable investments. They believe that the moment has come, the society as a whole is now redirecting itself towards a sustainability transition; integrating those themes in the investment processes is key, given that they would help investors in creating and putting together more resilient portfolios, with probably higher returns in the long-term⁵⁰. Redirecting their investments means reallocating capital towards more sustainable aspects.

Blackrock, in this respect, acts in a broader picture, which is to say the mission of getting to a ground-level emission in greenhouse gases by 2050. Their belief is based on three main pillars⁵¹:

⁴⁹ See KPMG, (May 2020), *Prioritizing work when everything is a priority*, <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/05/prioritizing-work-when-everything-is-a-priority.pdf>

⁵⁰ See BlackRock, *Gli investimenti sostenibili di BlackRock*, <https://www.blackrock.com/it/investitori-privati/approfondimenti/investimenti-sostenibili>

⁵¹ See BlackRock, *Dall'ambizione all'azione – il percorso verso il net zero*, <https://www.blackrock.com/it/consulenti/chi-siamo/la-strada-verso-il-net-zero>

1. The sustainability risk is an investment risk: the climate risk will mean a drastic reallocation of capitals to be invested
2. The transition discloses opportunities for businesses and the society: albeit constituting some risks, overall these will be overwhelmed by the resulting investment opportunities
3. The transition will be beneficial at a global scale: a transition will in fact be fundamental for the clients and the economic system in its entirety

The zero-GHG emission target was defined by the society at the beginning of January 2021, and it is a very long-ranging aim given that the objective is prefixed for 2050. There is an inner link Blackrock aims at creating between its clients and the financial returns on investments. More than this, a synthesis between the firm and its shareholders is much more suitable as to understand the major issues in our society.

Getting deeply into the theme, Blackrock offers a point of view in terms of how people can be sustainable in their investments. A sustainable investment refers to a wide range of approaches creating a nexus between traditional investment practices and the ESG guidelines. There is in this respect a clear distinction between the sustainable investment products and the process integrating information related to Sustainability in the already-established investment criteria. A main aim of Blackrock is making customers aware of how the sustainability issues affect the financial performances in the long-term. Blackrock acts with a double function: as a fiduciary investor and being a “big” investor. It is better here briefly clarifying the difference. As a matter of fact, a fiduciary investment is rarely accessible for privates and refers to clients willing to invest liquidity in a short time span, up to 12 months⁵². Big investors are instead entities holding a considerable amount of shares and negotiating in several stock exchanges⁵³. As far as Blackrock is concerned, being a fiduciary investor, they are committed to the clients and asset owners. As a big investor, it monitors the society they invest in as well as advising them for their client’s interests.

Being the capital potentially at risk if reallocated towards sustainable investments, it is important to state that the ESG considerations by Blackrock are not univocal measures of a good investment, given that the result may very well differ depending on the specific industry the capitals are placed in.

In this context, the Blackrock Chairman and CEO Laurence Fink, writes to all America CEOs a letter, Fink might very well be regarded as a very influential man in the financial sector, not least for the fact that he leads one of the biggest investment funds worldwide, managing every year something around 10 billion dollars. In the previous year’s letter, he already focused on the central theme he still

⁵² See bonus.ch, *Definizione dei prodotti d’investimento*, <https://www.bonus.ch/Investimenti/Definizione-prodotti-investimento.aspx>

⁵³ See MiMi investitore, *Investitore*, <https://it.mimi.hu/economia/investitore.html>

proposes in this new electronic elaborate, Sustainability. Still, in 2022 he opted for offering a more comprehensive perspective, by considering how the activities and operations by firms affect the external environment and the society. Whether they will actually be followed or not by the American CEOs, these recommendations function as a precious benchmark for the conduct of firms in the market. Several are the aspects emerged from this letter and dutiful to be taken into consideration⁵⁴:

1. *The company is part of an organism and will be judged for the role it will take into the society*

The CEO states that the corporate impact on the society is to be considered not only an element to be regarded as relevant in the business plan, rather a way of judging the firm in its entirety. There is hence a particular mention to the stakeholder capitalism, as he writes: *“Stakeholder capitalism is not about politics. It is not a social or ideological agenda. It is not “woke.” It is capitalism, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to prosper. This is the power of capitalism.”* (Larry Fink, 2022).

Moreover, he insisted on this point by specifying that a firm is not an entity in isolation, rather it is part of a community, and only by taking into consideration the latter, the former is able to bring value to the shareholders, as explained in this case: *“In today’s globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders.”* (Larry Fink, 2022).

He convincingly and confidently affirms the need by CEOs of possessing, now more than before indeed, a long-term vision and a clear aim, considering the rapid and unexpected changes with the pandemic, the technological innovation and the environmental aspects. Nevertheless, at a very scrupulous analysis, there is something imprecise, due to the fact that Fink, albeit stressing that the main aim of firms is still making profits, he does not clarify how to move when the profit-seeking action of the company are conflicting with the impact that the firms themselves make into the society.

2. *The social polarization is an opportunity for firms*

⁵⁴ See Laura Morelli, (18th January 2022), *Sei spunti dalla consueta lettera di Larry Fink ai ceo*, <https://dealflower.it/larry-fink-ceo-lettera-blackrock/>

According to Fink, the pandemic dramatically and increasingly reduced the credibility of institutions in the eyes of people, increasing on the other side the polarization in many western societies. The polarization, surprisingly, is a challenge as well as an opportunity. Fink in fact believes that many political activists exploit what companies do for their own purposes and battles; nevertheless, on the other side, the above mentioned can place themselves and act as very competent entities in terms of providing new information, far better with respect to NGOs and governments.

3. *The workplace and jobs changed*

Workers have begun to be filled up with more ambitions, they are no more satisfied only by making their jobs. They need more from the firms they work in, and they in fact demand more flexibility and their jobs being more impactful. The companies not in line with this request, according to Fink, may take a great portion of risks. He explains thoroughly in another part of the letter: *“In addition to upending our relationship with where we physically work, the pandemic also shone a light on issues like racial equity, childcare, and mental health – and revealed the gap between generational expectations at work. These themes are now centre stage for CEOs, who must be thoughtful about how they use their voice and connect on social issues important to their employees.”*

4. *Invested capitals changed as well*

An eye on the impact over the community, along with the attention on environmental themes and a long-term vision, allow companies to attract capitals: *“Capital markets have allowed companies and countries to flourish. But access to capital is not a right. It is a privilege. And the duty to attract that capital in a responsible and sustainable way lies with you.”*

Given the fact that there is capital in circulation amounting to 400 thousand billion \$ in asset valuation, there are here two scenarios, where the youngest firms are able to attract those money, whereas instead the CEOs of established firms should strive as to remain competitive.

5. *Net Zero: In or Out*

“Every company and every industry will be transformed by the transition to a net zero world. The question is, will you lead, or will you be led?”

The reduction in GHGs is a vital investment to be made, and it is also inevitable that firms not in line with this will be left behind. The challenge for those remaining will be creating a synthesis between the energetic transition and the clients, to whom this transition should be made accessible.

6. *The increasing central role of investors in the board of companies*

As much as the relationship stakeholders-companies is evolving, the bond between them and the shareholders is getting more relevant. He explains in this case that there is an increasing interest of shareholders in the corporate governance of listed companies. For this reason, Fink specifies that Blackrock is devising a technology allowing the clients to vote in the assembly. Moreover, he adds that *“We are committed to a future where every investor – even individual investors – can have the option to participate in the proxy voting process if they choose.”*

2.1.3. BCG and Goldman Sachs recommendations

Goldman Sachs and Boston Consulting Group are two very big players over the theme of ESG bringing value. With their decisions and guidelines, they have a considerable influence.

Goldman Sachs Asset Management is among the protagonists when it comes to managing investments worldwide. Investment and advisory solutions to smoothly move within the market in the long-term are offered to privates and institutions, as well as Central Banks, pension funds and insurance companies among others.

Sustainability plays a crucial role for Goldman Sachs, enhancing the climate transition and an inclusive society. In order not to miss opportunities, the ESG and impact criteria are something of impellent necessity. As far as more precisely investments are related, the company combines the ESG guidelines with the traditional practises. There is a wide range of investment strategies offered, included in a sustainable context.

To this purpose, it is important to mention the Goldman Sachs Environmental Impact Equity portfolio. Its main aim is causing a growth in the invested capital by the influence of companies proposing environmental-friendly solutions. More specifically, the aimed companies, which are innovative in this sense as they use technology to deal with climate changes, are all aligned on 5 main themes over the environmental impact⁵⁵:

- clean energy
- resource efficiency
- sustainable consumption
- circular economy
- hydric sustainability

The declared objective of the portfolio is basically increasing the returns on investments with a bottom-up approach and taking into consideration the ESG measures adopted by companies, as well as encompassing the corporate governance regarding risks and opportunities. A bottom-up strategy⁵⁶ involves the fact that employment participation at all ladders of the corporation is sustained. So, the ESG measure are fully integrated in the decision-making process of firms, which is perhaps among the biggest contributions of the portfolio.

In other words, Goldman Sachs individuates and screens the societies as innovative and apt for their portfolio based on the 5 shared values above mentioned. Obviously, these areas are diversified in geographical and dimensional terms, along with the sectors; and it is exactly this diversification which may be contributing to yield a considerable investment potential in the long-term. The addressed companies are of a great diverse nature, from the ones for instance developing metal-based alternative and sustainable packaging, or with low capitalization working on recycled clothing.

The dedicated teams in this portfolio are mainly Fundamental Equity and Global Stewardship, which, supported by Sustainability experts of the company, acquire a sustainability-oriented and very diversified approach, detecting once again the innovative companies which could be bringing a positive environmental change in the society, as well as frequent advisory service to the management in terms of risks and opportunities. In other words, Goldman Sachs places a big trust in investors, investing them of being the ones responsible for creating a tangible impact on their portfolios and on the environment more broadly.

⁵⁵ See Goldman Sachs, (2022), *Investi nelle società che guidano il cambiamento*, <https://www.gsam.com/content/gsam/ita/it/advisors/resources/investment-ideas/environmental-impact-equity-goldman-sachs.html>

⁵⁶ See MBA Brief, (8th June 2022), *Bottom-up Approach*, https://www.mbabrief.com/what_is_bottom_up_approach.asp

BCG operates following similar principles. Sustainability is another key theme to them, and more than this they aim at directing the stakeholders and clients towards choices which are responsible and take into account the ESG themes; which is to say, the enhancement of a revolution in the value chain towards more sustainable business models. It is crucial that BCG helps out the managers to develop principles leading to a more inclusive society, with a collaborative idea of sustainability.

In a social perspective, BGC commits itself to bringing expertise in order to contribute to the 17 SDGs at a global scale, by driving the plans made by companies; in this way, there is a shift that BCG is sustaining towards a climate transition. In this respect, BCG got involved, collaborating in 3 different areas, in last year's Business 20 (B20), the official forum related to the G20, in which the global entrepreneurial community has chance to confront. Firstly, BCG supported the formulation of the Policy Papers on "Trade & Investment" and "Digital Transformation". In particular, in the first paper, several recommendations⁵⁷ had been made:

- Free trade to be promoted, in place of protectionism and WTO reformation
- Exploit trade responsiveness as a way of dealing with disruptive changes, as well as push for more resilient Global Value Chains
- Removal of trade barriers as to promote the involvement of the highest possible number of businesses
- Trade and Investment as the main way of guaranteeing a greener and more sustainable development

BCG, in a report over Sustainability commitment in Italy in 2022⁵⁸ clearly states that they will keep working so that all of their clients' decisions will be oriented towards a clear and conscious ESG optic, in order to have a continuous improvement in our industrial system, provided that actions in are jointly made with the best effort by companies in the market.

2.1.4. ESG integration in the organizations as an added value

Given the increasingly more pressing relevance of sustainability themes, especially in corporate governance, now leaders are often under pressure in order to be able to leave a positive and sustainable impact of their companies' performance on all the stakeholders. In particular, as to create a more complete and inclusive company, their "sustainability DNA"⁵⁹ should be reinforced. As a matter of

⁵⁷ See B20 Italy Trade and Investment, (8th October 2021), *Policy Paper 2021*, https://www.b20italy2021.org/wp-content/uploads/2021/10/B20_Trade_Investment.pdf

⁵⁸ See Boston Consulting Group, (April 2022), *Sostenibilità il nostro impegno in Italia*, <https://web-assets.bcg.com/d7/05/77349d1f4bdc9a20dc4e6be5f832/bcg-sostenibilita-il-nostro-impegno-in-italia.pdf>

⁵⁹ See Accenture, (1st February 2022), *Creare un'organizzazione sostenibile*, https://www.accenture.com/_acnmedia/Thought-Leadership-Assets/PDF-5/Accenture-Shaping-the-Sustainable-Organization-Report.pdf#zoom=40

fact, this influences performances as well, given that firms with a higher degree of this DNA are likely to perform better than competitors with a less sustainable vein.

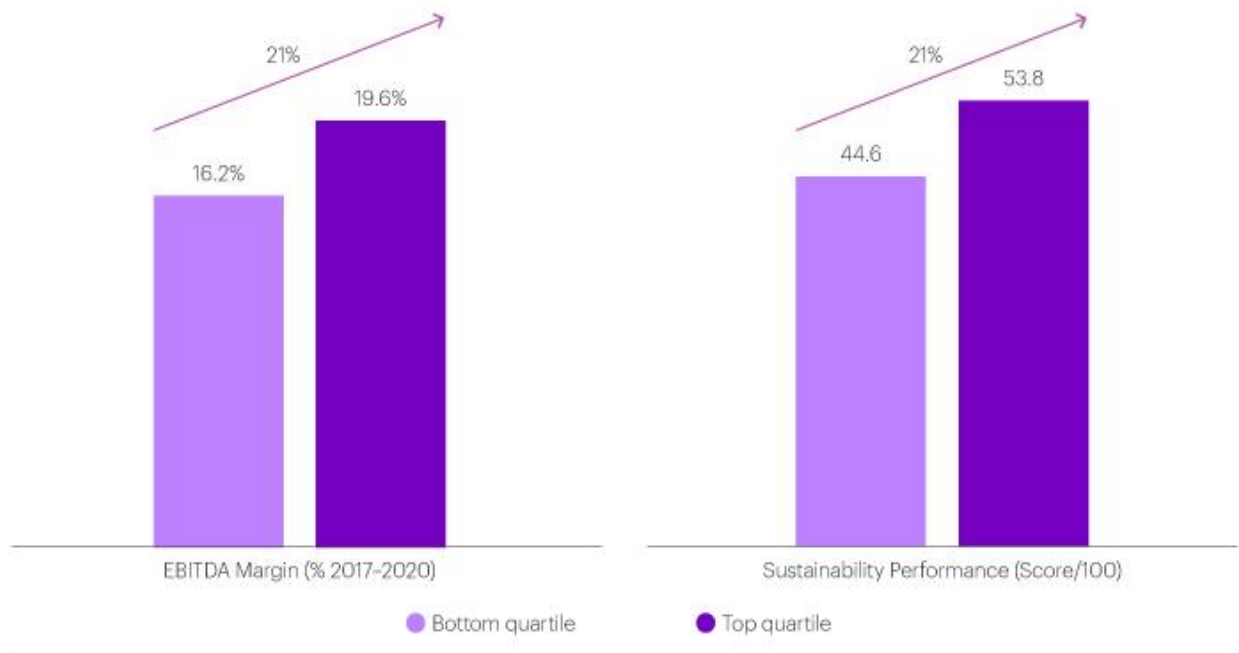
Even though 73% of an Accenture survey for executives indicated the sustainability in their own corporations to be a main aim to be fulfilled by the year-end, the question here is how can such a good purpose bring actually value to the company itself. In a previous study by Accenture, called “Seeking New Leadership”⁶⁰ 5 element which executives should be equipped with had been identified by the next decade:

- Stakeholder Inclusion
- Emotion & Intuition
- Mission & Purpose
- Technology & Innovation
- Intellect & Insight

Nevertheless, they are not enough! Actually, leaders tend to just focus on the stakeholders, instead of integrating a real new organization within the company. Which is to say, in other words, that these changes are often times in appearances.

In terms of financial performances, those one could very well be improved, not limiting to an ESG impact, rather creating fiduciary relations and strong bonds with the stakeholders. Along with this, these companies can generate a durable impact on the environment and the society. The overall growth in performances can be shown in this graph:

⁶⁰ See Accenture, (20th January 2020), *Seeking responsible leadership*, https://www.accenture.com/_acnmedia/PDF-115/Accenture-DAVOS-Responsible-Leadership-Report.pdf#zoom=40



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Figure 1

Source: Accenture analysis; Arabesque S-Ray; S&P Capital IQ

Now we will deal with the core of the issue: how to create a sustainable organization. The more leader will apply the 5 above mentioned elements, the more it is likely that they will provoke disruptive changed reinforcing the corporation “Sustainability DNA”, which in other words are the management practises and processes to be followed by employees to modify the personal attitudes.

In particular, there are 3 main problems that prevent a direct commitment of executives to the stakeholders, with the related solutions proposed in the context of Sustainability DNA:

- *Relations:*

The inner desires of stakeholders are not understood by companies.

Proposed change: Listening Skills, which is to say deeply understand values and needs of stakeholders at all levels of the business

- *Insight:*

The Leadership teams struggle to encompass stakeholders’ opinions in the decision-making process

Proposed change: Collective Intelligence, so practises supporting the companies in making more stakeholders-oriented decisions

- *Shared Responsibility:*

The teams are not able to sustainably spread the accountability related to operations throughout the whole organization

Proposed change: Responsibility at All Levels, such that the value creation for stakeholders is a must across all levels

Accenture reveals that the average “Sustainability DNA” for over 4000 companies was scoring 52 in a 100-points scale. There is hence a great opportunity for companies to reinforce their DNAs in this sense.

The report⁶¹ concludes by detecting 3 concrete actions to ameliorate the strength of this DNA:

- Analysis, with a diagnostic test
- Definition, which is to say identifying what has to be changed and who should do it
- Development, building a roadmap to track the changes in the DNA

Not only Accenture, but Ernest Young is pushing on the Sustainability themes as well. In a report called “Seize the Change – futuri sostenibili” it describes how firms are actually dealing with the theme of sustainability in concrete terms and regarding the related initiatives. The main takeaway here is that the choice has been made correctly, still there is much that has not been done yet.

In fact, it was quite clear that up to some years ago the Sustainability theme was most of all an environmental issue; recently, as a matter of fact, it indeed entered as a determinant in the economic system, becoming hence more tangible and concrete. Being sustainable for a company means in fact means devising processes resulting beneficial from an economic and social perspective, perhaps even improving the corporate competitiveness.

The EY report⁶² is actually outlying that a part of the Italian companies who had been attempting to integrate the sustainability theme in the corporate processes have collected already positive results. Actually, this report had already been made since 2015, analysing the new trends in terms of sustainability for Italian companies. This year, EY took into account over 300 companies⁶³ for this purpose.

⁶¹ *Id* 59

⁶² See EY Italy, (31st January 2022), *Seize the Change – futuri sostenibili*, https://www.ey.com/it_it/news/2022-press-releases/01/nuovo-report-ey-seize-the-change

⁶³ See EY Italy, (15th February 2022), *Il future delle imprese italiane è sempre più sostenibile*, https://www.ey.com/it_it/il-futuro-delle-imprese-italiane-sempre-piu-sostenibile

There are in particular 5 main themes functioning as a benchmark to see how Italian companies are moving in terms of creating a sustainability-integrated organization:

- *Strategic plans:*

It is interesting to notice that around 70% of the polled companies devised a strategic plan in terms of sustainability and in nearly half of cases quantitative aims had been prefixed. Another data worthwhile to be mentioned is the fact that 2/3rd of companies surveyed have already created an internal body in their governance, with the duty of reporting to the board on Sustainability

- *Climate Change:*

Given the target by 2050 of getting to a net-zero emission level of GHGs, it is hopeful the fact that the majority of the companies have in their industrial plans measures to reduce GHGs emissions; most of them did it by even changing their business model

- *Sustainable Supply Chain:*

The main ingredients here are transparency and care for society and environment, as to keep on building a fiduciary relationship between companies, consumers and the market. The new management in terms of logistics and operations main have been partly due to the pandemic as well actually; most of the modifications had been made in terms of screening and selecting the suitable suppliers, given the context of uncertainty.

- *Sustainable Finance:*

Finance plays a major role in the transition to a more sustainable business model. In particular, the financial institutions take into account the ESG criteria in their investment choices. 1/3rd of the surveyed firms has already taken actions in terms of sustainable finance, which is to say, for instance, responsible investment strategies.

- *Circular Economy and other social initiatives:*

Many firms have already started processes of operation analysis with the aim of reducing the impact and the exploitation of resources. Moreover, initiatives with a social support for communities are part of firms' decisions already in these last years.

2.2. Sustainable Finance needs and strategies

2.2.1. Generalities

Sustainable finance means also aligning all resources, both at a private and at a public level, as to strengthen the resilience to climate changes as well as deal with the considerable environmental struggles. A common denominator in this case is the action taken by the European Union in this sense⁶⁴. As a result of the target set by 2030 of the reduction in GHGs emissions, the EU will need to invest nearly 500 billion euros as an addition per year in environmental issues. Given the threat represented by non-sustainable assets, it is key that the environmental regulation is integrated in a sustainable finance perspective, such that finance will be directed towards investments reducing the environmental impact.

Sustainable finance means also helping out in the collection of capital by public authorities. In fact, within the NGEU plan, the EU is aiming at investing more than 700 billion euros in projects acting on biodiversity and climate risks. More than this, 30% of the total funds of the Plan will be collected in the form of green bonds.

Given the likely inadequacy of the public funds for the sustainable initiatives, it is crucial to manage to redirect the private fluxes of investment in the proper economic areas and activities. In this sense, an important role is played by the capital markets.

Being more precise, the EU will be expected to take several steps as to develop a strategy in a sustainable finance perspective:

1. Financing the transition of the real economy towards sustainability, which is to say mitigate and adapt to climate changes, re-build the natural capital and reinforce resilience. There are several adjustments which might be implemented:
 - a) Given that the European Commission has mainly focused on already eco-friendly investment opportunities, it is important to recognize the activities whose efforts are instead in the direction of an ecological transition
 - b) Include more sustainable activities in the EU taxonomy. The taxonomy might be modified in order to recognize and detect investments which are half-way through a transition towards being sustainable

⁶⁴ See European Commission, (6th July 2021), *Strategy for Financing the Transition to a Sustainable Economy*, https://eur-lex.europa.eu/resource.html?uri=cellar:9f5e7e95-df06-11eb-895a-01aa75ed71a1.0018.02/DOC_1&format=PDF

- c) Increase the norms related to sustainable finance, able to provide clarity, transparency and coherence to sustainable financial markets
2. Towards a more inclusive perspective of sustainable finance. It is important to push investors and middle-to-small enterprises to exploit the opportunities provided by sustainable finance. Those actors are fundamental for a sustainable transition. The main intermediary between those just mentioned and the markets are consultants, ought to be prepared on the themes of sustainable finance. Related to this, over 23 million enterprises should be accessing these consultancy services based on their specific needs, with the Commission ready to give them a hand on this.
 3. Exploiting the opportunities offered by the digital technology for sustainable finance
 4. In terms of insurance sector, it is important that insurance companies offer a greater protection from climate and environmental risks, with the result of offering more certainty to the economic system as a whole
 5. Sustaining social investments that are credible, with support to workers and communities, as well as social factors included

Many other measures have been already taken or planned to be taken, which means in other terms that we are definitely on the right track.

2.2.2. Principles for Responsible Investment

A sustainable responsible investment (SRI) has first of all a long-term perspective. Secondly, as any other investment strategy, it aims at generating value for the company or the private investor by creating a synergy between the financial, environmental and social sphere⁶⁵. Actually, it is necessary here to give a broader spectrum. Where does actually the concept of responsible investment come from?

There is a total of 12 main vital needs to be satisfied by anyone in the planet: water, food, health, schooling, peace, right of expression, gender equality, social equality, housing, network, energy. They are basically a social benchmark below which we ought not to stay. By actually tracing a bigger circle,

⁶⁵ See Forum per la Finanza Sostenibile & Investi Responsabilmente, *Cos'è l'Investimento Sostenibile e Responsabile?*
<https://investiresponsabilmente.it/cose/>

enclosing the abovementioned needs, there are 9 natural processes guaranteeing our planet the climate stability through which our species prospered: chemical pollution, nitrogen and phosphorous cycle, fresh-water consumption, change of the soil exploitation, lack of biodiversity, load of atmospheric aerosol, reduction on the ozone layer, climate changes, acidification of oceans. It is here, once again, an environmental boundary not to be overcome.

Among these two layers, there is the so-called “safe operating space”, which is ecologically safe and socially secure with regards to our species. There is an excessive pressure nowadays on these two boundaries, and our species is being gradually pushed towards new situations and phenomena, with a rise in uncertainty deriving from this. Everyone contributes year by year to either augment or reduce the pressure over those layers, by making a diverse range of choices, among which also how to invest the savings.

Here the challenge is investing in societies whose activities are operated within the safe operating space. Actually, in those titles there are already over 30.000 billion dollars, a huge amount. They are in fact the so called “Sustainable and Responsible Investments (SRI)”. When analysing and selecting the titles to invest in, the SRI products take also into account ESG factors. For instance, guaranteeing gender diversity in boards.

Actually, to be more realistic and precise, how do these SRI products operate to effectively consider also the ESG guidelines? There are several approaches:

1. *Exclusive strategy:*

A way might be by excluding, according to several criteria, countries or sectors from investments. Non-ESG sectors might be where there it occurs the arm trade or relative to the extraction of fossil fuels.

2. *Best-In-Class strategy:*

Another strategy might be investing in firms and funds with the aim of generating, along with a ROI, a positive environmental and social impact. It concentrates on a different sample of products. We can think about renewable energies or sustainable buildings.

3. *Thematic Investment strategy:*

after an ESG-based products screening, you select according to one or more themes, such as climate changes or energy efficiency.

4. *Engagement Investing strategy:*

It is about making an exchange with the firm in question over the voting rights linked to capital owned and invested; it is a long-term process

5. *International Conventions strategy:*

you select investments based on international standards and norms, defined by for instance ONU, OCSE, UNHCR, among others.

6. Impact Investing strategy:

You invest on firms, organizations and funds with the aim not only of gaining a good ROI, rather to leave also a good environmental and measurable impact. It might be done in emerging countries, as well as developed ones. It is for instance about microfinance investments, social housing, green or social bonds.

The turning point here is that, in theory, rather than being interested in investing in those products, I am rather keen on protecting my savings. With SRI and ESG, that is possible, given that the strategies building the SRI products allow to detect risks otherwise concealed solely as a consequence of a standard financial analysis. The SRI helps understanding opacities in the corporate management and governance, hence preventing scandals, with the ultimate result of protecting savers.

There is more than this, as actually the SRI products are proven to yield on average a better performance with respect to non-SRI products. To sum up, eventually, SRI products created a new way of investing better both in terms of ROI as well as impact, contributing to a safer and more inclusive society along with earning higher returns; which also means that you are keeping yourself in the safe operating space!

Eventually, it is important to state that the SRI way of investing has a proper origin⁶⁶. In particular, it came from an idea of the UN Secretary-General Kofi Annan, who arranged a meeting among the biggest institutional investors worldwide, in order to develop the Principles for Responsible Investments (PRI), whose obvious product was the SRI guidelines. In the meeting, there were also investment experts and the civil society.

2.2.3. Transition Initiative to a Sustainable Economy

The sustainable development is a complex question, as Frans Timmermans said in the preface of an EU reflection document towards a sustainable Europe by 2030⁶⁷. Still, the concept is pretty straightforward, given that it is all about acting in a way such that our economic growth will allow the human beings as a whole to maintain a model providing equal results for the whole globe, along with preventing an over-exploitation of the constrained resources of the soil. This in turn means that all of us should adapt the economic system complying with a sustainable production and consumption model, correcting also imbalances in the food system, along with tracing a sustainable path for the

⁶⁶ See Principles for Responsible Investment, *About the PRI*, <https://www.unpri.org/about-us/about-the-pri>

⁶⁷ See European Commission, (2019), *DOCUMENTO DI RIFLESSIONE VERSO UN'EUROPA SOSTENIBILE ENTRO IL 2030*, https://ec.europa.eu/info/sites/default/files/rp_sustainable_europe_it_v2_web.pdf

mobility, the exploitation of energy and building built constructed. Hence, in order to do so, it is paramount the use of finance, science and governance as to pursue the UN SDGs.

The sustainability agenda is quite challenging for the EU, it is necessary to ameliorate in terms of competitiveness, investing in a sustainable growth and be a leader for the rest of the world. There are concrete ways of pursuing what just said.

In order to increase the living standards of people, in the transition towards a sustainable economy, much has to be done. It is vital to keep going with the path traced so far, which is to say the transition towards a net-zero GHGs emissions economy, neutral from a climate perspective, efficient in terms of resources, fully in line with the UN 2030 Agenda and the SDGs. This transition should be beneficial to everyone, as well as inclusive, and no one ought to be left behind. The economic growth should limit reliance and actually dependency on non- renewable energy sources, rather privileging renewable ones, managing the systems in a sustainable way.

The EU has already begun with this path. In particular, between 2000 and 2015 the employment levels grew much more in the environmental sectors rather than in the entire economic system: low carbon-emission technologies are growing in importance.

Moreover, over the time frame 2012-2015, EU exports in advanced and clean technologies reached a value of 71 billion euros, with a surplus over imports by 11 billion euros. Hence, the EU is already showing how possible is to make the economy growing and meanwhile working on a drop in carbon emissions.

The transition to a sustainable economy, with the leading figure of UN taking on itself the duty of pursuing the SDGs, may also be implemented through intelligent investments in innovations and technologies. There would also be the side effect of EU gaining a competitive advantage with respect to the world market; still, a “green” growth would go to the benefit of everyone, producers as well as consumers worldwide.

Among the several specific ways of implementing strategies for a sustainable economic transition, firstly all countries in the EU should give the propriety in their policies to the initiatives about Sustainability, fully integrating this concept with their local practises. Also, it is vital to get clean energy; in particular, it is necessary to produce, store and consume energy with a sustainable attitude to reduce the environmental impact and to protect the health of European citizens. It is also crucial to ensure a transition which is even from a social point of view.

Here, once again, the EU is in the right direction, the most important element in this case is and has been the acknowledgment by the EU of its role of leader in guiding all European, and later on world countries to a sustainable economic transition.

2.2.4. Consob Position

The Consob is the regulatory body of the Italian financial market⁶⁸, active in verifying transparency and diligence for the safeguard of the competitiveness of the market, as well as sanctioning possible incorrect behaviours and guaranteeing the efficiency among contractors.

The body in particular has recently a deep analysis in view of trend, on-going matters and considering the evolution in the regulatory framework of the EU relatively to finance for the sustainable development⁶⁹.

Taking as a starting point the concept of sustainable finance, the Consob traces back the evolution of Corporate Social Responsibility (CRS) and the integration of the ESG criteria in the strategies pursued by institutional investors and in the choices made by retail investors up to the role of financial markets in the evaluation and monitoring of risks and features of the ESG aspects.

Consob actually detected many frictions, impeding a smooth development of sustainable finance nowadays: specifically, the lack of a common language in showcasing products, activities and financial services, coupled with the available data not comparable and enough for the various situations. This market failure calls for a regulatory intervention, which at the moment sees as spokesman the EU.

Among the risks related to the expansion of the sustainable finance, there is the so-called “green-washing”⁷⁰: it is the possibility that the firms might be lying on what actions they had taken in an environmental perspective. For instance, just think about deforestation. For instance, an insurance company may invest in a company producing armies. If in principle the company is really non-environmental-friendly and perhaps the insurance company would not normally invest in it (albeit some exceptions, if the army production is actually for a good cause for instance); still, by applying and ESG screening, the insurance acknowledges that the army-producing company is effectively claiming to be environmentally friendly. As a result of this, the insurance company might indeed give money to finance its investment target, but as a matter of fact these funds would not be used for

⁶⁸ See CONSOB, *La Consob è l'organo di controllo del mercato finanziario italiano*, <https://www.consob.it/web/area-pubblica/consob>

⁶⁹ See N. Linciano, E. Cafiero, A. Ciavarella, G. Di Stefano, E. Levantini, G. Mollo, S. Nocella, R. Santamaria, M. Taverna, (1st June 2021), *La finanza per lo sviluppo sostenibile*, https://www.consob.it/documents/46180/46181/fs_1.pdf/93c19583-f2cf-446a-81ef-1ffc1f333b47

⁷⁰ See Achilles, (2022), *I pericoli del social washing*, <https://www.achilles.com/it/industry-insights/i-pericoli-del-social-washing/>

socially and inclusive purposes, rather to sustain the army production. It is hence both a paradox and a warning for regulatory bodies such as Consob.

It is hence key that the body adopts a proactive and evidence-based approach. Moreover, it is dutiful mentioning the importance of technologies, in order to make information over the result of sustainable investments qualitatively better and hence more comparable, as well as pushing for sustainability-oriented investors to access capital markets.

Therefore, in order to conclude here the discussion on the value brought by the ESG criteria in the companies and markets, it is indeed true that they are fundamental for a better governance, more responsible and even higher-yielding investments, nevertheless the road is still long in terms of regulations, given that, for instance, an ESG-based screening of a supplier may not be enough in a situation of green-washing.

3. Sustainability topics in the Insurance Sector

3.1. The role of insurers

3.1.1. The pillars of the challenge

We are now indulging much closer on the themes related to the insurance sector. In particular, climate changes have become vital for insurance, and they are now considered part of the core business for the companies of the sector. It is well proven with a study conducted by Geneva Association in February 2021⁷¹.

In the report, 38% of the respondents in the insurance sector:

- Regard climate change as crucial. In fact, they believe that risks and opportunities related to the climate change are directly affecting the strategic planning of the company, as well as risk management and governance.
- Adopted, in order to evaluate risks and opportunities linked to climate change, and as to help the board and top management in the decision-making process, some cross-sectorial working groups. In this case there is hence basically a collaboration between professionals working in different sectors and with diverse background⁷². It is extremely useful given that, considering the fact that at the moment there are not really specific competencies in terms of climate change, getting to know different perspectives, also related to heterogeneous sectors, is a great starting point.
- Consider climate change as a theme which is going to impact different areas both within a company and across different ones

In terms of risks, the Task Force on Climate Disclosure (TCFD) identifies and clarifies three main types (https://www.unipolsai.com/sites/corporate/files/pages_related_documents/derris-linee-guida-settore-assicurativo-def-web.pdf) which can possibly affect financial institutions, hence insurance companies included:

- *Financial risks,*

They are identified with the ones creating an impact on debt and the value of financial assets mainly, as a result of climate changes, such as floods, on firms' buildings

⁷¹ See THE GENEVA ASSOCIATION, (February 2021), *Climate Change Risk Assessment for the Insurance Industry*, https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/climate_risk_web_final_250221.pdf

⁷² See PERCORSI DI SECONDO WELFARE, (21st September 2021), *Come attivare comunità di pratica cross-settoriali tra società, ambiente, cultura e scuola*, <https://www.secondowelfare.it/governi-locali/come-attivare-comunita-di-pratica-cross-settoriali-tra-sociale-ambiente-cultura-e-scuola/>

- *Liability risks,*
They indicate the future possible compensation requests be the case of damages related to climate change
- *Transaction risks,*
Which are in simple terms financial risks possibly emerging from the transition to a low-emissions based economy

The key and fundamental point here is that the impact that climate changes may bring to the insurance sectors ought to be considered by managers. In particular, boards in the companies should really regard climate change as a strategic theme, as far as risk policy is concerned. It is necessary to draw the attention in this element at all the decision levels of the company, up to the higher ones, and possibly to be integrated with the guidelines given by the boards and top management.

Given that the risks linked to climate changes are increasingly present in our nowadays society and it will be hard to forecast and protect from by all firms, that is why the insurance companies will be called in this very important and transversal mission. They can in fact be very effective in the acknowledgment, prevention, reduction and transferral of risks linked to climate changes.

In the context of facing those climate changes, insurances face a great challenge in view of this, and moreover, they assume a triple role in this context, as stated by the “Principles for Sustainable Insurance Initiative” of the United Nations Environmental Program Finance Initiative (UNEP FI)⁷³:

- *Risk carrier role:*
Managing the technical insurance risk
- *Risk manager role:*
Managing the physical risk
- *Investor role:*
Hence, institutional investors

Which is to say, in other terms, that their function will not be limited to the traditional practises of risk transferral, particularly with offering insurance products, so having a risk carrier role, rather it enlarges in a more “social” manner. In fact, the insurance companies will also support the other actors (both at a public and private sphere) in conducting actions with a multiple aim⁷⁴: help reducing climate

⁷³ See United Network Environment Program Finance Initiative, *The Principles*, <https://www.unepfi.org/psi/the-principles/>

⁷⁴ See UnipolSai & Derris, *LE LINEE GUIDA PER IL SETTORE ASSICURATIVO E FINANZIARIO*, https://www.unipolsai.com/sites/corporate/files/pages_related_documents/derris-linee-guida-settore-assicurativo-def-web.pdf

risks and at the same time offering more resilience to climate changes (so, risk manager role) and eventually with the aim of mobilizing the necessary resources to finance the adaptability to climate changes and the resilience of local communities (which is to say, investor role).

The result of all these concerns has been the affirmation of the necessity of devising model managing natural disasters which are shared between the public and private sphere, as to manage the uncertainty.

The trend still is not new, nor unforeseen. As a matter of fact, already in 2010, the OECD (Organization for Economic Co-operation and Development) attributed the key role to insurance companies of minimizing the economic impacts of environmental risks. In accordance to this, also the EU committed itself to spread insurance and financial products with the aim of increasing the resilience towards climate changes. Moreover, the European Commission in 2013, in its Green Paper⁷⁵ on natural and man-made disasters, talked about developing at full the insurance premiums and of other financial instruments as to sensitize people in terms of risks and resilience in the long-term.

Given that our world is increasingly more interconnected, having a well-defined financial strategy in terms of environmental risks at a European level is of huge importance, given that natural disasters can very well have a great impact in areas not necessarily linked among them.

It seems that a right move is devising a strategy with a very diversified pool of financial instruments and institutions, which, provided that they will be integrated, are a suitable way of confronting with environmental and man-made challenges.

3.1.2. ANIA Insurance Summit

On October the 18th 2019, ANIA, the national association of Italian insurance companies, held the two-day Insurance Summit in Milan talking about the future of insurance companies, also under the lens of sustainability. The focus has been the future of insurers with the new costs associated with risks and the upcoming digital scenarios⁷⁶. It has been arranged by the 24 ORE Business School in collaboration with the newspaper “Il Sole 24 Ore”.

After the opening conference held by Davide Corradi, Managing Director and Senior Partner Boston Consulting Group, the ANIA President Maria Bianca Farina, as well as in the second day of the works, mainly underlining how the insurance companies should grow, reinforcing their presence in the sector, covering an increasingly clearer social role to the benefit of clients. In particular, a

⁷⁵ See EUR-Lex, *LIBRO VERDE sull'assicurazione contro le calamità naturali e antropogeniche*, <https://eur-lex.europa.eu/legal-content/it/TXT/?uri=CELEX:52013DC0213#>

⁷⁶ See affariitaliani.it, (18th November 2019), *Insurance Summit Sole 24 Ore 2019: il futuro delle assicurazioni a Milano*, <https://www.affariitaliani.it/economia/insurance-summit-sole-24-ore-2019-il-futuro-delle-assicurazioni-a-milano-637986.html>

structural reform is advocated and needed, which is able to embrace the challenges posed by the natural calamities. The President indicates as figures in terms of growth in the sector a 2% in terms of the life branch, 6% for health and houses and 10% for what concerns damages, automobiles excluded.

Indulging even more in particular on the intervention by ANIA president during the second day of the works she gave several important messages.

She started out by giving a framework of the challenges insurers will be called to face in the next future. She indicated, based on the main requests and thought of the major Italian insurance companies, that ANIA has pretty much the same focus, which is to say basically sustainability and innovation transformation, as the CEO of Generali Philippe Donnet stated. An important point was the fact the insurance sector, as a whole, substantially held tight during the pandemic.

The Insurance sector is among the main protagonists of the transition towards a new society, in accordance with the EU wishes, with the support of the Italian policies and of the funds from the Next Generation Eu plan. Following the tripod Planet, Prosperity, People of the Italian presidency of the G20, there are basically three priorities⁷⁷ able to orient and change the next future.

1. Sustainable Investments, in the context of a green finance able to anticipate and cope with the choices to be made in view of preventing the planet from collapsing with environment and energy-oriented policies
2. The fight against climate changes and catastrophic events, as the minister Cingolani said
3. An integrated welfare model, taking into account phenomena such as the aging process of population, consider new needs and guarantees safeness also in view of extraordinary and sudden events such as the pandemic.

The transition towards a sustainable economy is a priority with respect to which all insurers around the world, Italian ones included obviously, are giving their contribution, being all them investors and protection providers in general terms. The insurance sector, with a value of investments over 60% of GDP at a national level, is really keen on making long-term investments on sustainable matters. Via those money, the sector can really finance a transition toward a zero-level emissions economy.

⁷⁷ See ANIA, (19th October 2021), *INSURANCE SUMMIT, 19 OTTOBRE 2021, Relazione Maria Bianca Farina, Presidente ANIA*, <https://www.ania.it/documents/35135/132329/Insurance+Summit+-+Relazione+Presidente+ANIA+Farina+19+ottobre.pdf/70f8c208-5322-22ad-7dc0-a2d8dfcb4dd3?t=1636372141658>

Insurers are, by nature, medium and long-term investors, and have the duty of guaranteeing to clients both financial returns and safeness; nevertheless, all this must be coupled with an appropriate regulation, which is to say the so-called Solvency II⁷⁸.

Still, this is not enough, rather in Italy it is crucial to reinforce the incentives as to have investments in the productive sector, financing the energy transition in large part of the industrial sector.

As far as climate changes and natural catastrophes are concerned, they have been extremely impactful in the last year, caused largely by global warming, which will be the pivotal theme of the COP26 in Glasgow. Remaining in the same topic, as a further proof of its relevance, the PNRR places something around 40% of the resources coming from the Recovery Fund to the benefit of the ecologic transition and the territorial safeness, very fragile due to insufficient investments for decades. The effort is very demanding, and the insurers are ready to make their part and give their contribution, as showcased by the companies' strategic and operational plans and the investments made so far in this direction; still, a collective effort is needed and requested.

The insurance sector plays a fundamental role not only with respect to the protection against risks, rather it can stress the relevance on the fundamental aspect of prevention, thanks to evaluation and pricing techniques related to risk.

There is an issue in Italy, which is to say that there is still a great gap with the other abroad regulations in terms of protection. Hence, it is crucial the alignment of Italian policies to the ones sustained by the other European countries, providing a compulsory insurance scheme of a both public and private nature against natural calamities, with the aim of developing and pursuing a sustainable protection.

As a matter of fact, the pandemic pushed the EU to adopt a broader role in terms of citizens' protection, with downturn regarding the public budgets of countries. In particular, deficits and high public debts have been recorded, meaning that the pandemic has been faced neatly. The question today is how these measures can be integrated in the social protection systems and what is the role of insurers in this particular case. That's why it is crucial to deal with the theme of financing a broader protection system, in the picture of a more stringent correlation between social safety and private insurances. Not to be forgotten that the pandemic occurred in the middle of a trend towards an increasingly more aging population, which called for a need for health risks as well.

The bottom line here is that hence an integrated welfare system is needed, based on the complementarity between the private and public sphere, guaranteeing protection for the population

⁷⁸ See IVASS, (19th October 2016), *SOLVENCY II*, <https://www.ivass.it/normativa/focus/solvency/index.html?dotcache=refresh>

in view of a broad range of risks. Insurers have the power to offer services enlarging this protection, they are hence key actors in the context.

3.1.3. Insurance in post-pandemic and PNRR evolution scenarios

The pandemic, as predictable and well known by the way, brought severe impacts to the middle-to-small enterprises, which means basically most of the productive sector of the Italian economy as a matter of fact. Deloitte tried to depict this scenario in a report bringing on the table the insurers with a predominant role, especially in terms of the future for insurance companies for the medium-to-small enterprises in the post-pandemic era⁷⁹.

The 2-year pandemic had a quite alarming, still useful effect at the same time. In fact, it rose a much more evident awareness for the SMEs in terms of risks, along with a demand by the enterprises for a protection model based on targeted assistance and fully encompassing consulting services related to activities within firms, which is by the way increasingly more obvious in the geo-political scenario at an international level at the moment.

In other words, with the pandemic the request for insurance and protection services by the SMEs remained quite high and steady. In particular, the pandemic enhanced the SMEs in the Italian market purchasing insurance policies, for three main reasons:

1. The increased *risks awareness*
2. The willingness to avoid further *bad impacts on firms' activity* in view of what happened with the pandemic
3. A greater *vulnerability in financial terms*

At the same time, it is important to notice that the pricing issue remains a fundamental aspect in terms of purchasing a policy; in particular, slightly less than 40% of surveyed SMEs responded by putting the pricing matter a priority, just following the trust towards intermediaries, among their main needs.

So far, we talked about the buyer side. In terms of seller side, it is encouraging the fact that there has been an evolution, in a positive sense, of the insurance offer, specifically as far as consulting services are concerned, as well as discounts related to insurance premiums, along with an acceleration in the

⁷⁹ See Luigi Onorato, Viola Germani, Gianluca Giovannini, (2022), *Il futuro delle assicurazioni per le PMI dopo la pandemia*, https://www2.deloitte.com/content/dam/Deloitte/it/Documents/financial-services/Futuro-assicurazioni-PMI_Deloitte.pdf

payment for accidents. The result of this has been an enhanced trust of Italian SMEs, about 60% of the sample, towards insurance services and the sector in general, which was able to appropriately respond to the pandemic.

The current situation actually served as a change maker also in terms of the types of risks perceived the most by the enterprises; nowadays, among the main concerns are the cyber and pandemic ones. Still, it is dutiful to remember that there is not a direct and immediate correlation between the risk perceived and the related investments and transactions, contrarily to what one may assume. Another changing trend as a result of the pandemic is that greater flexibility is demanded, as 80% of the sample declared. The SMEs are advocating for a more flexible model of insurance coverage, which is in line with the specific firms' needs, the dimension and peculiarity of the assets and the policies aiming at the prevention of risks.

As far as the distributive model is concerned, in the purchasing phase the main channel will stay the physical one, whereas the digital channel will be employed mainly with respect to the coverage management, both in the pre-sale and post-sale phases. Last but not least, SMEs look to be willing to purchase “non-traditional” insurance services, as 90% of the surveyed enterprises declared, and with possibly some partnerships of the insurance companies with the players guaranteeing such peculiar services.

To conclude the report, Deloitte confidently states that the SMEs reacted well to the sanitary emergency, along with a strong support by the insurance sector, able to help the productive sector by evolving the insurance services with a more consultancy approach, leveraging on the costs of insurance policies and maintaining a high quality of the service.

In the process of evolving its business model to adapt to the new needs of the SMEs, the industry should leverage on its distinctive assets, such as the risk management capacity and the capillarity in the territory of the distribution chain, taking into account at the same time the opportunities derived from an ever-evolving scenario, with new “non-traditional” services offered, and consequently new possible partnership as to provide a much more integrated offer.

A similar perspective, in line with what emerged from the abovementioned report, is provided by McKinsey senior partners Brad Mendelson and Kurt Strovink, who talk about the new trends of the insurance sector after the pandemic and the possible moves by insurers to seize opportunities and remain competitive. They particularly highlighted three important trends featuring our everyday

society: digitalization, health and mobility⁸⁰. There is quite a geographical-oriented approach in the analysis conducted by the senior partners. Many important points emerged from this.

It is noticeable to state that, at least as far as North America is concerned, the insurance companies are revolutionizing their business models with an employees and customer focus. For example, investments in technology, providing a more effective value proposition, as well as providing their knowledge in a remote way. A second basic point to remember is digital innovation, such as for instance e-signatures and smoother distribution processes. There is eventually an important point in terms of automation, and in particular it is believed that, in a long-term perspective, by 2030 approximately 40% of the financial and insurance services.

As far as the Asian region is concerned, on the other side, there is a tendency towards the digitalization of distribution. It acted in very different ways. For instance, in many Asian countries at the beginning there was no possibility for insurances to be sold remotely, rather only face-to-face, and this caused several issues during the pandemic. Hence, the need for permissions and authorizations has been crucial in this sense.

Making a quick comparison between the pre- and post-pandemic situation in the two abovementioned regions for the insurance industry, two main elements actually revealed a disruption in the standards tendencies prior to the pandemic:

- Firstly, the fact that there is an increasingly more observable trend of the customers for opting in favour of a digital interaction
- Secondly, clients seem now to have a clearer preference of the type of policy there are interested in, and in particular on health insurance products. The need for protection towards health and families. Before the pandemic, this aspect was not that present in the Asian countries in particular.

Moreover, in terms of possible trends in the medium and long term, in North America there are several priorities. For instance, a great importance is stressed on the design of insurance products being rethought. Moreover, there will probably be more mergers and acquisitions, still they will be very targeted and specific, of a programmatic nature.

⁸⁰ See McKinsey & Company, (11th May 2022), *A wave of innovation: The state of insurance in Asia and North America*, <https://www.mckinsey.com/industries/financial-services/our-insights/a-wave-of-innovation-the-state-of-insurance-in-asia-and-north-america>

3.1.4. IVASS position

IVASS, the body with the task of monitoring Italian insurance companies, committed itself to promoting a sustainable and “green” finance.

IVASS in fact regards the preservation of the natural environment, as well as sustainable finance and the transition towards a green economy and the resilience with regards to natural disasters as fundamental priorities towards pursuing a financial stability. Therefore, IVASS commits itself to all situations in which themes related to the ecologic transition are dealt with, cooperating in the main European and international venues⁸¹, such as the European Insurance and Occupational Pensions (EIOPA) and the International Association of Insurance Supervisors (IAIS).

As outlined in the IVASS’ Strategic Plan for the timeframe 2021-2023⁸², the development of sustainable finance in the Italian insurance sector is a key aim of the monitoring policies, including, as well as its own and standard regulatory activity, the contribution by the international community and the monitoring approach aiming at the stability of the insurance sector and the well-being of consumers.

The Institute is working on reinforcing its tools as to better monitor the climate changes and the environmental risks, firmly convinced that the Italian insurance sector may bring an important contribution in favour of the ecologic transition, of the adaptability to climate changes as well as the mitigation of related risks at a national and international level. Linked to this, as to pursue this prefixed aim, the Institute devised a new procedure in terms of data collection starting from the early 2022. It is basically a platform enabling IVASS to the extent to which the insurers are integrating the ESG criteria in terms of governance and risk management, along with managing risks connected to climate changes throughout underwriting procedures, investment policies and divestment strategies. Just to clarify, an underwriting procedure⁸³ for an insurance company is the first of the 3 main pillar activities of an insurance company, according to which the insurer will commit itself to collect money from investors and the public at large, which basically amount to saying, being able to sell the insurance policies to those investors, not only privates.

In occasion of the UN Climate Change Conference in Glasgow in 2020⁸⁴ and specifically during the Finance Day⁸⁵ within the works, IVASS confirmed its priority in contributing to the worldwide goal

⁸¹ See IVASS, (3rd November 2021), *IMPEGNO DI IVASS PER LA SOSTENIBILITA' FINANZIARIA – COP 26*, https://www.ivass.it/media/avvisi/documenti/2021/Impegno_di_IVASS_per_la_COP26.pdf

⁸² See IVASS, (2021), *Piano Strategico 2021-2023*, https://www.ivass.it/chi-siamo/organizzazione/Struttura-organizzativa/Piano_strategico_2021-23.pdf

⁸³ See Underwriting Agency S.r.l., *L'Underwriting*, <https://underwriting.it/>

⁸⁴ See UN CLIMATE CHANGE CONFERENCE UK 2021, *DELIVERING THE GLASGOW CLIMATE PACT*, <https://ukcop26.org/it/iniziale/>

⁸⁵ See IVASS, (3rd November 2021), *Impegno dell'IVASS per la COP 26*, <https://www.ivass.it/media/avviso/ivass-cop26/>

of reducing global warming as to comply with the targets set by the Paris conference. IVASS included the commitment towards a sustainable finance in terms of monitoring policies even in its strategic plan.

The stand-alone commitment by IVASS pairs up with the broader commitment by the Network for Greening the Financial System (NGFS), with the Declaration of Glasgow⁸⁶, along with the United Nation Development Programme (UNDP) and the Sustainable Insurance Forum (SIF). The NGF is a global network of supervisors and Central banks, with IVASS being a very active member.

IVASS General Secretary Stefano De Polli on October the 14th 2021⁸⁷ with regards to the future and new challenges of the insurance industry in the post-pandemic. In particular, in his intervention he talked about the new challenges in terms of Solvency II and Sustainability.

The starting point here is understanding what the crisis thought as to get how the insurance sector can contribute to the development in the next future:

- In its typical function of shock absorber by providing protection to families and enterprises and minimizing the impacts of non-predictable events.
- Being an institutional investor, and hence channelling the financial resources towards long-term investments, with an eye towards a sustainable transition.

If on the one side the role of risk absorber is of paramount importance and has always been as such, probably the most natural duty an insurance company is called to abide to, the institutional investor role in terms of regulations is a central theme in the post-pandemic.

Firstly, it is important to underline that the Italian market has a still significant gap in terms of protection rate with respect to the European market. To do so, several “strategic leverages” must be activated. They involve institutions, as well as the entrepreneurial world and consumers. They are about rules regarding the cooperation among the private and public sector, the technology, the productivity, along with the distribution channels and an “insurance literacy”.

In terms of private-public relationships, just think about the welfare state and the natural calamities increasingly threatening our society. Regarding instead the insurance offering, the main point is the re-allocation of products. More than this, a key factor for the market growth is the development of products that are key in terms of what they are providing the client with and what they are instead

⁸⁶ See NGFS (3rd November 2021), *NGFS Glasgow Declaration Committed to Action*, <https://www.ngfs.net/sites/default/files/ngfsglasgowdeclaration.pdf>

⁸⁷ See IVASS, (14th October 2021), *Le nuove sfide del settore assicurativo tra revisione di Solvency II e sostenibilità*, https://www.ivass.it/media/interviste/documenti/interventi/2021/14-10-sdp-ribassigeco/SDP_RIB_ASSIGECO_14_10_21.pdf

leaving aside. It is not only a matter of being consistent, rather it is key to go over the compliance, given that now offerings are exploiting tools such as digital technology.

The other side of the moon was the role of insurers as institutional investors. In particular, this role can very well be defined by rules and business models pushing for a green transition. It is precisely in this context that the revision Solvency II fits well. Among the main objectives of the directive there is the mitigation of the intrinsic volatility of a system based on market value basically, reflecting much more instead the long-term nature of the insurance business. More in detail, there is an effort towards the reduction of the patrimonial requisite. Along with this, the revision of the Delegated ruling 2015/35 was issued, as to introduce modification committed to ameliorate the risk sensitivity of the capital requirements, by intervening on the risk margin, as well as on the long-term investments.

The proposal, published on September the 22nd 2021, yielded contrasting opinions. Among the main representatives, EIOPA declared to be in favour, given that the proposal was fully in line with an opinion related to 2020 by them, in particular related to the volatility adjustment (VA) each year published by EIOPA, which take as benchmark an average European insurer portfolio⁸⁸.

It is very interesting to notice that in the last financial crisis the insurance sector has often had the role of risk-absorber, also in terms of a business model where products of a “buy and hold” nature still find a lot of space especially in the life side of a portfolio. According to this strategy⁸⁹, the investor, after buying the policy, will actually keep it for a long time in the deposits, instead of negotiating it actively on a regular basis. It is a very widespread investment tactic in the insurance sector.

3.2. Investment Focus

3.2.1. A broad spectrum action

Many of the insurance companies signing up the UN Global Compact- which is the largest initiative worldwide in terms of enterprises citizenship⁹⁰ - and the Principles for Responsible Investments (PRI), base their investment strategies to a great extent on the ESG criteria, not renouncing on the other side to profitability and returns, along with their most important and delicate asset, the reputation. It is all about global institutional investor and the investments management is a pillar activity in the insurance business. Which is to say, and this is something also IVASS referred to, the

⁸⁸ See Deloitte, (2022), *Volatility adjustment under the loop*, <https://www2.deloitte.com/ch/en/pages/financial-services/articles/volatility-adjustment-under-the-loop.html>

⁸⁹ See PostFinance, (27th January 2021), *Buy and hold: quando il lungo termine conviene*, <https://www.postfinance.ch/it/privati/esigenze/guida-semplificata-agli-investimenti/buy-and-hold-quando-il-lungo-termine-conviene.html>

⁹⁰ See Global Compact Network Italia, *Introduzione*, <https://globalcompactnetwork.org/it/il-global-compact-ita/global-compact/introduzione.html>

insurance companies are a lot into not only ensuring protection to families and enterprises, but also acting as primary institutional investors. Moreover, and more in detail, in terms of sustainable investments, the insurers provide a remarkable contribution, both in terms of “protectors” as well as medium and long-term.

There is hence a great interest by the insurance industry in investing in sustainable and long-term activities, with a value, on a global scale, of about 30.000 billion dollars. It can hence efficiently contribute towards an economy with a net-zero emission level, in terms of GHGs, with instead more efficient and sustainable resources. In this context, it is interesting to report that the European Commission has recently issued green bonds amounting to 250 billion; more than this, given that the insurance companies aim at investing in more sustainable products, they can very well act as a vehicle for spreading virtuous practises even among clients.

A solid bond and correlation between social security and private insurance companies is paramount in order to efficiently deal with a more inclusive and broader protection system. Moreover, investing in a responsible way means also looking for financial return opportunities provided by companies committed to a sustainable development, yielding also positive effects on the community and on the environment.

All in all, the commitment by companies, with a focus on investments, may be summed up at a global level with several clear points⁹¹:

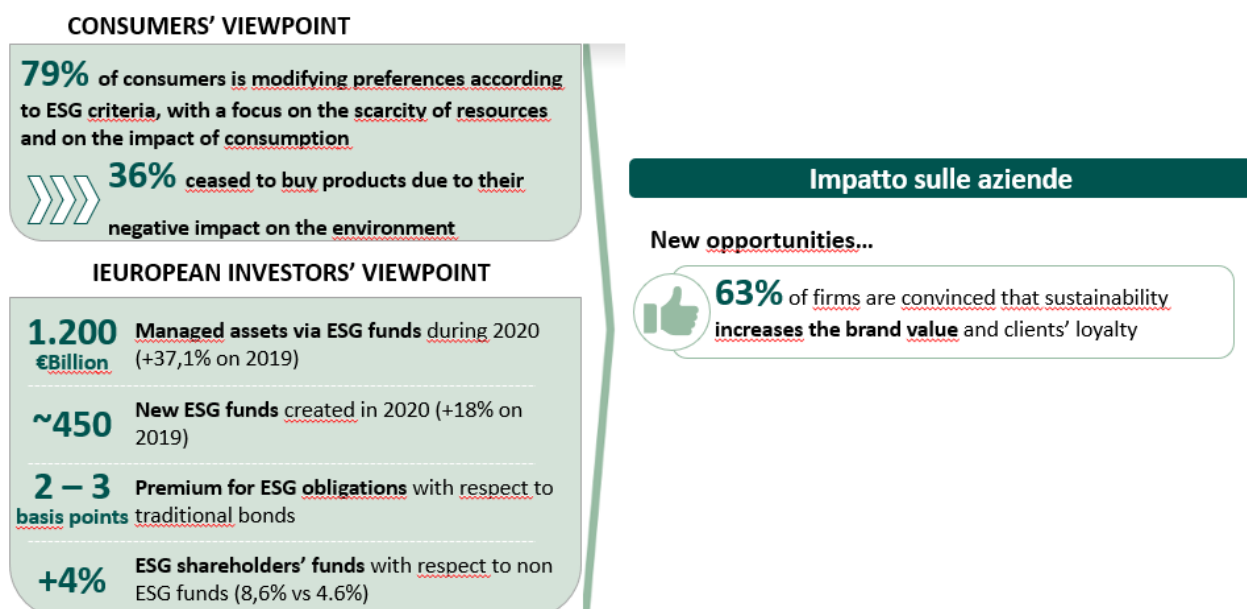
- Stimulating a debate in the financial community over Sustainability themes
- Creating sustainable and durable value for shareholders and clients purchasing insurance policies, by acting in a responsible way
- Managing the carbon footprint in the financial activities both strategically and in line with the Paris agreement
- Investing as to push the development of context with a specific intervention being required
- Driving clients’ investments on insurance products, measuring the resulting positive effects and providing visibility to their own customer base related to such specific monitoring actions
- Contributing to the SDGs promoted by UN in its 2030 agenda, knowing and studying one among the different investment portfolios
- Creating a constructive dialogue with the operators acting in the financial sector as well as the institution on Sustainability

⁹¹ *Id* 33

Along with all this, there are a series of actions which are not strictly linked with investments, yet instrumental in terms of financial performances in the field, such as:

- Managing a working environment which is a source of inspiration for people
- Managing people in a responsible and careful manner, contributing in them being able to develop their full potential
- Promoting human rights, by adopting targeted corporate policies which are also innovative, reinforcing hence programs focused on promoting diversity and inclusivity within firms

As shown below, according to MBS consulting, Sustainability is acquiring an ever-increasingly central role in the global economy and in the investment processes and decisions:



The regulator is accelerating on the ESG themes, as for the following timeline:

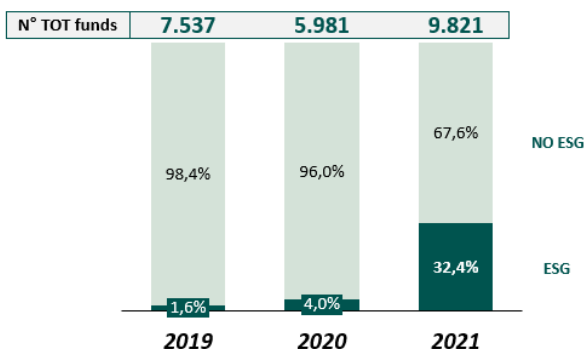
2012	UNEP – Principles for Sustainable Insurance: a global framework for ESG risks and opportunities
2016	UNEP – Sustainable Insurance Forum: organizing 30 supervisors for the insurance sector supporting the ESG objectives
2018	EIOPA – Solvency II: recommendation to incorporate ESG and climate risks in the regulation
2018	IVASS – Governance: introducing climate and social risk protection systems in the corporate governance
2020	EIOPA – Own Risk and Solvency Assessment: opinion over including risk scenarios related to climate changes
2021	Bank of England launched some stress test on climate risk for banks and insurance companies based in the UK (expected closing by May 2022)
2022	The ECB initiated a stress test in monitoring climate risk to evaluate how prepared the banks are in dealing with economic and financial shocks related to climate risk
2022	«PACTE» ruling: obligation to offer life products based on solidarity, SRI and green
2021-23	EIOPA – Single programming document: commitment to incorporate in sustainable finance the ESG risk valuation and to create a framework in order to calculate ESG risks

In 2021 the supply of sustainable funds grew consistently, which in Europe are about 42% of total assets

- The Environmental, Social, Governance (ESG) logics are acquiring a growing relevance in the asset managers’ world, and this factors is widely witnessed by the total number of investment funds launched or proposed once more with an investment strategy
- In Europe, the introduction of the SFDR regulation accelerated the development of sustainable investment strategies, which reached patrimony –asset- value that is over 42% of the total, and they are destined to be growing, as far as the percentage is concerned, over the next years

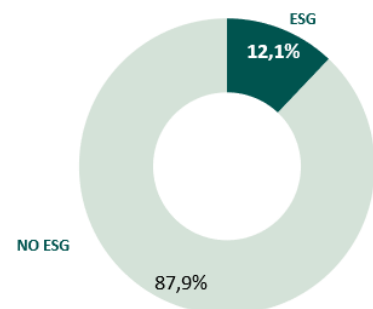
The insurance market is going through an ESG conversion on the “Ramo III” offering, following the change introduced by the asset managers’ policies

Portion by classification type in unit-lined funds introduced in the new products launched per year



Ripartitioning in unit-linked funds for the SFDR classification

(data in terms of insurance active products in the market on 28/02/2022)



The ESG mechanisms are acquiring a relevant weight also in the financial offer of the insurance market, in fact -among the new launched products in 2021- nearly a third of unit-linked funds followed management policies which were ESG-oriented.

Just 12% of the total number of proposed unit-linked funds within the insurance products in the market is classified as ESG, which highlights that the insurance market is slightly behind regarding these themes with respect to the rest of the managed savings.

3.2.2. Direct and Indirect strategic actions

We are here distinguishing between two types of strategic actions⁹² pursued by firms:

- Direct Actions: they are much more linked to the company and its behaviours, and they include, for instance, the drop in carbon footprint, as well as choosing to opt for suppliers respecting sustainable criteria, positive relations with stakeholders in general terms (employees, clients, investors...)
- Indirect Actions: they are on the other side actions conducted within the sphere of the economic influence and are able to affect it either positively or negatively. They particularly refer to investments within the company along with the features of insurance products in the market

The strategic actions should consider all these aspects by integrating them in a long-term perspective. Therefore, a good plan for change with the aim of integrating sustainable criteria ought to include several areas among which:

1. A *risk management framework*, comprising of:
 - integration of ESG factors in the framework
 - revision of risk management policies and of the framework outlining the inclination to the *RAF risk*. Specifically, it was introduced in the regulation #263 on December the 27th 2006, with an extension of that same circular as to make it applicable also to banks starting from 2013⁹³. The RAF is a framework, coherently with the maximum extent of the risk, defines the business model and strategic plan, which is to say, in

⁹² *Id* 33

⁹³ See AIFIRM, (27th March 2013), *Il Risk Appetite Framework*, https://www.aifirm.it/il_risk_appetite_framework/

greater detail, inclination to risk, tolerance edges, risk's limit, the risk management policies, and the reference processed crucial in defining and make into action those same processes. There are several key concepts in the RAF definition:

- risk capacity, which is the maximum extent to which the financial institution is willing to go forward, always taking into account limits by shareholders and regulatory bodies
- risk appetite, the risk level adopted as to pursue strategic objectives
- risk tolerance, the maximum allowed deviation of the risk appetite
- risk profile, which is to say the risk level effectively adopted by the institution, as measured in a given and clear point in time
- risk limits, so articulating the risk aims in the form of operative objectives
- Defining methodologies in order to lessen the climate risk of real estate assets and the underwriting activities
- Conducting market analyses
- Revising of the ORSA reporting. It is among the main complex aspects, and it is about a full risk-management process⁹⁴ which is integrated within the management of the firm and aims at ameliorating the acknowledgement of corporate risks in a business and strategic perspective. Particularly, it is an economic evaluation of balance proposals.
- Reconciliation of results with the strategic plan

2. *Communication and Reporting* (for instance, channelling systems and data management as to make an efficient taxonomy reporting and revision of non-financial reporting, as well as communications with the stakeholders and the community as a whole).

⁹⁴ See PANORAMA ASSICURATIVO, (March 2018), *IL PROCESSO ORSA IN UN'IMPRESA DI ASSICURAZIONE VITA: CHIARIMENTI CONCETTUALI ED ASPETTI APPLICATIVI*, <https://www.panoramassicurativo.ania.it/newsletter/51068/articolo/69513>

3. *Investments* (definition of positive and negative screening criteria for investments underlying financial products offered to clients)

The strategic actions should be planned as to incorporate all the business areas of a firm: core business (life and damages line) and not-core business (real estate investments, agricultural activities....)

Taking into consideration the increasingly higher and noticeable number of insurance sector areas which will possibly be involved in sustainability aspects, there are three main which will most highly be affected in this context:

- I. Reporting and relation with reporting companies
- II. Innovation in life and damages products
- III. Asset valuation and climate risk

For what concerns the insurance offer, all the actions will obviously involve the life products -such as re-assessment of product portfolios as to answer to newer clients' preferences, as well as analysing the governance of products, of distribution processes and informative flows with distributors- and the damages and re-insurance products -such as re-assessment of products portfolios for new needs, definition of solutions to cover the protection gap, re-defining the underwriting process on the basis of the ESG criteria, and finally defining solutions in order to align re-assurance products and activities with the taxonomy for reporting purposes.

3.2.3. Communication and Reporting

Firms are nowadays adopting many different frameworks of models and protocols for what concerns communication and reporting (for instance, revision of collecting systems, data aggregation and monitoring instrumental to taxonomy reporting as well as re-assessing financial and non-financial reporting, along with the relation with stakeholders. A by-product of what was just referred to is the reliability of results towards the regulator: all the features cited before guarantee the adoption of a robust approach, with regards also to the normative communication and the reliability of results towards IVASS.

Furthermore, many companies already adopted the Responsible Investment Guideline, which selects and categorizes investments on the basis of sustainability criteria, and they abide to a sort of Responsible Underwriting Guideline (outlining principles and rules aimed at the valuation and exposure towards the market in terms of communication and reporting in the underwriting process of

insurance products. In this respect, the American Investment Council set several guiding principles⁹⁵ for responsible investments:

1. Take into account ESG matters in the investment process
2. Maintain relationships with stakeholders, either directly or through representatives
3. Invest in order to enhance long-term value creation as well as support a wide range of stakeholders
4. Oversight in the areas of risk management, compliance, audit and potential conflicts of interest
5. Enhance employees' welfare through the implementation of appropriate in-house policies
6. Improve diversity, equity and inclusion in the private equity industry
7. Enforce anti-corruption policies preventing bribery and other misconducts to happen
8. Respect human rights of investors
9. Provide stakeholders with timely information in the context of an increased transparency
10. Set appropriate governance structures, yielding better performance in the long terms as well as preventing risks and downturns

In terms of the underwriting process, Generali Group is among the main actors talking about a sustainable underwriting system⁹⁶. It is stated that, in order to get a responsible underwriting, it is key to define a common P&C (Property and Causality) underwriting management framework.

⁹⁵ See AMERICAN INVESTMENT COUNCIL, (2022), *Guidelines for Responsible Investing*, <https://www.investmentcouncil.org/guidelines-for-responsible-investing/>

⁹⁶ See Generali Group, (2021), *RESPONSIBLE UNDERWRITING GROUP GUIDELINE*, <https://www.stand.earth/sites/stand/files/Generali-Sustainability-Principles.pdf>

The Investor and ESG Relations Functions, which have been increasingly integrated in the firms' activities, basically bear the function of communicating the ambitions and targets of the firm in terms of Sustainability to the market, with the further effect of promoting a transparent and smooth dialogue with investors, particularly with those showing a strong focus on ESG themes. The commitment towards responsible investments leads also to the creation of Company Responsible Investment Committees, made up of the representatives from the most important functions involved in managing investments in Generali. Such committees have the duty to support the firm in the following contexts:

- Integration of ESG criteria in the decision-making process relatively to investments
- Evaluation of the issuing companies which are not aligned with the ESG criteria as defined by Generali Group and the subsequent decision of including these “lenders” either in a “Restricted List” or “Watch List”
- Discussion, assessment and interfacing with the market, press and others, with respect to the results of monitoring activities over ESG risks and opportunities from investment; and follow-up on the implementation of corporate strategies and decision on the theme in question.

Generali is among the insurance actors working the most at the moment in terms of Sustainability⁹⁷. On April the 29th 2022 the incumbent CEO of the Group, Philippe Donnet, has been reconfirmed, and among the several reasons, for sure the very sustainability-oriented industrial plan he proposed contributed. As a matter of fact, already in the period 2019-2021 invested 6 billion euros in green and sustainable bonds, overcoming the targeted 5 billion. More than this, they also planned to invest between 8.5 and 9.5 billion euros for the next three years on these instruments. Generali, with its actions, is crucial given that it is able to influence investment funds, as well as private operators and regulators with its policies. Another interesting data to add is the fact that in 2020 Generali collected 17 billion euros (+11.2% over 2019) of insurance premiums from social and environmental products.

The reporting on the corporate sustainability is overall remarkably evolving⁹⁸ in order to be able to keep up with the latest regulatory changes and to guarantee stakeholders greater transparency. The new guidelines will also allow to be more aware in addressing capital flows towards economic activities enhancing the transition towards a carbon-neutral economy and a net-zero GHGs emissions system.

⁹⁷ See Andrea Muratore, (24th March 2022), *Un Leone “sostenibile”: tutti i piani di Generali*, <https://www.ilgiornale.it/news/finanza-sostenibile/leone-sostenibile-tutti-i-piani-general-2020494.html>

⁹⁸ *Id* 33

3.2.4. Evolution of Solvency II directive vs ESG goals

It is also important to understand the way insurers can integrate their sustainability risk in their quantitative management of risk in the context of Solvency II. Starting from the Paris Conference, climate change drew much more attention than ever before by the public at large, along with the regulatory and legislative bodies in general⁹⁹. The related actions and initiative by the EU community to create a “greener” financial sector also led to the monitoring authorities being more careful and rigorous, as well as sensible I would say, related to the climate risks impacting the financial sector.

In recent publications, the regulatory bodies were pretty clear in terms of the insurance sector expected to face all the material risks linked to climate changes and related to the requirements from the second pillar – the ORSA, so the set of procedures and processes for the identification, measurement, monitoring and management of risk¹⁰⁰, as well as the level of proper funds functional to comply with the minimum solvency requirements: this not only includes the physical risk deriving from indeed the climate change, but also changes in investment conditions due to the transition towards low carbon-emissions economy (transition risk).

This raises the question of how to calculate those transition risks within calculating the risk capital of Solvency II. The essential ingredient here is a far-sighted evaluation approach, being able to effectively translate the scenarios, coming from policies on climate change, in tangible impacts on the basis of the assets. The points in favour are the feasibility of this concept, along with the potential relevance of the transition risk on the patrimonial requirements of the insurance companies based on Solvency II. This risk may be substantially mitigated by adopting an investment approach which is more aligned towards the climate protection aims, by exerting more care for the ESG criteria.

The quantitative evaluation of sustainability-related risks will cover an increasingly greater role in the further development of the regulatory requirements of Solvency II and in the broader evaluation of exposure to risks deriving from climate change within the insurance sector. The insurers should be ready to comply with those requirements, both in terms of individual exposition to risk and the integrating process.

As a matter of fact, a full measurements pack was already adopted by the European Commission on April the 21st 2021. The outline aims at ameliorating the transition towards more sustainable financial activities in the EU. It particularly comprises 6 delegated acts which will be able to modify several sectorial regimes, among which the Solvency II framework and the Insurance Distribution Directive

⁹⁹ See Consiglio dell'Unione Europea, (24th February 2022), *Accordo di Parigi sui cambiamenti climatici*, <https://www.consilium.europa.eu/it/policies/climate-change/paris-agreement/>

¹⁰⁰ See GENERALI, *CONTROLLO INTERNO E GESTIONE DEI RISCHI*, <https://www.general.com/it/governance/internal-control-risk-management>

(IDD). Focusing quickly on this last element, the directive came into action on October the 1st 2018 actually¹⁰¹. It was addressed to IVASS and the European Commission and was aimed, for instance, at reinforcing the benefit of consumer as well as the priority. Among the striking novelties, it is dutiful to mention that the IDD directive enlarged the filing of applications not only for insurance intermediaries, but actually to the whole pool of subjects acting in the insurance distribution. This allows all the subjects in question to stay at the same level and preventing hence distortive results in terms of competition. The main logic behind the directive is really driving the insurance distribution from being product-centric to client-centric.

Going back to the IDD directive more in general, the first two delegated acts modifying the IDD Directive and the Solvency II framework are focused on the integration and consideration of sustainable or environmental factors, ESG criteria in the key activities, among which helping out in terms of investments selection, product supervision and governance, risk management and evaluation of appropriateness.

The modification to Solvency II introduces obligations for insurance companies in managing “sustainability risks” and in guaranteeing that the sustainability factors are included when assessing risks. Solvency II actually integrates the sustainability factors in a framework of risk management for insurers and identifies several key areas in which the sustainability risk has to be integrated:

1. Risk Management and related duties
2. Actuarial functions and uncertainty valuation by calculating the technical reserves, so a fair valuation based of the market-to-market and market-to-model type¹⁰²
3. Remuneration policy and sustainable risks reporting in the risk management system
4. Integrating the sustainability risk in the prudent layman

When will those modification be applicable? They are actually expected to have been applied since October 2022.

The EIOPA (European Insurance and Occupational Pensions Authority) is in favour of the Solvency II proposal by the European Commission for further actions in the field of sustainable finance. EIOPA is convinced the theses themes will bring the economy toward s a sustainable transition and the insurers, in their role or risk-bearers and being also investors, could enhance this change.

¹⁰¹ See Intermediari Assicurativi, (18th April 2022), *IDD: Regole di comportamento per distribuzione assicurativa*, <https://www.intermediariassicurativi.it/iass-ivass-rui/iass-regolamenti-ivass/idd-regole-di-comportamento-per-distribuzione-assicurativa.html>

¹⁰² *Id* 101

4. Scenarios and Prospective Investments in the area

4.1. The strategy of change

4.1.1. The numbers of a path

In a very recent report¹⁰³ Ernest Young talks about the outlook of sustainable futures for firms. Basically, the main take-away is that, in spite of the pandemic, firms did not cease in pursuing a path towards Sustainability. In a survey made by the firm, 69% have reportedly devised a Sustainability plan in 2021, still less than half of the sample -over 300 companies- actually defined and clarified some quantitative objectives, yet there is in this case a 6% increase with respect to the same period of the previous year. EY conducted during January 2022 the survey “Seize the change - futuri sostenibili” focusing on the latest trends by Italian forms in the context of a sustainable development. This report, which by the way is produced on a yearly basis, has a remarkable importance in this case, given that it is inserted within a context where huge changes have been experienced. Although the pandemic, firms are actually speeding up to the benefit of a sustainable transition, with the aim of integrating the new policies in the business.

Massimo Antonelli, EY CEO for Italy, refers to the disruptive role of sustainability. He in fact specifies that this phenomenon started out as an environmental issue, to later enlarging its perimeter of influence, getting to influence people, firms and the society as a whole. Nevertheless, in order to give birth to a virtuous circle, the synergy among the main actors involved -people, firms and government leaders- is required. It is more than this important to devise business plans which are measurable and have temporal certainty, by exploiting the opportunity for accelerating offered by the PNRR. The underlying aim here is making Sustainability a pillar for enhancing a structural growth in a medium and longer-term perspective.

Getting more to the detail of the report, EY identifies 5 main themes which are able to qualify the strategic positioning of Italian firms in the market under the lens of Sustainability:

1. Sustainable plans

From the survey an interesting data emerged, according to which nearly 70% of polled firms declared to possess a Sustainability plan, along with related prefixed objectives. In 44% of cases actually quantitative objectives have been devised. Moreover, sadly only 35% of firms

¹⁰³ Id 62

went further, by defining also the timeframes and deadlines for those aims to be accomplished. Lastly and still not that satisfying, just 15% of firms -that have not included a Sustainability plan yet- are planning to repair to this.

2. *Climate changes*

In terms of this, on the other side, the situation does not seem quite dissimilar. About 80% of firms declared that, within their Sustainability plan, they have included actions to mitigate the risk of a climate change, as to get to a reduction of GHGs emissions. In this case, the trend is slightly worsening, with a 5% drop with respect to 2020, due to the pandemic leading to many firms reviewing their strategic objectives and hence choosing to rely on different KPIs, such as health of stakeholders. Of those ones, just 61% actually associated the emission levels drop target with relevant changes on the productive model or on the business model. Furthermore, 53% of firms included actions related to climate change in their industrial plans (+21%) but less than a fifth of them have a carbon neutrality orientation and more than a third are already undergoing a process of de-carbonification which is unrelated with the EU and Paris objectives.

3. *Supply chain*

More than 70% of companies declared that they are willing to make significant modifications in a supply chain perspective; more in detail nearly half of those made clear their intention to pursue those changes in order to being able to better and more responsibly select suppliers, only a tiny fraction instead has been moved by the sole reason of stakeholders having become more stringent in terms of requisites demanded, whereas the left part is dealing with both motivations.

4. *Sustainable finance*

This section of the EY report is particularly referring to financial products and responsible investments. For a third of the polled companies, already several initiatives are underway for a sustainable finance, mostly in several sectors, such as Insurance & banking and ITC & Hi-Tech. Overall, a positive trend, witnessed by an 8% increase related to 2019, has been

recorded. The main causes for this greater concern towards sustainable finance may be due to the aids from the European and International community, leading to more relevance in terms of identifying ESG products as well as reporting them. This trend may be related to the progressive penetration of ad-hoc European regulations, still it has a second- and equally important- function of functioning as an alert with regards to the phenomenon of the “green and social washing”. In particular, this last point refers to a deceptive action by firms which are, at the sunlight, not environmentally conscious at all, still they strive to appear as sustainable thought the apparent compliance to ESG criteria in order not to be screened out by suppliers and non been granted loans of any kind¹⁰⁴. Finally, in terms of responsible investments, only 35% of the sample stated that they have adopted policies in this sense, and among them something around a fifth signed the Principles for Responsible Investment (PRI).

5. *Circular economy and social impact*

Fortunately, the majority of firms have actually undertaken policies focused on the reduction of the bad impact of resourced employed in the production processes over the last 2 years. of which half of them used external providers as to get more efficient solutions.

4.1.2. Climate Risk and Asset Valuation

Countries, EU bodies, firms as well as financial supervisors are striving to keep a more attentive eye on ESG issued by defining behaviours as well as investment rationales with the aim of limiting the impact of climate changes and of estimating and predicting the current and future impacts of those same climate changes.

Still, it is important to remember that the estimates of the economic impact are quite hard to come up with. Initially, a trend has been noticed in terms of climate related to a change of a purely qualitative type. This is due to several different factors:

- Very limited historical information
- Sharply changing climate tendencies
- High-impact and low-frequency events (such as, natural disasters)
- Difficulty in establishing a connection between climate changes and financial losses

¹⁰⁴ See ESG The Report, (29th December 2019), *What is Social Washing?* <https://www.esgthereport.com/what-is-social-washing/>

In order to adequately formulate and address the investment strategies and coherently with including the specific matter at stake with the broader picture of the risk, it is of paramount need of acquiring the ability to quantify the climate changes under an economic and financial viewpoint, by utilizing metrics and frameworks focused on assessing the risk through quantitative measurements.

A worrying fact in this context is related to the fact that figures show that the climate change produced and induced by human be indeed detrimental, particularly in the sense that it will increase both the frequency and the intensity of extreme events -such as, once again, natural disasters- with a subsequent downturn as far as financial losses are concerned. It is all in particular about the analysis of climate and environmental risks as well as the managerial approach utilized with the aim of quantifying the direct impact of the physical risk on the real estate assets, in line with the current standards and benchmarks provided by the “catastrophe model”.

Such a theory came to life during the 1960s thanks to the efforts made by the mathematician René Thom¹⁰⁵. Often times, the results of the theory are represented relative to all systems of a given class, which is to say the entirety of systems for which they are not valid are actually not to be strictly considered in terms of variety in a thorough way¹⁰⁶. In clearer and more limpid words in a way, it is about a probabilistic model estimating the frequency, ubication and intensity of an event, as well as the entity of the damage this event is likely to cause towards the object the study is considering, which in this case might be a real estate asset located in the area of the occurring event. Although modelling the catastrophe risk went through a lot of phases during its history, it has been possible to detect the resources analysed just in the context of the natural mapping via the more recent exploitation of the Geographical Information Systems (GIS). Quickly indulging on it, the GIS is a system that creates, manages, analyses and maps any kind of data basically. The GIS is linking data to a map, joining all the information related to the position with all types of descriptive specifications¹⁰⁷.

Interestingly enough, the real estate assets of the same geographical area (which is to say, a province of region), are not necessarily subject to the same types of risks, due to their unique and intrinsic ubication and features. Moreover, an approach towards the analysis and management of climate and environmental changes by exploiting the geographical and special information allows the precise identification of the assets that are more exposed to some specific risk factors.

In terms of climate risk and patrimonial evaluation, it is dutiful adapting the current catastrophe models in order to fully encompass the changed contexts, as well as analyses and forecast evaluations

¹⁰⁵ See Ernesto Salinelli, *La Teoria delle catastrofi*, <https://matematica.unibocconi.it/articoli/la-teoria-delle-catastrofi>

¹⁰⁶ See Treccani, *teoria delle catastrofi*, https://www.treccani.it/enciclopedia/teoria-delle-catastrofi_%28Enciclopedia-della-Scienza-e-della-Tecnica%29/

¹⁰⁷ See Esri, *Cos'è il GIS?* <https://www.esri.com/it-it/what-is-gis/overview>

by adopting, among others, the current modelling methods of climate risk. In such sense and as to pursue this aim, it is necessary to implement a new framework integrating the above-mentioned catastrophe frameworks with the climate models, modelling relations -linear and non-linear- between environmental tendencies and risk factors, in order to identify and distinguish in a more reliable way the current and prospective risks which a given category of corporate assets may be subject to. Such an integration influences all models of the catastrophe model (danger, exposition, vulnerability, financial) by determining the reconstruction of the whole losses' distribution (for different temporal horizons and future scenarios) as well quantifying the probability that a certain event will actually happen.

Apart from the mathematical and statistical aspects, the availability of necessary information to fuel the different modules is the most critical aspect in view of the development of a framework as the one depicted above; for the reliability of the exploited models as well as the solidity of the results, some aspects are crucial¹⁰⁸:

1. The *quality* of the database on the risk factors
2. The *completeness* of the database on the risk factors
3. The *dimension* of the database on the risk factors
4. The *evaluation* of the risk factors

In general terms, the complexity is enlarged also by the hard time in aligning the information and their timing in coherence, given also the presence of many different subjects in the collection.

Over the last year, thanks to inter-governmental organizations and international commissions, academic agencies along with research centres, many investments have been made with respect to network with the duty of observing the phenomena -for instance, the installation of anemometer on buildings and infrastructures; also, the ways of balancing instruments have been ameliorated, as well as better changing the techniques in terms of data filing, with the ultimate and resulting benefit of improving the quality of available database.

Nevertheless, given that the climate change is a phenomenon which is continuously evolving, the historical observations may not be that reflective in terms of future expectations and trends, particularly when it is about temporal frames in the long terms, such as 20 or 30 years. In order to sort thus problem out, the scientific community developed several models with the function of exploiting the collected data to generate a number of scenarios and their impact on the models of risk factors in the risk module (for instance, how the flood risk varies in terms of frequency and intensity

¹⁰⁸ *Id* 33

intervals in a given position if a steep temperature increase occurs). Furthermore, the exposition model requires several real estate data of a technical and economic nature.

Hence, to really clear all the situation, it is necessary to understand that the insurance companies are fundamental actors in the economic system, given both their underwriting activity over key risks offering protection to firms and families, as well as their role as institutional investors. The ability of a company to grasp the opportunities offered from the evolving regulations model its degree of change and responsiveness, which will increasingly be crucial in facing the environment that same firm is operating in.

4.1.3. Insurance Life business offer

A great advantage of the new ESG products is that they offer insurance companies the possibility to renew their product offering in the Life and Damages business lines, in the context of creating value for the economic system in its entirety (which is to say, the firm, as well as the clients, everyone with their insurance needs and requests).

With particular to the insurance investment products of the life business offer, the Sustainable Finance Disclosure Regulation (SFDR), which represents a new way of reporting in action from March the 10th 2021¹⁰⁹ demands that the sustainability risks are integrated within the firm as well as taking into account the negative impacts on sustainability of the decision-making, investment and advisory processes requesting both a specific and informing communication and the coordination of the remuneration policies of the firm. More than this, the SFDR demands that financial market participants and financial consultants with more than 3 employees to report information related to the integration of the climate change opportunities in decision-making process related to investments, sustainable features or Sustainability characteristics¹¹⁰.

Moreover, as far as Sustainability is concerned, the SFDR introduced a new definition for financial products, being classified in:

- Products promoting environmental features, among others
- Products promoting social features, among others
- Products promoting both of them, which is to say the so-called “light-green products”
- Products with sustainable investment as their specific objective, so the “dark-green products”

¹⁰⁹ See BNP PARIBAS ASSET MANAGEMENT, *Regolamento sull'informativa sulla finanza sostenibile*, <https://www.bnpparibas-am.it/investitore-individuale/regolamento-sullinformativa-sulla-finanza-sostenibile/>

¹¹⁰ See Giammaria Famiglietti, Alessio Girardi, Mattia Terenzi, Paolo Mancini, (July 2021), *I PRODOTTI “GREEN” DEL MERCATO ASSICURATIVO IN ITALIA*, <https://www.oliverwyman.com/it/la-nostra-expertise/insight/2021/jul/i-prodotti-green-del-mercato-assicurativo-in-italia.html>

All those products should comply with further transparency requirements, both for instance of the company website and on reporting.

Even though the definition of light and dark green products seems to be clear, as a matter of fact the classification seems to be way more complex when about to analyse the structure of the underlying investments. In this case, the role of info-providers guaranteeing and publishing specialized grids related to several financial instruments. At the moment, there is the widespread use of proprietary model to analyse the ESG components, still a shift of available information over taxonomy criteria is planned. On the other side, fund managers should ensure the traceability of the ESG information over a series of investments related to a particular fund.

The emanation of the SFDR led to adjourning the regulations of the sector on the insurance distribution in order to include the sustainable preference considerations, as expressed by clients. Taking into account those preferences is not only about the assessment of portfolio products (in order to get an appropriate differentiation according to the ESG criteria)¹¹¹:

- Reviewing *governance processes of the product* -for instance, re-assessment of the target market, integration of KPI factors to monitor the product- and of the related information flows between producer and distributor
- Re-assessing *proliferation logics* of the client and of the soundness valuation

In this context, it is of paramount importance that firms aiming for greater competitiveness, with respect to the larger responsible investment offers as well, involving funds by specialized patrimonial managers, and will be able to offer interesting financial products.

4.1.4. Insurance Non-life business offer

With reference to the non-life business offer, or damage business offer to make it clearer, the taxonomy regulations dictate rules and technical norms in order to identify eco-friendly and sustainable economic activities in the insurance industry. This is to say that companies should identify their suitable business lines as well as introducing new organizational and product measures -in terms, for instance, of product governance and technical features- in order to align the non-life products to the taxonomy requirements. Briefly indulging in it, with product governance normally it is indicated the process of managing and governing financial instruments and investment products in the insurance industry¹¹².

¹¹¹ *Id* 33

¹¹² See Banca Sicana, (27th November 2020), *Policy di Product Governance degli strumenti finanziari e dei prodotti di investimento assicurativo*, https://www.bancasicana.it/media/19368/policy-product-govce-strum_fin-v2-cda-27nov20.pdf

Nevertheless, it is not true that the whole non-life business is deemed as “eligible”; as a matter of fact, some of the products are not. For instance, general civil liability has been taken apart, along with legal protection, obligations and different types of financial losses. This fact may lead to a future re-assessment of the taxonomy, as well as encouraging voluntary disclosure, aimed at getting a further share of green premiums. Filling the protection gap from natural disasters and the new clients’ protection needs will be the new drivers to innovation.

At the moment, the market offers products with a high quantitative of social and environmental potential.

Those with a high environmental content are particularly classified in several different areas¹¹³:

- Products pushing for a *sustainable mobility*

for instance, civil liability for electric cars, not to mention protection for electric bikes, protections promoting a low annual car utilization and safe driving habits)

- Products with *general civil liability for the pollution*

such as, policies covering expenses for urgent and temporary measures preventing the limitation of compensated damages

- Products facing *natural or environmental disasters*

among which protections that reward construction techniques complying with environmental mitigation or adaptation

- Products that promote the *energetic efficiency of buildings*

for instance, by offering specific discounts or advice in terms of optimizing energy consumption

- Products for protection against *major risks of renewable energy production*

¹¹³ *Id* 112

just think about protection systems aimed at renewable energy production, including a reimbursement for harms against solar or photovoltaic systems and others, which might possibly be integrated with protections with regards to the missed reward deriving from the disruption or enhancement of electric energy production.

On the other side, also the other product types, so the one with a highly social potential, are included in a heterogeneous range of categories¹¹⁴:

- Products aimed at a *social inclusion*, addressed in particular to specific clients or categories which were previously excluded from the protection system

whoever has handicap during volunteering activities, as well as unemployed

- Products promoting *volunteering activities*
- Products pushing for *a healthy and responsible life style*

For instance, by applying discounts, or by exploiting new technologies, it is also about the relevance of preventive sanitary assistance or other responsible behaviours from insurers

- Products integrating the *national health system*

such as covering costs for curing patients

- *Micro-insurance products*

they are related to microcredit activities

4.2. Management choices, risks and opportunities

4.2.1. A complex yet stimulating balance

In the context of significant investment volumes for insurers, there is a big deal relatively to sustainability risks and asset side.

¹¹⁴ *Id* 33

The main issue that may be possibly deriving from risks from a sustainability point of view, in terms of activities, are mainly:

- *Credit risk*

This type of risk stands when for instance a firm is partially insolvent due to policies and political decisions that with regards to ESG aspects that negatively impact the business model of the firm itself. In more simple terms, the credit risk¹¹⁵ represents the possibility that a debtor is unable to comply with the obligations for interest, face value or -more in general- capital repayment.

- *Market (price) risk*

Which is to say, the market expectations with respect to ESG policies and regulations, which may be causing a rise in the risk for not sustainable investments. The market risk is¹¹⁶ generally speaking, the risk of a change in the market value due to fluctuations in interest rates, exchange rates, as well as prices for other products and activities

- *Liquidity risk*

It may arise from natural disasters within which a significant number of clients withdraws money and capitals from their respective accounts to finance losses. It basically represents the possibility that the fair price can be exercised, as well as low transaction costs and in a short time span¹¹⁷. It is actually what occurred for instance during the 1929 crisis, with Americans withdrawing capital from their accounts abroad after the Federal Reserve's decision to increase the interest rates' levels, given that at that time the immediate consequence was more attractiveness of investments in the American market.

There are by the way also other risks that are increasingly more valued by companies in the financial market, that are linked to the ESG criteria, such as water scarcity, as well as the impact of those risks on activities. If one the one side there might be concrete risks if you decide to invest in a company which is fragile to the results of possibly future climate changes, there are also some resulting

¹¹⁵ See BORSA ITALIANA, *GLOSSARIO FINANZIARIO – RISCHIO DI CREDITO*, <https://www.borsaitaliana.it/borsa/glossario/rischio-di-credito.html>

¹¹⁶ See BORSA ITALIANA, *GLOSSARIO FINANZIARIO – RISCHIO DI MERCATO*, <https://www.borsaitaliana.it/borsa/glossario/rischio-di-mercato.html>

¹¹⁷ See BORSA ITALIANA, *GLOSSARIO FINANZIARIO – RISCHIO DI LIQUIDITA'* <https://www.borsaitaliana.it/borsa/glossario/rischio-di-liquidita-.html>

opportunities, for instance if you instead decide to focus on companies that are quite focused on a sustainable development, made as a real target by those same firms. This analysis is of extreme importance in dealing with sectors that are particularly climate-sensitive, including -for instance- municipal bonds and infrastructural funds.

In identifying investment opportunities relatively to firms and sustainable projects, the time horizon of the investment itself plays a major role, and in this respect, firms opting for spending money should be extremely cautious, even though this sounds much more like a generalized advice for different investment decisions. Swiss Re, mainly a leading reinsurance provider, came up with some figures, according to which, in the next 20 years, investors would have the opportunity to gain up to 920 billion USD on a yearly basis in emerging market¹¹⁸; It also predicts that the infrastructural projects may provide with a good return over the long-term, by offering at the same time regional and asset class diversification along with opportunities for responsible investments from a social and environmental stand-point. Asset classes are actually used to identify different groups of investments depending on their peculiarities and in their market behaviour¹¹⁹.

In order to get to an economy which is de-carbonized and environmentally sustainable, a huge number of financial resources is needed to allow a transition of such relevance. The insurance companies are regarded to be a key investor in this sense.

Also, for what concerns the corporate environment more in general, there are also other kinds of risks, of a strategic and reputational type mostly, and they indirectly refer to the patrimonial sphere as well. In this context, for instance, rating agencies and investors may act in the context of a credit risk. For instance, there might be a hypothetical negative influence of natural disasters on credit ratings, according to some projections made by Standard & Poor's Rating Services. Therefore, in this respect, the protection provided by insurance companies may be of a great help relatively to those above-mentioned risks.

Still, life for insurers is not that easy, to a certain respect. In particular, insurers, in order to fully exploit the financial capacity of their companies, given basically after accumulating a pool of premiums from clients, they have to overcome several hurdles. Among those ones, some of them might be:

- Complex restrictions from the regulatory side
- Tough patrimonial requirements

¹¹⁸ See AXA, ITALIAN AXA PAPER, (October 2015), *Le sfide dei rischi emergenti*, [corporate.axa.it/documents/715596/722403/Italian+AXA+Paper+n.7+-+Le+s sfide+dei+rischi+emergenti.pdf/3f5f05e7-48e2-88db-236d-dd9e7374f825](https://www.axa.it/documents/715596/722403/Italian+AXA+Paper+n.7+-+Le+s sfide+dei+rischi+emergenti.pdf/3f5f05e7-48e2-88db-236d-dd9e7374f825)

¹¹⁹ See moneyfarm, (2021), *Asset Class*, <https://www.moneyfarm.com/it/glossario-finanza/asset-class/>

- Lack of transparency relatively to information
- Inadequate amount of infrastructure, which may possibly be revealing good investment opportunities in the market

One of the pillars of a sustainable investment strategy is the integration, as it should by now be crystal clear, of ESG factors where the asset managers combine the tradition quantitative techniques for a financial risk analysis with both quantitative and qualitative analyses of policies and impacts of ESG criteria.

Hence, it is dutiful recalling and pointing out that the patrimonial risks may be assessed, overall, via 3 main means:

1. *Sustainable investment strategies*
2. *Asset -and activities- classes*
3. *Scenario analyses*

4.2.2. EU Governance and Risk Management

On July the 6th 2021, the European Commission adopted a measurement pack in terms of sustainable finance, including the new strategy to finance the transition towards a sustainable economy. Here, there is in particular a reference to the Delegate Act, which is integrating article 8 of the Taxonomy Regulation¹²⁰ as well as a proposal in terms of regulating the EU Green Bond Standard, within the program traced by the European Green Deal¹²¹.

The new sustainable finance strategy is based on the 2018 Action Plan of the CE and is aiming at financing a sustainable growth, which is to say enhancing the tendency towards a transition to a sustainable economy. In particular, the Commission is oriented towards the creation of a financial system which is able to lead to a sustainable development, in the sense that by integrating the ESG factors it will be possible to pursue the goals set out by the Paris Agreement and the 2030 UN Agenda¹²².

In this context, a set of actions at a macro level is proposed¹²³:

¹²⁰ See EUR-Lex, (10th December 2021), *COMMISSION DELEGATED REGULATION (EU) 2021/2178*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2021.443.01.0009.01.ENG

¹²¹ See European Commission, *European green bond standard*, https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/european-green-bond-standard_en

¹²² See CONSOB, *IL PIANO DI AZIONE PER LA FINANZA SOSTENIBILE*, <https://www.consob.it/web/area-pubblica/il-piano-di-azione-per-la-finanza-sostenibile>

¹²³ See European Commission, (6th July 2021), *La Commissione presenta una nuova strategia per rendere il sistema finanziario dell'UE più sostenibile e propone una nuova norma europea per le obbligazioni verdi*, https://ec.europa.eu/commission/presscorner/detail/it/ip_21_3405

1. Developing a broader framework in terms of sustainable finance in order to make it easier a possible financing of the economic transition prior referred to
2. Allowing for sustainable finance to be more inclusive towards SMEs as well as consumers, equipping them with adequate instruments along with providing them with incentives to access the transition-aiming financing
3. Ameliorating the resilience of the economic and financial system in terms of risks related to Sustainability

In such a context, among the different applicable measures, the European Commission will be working on standards¹²⁴ in terms of financial reporting which will have the duty of properly reflecting the standards on Sustainability risks as well as pushing for the accountability of the natural capital, such as natural disasters, among others. Moreover, the CE will also be very cautious regarding the fact of ensuring that the ESG risks are considered and included with no filters in credit ratings and outlook, to really make sure that the ESG risks are continuously taken into consideration when into risk management systems from the banks' side.

An important point to made is related to the Sustainable Finance Roadmap¹²⁵ made by the European Securities and Markets Authority. The target time span is between 2022 and 2024, we are fully at the beginning of the path. Dutiful to be specified, this regulation is not permanent, rather it is periodically re-assessed by the National Competent Authorities to be always well aware if some modernizing activities are to be made. Other than this document, the ESMA will still keep looking around and giving its contribution to whatever changes is made or planned to be so in the sphere of the European community, such as, for instance, the International Organisation of Securities Commission, which has the main commitment of defining a worldwide benchmark in the securities sector¹²⁶. The document has not been written with a single purpose, rather there is a double reason in this case:

1. Smoothing possibly the action to be decided and implemented by the Authority in growing markets, provided that a certain amount of lead guidelines is proposed, preventing then an inefficient intervention both within a business and across a number of them, for instance.

¹²⁴ See ANIA, (14th July 2021), *TRENDS – Sostenibilità*, https://www.ania.it/documents/35135/339289/ANIA+Trends+Sostenibilit%C3%A0_n12-luglio+2021.pdf/cb4bcd99-64d9-4529-53fa-dfef8db2683f?t=1626252455138

¹²⁵ See esma, (10th February 2022), *Sustainable Finance Roadmap 2022-2024*, https://www.esma.europa.eu/sites/default/files/library/esma30-379-1051_sustainable_finance_roadmap.pdf

¹²⁶ See OICV-IOSCO, (2022), *Annual Report 2020, About IOSCO*, https://www.iosco.org/about/?subsection=about_iosco

2. Based on those suggested principles, the ESMA should be kept in check with respect to the advancements related to the above referred principles, hence the roadmap may very well function as a great tool here

More than this, the previous year this same Commission devised the so-called Strategy on Sustainable Finance. Several are the targets that this sort of mission is attempting to pursue:

- Sustainable measurements are to be always and increasing more regarded as paramount in any kind of regulation to be made
- The National Competent Authorities must be well aware when it comes to exploit ESG factors
- Keeping an eye on how the market changes, by always and possibly distinguishing opportunities and threats
- Pursuing the objective of making ratings much more a unique guide with no discrepancy, by adding the ESG factors among the different criteria considered

As mentioned before, a new concept of the market as seen also through the lens and perspective of ESG guidelines is never stagnant; hence, exactly for this reason and as said before, the roadmap has to change accordingly, in order to keep up with the external context. To conclude, the roadmap will also go toe-to-toe with the Annual Work Programme, with a focus, for instance, on capital markets and Innovation¹²⁷.

4.2.3. Focus Generali Group

Generali is probably the most important Italian insurance company, and it is dutiful digging more on this, given that the Group is able to influence trends and create new ones in the whole insurance industry through their moves. In terms of Sustainability, the company looks like being the most organized in this respect. Just to witness this big drive of the society towards the theme, back in 2017 they had already approved the so-called “Charter of Sustainability Commitments”¹²⁸ in which basically all stakeholders are involved in the creation of a more sustainable economy. In particular, Generali aims at making business in a responsible way, as to manage to create and leave a durable and substantial value to the whole pool of stakeholders. There are 2 basic guidelines the Group is pursuing in order to abide to the Chart¹²⁹:

¹²⁷ See esma, (27th September 2021), *2022 Annual Work Programme*, https://www.esma.europa.eu/sites/default/files/library/esma20-95-1430_2022_annual_work_programme.pdf

¹²⁸ See GENERALI, *CARTA DEGLI IMPEGNI DI SOSTENIBILITA'*, https://www.generali.com/it/our-responsibilities/responsible-business/charter_sustainability_commitments-

¹²⁹ See Generali Group, *CARTA DEGLI IMPEGNI DI SOSTENIBILITA' ASSICURARE IL DOMANI*, https://www.generali.com/doc/jcr:1bfbf327-d13a-4dc0-8a96-977539135ca3/lang:it/Carta_degli_impegni.pdf

1. Making business responsibly
2. Live the community

More than this, the Group also wanted to be concrete in what it was striving to reach; they hence set a number of key elements to be looked at in doing business in the next future:

- Intervening on the main trends at a macro level that are affecting our society;

It is basically about conducting a materiality analysis¹³⁰ by keeping an eye on ESG requirements, with the eventual result of building up effective strategies to provide value-added services in the long run

- Representing the first choice for customers

To get to it, they not only stop to providing an insurance service; rather, they instead go over it by creating an integrated service which is sensitive in terms of providing a real value to peoples' lives; in this context, the Group approved, during the Investor Day in December 2021, the new triennial strategy called "Lifetime Partner 24: Driving Growth" and it is pivoted around three main focal points¹³¹:

- Pursuing a sustainable growth

Through efficiently manage costs, integrating ESG factors and making more money from the non-life business

- Increasing *profits*

By improving the profitability of the life business and further develop the Asset Management part

- Guiding innovation

¹³⁰ See GENERALI, *ANALISI DI MATERIALITA'*, <https://www.generali.com/it/our-responsibilities/responsible-business/materiality-analysis>

¹³¹ See GENERALI, *Piano Strategico: Lifetime Partner 24*, <https://www.generali.com/it/who-we-are/Strategic-Plan-Lifetime-Partner-24>

Focusing on automation, technology and data pooling potential

- Providing value to distributors

Which is to say making a more accessible and accurate, for instance, customer experience¹³²

- Committing to make the financial community as a whole more aware of the Sustainability themes, which is to say pursuing exchanges of ideas with respect to it
- Creating a safe and ethic working environment, hence caring for people and employees

They are around 75 thousand and more than half of the force is made by women¹³³

- Maintaining fruitful relationships with contractual partners

The main reason being the fact that excellent partnerships¹³⁴ are able to maintain high standards for the service offered both from a qualitative and a quantitative viewpoint.

- Bringing a tangible impact on the community
- Being acknowledged as a Responsible Group

This specifically means:

- Acting with integrity, by pushing managers to motivate people as well as behave according to common codes of conduct
- Respecting human rights, as well as preventing corruption in general terms
- Making roundtables with stakeholders, in order to clarify the commitment towards sustainability in a constant attitude of re-assessment and amelioration

¹³² See GENERALI, *SEMPLIFICAZIONE E CURA ALLA BASE DELLA CUSTOMER EXPERIENCE*, <https://www.general.com/it/our-responsibilities/becoming-a-life-time-partner-to-our-customers/effortless-and-caring-experiences>

¹³³ See GENERALI, *INVESTIAMO NELLE NOSTRE PERSONE*, <https://www.general.com/it/our-responsibilities/Generali-people-strategy/investing-in-our-people>

¹³⁴ See GENERALI, *LAVORARE CON I NOSTRI FORNITORI*, <https://www.general.com/it/our-responsibilities/working-with-our-suppliers>

- Collaborating with national and international organizations in pursuing the SDGs

Also in this case, it is important to remind that the charter of Sustainability commitments by Generali is not a static reality at all, rather it was devised to be changed over time, depending on the new needs and target results taken into account. In other terms, this is to say that Generali still shapes its strategy according to the ever-changing market dynamics.

As also mentioned previously, in terms of facts and data Generali is quite convincing as far as Sustainability is concerned. In fact, the firm recently published its statement for 2021, as well as it disclosed the new industrial plan to be implemented in the following years. Remarkable to stress, Generali recorded its best ever performance in 2020, with a +12.4% corresponding to nearly 6 billion euros, and the merit goes to the development in nearly all business lines, particularly actually relatively to the non-life business. In fact, this last segment experienced the highest increase within all the lines, with a +7% with respect to 2020¹³⁵. In order just to mention a couple of economics, by the end of 2021 Generali managed to keep a Solvency Ratio equal to 227% (+3%) -for instance, according to Bain & Company¹³⁶, basically no one of the 20 biggest Italian market groups and business lines in the insurance industry have a Solvency II ratio value below 100% in terms of life business- as well as a dividend per share proposal by 1.07%¹³⁷ and a total expected dividend by 1.69 million euros¹³⁸. Just to clarify this point, the solvency ratio is, in simple terms, tracks the patrimonial level of an insurance company, and it is calculated as the ration between own funds and solvency capital requirement (SCR)¹³⁹.

Moreover, Generali Group, as far as the purely Sustainability aspect is concerned, other than overcoming the 5 billion target investment in green bonds for 2019-2021, it also announced that it is willing to invest another 50% more in terms of these financial instruments for the following years. Generali hence takes a lot into consideration the challenge for Sustainability, as in fact it aims at really creating and maintaining a real value for good citizens, by also integrating the ESG factors benefitting all stakeholder and going business with a responsible attitude. It is in fact for this reason

¹³⁵ See GENERALI, (15th March 2022), *RISULTATI CONSOLIDATI GRUPPO GENERALI AL 31 DICEMBRE 2021(1)*, <https://www.generali.com/it/media/press-releases/all/2022/Consolidated-Results-as-of-31-December-2021>

¹³⁶ See BAIN & COMPANY and Rocco D'Acunto, (12th October 2011), *Solvency II Impatti sulla gestione del business assicurativo*, <https://www.ordineattuari.it/media/78867/s2%20cla%20preez%20dacunto.pdf>

¹³⁷ See GENERALI, (15th March 2022), *Generali raggiunge risultati record: Premi, risultato operativo e utile netto in forte crescita, con una posizione di capitale estremamente solida. Concluso con successo il piano strategico "Generali 2021"*, https://www.generali.com/doc/jcr:87072887-44ed-4215-b1fc-936c40473e8c/03.15%20CS_Generali%20risultati%20consolidati%20al%2031%20dic.2021.pdf/lang:it/03.15_CS_Generali_risultati_consolidati_al_31_dic.2021.pdf

¹³⁸ See GENERALI, (2021), *RELAZIONE INTEGRATA DI GRUPPO 2021*, 4299-9f30-70f0aac5c7ac/Relazione%20Annuale%20Integrata%20di%20Gruppo%202021_Gruppo%20Generali.pdf/lang:it/Relazione_Annuale_Integrata_di_Gruppo_2021_Gruppo_Generali.pdf

¹³⁹ See mediolanum ASSICURAZIONI, *Il coefficiente di solvibilità*, [https://www.mediolanumassicurazioni.it/chi-siamo/coefficiente-solvibilita#:~:text=Il%20coefficiente%20di%20solvibilit%C3%A0%20\(Solvency,Requirement\)%20a%20una%20certa%20data%C3%B9](https://www.mediolanumassicurazioni.it/chi-siamo/coefficiente-solvibilita#:~:text=Il%20coefficiente%20di%20solvibilit%C3%A0%20(Solvency,Requirement)%20a%20una%20certa%20data%C3%B9)

that the company motto is “enable people to shape a safer future by caring for their lives and dreams”¹⁴⁰.

Moreover, the firm already started long ago to apply and follow SRI policies as well as Responsible Investment Guidelines¹⁴¹, and it is applicable to all traditional phases of an insurance company, which is for instance the Responsible Underwriting guidelines in order to screen and choose the appropriate underwriter and funds-providers in a way. More than this, there is actually a specific area within the company with the duty of allowing the integration of the ESG factors in decision making, which is the Investor & ESG relation; its commitment being functioning as intermediate between Generali itself and the market investors, specifically communicating to the public at large the decisions and moves by the firm in terms of Sustainability. Still in terms of investments in general terms, it is worth mentioning that Generali is big institutional investor at a global level -which by the way is among the 2 main reasons for insurance companies being central in a sustainable transition, as explained several times by now, other than the social and protection providing function they cover as natural role- and the investment management is of dramatic importance in the insurance industry. It has a real influence on the real economy, along with helping in guaranteeing human and citizen rights, with the intent of building a better and more inclusive society¹⁴². In fact, Generali is not really a traditional investor, as in fact, along with the main aim of companies of maximizing returns and financial gains, is really keen on evaluating also factors that are not economic in nature, which is to say, all in all, the ESG guidelines.

Here, it is very important to actually clarify a point, which is to say the difference between SRI policies and ESG factors. Even though in the common wisdom they are identified with representing basically the same reality, as a matter of fact they have a substantial discrepancy. This is to say that, as a matter of fact, the SRI (Sustainable Responsible Investment) policies are an even broader concept with respect to the ESG factors. If on the one side the ESG factors are mostly an instrument to identify whether there are risks and opportunities in undertaking an investment in a given asset or instrument, in relation to the possible resulting environment and social impacts, the SRI policies are not quite the same. In fact, they actually encompass a broader spectrum and have a much more “diktat” character with respect to ESG. They are dutiful to be adopted by companies as they not only are instrumental to identify the advantages and threats from investing, rather they much more focus on the investor figure as well; adopting an SRI policy is paramount as through this the investor has a guarantee by

¹⁴⁰ See GENERALI, *IL NOSTRO APPROCCIO ESG*, <https://www.generali.com/it/investors/Our-ESG-approach>

¹⁴¹ See Generali Group, *RESPONSIBLE INVESTMENT GROUP GUIDELINE – ASSET OWNER*, https://www.generali.com/doc/jcr:faeb6f3e-8913-407b-a743-53861d4bd8e3/lang:it/Responsible_Investment_Group_Guideline_.pdf

¹⁴² See GENERALI, *INVESTIMENTI SOSTENIBILI*, <https://www.generali.com/it/our-responsibilities/responsible-investments>

the company that its actions will be beneficial on the society as a whole. In other term, even though they are both identified within the context and macro-theme of Sustainability, are different, given that ESG are possibly a more an impact measurement of the pure investment undertaken with regards to the company, while SRI refers to the impact of the actions of an investor on the community, they are hence more delicate in this case, it is more about the person rather than the company.

Getting back to Generali, its commitment in terms of SRI is to be detected also relatively to the fact that the company created even the so-called Group Responsible Investment Committee, made up of the representatives running the main actions in terms of investment management, which -mong other- has the tasks of:

- Integrating the ESG factors in the corporate decision-making
- Evaluating and screening the funds-issuing society in the underwriting process as to assess whether they are in compliance with the ESG guidelines, and consequently including them either in the Restricted List -which is to say that the instruments issued by these companies are not to be purchased¹⁴³ or in the Watch List
- Monitoring risks and opportunities related to an ESG investment integration

The inner and underlying aim of Generali proposing this diverse range of policies is actually bringing a remarkable change at all levels through a better management of investment activities. In this respect, Generali also devised the Active Ownership Group Guideline”¹⁴⁴.

Generali Group not only acted with good purposes in terms of Sustainability, actually it got to very important results by the end of 2021¹⁴⁵. In fact, as a result of the Integrated Governance Index (IGI) quantitative analysis for the year, through a polling to many of Italian firms, they verified the integration level of ESG factors in the policies implemented by companies, which is also called the “ESG Identity”. Generali positioned itself among the top 5 most sustainable companies for 2021, an impressive result. A similar outcome is reached in another related sphere, where again Generali was identified as the top 5 worldwide insurance companies in terms of sustainability performance, after being allocated in the Dow Jones Sustainability World Index (DJSI World) and in the Dow Jones Sustainability Europe Index (DJSI Europe). Moreover, the company is still part of the prestigious MSCI ESG Leaders index¹⁴⁶ including the companies with the highest sustainability ratings and reputation at a global level, recently being rated “AA”. Generali is also part of the FTSE4 Good

¹⁴³ See CFI, (12th February 2022), *Restricted Trading List*, <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/restricted-list/>

¹⁴⁴ *Id* 143

¹⁴⁵ See ESG NEWS, (17th June 2021), *Generali nella Top5 delle aziende più virtuose nella sostenibilità secondo l'IGI 2021*, <https://esgnews.it/investimenti/indici/generali-nella-top5-delle-aziende-piu-virtuose-nella-sostenibilita-secondo-ligi-2021/>

¹⁴⁶ See MSCI, (2022), *ESG Indexes*, <https://www.msci.com/our-solutions/indexes/esg-indexes>

Developed and of the FTSE4 Good Europe¹⁴⁷. Last but not least, the company got rated with “C” and a “prime status” by the ISS ESG¹⁴⁸.

4.2.4. Business Strategies of the Company

The real mantra by Generali is that Sustainability is a strategic business approach, not only a nice-to-have. The society is firmly convinced that insurers can deal with the current mega-trends, by ensuring protection for people, the planet and the society *in toto*. It is about creating value not only for shareholders, but for stakeholders in general, comprising of employees and suppliers, among others. In the strategy “Lifetime Partner 24: Driving Growth” Sustainability has a two-sided role:

- it is *the originator*, in the path of Generali Group aiming at becoming a real-life partner
- being at the starting point of strategic decisions also amount to Sustainability becoming a game changer, able to modify decisions leading to Generali being a transformative and impact-driven company, creating value to be shared

The target within the next 3 years is basically making an impact from a social and environmental point of view, which is beneficial towards all stakeholders, by increasingly integrating sustainability in the business processes and operations, with the commitment towards the society which is seen by Generali as a core part of the overall strategic positioning of the society. In particular, Generali acts in terms of reinforcing three main big areas¹⁴⁹:

- *Responsible Investor:*

Which is to say, in terms of direct investments basically, a full integration of ESG factors by 2024, net-zero emissions investment portfolio by 2050 and de-carbonification of portfolios, new investment on green bonds in the target period 2021-2025

- *Responsible Insurer:*

Favouring, for instance, the Sustainable transition of SMEs through the “EnterPRIZE” project, with the function of enhancing the spread of a Sustainability attitude among Italian SMEs¹⁵⁰

¹⁴⁷ See GENERALI, *INDICI E RATING DI SOSTENIBILITA'*, <https://www.generali.com/it/our-responsibilities/performance/sustainability-indices-and-ratings>

¹⁴⁸ See ISS, *ESG CORPORATE RATING*, <https://www.issgovernance.com/esg/ratings/corporate-rating/>

¹⁴⁹ See GENERALI, *BUSINESS RESPONSABILE*, <https://www.generali.com/it/our-responsibilities/responsible-business>

¹⁵⁰ See GENERALI & SME enterPRIZE, *Le iniziative locali per la seconda edizione*, <https://it.sme-enterprize.com/>

▪ *Responsible Employer:*

Integrating Sustainability in all HR processes, keeping an eye on culture, diversity and new ways of exploiting the workplace

Generali strongly believes in making an environment-wide good impact, by implementing in the main activities, implementing their own Climate Change Strategy¹⁵¹. In other terms, this just mentioned strategy detected a broad range of areas to intervene in, with precise targets and indicators have been defined accordingly:

1. Integration of ESG in the underwriting and investment processes
2. Raising public awareness in terms of climate and environmental risks, and favouring a debate in these terms
3. Reduction in environmentally impactful activities in the territorial Group divisions as well as relatively to journeys and commutes and employees commuting to work
4. Being transparent in terms of targets and reporting outcomes

Hence, the Climate Change Strategy by Generali Group basically delineates a set of actions to be implemented for a transition towards a net-zero emissions level economy. It is also worth mentioning that Generali, as a matter of fact, committed to Sustainability long ago, adhering before to the Global Compact in 2007, then to the Principles for Responsible Investment (PRI) in 2011, the Principles for Sustainable Insurance (PSI) in 2014 and eventually to the Paris Pledge for Action in 2015.

Moreover, Generali revised an amount equal to nearly 20 million during 2021 from green products. Developing social protections which are eco-friendly and respect the environment contribute to creating a service yielding value over time, as well as promoting a sustainable behaviour among the adopters. Moreover, by incorporating technology and innovation, habits can be effectively channelled in the direction of more responsible lifestyles as well and favouring a prevention attitude over risk.

Green investments are a particular type of investing activity which supports green projects having the aim of making an impact and remaining in line with the targets set by the UN Agenda. Generali surpassed the target green investments level (4.5 billion euros) one year in advance with respect to the time lapses within its plan, and actually it even doubled its target for the period 2021-2025 in this respect; this is by the way the real factor that is currently moving and bringing forward the Climate Change Strategy implemented by the Group.

¹⁵¹ See GENERALI, (30 June 2021), *GENERALI AGGIORNA LA STRATEGIA A TUTELA DEL CLIMA*, <https://www.generali.com/it/media/press-releases/all/2021/Generali-updates-its-strategy-for-climate-protection>

The new integrated offer the Group is proposing focuses on a given number of services, as well as technology and a prevention action, as to really trigger responsible behaviours. The above-mentioned offer is summed up in several major areas¹⁵²:

- Wealth
- Mobility
- Labour
- Savings
- Diversity and Inclusion
- Welfare
- Education
- Environment and Natural Events
- Arts

Which, broadly explaining all the points just cited, it is all about investing responsibly and taking into consideration the fact that choosing an insurance investment creates a sustainable development and the investment of a single individual is instrumental in shaping a better world for herself and the future generations. In fact, it is dutiful to look for investment opportunities and chances of getting returns in companies that are committed to a sustainable development, with the result of yielding positive impacts for the society, as well as them being measured in Sustainability terms, for instance if we think about drop in plastic production or carbon emissions, along with looking at the preservation of natural resources and equal gender opportunity. To really grasp the point, overall Generali aims at channelling and orientating investments in order to, even singularly as a company, to the sustainable development.

For this reason, there are 5 different thematic investment portfolios to choose from:

1. *Generali Responsible Consumption:*

Which is to say, investing in companies that apply the principles of the Circular Economy and limit the exploitation of resources also with an optic orientated to the seas and the water

2. *Generali Sustainable Growth:*

¹⁵² See GENERALI, *Sostenibilità: dalle parole ai fatti*, <https://www.generali.it/chi-siamo/sostenibilita/dalle-parole-ai-fatti>

That is to say investments in companies promoting the development of “smart cities”, with technologies and employees’ development as to ensure a better lifestyle

3. *Generali Equal Opportunities:*

Needless to say, it is all about companies that push for gender equality in terms of opportunities and consideration for minorities

4. *Generali Health and Welfare:*

So, whatever company operates in the health sector, and related also to products promoting a healthy life style

5. *Generali Climate Protection:*

Investments in companies utilizing renewable energies and caring for a suitable utilization of natural resources

In other terms, the strategy the Group has been implementing over the last years is quite diversified in terms of the different areas in which it focuses¹⁵³ and more in detail, it aims at the joint presence of 3 main factors:

- Investments
- Industrial Activities
- Sustainability

More than this, Generali also chose to provide the most honourable clients in terms of positive ESG performance with the services of the Group’s core business, as well as taken much more into consideration all the stakeholders of the business. For this purpose, and particularly regarding the third macro-element of Generali’s business strategy, starting from 2017 the Ethical Finance Foundation has been established, with the duty of reporting all the actions relative to the sustainable side. By the way, the foundation published in 2020 its first Engagement Report ever, where important

¹⁵³ *Id* 97

themes have been highlighted, such as global and environmental warming, social sustainability and human rights and governance in general¹⁵⁴.

There have already been several important facts in terms of sustainability achievements by Generali, which is worth mentioning¹⁵⁵:

- +11.2% in total premiums value which are socially and environmentally oriented with respect to 2019. More than this, on July 2021, a green bond valued at 600 billion, expiring by 2032, has been emitted in sustainable terms, which is to say in accordance with its own Sustainability Bond Framework (SBF), which has the remarkable record of having been the first ever Sustainability Bond that was emitted by an insurance company at a European level. As a matter of fact, Generali also issued prior another bond of the same time in 2019, that's why this impressive achievement has a double value in a sense. Generali's SBF¹⁵⁶ is a tool in order to allow the issuance of Social bonds, Green bonds and Sustainability bonds. All the returns from these financial instruments are displayed to support several areas, the majority of which were already constituting Generali's Green Bond Framework (GBF).
- Moreover, Generali made it clear its intention and process towards a decarbonization of its investment portfolios, via the help of the Global Coal Exit List (GCEL). It is basically a database that was constituted consequently to the needs emerging from the Paris Conference and it aims at making a cooperation with all financial institutions willing to become carbon-free in their portfolios and specifically it provides the company with several information, which is the major challenge that an institution of such kind would face in this case¹⁵⁷. The database basically encompasses all companies that earn more than a half of their revenues or energy from a carbon-based source. Furthermore, Generali opted for joining the "Just Transition Mechanism", which, thanks to the European Commission, contributed to mitigating the economic and social transition risk by putting on the table more than 50 billion euros for the next 6 years¹⁵⁸. All may be very well framed in the broader context of the European Green New Deal.

¹⁵⁴ See fondazione FINANZAETICA, (2021), *L'Azionariato Critico di Fondazione Finanza Etica*, <https://valori.it/wp-content/uploads/2022/03/Engagement-Report-Fondazione-Finanza-Etica.pdf>

¹⁵⁵ *Id* 97

¹⁵⁶ See GENERALI, (June 2021), *Sustainability Bond Framework*, https://www.general.com/doc/jcr:656e4b4b-61e4-4a73-8010-047f31a40674/Sustainability%20Bond%20Framework.pdf?lang:it/Sustainability_Bond_Framework.pdf

¹⁵⁷ See urgewald & Global Coal Exit List, *Global Coal Exit List 2021*, <https://www.coalexit.org/>

¹⁵⁸ See European Commission, *Il meccanismo per una transizione giusta: per non lasciare indietro nessuno*, https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_it

- Not to mention that Generali actually is very committed in terms of helping the real economy. In particular, it will proceed by contributing with half a billion euros in the following years, at least for 4 of them, and with the intent of enhancing a sustainable growth through exploiting several international investment funds active in several fields. Last but not least, there is a remarkable patrimonial commitment by the company. One again here, the underlying objective is the decarbonization, this time relatively to building and forms of energy consumptions. This initiative is pursued by Generali Real Estate, which is the area of the Group -with nearly 400 professionals alone¹⁵⁹ that, by counting on a assets capital valued 32 billion euros, is devoted to managing all the patrimonial investments pursued.

Therefore, overall, implementing investment strategies and more generally business strategies with a Sustainability orientation is key nowadays, as -perhaps better than anyone else- phrases is the BlackRock CEO Larry Fink, stating that basically big companies do not focus on Sustainability just because they like doing so and being ecologists, rather because they are capitalists and moreover linked with clients through a fiduciary relationship.

¹⁵⁹ See GENERALI REAL ESTATE, A GENERALI GROUP COMPANY, <https://www.generalirealestate.com/>

Conclusion

Sustainability, as a concept, went hence through a constant evolution process, being initially though much more in environmental terms, to then -only at a second stage- having acquired a more global meaning, which takes into account the economic and social dimension, other than the environmental side. In other terms, when today people talk about Sustainability, they actually refer to a welfare which is constant and preferably increasing, along with the prospect of leaving a living standard which is at least not inferior to what looks to be today. This welfare takes into consideration the living standard of people from three main standpoints: Environment, Social, Governance.

The “path” ranges from Ethical Finance to Sustainable Finance up to ESG, which refers to the adoption of logics and criteria channelling corporate strategies and organizations, management choices and investments, in order to stimulate firms in the direction of a positive impact on the environment and the society and to implement ethic-driven ways of corporate governance. Vision ESG amounts to considering Sustainability both as an asset and as a development perspective; moreover, the vision and commitment of the firm with respect to Sustainability themes, corporate liability and environmental & social challenges bring about benefits relatively to financial returns as well.

Sustainability is therefore not only an ethical question, rather it also became an important economic variable, i.e. an objective for all companies -either large or small- along with revealing to be an element enabling firms to become more competitive and differentiate in the marketplace. As a matter of fact, it is exactly the market -consumers, investors and operators, among others- requiring that firms become sustainable; Sustainability became a differentiating factor both in the purchasing choices by consumers and in investment and financing.

All this requires investors to attentively examine further data in assessing investments, proceeding past the traditional methods and instead encompassing in the decision-making process ESG information as well, with the aim of guaranteeing that all relevant factors are taken into consideration in evaluating risks and returns. The investment choices and policies should really look at the Sustainability of financial returns yielded in the medium-to-long term and in this respect Sustainability, when meant in the logic of relations between firms’ actions and decisions, the environment and the society, is increasingly paramount in terms of influencing financial returns.

Sustainability represents an essential path to keep being competitive in the market, attracting investments and meanwhile being a relevant player in investment projects under favourable

conditions. It is therefore key that a company respects the ESG criteria and communicates the fact of being and acting with a focus on Sustainability.

It is about a path and a change in perspective in which the environmental Sustainability and the social responsibility acquire a particular relevance as well as increasingly seeing in the ESG factors the objective, strategy and firm's management.

In such a context, the insurance companies play an increasingly more pivotal role, both in terms of important medium-to-long term institutional investors and as physiological and structural "wealth and protection providers". The insurance sector covers hence, already, a relevant role in the context of sustainable finance, as Federica Pizzaballa, Insurance Consulting & Technology Country Leader WTW, during the 2022 Italy Insurance forum in its 9th edition¹⁶⁰.

It is enough to think that 85% of Italian insurance companies devised a responsible investments policy. Furthermore, companies with the majority of assets allocated in favour of sustainable investments is growing in number.

Another important theme to mention is related to the exclusions. In fact, for instance, armament and carbon fossil-related assets are not taken into consideration nowadays.

There is a sensible appealing towards social and green bonds, as well as firms with a very solid ESG framework, typically in the infrastructures sectors, along with -for instance- renewable energies. A further growth trend in the insurers' portfolios is expected in the area of sustainable finance. Why is it crucial for companies to stay in this side within the macro context of finance as well as playing a key role? Among the reasons, there is indeed the diversification of asset portfolios; more than this, an ever-increasingly important reputational role in institutional markets. Not to mention the social role related to the tendency to place investments in greener enterprises, not to forget also the possibility of educating firms' networks and employees to behave much more attentively with regards to climate and environmental issues.

The focus -included in the work- on Generali Group shows indeed all the tendencies described above.

Moreover, as a matter of fact, a series of initiatives, projects, communication activities the sector is fostering are already in place, also relatively to the supply of new products from the life and non-life business, with the ultimate and underlying aim of promoting the themes of the UN Agenda for 2030, particularly regarding Sustainability, protection, equal opportunities and sustainable development.

¹⁶⁰ See Federica Pizzaballa, (27th-28th April 2022), *Digitalizzazione e settore assicurativo: fino a che punto siamo? – Italy Insurance Forum 2022*, <https://youtu.be/vxGGzOQWpmY>

Environmental impact, sustainable development, corporate social responsibility (CSR), a perennial focus on ESG ratings, on the evolution of the specific regulatory and normative framework of the industry and on the guidelines stemming from the European Commission (EC) are all elements addressing in a gradually more pervasive manner the inner spheres of the organizations, in the context of management choices, business strategies and actors of the insurance industry.

Sustainability implies the creation of a shared value, a value benefitting the company along with all the stakeholders. Since not long ago, the future of our planet and of human beings themselves did not appear an issue for single entrepreneurs, managers, or common citizens, rather something institutions and national & international policies should have been exclusively concerned about; nevertheless, to be fair, at the moment no one can ignore what the events, coupled with science, show and yield.

It is necessary to keep building up and creating this mindset according to which the economy and the firms must be sustainable, running otherwise the risk of not being able to survive in the future. In other words, we are currently in the process of eradication of a culture of long-term responsibility, with the aim of generating the “critical mass” necessary to trigger the “sustainable revolution”.

Insurers are increasingly called to be the pioneers in their specific context, due to how evident their businesses being run are correlated with a high sense of social responsibility. In this sense, the factors possibly revealing to be impactful the most are the choices from the companies’ management and an ethical and responsible approach with reference to the corporate organization and business strategy & model.

Generali Group, the most important player in the Italian insurance industry and among the market leaders at a global level, clearly delineated the path to follow.

“Thinking sustainable”, committing to the big “entrepreneurial project” we are all together called to join in order to shape the future we want.

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