

AM Best and the Principles for Sustainable Insurance (PSI)



Principles for Sustainable Insurance (PSI) AM Best Annual Disclosure 2021

In 2021, AM Best became the first Credit Rating Agency to become a Signatory to the United Nations Environment Programme's (UNEP) FI Principles for Sustainable Insurance (PSI). As a PSI signatory, AM Best is committed to incorporating the Principles into our processes and policies across all areas of our organization, as documented in the following report.

Principle 1

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

AM Best Insurer Rating Process

1. Credit Rating Criteria
 - ESG rating factors have been incorporated into the credit rating process.
 - Best's Credit Rating Methodology (BCRM) was refined to enhance transparency, contemplating ESG risks as part of the credit rating analysis. AM Best will continue to address climate risk, innovation and enterprise risk management in the assignment of a rating.
2. Credit Report Disclosure
 - BCRM explicitly identifies factors that are linked to ESG.
 - An ESG commentary was introduced to all Best's Credit Reports, beginning November 2021. This addition promotes transparency; highlights ESG elements that are relevant and material to financial strength; and helps AM Best better evaluate insurer management of these ESG risks and opportunities.
3. Analytical Staff Training
 - ESG Developments & Discussing ESG in Management Meetings: AM Best's analytical staff was provided training focused on how to discuss ESG with management teams and provide sample ESG questions that may be covered during management meetings to prepare analysts for adding ESG commentary in Best's Credit Reports. Training took place in May 2021.
 - Inclusion of ESG Section in Best's Credit Reports: Training provided analytical guidance on the development of ESG-specific content for inclusion in Best's Credit Reports. Training took place in November 2021.

AM Best Human Resource Developments

1. Management's commitment to ensuring equal rights, diversity, social responsibility and community involvement
 - Environmental: AM Best practices policies pertaining to the reduction of carbon emissions, such as resource efficiency, recycling and waste management.
 - Social: AM Best practices policies pertaining to labor and workplace rights, equality and diversity, flexible working (remote/hybrid), community volunteering, and modern slavery/human trafficking.
 - Governance: AM Best practices policies pertaining to business ethics, anti-bribery and anti-corruption, sanctions, fraud, data privacy, whistleblowing, and other related matters.

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AM Best Human Resource Developments (Continued)

2. Staff Development and Training

- Career Development Opportunities at AM Best: Financial assistance and time off are provided to employees for pursuit of professional designations and certifications. Paid summer internships and an analytical career development program are also available.
- Fostering an Environment of Diversity and Inclusion in the Workplace: Training incorporates elements of AM Best's policy, including diversity and inclusion, micro-aggressions in the workplace, and unconscious bias.
- Modern Slavery in the Supply Chain: Training creates awareness of today's modern slavery problem; situations where it commonly takes place; and initiatives being taken to resolve the problem. Practical information is provided to enable people working in procurement and other roles to put procedures in place to stop to possible modern slavery in their supply chains.
- Data Privacy and Information Security training.

AM Best C-Suite Messaging

Message from AM Best's Chairman, President & CEO to Staff

When Alfred M. Best founded this company, he understood that the insurance industry has a moral responsibility to its stakeholders. That's why he sought to promote sound, honest business practices and to help companies achieve the financial strength that would enable them to honor their obligations.

AM Best believes the insurance industry plays an important role in supporting sustainable economic and social development. In addition, management of ESG efforts will strengthen the insurance industry's contribution to building a resilient, inclusive and sustainable society. PSI membership is a significant step in this direction.

The above represents a portion of the message delivered in May 2021.

AM Best Employee Experience

AM Best's ESG Task Force is comprised of criteria, analytical, strategy and commercial employees from across our global offices. The group meets monthly to discuss and strategize AM Best's short- and long- term goals and strategies related to ESG.

Accomplishments to date:

- Fully reviewed AM Best rating criteria to identify ESG factors for increased transparency to the market.
- Standardized definitions of ESG terms as they pertain to AM Best and Financial Strength Ratings in an effort to ensure ESG is properly and consistently considered in our criteria.
- Proposed to senior management that AM Best Ratings Services join the Principles for Sustainable Insurance.
- Proposed thought leadership research reports on ESG as it pertains to Financial Strength Ratings.
- Reviewed global ESG-related consultation documents.
- Reviewed internal resources to identify potential modification to staffing to accomplish ESG goals.
- Incorporated a dedicated ESG section in Best's Credit Reports.



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Principle 2

We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

AM Best Client and Industry-Facing Thought Leadership

1. AM Best conducted its ESG survey of European and Asian-Pacific companies in the summer of 2020, followed by the release of a report and webinar entitled, “Focus on State of ESG Adoption Across (Re)Insurance Industry” in November 2020, based on the survey results.

2. AM Best conducted its ESG survey of companies in the Americas in July 2021, followed by a report entitled, “US Insurers’ Perceptions of ESG” in October 2021.

3. Best’s Research: AM Best’s exclusive research and analysis provides valuable insight into current and historical trends affecting the insurance industry. The following are representative of what was published for ESG:
 - Special Report: Insurance Innovation Under the Spotlight After COP26 – “The changing operating landscape is expected to impact both sides of (re)insurers’ balance sheets.” December 13, 2021
 - Commentary: ESG and Insurance Credit Ratings: Frequently Asked Questions – AM Best’s guide to frequently asked questions about ESG and related definitions. November 22, 2021
 - Special Report: US Insurers’ Perceptions of ESG – “Identifying, measuring, and reporting ESG factors.” October 28, 2021
 - Special Report: Impact of ESG Factors on AM Best’s Rating Actions – “From April 2020 to March 2021, 13% of our rating actions were driven primarily by ESG factors.” July 13, 2021
 - Special Report: Investor Pressure Adds Momentum for Reinsurers to Integrate ESG Factors – “The integration of Environmental, Social and Governance (ESG) factors may lead to increased financial flexibility, particularly for reinsurers.” May 5, 2021
 - Commentary: Rejoining Paris Agreement Spurs US (Re)insurers’ ESG Adoption – “AM Best expects US (re)insurers’ engagement with ESG factors to accelerate amid an increasing green focus from the US government.” February 16, 2021

4. AM Best’s Briefings: AM Best shares its insurance expertise and insight through its complimentary insurance market briefings, which cover a broad range of topics and trends, from segment updates to in-depth analysis of current market developments. The following briefings addressed ESG issues:
 - “ESG in the (Re)Insurance Market - What’s Considered?”
 - “Insurers Likely to Grow Green Bonds”
 - “Europe, MENA Face Evolving Risk Environments”
 - AM Best’s Canada Insurance Market Briefing
 - AM Best’s Europe Insurance Market Briefing & Methodology Briefing - London
 - AM Best’s Insurance Market Briefing - Singapore International Reinsurance Conference (SIRC)
 - AM Best’s Briefing - ESG: A Review of Frequently Asked Questions and Incorporation into the Ratings Process

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

5. AM Best Speaking Engagements

- AM Best sponsored and presented four country workshops (Philippines, Brazil, Mexico, Morocco) with the Microinsurance Network that focused on financial inclusion within the context of ESG in 2021.
- AM Best's Director of Credit Rating Criteria led a one-hour session entitled, "AM Best's Approach to Evaluating ESG and ERM in the Ratings Process," at the annual conference of the American Association of State Compensation Insurance Funds (AASCIF) on October 6, 2021.
- AM Best's Director of Credit Rating Criteria and a Senior Financial Analyst presented how ESG factors are evaluated in our rating process during a meeting of the member executives of American Association of State Compensation Insurance Funds (AASCIF) on May 25, 2021. They discussed ESG risks, opportunities and regulatory requirements facing the insurance industry.
- AM Best's Director of Credit Rating Criteria participated in a panel discussion on how rating agencies use ESG information and what metrics they find to be relevant in rating a company, at the ESG Ecosystem: Macro Perspectives Conference, hosted by Financial Executives International on September 23, 2021.
- AM Best's EVP & Chief Strategy Officer discussed financial inclusion and changes in reporting requirements for ESG factors at the Microinsurance Network's (MiN) annual conference, at a session entitled, "ESG for Microinsurance" on June 8, 2021.
- AM Best's Rating Services President & CEO moderated an executive panel session at the 2021 International Insurance Society (IIS) Global Insurance Forum on September 28, 2021. They discussed how regulators are navigating the changing landscape and the role they play in spurring innovation; finding climate risk solutions; and guiding the form, function and future of ESG disclosures.
- Senior analytical ratings staff members provided a presentation entitled "ESG for (Re)Insurers – AM Best's View" at the Dubai International Financial Centre Insurance Association (DICIA) on February 22, 2021.
- Senior AM Best analysts discussed how ESG factors fit into the building block approach of Best's Credit Rating Methodology at AM Best's 28th Review & Preview Conference in the panel discussion, "AM Best's Approach to Evaluating ESG in the Ratings Process" on March 18, 2021. Insights were given on ESG risks and opportunities; the regulatory requirements the insurance industry is facing; key implications of adopting ESG; and other market developments.
- AM Best participated in a panel discussion entitled, "How Captives Can Tackle ESG Impacts," at the 2021 Captive Review London Briefing on September 23, 2021.

6. AM Best's Informational Webinars

AM Best TV hosts and produces content-rich webinars on prominent industry topics, which connect viewers with industry leaders as they share their expertise on the latest market developments in an interactive panel forum. "The Greening of Insurance Asset Management" was a four-part series discussed different aspects of ESG.

- The Greening of Insurance Asset Management: The Push for Responsible Investing
- The Greening of Insurance Asset Management: Lower Returns in an Age of Higher Expectations
- The Greening of Insurance Asset Management: The Changing Relationship between Asset Management and Diversity and Inclusion
- The Greening of Insurance Asset Management: Asset Manager Perspective

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

7. AM Best's Student Challenge is an insurance solution-based competition, sponsored by the AM Best Foundation, which empowers undergraduate and graduate students by taking them beyond the classroom—promoting thought leadership in the field of insurance and risk management, and providing exposure to insurance professionals. Student submissions include solutions for managing insurance risks, such as: new products, distribution methods, creative ways to increase insurance penetration, incentive programs, digitization models, implementation of private/public partnerships, or alternative risk transfer.
8. An ESG page has been added to AM Best's website, [ambest.com](https://www.ambest.com). It states AM Best's PSI commitment, and links to ESG research and reports, and Best's Credit Rating Methodology.
9. *Best's Review*, AM Best's monthly insurance magazine, provides in-depth coverage of a wide range of topics written by our team of talented journalists and backed by AM Best's extensive database and industry experience. Recent ESG coverage includes:
 - *Best's Review* Examines Insurers' Response to Environmental Social Governance (ESG) Principles, May 2021
 - Regulators and Activists Increase Pressure to Incorporate ESG in All Areas of Insurance, May 2021
 - The Changing Relationship Between Asset Management, Values-Based Investing and Diversity and Inclusion, May 2021
 - Beware the Sirens of Environmental, Social and Governance Investing, May 2021

AM Best General Public-Facing Thought Leadership

1. 2021 Community Engagement
 - Charitable Work Day Program: AM Best supports volunteer activities to enhance and serve the communities that our employees live and work in and are passionate about. Its purpose is to support communities that are impacted by disasters and address issues that impact quality of life.
 - New Road School of Somerset: AM Best worked with New Road School of Somerset to print Charitable Work Day tee shirts in their on-campus screen printing shop, which serves as a job-training opportunity for young adults with special needs.
 - Adopt-a-Family: AM Best sponsors local families through employee donations to provide Christmas meals and gifts, along with essential items like clothes, household items and cleaning supplies to underserved families in the local community.
2. The AM Best Foundation: A non-profit organization established to support charitable organizations that encourage education and thought leadership in insurance and risk management, as part of AM Best's ongoing efforts to support the development of new talent in the insurance industry.

Principle 3

We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

AM Best Governments and Regulators

AM Best discussed the company's views on climate risk on a panel at the National Association of Insurance Commissioners' (NAIC) Climate and Resiliency Task Force Solvency Work Stream Meeting entitled, "How Credit Rating Agencies View Climate Change" on June 1, 2021.



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AM Best Key Industry Stakeholders Collaboration and Leadership

1. AM Best Rating Services President and CEO serves as vice chair of the Leadership Council of The Institutes Griffith Insurance Education Foundation, a leading resource for objective insurance information that offers non-advocative programs and resources for public policymakers.
2. AM Best Rating Services EVP and Chief Strategy Officer serves as vice chair on the Board of Directors of the Microinsurance Network (MiN), a non-profit association of organizations and individuals who are committed to building a world where people of all income levels are more resilient and less vulnerable to daily and catastrophic risks through improved access to effective risk management tools, including insurance services. It was established in 2002 by donors, multilateral agencies, non-governmental organizations, private insurance companies and other interested parties. MiN is the only global multi-stakeholder platform that promotes the development and delivery of effective risk management tools, including insurance services, for underserved people.
3. AM Best Rating Services EVP and Chief Strategy Officer serves on the Inclusive Insurance Working Group at the Insurance Development Forum (IDF). Its mission is to optimize and extend the use of insurance and its related risk management capabilities to build greater resilience and protection for people, communities, businesses, and public institutions that are vulnerable to disasters and their associated economic shocks.
4. AM Best responded to inquiries from the Task Force on Climate-Related Financial Disclosures (TCFD) Secretariat on February 22, 2021.

Principle 4

We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

AM Best ESG Working Group

AM Best's ESG Working Group is dedicated to developing the company's annual PSI disclosure. It reported on AM Best's progress embedding the principles into its operations and activities in February 2022.

